

News from Washington: October 14-18

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Fed Says Farm Finances Are Worsening

The central bank released its latest [“Beige Book” report](#) on the economic strength of specific sectors and regions, and the survey says... agriculture is still in a tough spot. The Fed reports that farm conditions across the country “deteriorated further due to the ongoing impacts of adverse weather, weak commodity prices and trade disruptions.”

The troubles are especially pronounced in key farming regions, like the Midwestern corn belt. In the Seventh District, which includes Iowa and parts of Illinois, Indiana, Michigan and Wisconsin, industry sources surveyed by the Federal Reserve “had mounting concerns about how much of this year’s crop would be able to fully mature before a hard frost hits.”

In states further down the Mississippi River, like Missouri and Arkansas, “agriculture conditions have declined modestly compared with the previous report” (on Sept. 4), according to the St. Louis Fed, citing a sharp drop in corn, rice and soybean production. “The outlook among contacts remained relatively pessimistic due to depressed commodity prices and trade uncertainty.”

In the Upper Midwest, “heavy rains that hampered crop planting this season have persisted into the fall and may complicate harvests in some areas, according to sources,” the central bank said. “Recent forecasts indicated that corn and soybean production in [Ninth] District states may decrease 10 percent and 20 percent, respectively, in 2019 compared with last year.”

Trump Lands A Limited Trade Truce with China

The White House is promising a massive windfall for farmers under the new deal with Beijing — though the agreement is still being put to paper and it’s unclear what comes next. President Donald Trump [boasted on Twitter](#) of striking “the greatest and biggest deal ever made for our Great Patriot Farmers in the history of our Country,” and he urged producers to [“start thinking about getting bigger tractors!”](#)

The U.S. agreed not to increase tariffs on \$250 billion of Chinese products, which would have taken effect today. In exchange, China agreed to lift retaliatory duties on U.S. farm goods and scale up its agricultural purchases to between \$40 billion and \$50 billion per year, Treasury Secretary Steven Mnuchin said Monday. Beijing will also review its regulations on plant and animal health and genetically modified crops, which have limited U.S. market access.

If the agreement is as significant as Trump promises, it would mark a major breakthrough for farmers and ranchers who have faced the brunt of retaliation since the trade war began in 2018. But whether buying such a large sum is even possible remains to be seen. Annual farm exports to China peaked at about \$25.8 billion in 2012, according to data from the Commerce Department, and fulfilling up to \$50 billion in sales would be a tall order,

For now, sizable tariffs remain between the two nations; the U.S. hasn’t decided whether to suspend another wave of duties set to take effect in December; and China has yet to agree to any structural policy changes at the heart of the trade dispute. [Chinese state media have maintained a much more cautious tone about the trade truce.](#)

Agriculture groups who largely celebrated Friday’s truce as positive step are waiting for more details. Trump is aiming to sign the partial deal with Chinese President Xi Jinping at the Asian-

Pacific Economic Cooperation meeting next month, and a second phase of negotiations will follow.

Meanwhile, [Trump says the large Chinese purchases are already underway](#) — but of course, China was already [starting to buy more U.S. soybeans](#) and pork ahead of the trade talks.

Censky Says Next Round of Trade Aid TBD

Now that the U.S. and China have reached a partial trade deal including promises of massive Chinese ag purchases, USDA is deciding whether to go through with the next installment of trade relief payments to farmers for 2019 production. Censky said on Thursday that the department is aiming to make a final call “in the very near future.”

“I think we’re very much aware that producers have been impacted by the trade retaliation, they’ve been impacted by the weather, low incomes,” Censky said after a Senate Agriculture Committee hearing. The department is divvying up the \$14.5 billion it allocated for direct payments in three installments: The first round became available over the summer, while the second and third tranches will be available in November and January, if warranted.

China has already started buying greater quantities of U.S. soybeans, pork and other farm goods in recent weeks, and the Trump administration claims Beijing will soon ramp up its purchases to more than \$40 billion per year. That could make it harder for USDA to justify doling out the remainder of the \$14.5 billion allotted for this year’s direct aid program.

Senate Ag ranking member Debbie Stabenow (D-Mich.) told Censky the trade aid program is upsetting the delicate balance lawmakers attempted to strike in the 2018 farm bill in terms of spreading federal dollars evenly across the various corners of agriculture.

“I feel like the Market Facilitation Program is throwing that all away,” Stabenow said. “I don’t see how the payments are lining up with the damage: 95 percent of the counties with the top rate, a payment rate of \$100 [per acre] or more, are in the South; 77 percent of the counties that have minimum payments of \$15 are in the North and West.”

