

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Improving nutritional standards in school meals is the topic of a new USDA rule released this week.

The rule introduces limits on added sugars, particularly in flavored milk, and calls for a reduction in sodium content by 2027... reductions will not be as steep as initially proposed.

Whole grain standards remain unchanged.

The rule will be phased in over several years, allowing schools time to adjust.

The rule includes gradual “Buy America” provisions, tightening the percentage of food schools can purchase from foreign sources over time.

SCHOOL MEALS The regulations will have minimal cost implications and have removed penalties for schools striving to meet standards, according to USDA. School nutrition professionals and food suppliers have already begun preparations.

Here are the key points from the updated standards:

- Limits on added sugars: Starting in Fall 2025, the new regulations will gradually introduce limits on added sugars in school meals, with full implementation by Fall 2027. This is in alignment with the Dietary Guidelines for Americans, which recommend keeping calories from added sugars below 10% of total daily calories. Added sugars are those introduced to foods during processing or preparation.

- Sodium reduction: The updates also include a mandate to reduce sodium levels in school meals by Fall 2027. The reduction targets are 10% for breakfasts and 15% for lunches. Although initial proposals were for more significant cuts (20% for breakfast and 30% for lunches), the final requirements were adjusted following Congressional input.

- Maintaining current standards on grains: The new rules will continue to require that at least 80% of grains offered in schools each week be whole-grain-rich. This is consistent with the emphasis on increasing whole grain consumption in school diets.

- Flavored milk: Schools will still be able to offer flavored milk, but with new restrictions on added sugars. Milk suppliers have agreed to adhere to these limits, ensuring compliance with the updated standards.

- Implementation timeline: The gradual implementation timeline reflects the complexities involved in adjusting meal preparation practices and recipes. This phased approach allows schools, food service providers, and suppliers sufficient time to adapt to the new standards.

- Cost and acceptance concerns: The School Nutrition Association has expressed concerns about potential increases in costs and the possibility of reduced meal uptake by students due to changes in recipes and flavors. These factors highlight the challenges of balancing nutritional improvements with cost management and student preferences.

- Broader implications: The updated standards are part of a broader effort to align school meals more closely with national dietary guidelines and to address public health issues like obesity and heart health, which are exacerbated by high intakes of added sugars and sodium.

FOCUS ON NEW REGS

The new regulations will take effect over several years. “It takes time to transition, phase in aspects of the new rules,” said USDA Secretary Tom Vilsack.

Limits on added sugars would begin in small steps in Fall 2025 and take full effect in the Fall 2027.

Added sugars are sweeteners put into foods during preparation or processing, or added at the table. The American Heart Association says added sugars can result in unwanted weight gain or even obesity. “That can reduce heart health,” it said.

Schools would be required to “slightly reduce” sodium in their meals by Fall 2027, said USDA.

There will be no change in the requirement that at least 80% of grains offered each week be whole-grain-rich.

About 29.5 million students eat hot meals each day through the school lunch program. The school breakfast program serves 15.2 million pupils daily. Child nutrition programs are forecast to cost \$33.3 billion this fiscal year.

Source: Ag Letter editors, USDA

HPAI

U.S. agencies address bird flu outbreak in dairy cows, assure safe milk supply. The U.S. is actively monitoring and addressing an outbreak of Highly Pathogenic Avian Influenza (HPAI) that has recently been detected in dairy cows across multiple states. HPAI, typically known as bird flu and often deadly in poultry, has caused symptoms in cattle such as decreased lactation and low appetite. This scenario is especially noteworthy because, while HPAI viruses like strains H5 and H7 don't usually infect humans, they are highly contagious and lethal in birds and now are impacting cattle.

USDA, FDA and CDC, in collaboration with state partners, have reassured the public that the commercial milk supply remains safe. This assurance is based on two main factors: the pasteurization process, which effectively kills harmful pathogens in milk, and the proactive measures taken to divert or destroy milk from infected cows. Despite finding the virus in raw milk via quantitative polymerase chain reaction (qPCR) tests, pasteurization has been emphasized as likely to inactivate the virus, though it does not remove the presence of viral particles entirely.

Extensive ongoing research, including laboratory tests and field studies, aims to further understand how the HPAI virus behaves in milk. These studies are crucial as they test milk under realistic conditions to ensure pasteurization processes remain effective against this novel presence of HPAI in dairy cattle. FDA is conducting additional tests such as egg inoculation studies to confirm the viability of any detected virus, ensuring that it does not pose a risk to consumers.

FDA continues to advise against the consumption of raw milk and has recommended strict precautions regarding the disposal of milk from affected cows to prevent further spread of the virus.

