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Perdue on First Foreign Trip Pushes U.S.-Canada Dairy, Wheat, Wine Issues

Agriculture Secretary Sonny Perdue, on his first foreign trip this week to Toronto, told his Canadian counterpart, Agriculture & Agri-Food Minister Lawrence MacAulay, the U.S. wants long-standing and thorny dairy and wheat issues resolved before formal talks to modernize the North American Free Trade Agreement (NAFTA) begin.

Perdue, in Canada to talk NAFTA renegotiations framework, acknowledged his strategy is a long shot as Canada will likely use the two trade complaints to leverage its negotiating position with the U.S. and Mexico.

“We had very good, very candid discussions, very frank – like family members discussing some things that are necessarily comfortable. We laid out a great framework to begin negotiating NAFTA,” Perdue said upon returning to Washington, DC.

For dairy, it’s all about Canada’s Class 7 milk pricing scheme, a government program that ensures Canadian producers can price their milk lower than U.S. imports. Impacting primarily ultra-filtered milk produced in New York and Wisconsin, Perdue said the pricing program is an “unfair, underhanded circumvention of the WTO.” Canadian dairy producers can overproduce and blend the higher-priced product with lower grade milk and solids on global markets, he said, pressuring world prices for milk powder produced and exported by U.S. producers.

In April, a 68-member bipartisan House group wrote to President Trump urging the U.S. to insist Canada comply with its NAFTA dairy trade commitments. President Trump publicly denounced the Class 7 pricing scheme, vowing the U.S. will fight it.

For wheat, it all revolves around the protectionist import policy that basically pushes high grade U.S. wheat to the bottom of the list – feed grade, product, lowest grade, poorest quality – when it enters Canada. Also on the list of discussion topics are “certain provincial wine issues,” dealing mostly with sellers keeping U.S. wines in the back of the store, while displaying Canadian wines up front.

“I was able to describe the issues that we feel are important to resolve – and can be resolved – as we begin to renegotiate NAFTA,” the secretary said. “That has to do, obviously, with the dairy issues and the wheat grading issue that deals with feed grade wheat that’s not grown in Canada.”

“While we didn’t try to negotiate back and forth, I think it was clearly understood that we consider all options on the table and we’ll pursue them in the best interests of U.S. producers,” Perdue said.

House Approves Dodd-Frank Rollback Bill

Lost in the hoopla of former FBI Director James Comey’s Senate Intelligence Committee testimony this week, the House approved broad legislation that would kill off existing Dodd-Frank financial institution regulations, replacing them with less strict rules. The mostly party line vote was 233-186.

The rollback-and-replace bill – “The Financial CHOICE Act” – was authored by Rep. Jeb Hensarling (R, TX), chair of the House Financial Services Committee, who put action behind GOP words that Dodd-Frank needs to be replaced because it places too heavy a regulatory burden on banks, particularly smaller institutions, while costing jobs and giving too much unrestricted authority to government regulators.

Hensarling moved a similar bill through his committee in the last Congress, but the bill did not see floor action. The White House pushed for the House action.

House Speaker Paul Ryan (R, WI) called the CHOICE Act a "jobs bill," legislation "that reins in the Dodd-Frank law, which is more than a thousand pages long and has more rules and regulations than any other Obama-era law." Ryan said the change was needed because "our country is losing one community bank per day, on average" and this trend leads to restrictions on small business credit, hiring and investment. He said the bill ends "too-big-to-fail" options. "Taxpayers should not be on the hook for Wall Street's reckless decisions, plain and simple," Ryan said.

House Minority Leader Nancy Pelosi (D, CA) said the bill was pro-Wall Street, and returned federal oversight of the financial industry "to the days of the Great Recession."

The bill allows banks that reach certain cash levels to move to a status where there is less oversight, reducing the frequency of federal "stress tests" on bank financial health. "Orderly liquidation authority," rules under which the government can intercede in a bank collapse and sell off assets, is eliminated, "reforms" operation of the Securities & Exchange Commission (SEC), and while not shutting it down as some have advocated, places strict limits on the setup, operation and authority of the Consumer Financial Protection Bureau (CFPB), renaming it the Consumer Law Enforcement Agency.