How China Could Open the U.S. Ag Spigot

There’s still plenty of skepticism about whether China realistically can buy between \$40 billion and \$50 billion of U.S. farm products in a year, considering ag exports to the country peaked at roughly \$25 billion under the Obama administration. But if Beijing aims to make good on that piece of the partial trade deal, here’s how it might work, according to Trump administration officials:

China will keep making goodwill purchases between now and mid-November when Trump meets with Chinese President Xi Jinping at the Asia-Pacific Economic Cooperation summit in Chile. The plan is for China to scale up its purchases to record levels in 2020,. And by 2021, Beijing will have removed non-tariff barriers tied to food safety and GMO approvals, opening China’s floodgates to a surge of U.S. farm goods.

A person briefed on the trade talks said China is only expected to significantly ramp up ag purchases once Trump removes his threat to impose a new round of tariffs on Dec. 15. And Beijing would have leverage in negotiations if it reestablishes itself as a dominant buyer of U.S. ag product.

“They’re going to be playing the farm card in 2020, even after starting and fulfilling their agriculture purchases,” the person said. That could include shutting off purchases in response to U.S. actions on other fronts (e.g. support for pro-democracy protests in Hong Kong). China has also indicated that any increase in imports will depend on market demand, as well as compliance with global trade rules and the removal of U.S. tariffs. Ken Morrison, a commodity markets expert who worked in China for years, suggested those preconditions could prove to be deal-breakers. “This sets up a replay of May when Trump accused China of renegeing on the ‘deal,’” Morrison told MA earlier this week.

Tariffs Could Spark U.S.-EU Trade War

The U.S. is poised to impose duties on \$7.5 billion in European goods starting Friday, including a wide range of food and farm goods. But moving forward with those tariffs could trigger a damaging trade war, Italian President Sergio Mattarella warned Trump on Wednesday.

During an Oval Office meeting, Matterella said the two sides should seek a negotiated solution, “because the alternative to that would be tariffs, followed by retaliation, followed by further tariffs.” Italian cheeses are among the targeted products, but Trump suggested on Wednesday that his administration could reconsider hitting Italy as hard.

A recent WTO ruling allows the U.S. to impose the duties in retaliation for EU subsidies for Airbus. Brussels has filed a counter-complaint over U.S. support for Boeing, but a decision isn’t expected for eight months, and U.S. officials suggest the potential award wouldn’t be nearly as high.

Trump’s Ethanol Deal Flops with Farmers

The EPA on Tuesday outlined its proposed rule to reallocate biofuel blending requirements for the next two years — and some ag producers aren’t happy with how it turned out.

The new rule fills in the details of a deal announced earlier this month, which was intended to help offset the lost demand due to federal waivers for small oil refiners, which Trump’s EPA has handed out with far more frequency than previous administrations. But the agency said it will use a three-year average to calculate the lost demand based on the number of gallons the Energy Department had *recommended* exempting, rather than a larger number of gallons that are actually waived.

That could translate to a significantly smaller boost to biofuel demand. [According to the National Farmers Union](#), “The former would have increased the amount of biofuels in the transportation sector by approximately 1.35 billion gallons per year, while the latter will increase it by just 770 million gallons.”

Farm groups on Tuesday framed the new proposal as a major letdown compared with what they were expecting, and it doesn’t live up to the “giant package” of changes Trump had promised in August. Monte Shaw, CEO of the Iowa Renewable Fuels Association, said the rule “reneges on the core principal of the deal.” The NFU called it “another broken promise to American farmers,” while the National Corn Growers Association said the plan “appears to come up short again.”

Sen. Chuck Grassley (R-Iowa), who is quoted as saying the proposed rule is “great news,” had a more tempered reaction on Tuesday: “President Trump brokered this deal and any attempt to undermine it from EPA would represent a betrayal of the president,” he said in a statement. “I expect EPA would not do that after all the work that’s gone into this issue.”

Ethanol trade group Growth Energy is quoted as calling EPA's rule "a victory for rural America." But the group sent out a very different statement on Tuesday describing the proposal as "[unconscionable](#)," and a Growth spokesperson said the "inclusion of an outdated quote ... is very misleading."

EPA spokesperson Michael Abboud explained the quote reuse by saying, "[Tuesday's] announcement is the proposed text from our announced agreement on October 4th."

The EPA will gather public comments until Nov. 29 and is required to issue a final rule by Nov. 30.

How USDA Is Failing Farmers on Climate Change

The agriculture industry is still dealing with damage from heavy rains, floods and a "bomb cyclone" winter storm that devastated swaths of the farmbelt earlier this year. The barrage of wet weather turned crop fields into lakes, killed livestock, ruined stored grains and rendered a record 20 million acres unplatable. And that's after multiple disasters pummeled producers in 2018, from hurricanes in the Southeast to historic wildfires in the West.

The severe weather and its impact on agriculture is increasingly seen as the new norm. But USDA hasn't stepped up its efforts to prepare the industry. Top officials rarely discuss climate change directly, and employees throughout the department have effectively limited their work on the issue for fear of repercussions if they say the wrong thing.