CATTLE
TAG RULE

OMB completes review of controversial USDA cattle EID tag rule. The Office of Management and Budget (OMB) completed its review of a proposed USDA rule that would require visually and electronically readable identification (EID) tags for cattle and bison. This rule aims to enhance animal identification and traceability during disease outbreaks. However, the proposal has sparked controversy, particularly regarding the financial implications for the cattle industry.

Concerns raised. During the review process, the Livestock Marketing Association (LMA) and Representative Harriet Hageman (R-Wyo.) both raised concerns about the financial burden the rule would impose on the industry. LMA highlighted that transitioning to the EID system could be nearly nine times more costly than the current low-cost options. They noted that while USDA currently provides certain identification devices at no cost, the proposed rule could shift significant expenses onto producers.

Concerns were voiced about the potential to accommodate future technological changes in eartag technology, which could introduce further costs. Despite these issues, the FY 2024 appropriations for USDA include \$15 million intended to support the EID effort, suggesting some financial assistance for the industry.

Bottom line: Given the substantial discussions and the funds allocated in USDA's budget, it appears unlikely that the rule will be withdrawn. The focus now shifts to whether USDA will modify the rule to address these concerns or if further legislative actions will be taken to ensure the costs of the EID system and infrastructure are not fully passed onto producers.

GMO CORN

Mexico expects USMCA GMO corn import dispute resolution by September. The resolution of a dispute concerning Mexico's ban on GMO corn imports, brought under the U.S.-Mexico-Canada Agreement (USMCA), is expected by September, according to Mexican Economy Minister Raquel Buenrostro. This dispute arose from a Mexican decree banning the importation of GMO corn for food use, which the U.S. argues is not based on scientific evidence.

U.S. officials are optimistic about prevailing in the dispute, with a decision anticipated later in the year. For months now our sources have alerted this issue would go away following Mexico elections in June.

Mexico comments about USMCA. Minister Buenrostro highlighted that in the upcoming 2026 review of the USMCA, Mexico intends to advocate for reciprocal terms regarding the agreement's rapid-response mechanism. Currently, while the U.S. has initiated multiple probes into labor rights violations in Mexico, Mexico lacks a similar capacity to address concerns about the treatment of its workers in the U.S.

CHINA

China changes course on food prices. China's Ministry of Agriculture and Rural Affairs (MARA) acknowledged the negative impact of persistently low food prices on farmers, signaling a shift in policy focus. MARA admitted that months of declining food prices are beginning to harm farmers more than benefit consumers. Lei Lugong, the director-general of the Market and Information Department, highlighted that the food price slump has adversely affected farmers' incomes and, in some cases, even impacted production.

China's consumer price index (CPI) turned negative in October and continued to fall for four consecutive months, with flat year-on-year prices in Q1 2024. The decline in food prices, particularly for staples like pork, has been a significant driver of this deflationary trend.

Lei attributed the free fall in prices to various factors, including efforts to bolster domestic production for food security, sluggish recovery in consumption leading to lower demand for catering services, and cheap global prices for agricultural commodities.

China's central government has previously focused on increasing farm output and reducing food waste to enhance food security. Officials are now recognizing the risks posed by oversupply to the farm economy, observers say there will be a reassessment of policies in this regard.

MARKETS

Corn: Demand for U.S. corn has held up but is likely to start to ebb soon with supplies becoming available out of South America. Export inspections remain solid as prior sales get shipped. Corn planting continues to advance and is moving into the heart of the Corn Belt as April winds down.

Soybeans: Demand for U.S. soybeans continues to be sluggish as South American supplies are available at more-favorable prices. Domestic demand remains strong. Soybean planting is running just ahead of average with open weather across much of the Corn Belt thus far. Eventual soybean acreage for this season could be impacted by weather.

Wheat: U.S. winter wheat ratings have begun to move lower after coming out of dormancy at their highest level since 2019. That will raise concerns about U.S. HRW wheat production in particular, but higher prices will not help U.S. wheat maintain its spot in the world market. There are some issues with Black Sea prospects, but a stronger dollar has worked against U.S. supplies being competitive on the global market.

Rice: Prices continue to work higher even as U.S. planting continues. Nearly 60% of the U.S. crop was in the ground already in late April, well ahead of last year when it was just shy of half-way done and the five-year average that just above one-third is planted by now. U.S. old-crop prices have found support from harvest delays in Brazil.

Cotton: Futures have fallen amid active fund long liquidation. But the the price decline has managed to perk up buying interest for US supplies. Despite the sharp price drop, global end-users have not stepped up purchases of U.S. cotton, with sales running behind the seasonal norm. Futures are nearing oversold territory and that could bring a bounce into May.

