

News from Washington: February 10-14

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U.S.-China Deal Takes Effect

The “phase one” trade deal that took effect last week could bring relative peace on the bilateral trade front this year as President Donald Trump runs for reelection. But while much of the attention will be on how close China comes to meeting a commitment to buy an additional \$200 billion worth of goods over the next two years, the agreement also contains a number of deadlines for China, and to a lesser degree, the U.S., to take regulatory actions to pave the way for increased trade.

Within the next seven working days, USDA’s Animal and Plant Health Inspection Service and China’s customs agency are required to sign a protocol to allow for the importation of U.S. potatoes. China is also required by Feb. 24 to formally recognize the U.S. dairy-safety system is as safe as its own and to allow imports of pork inspected by USDA’s Food Safety and Inspection Service.

In two other agricultural areas, China is required by March 14 to lift its ban on U.S. pet foods containing ruminant ingredients and to eliminate cattle age requirements for imports of U.S. beef and beef products. The two sides are also required by that date to begin technical discussion aimed at clearing the way for China to import U.S. breeding cattle.

Beijing Urges Trade Calm Amid Outbreak

The U.S. and other major trade powers are grappling with uncertainty surrounding the spread of the coronavirus that has killed hundreds of people and sickened tens of thousands in mainland China. But Chinese officials at this week’s WTO gathering in Geneva were quick to flex their economic muscles, reminding other diplomats of their country’s large contributions to worldwide growth.

Powell, meanwhile, told a House panel on Tuesday that the coronavirus “very likely” will affect U.S. economic growth, but it’s too early to predict the impact. He also reiterated that the central bank doesn’t see any need to adjust interest rates and noted that U.S. manufacturing has weakened over the last year.

On the ag front, USDA doesn’t expect a big bump in crop prices this year even with the new U.S.-China trade pact set to take effect on Friday. In its monthly report on global farm supply and demand, the department predicted higher soybean exports but lower prices for the oilseed.

A “white paper” posted by USDA last week noted some limitations in predicting the impact of the new deal, considering that Trump’s trade team hasn’t publicized exactly how much of each commodity China committed to purchase.

China’s Ministry of Agriculture and Rural Affairs said the country might have to delay its purchases of some \$40 billion in U.S. farm goods because of the coronavirus, but it will fulfill its commitment within a year, Bloomberg reported.

Trump Reheats Old Ag Ideas in New Budget

The final budget request of Trump’s first term landed on Monday afternoon. MA readers got an early look at his plans for shrinking the Agriculture Department’s budget, swapping food stamp benefits for Harvest Boxes and gashing crop insurance, conservation and commodity programs.

Those are all familiar proposals that Congress has ignored in the past and will almost surely reject once again.

So what's new? With his reelection rapidly approaching, Trump is looking to infuse money into rural communities for transportation infrastructure, water systems and better internet access. That includes a new \$25 billion grant program to finance such projects, though the administration didn't spell out where the money would come from.

Trump also recommended \$614 million for rural water and wastewater projects — a USDA program that he proposed eliminating just a few years ago — and an extra \$250 million for a rural broadband pilot program. (Congress has already shelled out \$1.1 billion for that effort.)

The spending plan touts USDA's trade bailout program for farmers, which accounts for roughly one-third of farm income along with crop insurance benefits and disaster aid. Of course, the budget goes on to call for bulldozing crop insurance subsidies, while trade relief payments are likely to drop off dramatically this calendar year as the program winds down.

The budget also proposes tightening federal rules so producers can't be reimbursed more than 100 percent of their losses by doubling up on aid programs.

Outside of agriculture, the White House wants to take a sledgehammer to the EPA's budget to the tune of 27 percent; boost funding for USTR by 11 percent to hire more staff and expand enforcement functions; and give the FDA an extra \$5 million to figure out how to regulate cannabidiol goods that are booming in popularity.

Trump is also forecasting 3 percent economic growth annually over the next five years — even though GDP has never grown that fast in any year under Trump, and many independent analysts predict growth will be below 2 percent.

Two Years of Tariffs Take A Toll

Trump's trade war has cost consumers \$50 billion since February 2018, according to data published Monday by the Tariffs Hurt the Heartland campaign. In December 2019, for example, Americans paid \$6.3 billion in duties, compared with about \$2.6 billion in December 2017 — just before the trade tensions began.

The numbers are a reminder of the work that remains to be done on the trade front, despite Trump's recent success in sealing partial deals with China and Japan, among others. "Make no mistake — this trade war is as active as it was in December," said Brian Kuehl, co-executive director of Farmers for Free Trade. Trump signed the limited agreement with China last month.