USDA's primary operation for helping farmers adapt to climate change, a network of regional climate "hubs" launched during the Obama administration, has continued to work with scant resources, and it's kept a low profile to avoid sparking the ire of top department officials or the White House.

An under-the-radar Twitter account for the climate hubs has issued frank warnings about worsening weather problems to its 3,200 followers. By contrast, the main USDA account with nearly 640,000 followers hasn't used the word "climate" since December 2017.

"To say USDA does little to help farmers and ranchers is completely untrue," a department spokesperson said in an email, pointing to longstanding conservation programs that make up about 4 percent of USDA's budget.

The Hemp Hype Comes to K Street

In 2010, hemp was listed on federal lobbying disclosures just twice. So far in 2019, 72 disclosures have listed hemp as a covered issue. It's a rapid uptick for an industry whose lobbying efforts were once limited to hemp-clad advocates teaching congressional offices about the basics of the plant and its lucrative potential for farmers, manufacturers, retailers and consumers.

The 2018 farm bill fully opened the floodgates, declassifying the plant as a controlled drug and paving the way for nationwide industrial production. The Agriculture Department is set to unveil broad regulations for hemp production in the coming weeks, and organizations of all stripes have been piling into the policy area. Those angling for influence range from the American Farm Bureau Federation and Conagra to Walmart and Patagonia.

The formation of trade groups is another sign that hemp advocacy has hit a turning point. The biggest spender of those groups is the U.S. Hemp Roundtable, whose priorities include helping

states set up their own hemp programs and pressing the FDA to issue guidance on cannabidiol, the hemp-derived substance that's booming in its own right.

By some estimates, [the industry could be valued at \\$26 billion by 2025](#).

Democrats Decry Delay on SNAP Rule Analysis

USDA posted a report late Tuesday night [estimating that about 982,000 low-income students would no longer automatically qualify for free meals](#) under the department's proposed rule to limit so-called broad-based categorical eligibility in SNAP. That's nearly twice the number that USDA had informally told congressional staff when the rule was first rolled out in July — a number that the department for months refused to publicly confirm.

Democrats on Wednesday questioned why it took USDA so long to make public the higher estimates. "After waiting months for this analysis, we now have learned that this rule will be even worse for students and families than we originally understood," Rep. Suzanne Bonamici (D-Ore.) said at a House Education and Labor hearing with Brandon Lipps, USDA's deputy undersecretary for Food, Nutrition and Consumer Services.

USDA's analysis showed that out of 982,000 kids who would lose automatic enrollment for free meals based on their families participation in SNAP, 445,000 students or 45 percent would still be eligible for free meals; 497,000 (51 percent) would be eligible for reduced-price meals; and 40,000 (4 percent) would no longer qualify for either.

Lipps denied any slow-walking and told the panel that USDA shared the analysis as soon as it was "available and ready."

USDA reopened the comment period after posting the new analysis, giving the public an additional 14 days to weigh in on the proposed rule.

The Grassroots Push Behind Whole Milk

A [petition to return whole milk to school cafeterias](#) has garnered more than 5,300 signatures and counting within two months, and its lead organizer told POLITICO she's received hundreds more by mail and will keep pushing for signatures through the end of the year. Sherry Bunting, an agriculture writer for the weekly dairy magazine Farmshine in Pennsylvania, plans to deliver the petition to the head of USDA's Food and Nutrition Service, Brandon Lipps, during the third meeting of the Dietary Guidelines Advisory Committee next week. The Senate and House Agriculture committees will get copies, as well.

Bunting said dairy farmers, veterinarians and consumers have signed on to the campaign, aimed at galvanizing support for legislation, H.R. 832 (116), introduced by Rep. G.T. Thompson (R-Pa.) earlier this year that would amend the national school lunch and breakfast programs, which only allow 1 and 2 percent milk. Agriculture Secretary Sonny Perdue in 2018 finalized regulations allowing flavored versions back into the program, part of a broader effort to chip away at former first lady Michelle Obama's school nutrition efforts.

In the 1980s, fat became a dietary leper, helping to draw down America's fluid milk consumption. The debate continues over what kind of fat and how much is best for a healthy diet (the Dietary Guidelines recommend low-fat or fat-free milk and dairy products daily).

In addition to the petition, there's a national campaign, [97Milk](#), led by frustrated dairy farmers who want to educate consumers that whole milk contains 3.25 percent fat and is full of nutrients. It comes amid a difficult time for the industry, facing depressed prices and trade woes that have

forced many out of business. The campaign started with one farmer in Pennsylvania painting, “Drink LOCAL Whole MILK 97% FAT FREE!” on a round bale, [as Bunting reported in January](#).