Saying it's estimates were subject to "considerable uncertainty," the Congressional Budget Office (CBO) said the bill could cut the federal budget by about $24 billion over 10 years, cutting by another $30 billion so-called "direct spending." Federal revenue would be cut $5.9 billion over a decade.

The Senate is unlikely to approve the House measure, if only because the slim GOP majority can't overcome Democrat opposition. However, the Senate Banking Committee has quietly floated a bipartisan draft bill designed to reduce regulatory pressure on mid-sized and smaller banks, and some in the House are partial to that approach.

U.S.-Mexico Sugar Deal Watched Closely for NAFTA Direction

Agriculture traders are watching closely the evolution of a preliminary agreement between the U.S. and Mexico on how much and what kind of Mexican sugar enters the U.S., reasoning it signals how U.S.-Mexico renegotiation of the North American Free Trade Agreement (NAFTA) may fare. However, U.S. industry isn't happy with the deal, and the Mexican industry says the concessions agreed to are as far as it will go.

The U.S. sugar industry pushed for a renegotiation of the existing sugar trading rules between the two countries. In testimony this week before a Senate Appropriations subcommittee, Commerce Secretary Wilbur Ross reports he and his Mexican counterpart initialed the preliminary agreement – the product of more than a year of negotiations – and talks are continuing to reach a final deal. Ross said those final talks should be concluded in a matter of days, but refused to give a specific target date. When pressed about U.S. sugar producer disappointment with the deal – sugar users aren't crazy about it either, claiming it will push up sugar prices – Ross said in any anti-dumping resolution, there's a likely price increase, but "I don't think it will be a gigantic one."

Gigantic or not, U.S. agriculture is concerned the sugar deal is a signal of how much Ross may be willing to surrender to get a deal done. While the resolution of the sugar issue will avoid a trade war between the two countries, potentially poisoning NAFTA renegotiations, industry nonetheless fears other contentious NAFTA issues could be resolved in the same manner, with industry dissatisfied and the administration apologizing that the end product is the best it can deliver.

The latest rework of the U.S.-Mexican sugar trade agreement has roots in a 2008 move by the U.S. to lift import caps on Mexican sugar because of NAFTA requirements. However, the U.S. quickly filed an anti-dumping complaint against Mexico claiming it was shipping sugar into the U.S. at below market prices. In 2014, Mexico agreed to a new limit on exports to the U.S. when the U.S. threatened retaliatory tariffs against Mexican exports. This "suspension agreement" not only set limits on how much sugar Mexico could ship into the U.S., it required that refined or fully processed sugar exports be capped at 53% of total sales. However, the U.S. industry alleged Mexico was shipping sugar that while technically unrefined, was processed enough to be sold directly to U.S. sugar user customers.

At one point, the U.S. again threatened retaliatory tariffs on Mexican goods, and the Mexican government responded by threatening to slap tariffs on U.S. exports of high fructose corn syrup claiming U.S. producers were dumping the sugar substitute south of the border.

The agreement says all Mexican sugar shipments must be carried by ocean vessels in bulk containers, disallowing truck and packaged shipments. The new deal also says 70% of Mexican sugar imports must be raw sugar, while 30% can be the refined variety. The U.S. industry isn't happy because it wanted the split to be 85% raw, 15% refined. The deal also changes the definition of "raw sugar," setting the new "polarity" level at 99.2% or less to be unrefined, compared to the current level of 99.5% unrefined. Again, the U.S. industry says that level is too high.

And while the new polarity definition was a tough move for Mexico – most of its companies will have to retool to meet the new percentages – Mexico won the right of first refusal to fill U.S. sugar needs when domestic sugar import quotas are filled, but domestic industry requirements dictate more sugar is needed. The U.S. industry says any above-quota shipments from Mexico won't be held to the same stricter product and polarity definitions, a loophole that has to be fixed. The Mexican industry says it's not negotiating, the government-to-government deal is done, but adds it wants its government to continue to investigate anti-dumping allegations lodged against U.S. high fructose corn syrup.