Tariffs Hurt the Heartland also released specific data for Florida, Michigan, Ohio, Pennsylvania, Wisconsin — critical battleground states that Trump will need to win in November to secure a second term. Farmers, consumers and businesses in those five states have paid an additional \$7.6 billion in tariffs because of the administration's trade policies.

Trade Trouble Across the Pond

The U.K.'s long-awaited departure from the EU is nearly two weeks old, but there's still no date set for the start of talks between Washington and London on a free trade agreement. The modest delay might not seem that unusual, except the U.K. wants to wrap up a deal by Dec. 31 — the same deadline it's set for completing talks with the EU on a post-Brexit trade arrangement.

A U.K. government source told reporters on Monday he was “pretty confident” that London’s ambitious timetable for a U.S. trade deal could be reached “once a decision is made at the top of both sides that we are going.” Negotiations should be able “to click quite quickly into a regular pacing of rounds” led by USTR and the U.K. Department for International Trade, he said.

Ag Inspectors Bill Headed to Trump’s Desk

The president is set to sign legislation addressing a shortage of agricultural inspectors at U.S. ports of entry after the House cleared the Senate-passed measure on Monday. The inspectors, aided by canine teams, are tasked with helping to prevent diseases such as African swine fever from entering the U.S.

The bill from Sen. Gary Peters (D-Mich.) would authorize \$221 million over three years for Customs and Border Protection to hire 240 new agriculture specialists and 200 new ag technicians each fiscal year until the shortage is filled. It would also allocate money for 20 new canine teams each year.

“It is critical that we have enough CBP agriculture inspectors, specialists and canine teams to protect our rural communities and our economy from foreign animal and plant pests and diseases,” House Ag Chairman Collin Peterson said in a statement with seven other committee members.

The National Pork Producers Council called the bill a “top priority” for the industry, especially with ASF wreaking havoc in Asia and parts of Europe. “The most likely path for a [foreign animal disease] to enter the country would be through the illegal transport of contaminated products,” NPPC said in a statement. “An outbreak of certain FADs would immediately close U.S. pork export markets, causing significant damage to farmers and consumers.”

The pork group is also pushing federal officials to quickly set up a vaccine bank to ward against Foot-and-Mouth Disease, in line with the 2018 farm bill. “The U.S. does not currently have access to enough vaccine to quickly contain and eradicate an FMD outbreak,” NPPC said.

What USDA’S Watchdogs Are Watching

The department’s top auditors were on the Hill for a House Appropriations subcommittee hearing on Tuesday, where they discussed their work on everything from food stamps fraud and civil rights complaints to reviews of some of USDA’s most sweeping policies. Two issues in particular were front of mind for several Democrats: the Trump administration’s trade bailout for farmers and its overhaul of pork slaughterhouse inspections.

Inspector General Phyllis Fong’s office has been reviewing the department’s authority to provide more than \$20 billion in direct payments to producers without an appropriation from Congress, as well as questions about whether the aid is unfairly tilted to certain states and commodity groups, she told House appropriators.

“We’re going to start out with the basic issue of authority for the programs, and then we’re going to get into the design and implementation, eligibility and look at the producer questions,” Fong said. “The first piece of our work should be coming out in the next several months.”

That wasn’t good enough for Rep. Rosa DeLauro (D-Conn.), who pointed out that USDA is already distributing a final round of payments for 2019 losses. “Your delay in dealing with this

means that this program is going to continue to move in the direction that it has been moving,” she said.

House Democrats made a half-hearted attempt last year to freeze funding for the trade aid program and force Congress to weigh in on the effort. But leaders quickly abandoned those plans following pushback from rural Democrats.

DeLauro also slammed USDA for choosing not to investigate JBS USA and potentially suspend or debar the meatpacker as a federal contractor. Agriculture Secretary Sonny Perdue sent her a letter last month arguing that opening a USDA probe could interfere with a separate Justice Department investigation into the company for potentially violating foreign corruption laws. JBS has collected more than \$100 million in pork contracts under a separate piece of Perdue’s trade relief package, the commodity purchase and redistribution program. The secretary has defended those contracts as supportive of pork prices and beneficial for hog farmers who supply to the meatpacker.

‘Final stages’ for review of pork slaughterhouse rule: The IG is aiming to publish by early April its findings about whether the Food Safety and Inspection Service relied on flawed worker-safety data when writing its final rule to lift processing line speeds at pork slaughterhouses and shift certain inspection duties to plant employees.