Dairy: The number of dairy operations dealing with HPAI could be higher than the confirmed number announced by USDA as some farms may not be reporting it. The situation remains a minimal factor relative to U.S. milk production. Indications are even if there were 3,000 farms seeing reduced output, that would only equate to around 0.1% of annual US milk production.

Cattle/Beef: U.S. feedlots as of April 1 had 1.5% more cattle in them than they did one year ago even as Placements were well below expectations ahead of the report. But Marketings fell below expectations, keeping feedlots supplies higher. Cattle/beef supplies are far from burdensome at this point. Carcass weights appear to have peaked, which should help keep supplies from being too heavy.

Hogs/Pork: Even as supplies are expected to rise in coming months based on the latest USDA supply update, futures have been holding in rather well as the expectation is that demand is on the rise and that should keep pork from becoming too burdensome for the market. U.S. pork exports may be running into some headwinds with a stronger U.S. dollar.

Broilers/Poultry: Highly pathogenic avian influenza has not hit many flocks in the past 30 days, but the operations that have been hit have been some of the "mega" egg-layer flocks. Three of these "mega" flocks in Ionia County, Michigan, were culled with a total of more than 6.5 mil. birds in just those three operations with one in Texas resulting in the cull of another 1.9 mil. layer birds.

TRADE
POLICY

Bipartisan pressure continues on USTR Tai over lack of FTAs. U.S. Trade Representative Katherine Tai faced more pressure from lawmakers over the lack of the Biden administration pursuit of free trade agreements (FTAs) with other countries. In recent hearings, both Republicans and Democrats were irritated at the lack of an FTA push to remove barriers to U.S. agricultural goods in particular and build market access.

Tai retreated to talking about opening up access for several agricultural products over the last three years that total some \$20 billion. But lawmakers have still pressed as to why FTAs are not on the agenda.

Tai repeatedly acknowledged “no, we’re not doing the big, comprehensive agreements that are really great for ag and terrible for our industries.” Tai also stressed that while they are not negotiating FTAs, the administration is trying to reduce non-scientific barriers. “We are actively negotiating agriculture chapters that address this particular issue, especially around science-based approaches to regulating food trade and agricultural trade,” she stated.

Tai also remarked more than once that there are no “easy” FTAs.

Other lawmakers hit Tai for not pursuing more trade cases with China, with Tai indicating those actions were somewhat of an exercise in frustration as successful cases at the WTO have not resulted in China changing their practices. Tai said the U.S. has raised issues with China on their commitments under the Phase 1 agreement but did not provide any indication of what success those interactions have brought. She again assured lawmakers that the review of the Section 301 tariffs levied against China would be completed “very soon” but did not provide any additional timing on when the results will be released.

CHINA

China has strongly criticized the U.S. decision to initiate a formal investigation into its shipbuilding industry. USTR Tai announced the probe following demands from major U.S. union groups, amid broader U.S. measures including proposals for higher tariffs on Chinese steel and aluminum to support the American steel sector. Beijing has denounced the investigation as baseless and contrary to economic rationale, accusing the U.S. of using the probe for domestic political gains and making “false accusations” about China’s trade practices threatening U.S. national security and corporate interests.

The Chinese government insists that the U.S. is misinterpreting normal trade activities and has urged Washington to abandon these “wrong practices” and adhere to a rules-based multilateral trading system. This conflict occurs amid broader tensions and ongoing disputes between the two nations over trade policies and economic practices.

PANAMA
CANAL

As the rainy season arrives at the Panama Canal as expected, there is optimism that the trade bottleneck will ease, coinciding with the busy period for shipping. Data from IMF PortWatch shows that the daily vessel crossings at the canal have increased, with the seven-day moving average reaching 25 last week, up from a low of about 21 in late January. However, this is still below the long-term average of about 35 crossings per day before the drought.

To accommodate increased traffic, the canal authority announced plans to lift booking slots to 31 daily transits in the second half of May and to 32 starting in June. Additionally, maximum draft rules, which limit the weight of a ship’s cargo, will increase starting in June. The Institute of Meteorology and Hydrology in Panama has reported that the country is transitioning to a wetter seasonal pattern, which is expected to continue through mid-May. While Gatun Lake, a key water source for the canal, is not projected to reach healthy levels, it is forecast to recover somewhat over the next two months. The added rainfall combined with increased ship crossings is expected to gradually alleviate the restrictions on global trade resulting from canal disruptions since last year, particularly ahead of the peak shipping season from July to September.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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