"The agreement protects American workers and consumers and marks a dramatic improvement for the U.S. sugar industry," said Agriculture Secretary Sonny Perdue. "The accord sharply reduces the percentage of Mexican refined sugar that may be imported…and also lowers the polarity between refined and raw sugar." He added the agreement allows the U.S. to make "adjustments" in the deal "in the event of extraordinary or unforeseen circumstances."

Ross Says January Best Time to Wrap Up NAFTA Rewrite

Completion of the U.S.-Mexico-Canada renegotiation of the North American Free Trade Agreement (NAFTA) would best occur in early January, says U.S. trade lead and Commerce Secretary Wilbur Ross, putting the final treaty in hand prior to Mexico's general and presidential elections and congressional elections in the U.S.

Ross said he wants to get the deal done as early in January as possible so Mexican election issues don't complicate that country's legislative approval of the final trade agreement.

Negotiations can't begin until mid-August when the 90-day congressional, industry and public consultation period ends. Ross said trade promotion authority – also known as "fast track" negotiating authority – needs to reauthorized in early 2018.

USTR Wants Industry to Share NAFTA Negotiating Priorities

The Office of the U.S. Special Trade Representative (USTR) put out the call late last week for industry to share priorities for the renegotiation of the North American Free Trade Agreement (NAFTA). In addition, USTRA is hold at least two "ag sector" meetings this month to talk negotiating priorities as part of its mandated consultation process.

The June 2 *Federal Register* notice says USTR wants written comments by June 12, and is looking to hold a public hearing in Washington, DC, June 27. USTR is also meeting with a number of business and industry groups during the name period, in addition to its open door policy. The grain industry and crop processing organizations are set to meet with USTR June 16, while livestock and poultry producer groups, feed and pet food interests are looking to sit down with USTR on June 19.

Areas on which USTR wants specific input include general negotiating objectives, economic costs and benefits of tariff changes, past experience under NAFTA "suggesting modifications," rules of origin, customs facilitation, regulatory barriers to trade, including sanitary and phytosanitary measures, investment issues, environmental and labor issues, and trade remedies.

Trump Heads to Ohio, Kentucky, Talks Infrastructure, Focuses on Canals, Locks, Dams

President Trump this week flew to Ohio and Kentucky to talk federal infrastructure investment, and shined a bright light on the inland waterway system in the process, all part of the White House's bid to reinvigorate the president's domestic legislative agenda and his plan to invest $1 trillion in national infrastructure improves over 10 years.

Talking about rural infrastructure projects, the White House pointed out to reporters that rural projects will get their "fair share" of federal investment, citing canals, locks and dams which are particularly reliant on federal dollars for construction, maintenance and improvements. The National Grain & Feed Assn. (NGFA) told Congress this week during its annual fly-in that a modern inland waterway system is key to getting U.S. agriculture exports to the ports, with 72% of exports – 142 million tons at a value of $128 billion – moving on barges.

A Trump notion of charging shippers a user fee to use the system is opposed by NGFA, and the overall administration notion of pumping up infrastructure investment through public-private partnerships is viewed by states and localities with a jaundiced eye. They argue the kinds of projects which may attract private investment are those which provide relatively quick and generous returns on investment, and those types of projects typically rely on user fees or tolls, opposed by industry generally and impractical in some rural areas.

The president's prepared remarks and media reports outlined four types of financing possible under his infrastructure vision, including a mix of loans and grants to fund so-called "transformative" projects; grants tailored to rural areas for bridge, road and waterway repairs; pumped up loan programs; incentive grants to states, cities and towns to encourage increased funding in "partnership projects.

The president has already proposed splitting out from the Federal Aviation Administration (FAA) and privatizing the air traffic control system, a recommendation that's getting pushback from both members of Congress and some in the aviation industry.

Taking Land Out of CRP "Loses" Environmental Benefits: EWG

Putting land back into crop production to take advantage of increasing prices once a Conservation Reserve Program (CRP) contract expires leads to "lost" benefits, said the Environmental Working Group (EWG) this week in calling for long-term or permanent conservation easements as part of the 2018 Farm Bill.