The Urban-Rural Divide Over the Environment

Rural voters’ deep distrust of the government helps explain their split with city dwellers over environmental policy, according to new polling published today by Duke University’s Nicholas Institute for Environmental Policy Solutions.

The divide isn’t centered around who cares more for the environment and conservation — more than 70 percent of both rural and suburban/urban voters described the issue as “very important.” But a stark contrast emerges when asked about their preferred level of government oversight: Forty percent of rural voters support less, compared with 47 percent of urban voters who support more.

“My hope is that this will help us understand how to engage with rural constituencies,” said Robert Bonnie, executive in residence at the institute, who led the project. “This data suggests there is an approach to national climate legislation that empowers states and local government because folks were much more comfortable with that.”

Urging climate action: There are growing calls from the public, Democratic presidential candidates and many lawmakers for a robust federal response to climate change. But major legislation is unlikely to pass Congress without backing from rural-based industries, such as agriculture and forestry, which historically have opposed environmental regulations.

Bonnie said his team sought to shed light on why that is, and explore whether alternative policies or strategies for gaining support from rural constituents might help bridge the gap.

Most rural voters, or 34 percent, said they trust local farmers and ranchers the most about environmental and conservation issues. Behind them were university scientists, followed by government agencies and then the American Farm Bureau Federation.

Bonnie said this suggests that better talking points alone won’t shrink divisions. Rural voters have to feel like they have some control over the process, he said, because many worry that

climate policy will leave them out of the conversation and increase hardships in their communities.

Messages that emphasize moral responsibility to future generations, as well as how environmental and climate action can lead to economic opportunities, play best among rural voters, according to Duke's polling.

Wheeler Sees More Fallout for Biofuel Waivers

The EPA chief said Saturday that a recent federal court decision to vacate three biofuel blending exemptions under the Renewable Fuel Standard "has the potential of completely changing the small refinery program," our Pro Energy colleagues tell MA.

The court struck down waivers for three refineries in Oklahoma, Utah and Wyoming, ruling that the EPA could only extend exemptions for plants that had continuously received waivers from their RFS obligations. The decision was a victory for corn growers and ethanol producers who have long challenged the legality of the EPA exemptions, which they say have crushed demand for their products.

The agency is now "taking a close look at the 10th Circuit decision and the ramifications to the program," Wheeler told AgWired in an interview. "We'll have something on that shortly."

Midwest Braces for More Flooding

States bordering the Missouri River are forecast to experience an elevated flood risk this spring, conditions exacerbated by wet soil and lots of snow, the National Weather Service said Thursday in its first Spring Flood Outlook.

Nebraska, Iowa, Kansas Missouri, and eastern North Dakota and South Dakota face an-above average flood risk. Many of those regions are still recovering from devastating flooding in 2019 that damaged levees and cost farmers millions in lost crops.

"We are very concerned at this point," said Jud Kneuvean, who oversees emergency operations at the U.S. Army Corps of Engineers' Kansas City office.

Top Financial Regulator Talks Climate Urgency to Crop Insurers

The insurance industry needs to focus on the risks climate change poses to its investments, and to have reliable data to accurately measure and manage those risks, Democratic CFTC Commissioner Rostin Behnam is set to tell a group of crop insurers in a prepared speech this morning.

Behnam is in Florida for the Crop Insurance and Reinsurance Bureau's annual meeting, where he will outline the dire realities facing the agriculture sector and beyond because of extreme weather. Grain storage, livestock, ethanol, processing plants and railways were all affected by record flooding in the Midwest last year, for example, which prevented farmers from planting nearly 20 million acres and triggered more than \$6.4 billion in crop insurance payouts so far.

"We are facing increasing financial risks as a result of potential bank loan losses due to business interruptions and bankruptcies caused by extreme weather events," Behnam will say. "These losses have a compounding effect as extreme weather events — especially for the uninsured — can impact both the creditworthiness of the borrowers and the value of the loan collateral, translating to higher probability of default and higher losses in the event of a default."

Behnam is a unique figure in the Trump administration, which largely rejects man-made climate change and has rolled back Obama-era policies to curb greenhouse gas emissions. Behnam, who sits on the five-member CFTC that oversees grain, oil and derivatives trading, launched a first-of-its kind subcommittee last year to assess the impact of climate change on the nation's financial system. Food costs, insurance markets, mortgages and other economic indicators are under review.

That panel, which includes 35 experts from banking, agribusiness, academia and environmental groups, is expected to publish recommendations in June that are two-fold: how climate-related stress tests can be incorporated into financial markets, and what regulators can do to encourage mitigation.