EWG released a new report this week showing, it says, "how conservation easement programs are better for the environment and are better investments for taxpayers than CRP." The report increases the attention being paid to possible CRP Farm Bill changes, a discussion which to date has focused on increasing the CRP cap. In the House, Agriculture Committee ranking member Rep. Collin Peterson (D, MN) has talked about taking the current 24-million-acre cap as high as 40 million acres. Sen. John Thune (R, SD), a member of the Senate Agriculture Committee, wants to see the CRP cap at 36 million acres, the level at which it was set pre-2014 Farm Bill.

CRP does provide conservation benefits, EWG said, but the benefits are lost as soon as the CRP contract expires and land is put back into production. From 2007-2014, 15.8 million acres dropped out of the CRP program and weren't reenrolled. At the same time, only 6.7 million "new" acres were enrolled," EWG reported, adding that 10-year CRP contracts cost the federal government $7.3 billion to "rent."

The environmental group said long-term and permanent easement programs have been successful as part of the Conservation Reserve Enhancement Program, a federal-state partnership on high priority projects, and as part of the Wetlands Reserve Easement option in the Agricultural Conservation Easement Program.

CFTC's Giancarlo Wants More FY2018 Dollars; House Appropriations Sees Trump's Number as "Good"

The annual battle over whether the Commodity Futures Trading Commission (CFTC) should enjoy an increase in its annual budget appears to be tipping in favor of President Trump, who's FY2018 budget recommendations hold CFTC funding unchanged for the third year in a row.

Acting CFTC Chair J. Christopher Giancarlo appeared this week before the House Appropriations Committee's agriculture spending subcommittee to talk funding. In hand was his commission's separate request for $281.5 million for FY2018, compared with the administration's recommendation of $250 million.   Giancarlo said his number is the result of a "bottom-up" analysis of how much he needs to regulate the $430-trillion swaps/futures markets. Giancarlo said he needs the money to oversee derivatives clearing and for additional economic analyses.

However, subcommittee Chair Bob Aderholt (R, AL) told reporters after Giancarlo's testimony, "My mind may change, but right I think we're good as far as the number that's been put out by the administration."

Democrat CFTC Commissioner Sharon Y. Bowen said Giancarlo's request for an additional $31.5 million over the president's recommendation isn't enough. "To use the language of leverage, we are trying to stretch each $1 of government funding we receive each year to cover $1.72 million worth of products. The math just doesn't work," Bowen said.

Some States Want Chlorpyrifos Gone

Seven states have written to EPA Administrator Scott Pruitt asking him to reverse his decision to leave the controversial pesticide chlorpyrifos on the market while the agency continues to study its safety. Instead of a separate action, Pruitt decided to roll the fate of chlorpyrifos into a broader safety review slated for this fall.

The states of New York, California, Maryland, Washington, Massachusetts, Vermont and Maine said the agency has not formally declared the chemical to be safe, a status chlorpyrifos should enjoy if it's to stay on the market. These states want the pesticide banned.

The states also contend existing studies showing health concerns about the pesticide are sufficient to pull it from the market while reviews are completed.

FDA Extends Compliance Deadline for FSMA Produce Water Standards

The federal deadline for the produce industry to meet new water safety standards under the Food Safety Modernization Act (FSMA) will be extended, said FDA this week. The industry had been pushing for the extension of the controversial rulemaking for over a year, and FDA said it was working to simplify the rule.

The agency didn't say for how long it would extend the rule's deadline, only that "the length of extension is under consideration" and at a later time, using "appropriate procedures," details will be announced.

"Producers need additional time to come into compliance with FSMA's produce safety rules, and I commend the FDA for providing this needed flexibility," said House Agriculture Committee Chair Mike Conaway (R, TX). "I also appreciate the Trump administration's commitment to taking a hard look at controversial rules like this one."

The rule requires producers to go through complex calculations to determine whether the water they use meets the FSMA rule's standards. The rule applies to water used to irrigate crops and water smaller parcels, and is designed to restrict pathogens in water that come into direct contact with fruits and vegetables.