Dear Client:

U.S., Canada & Mexico trade issues...
From metal tariffs to tomatoes...
To getting U.S.-Mexico-Canada Agreement approved.

Canada has a new list of U.S. products to hit with retaliatory tariffs over U.S. Section 232 metal import duties. Possible U.S. targets: Apples, pork, wine & ethanol. Canada imposed retaliatory tariffs on $12.5 bil. worth of U.S. goods last July in response to President Donald Trump’s tariffs on Canadian steel and aluminum on national security grounds.

Mexico may also change items on its retaliation list, but officials have not announced a date to update those countermeasures, which hit around $3 bil. worth of U.S. goods.

Mexico offered a tomato trade plan to the U.S., including a significantly higher floor price for selling Mexican tomatoes to the United States. The offer comes in the wake of the Commerce Department announcing earlier this year it was preparing to withdraw from the 2013 suspension agreement on fresh tomatoes from Mexico as of May 7, clearing the way for the U.S. to look into dumping allegations.

Mexico is set to overhaul its labor laws, a reform it agreed to as part of the new U.S.-Mexico-Canada Agreement (USMCA) and a step House Speaker Nancy Pelosi (D-Calif.) said must take place before the House considers the agreement. Pelosi also wants to see how Mexican reforms are implemented... that will take time.

Canada said the Section 232 tariffs remain a sticking point for USMCA approval. Canadian Ambassador to the U.S. David MacNaughton this week said the tariffs need to be removed for the Canadian gov’t to move the agreement through its parliament.

MacNaughton hopes USMCA will be taken up by parliament before they leave mid-June for elections. Should USMCA not be cleared by then, U.S./Canada relations would be a “central part of the campaign, and it won’t be a really positive discussion,” he said.

Trump wants to replace U.S. metal tariffs with some quota-related limits on steel and aluminum trade.
He reneged on a promise to lift the metal tariffs once a USMCA deal was agreed to by the three nations in November.

Trump is now threatening the EU with tariffs. The White House said it was looking into tariffs on just over $11 billion of imports from the European Union in response to subsidies the EU gives to the Boeing airline maker rival Airbus.

A U.S. trade war with the EU is possible over differences both trading partners have relative to pending efforts for a U.S./EU trade agreement. The U.S. insists that agriculture be included in any negotiations, but the EU is resisting. Trump has threatened to respond with auto tariffs on the EU.

Washington, April 12, 2019

IF TRUMP’S TRADE POLICY COLLAPSES...

Scenario: What would happen if Trump’s trade policy collapses, led by no U.S./China accord... and then possibly auto tariffs on the EU?

Economic/financial impact: The impact would be major and negative... and it would up the odds of a U.S. and world recession. It would likely lead to a deep recession for the U.S. ag sector.

We are not predicting that, but cannot rule it out at this juncture. This is why producers of export-dependent farm products must (for now) sell rallies.

Political impact: Any trade policy collapse would turn some farmers and ranchers away from Trump in 2020 elections... they are now a key political ally.

But Trump knows his chance at reelection would plummet if his trade policy collapses.

Source: Ag Letter editors
Congress approved a Colorado River drought deal... a landmark water-sharing deal on the Colorado River serving 40 million people. The deal aims to reduce the risk that the water levels at the river’s two main reservoirs will drop to catastrophically low levels, and it has been more than three years in the making among the seven Colorado River basin states. It would allow the federal government to issue a seven-state drought plan for Colorado River basin states, a deal meant to curb water use during water shortages.

“The drought plan is a short-term fix to stave off the most immediate effects of a 19-year drought that continues to threaten parts of the Southwest,” the *Arizona Republic* said. Once the bill is signed by Trump, representatives of the seven river states are expected to meet again to implement the deal.

Another historic storm hit the Plains this week. The huge spring storm unleashed high winds, blizzard conditions and flooding in central states. Like the “bomb cyclone” that bombarded the region last month, the storm set more records. Despite the calendar drifting deeper into April, the biggest story from this storm sequel was the heavy and wind-blasted snow from South Dakota to parts of Minnesota and Wisconsin. To the south of the snow in the Great Plains, some were watching whether the potent winds may also whip up fires.

Disaster aid legislation is stuck in the Senate over differences regarding funding for past disasters in Puerto Rico. A compromise will eventually occur, but final legislation will likely wait until after lawmakers return from their two-week Easter recess.

Aftermath of floods in the Midwest impacting ethanol. The severe floods that barraged Midwestern states have inundated the struggling ethanol industry, trapping or flooding barrels of ethanol and causing biofuel shortages. That in turn has propelled increases in gas prices in western states, with southern California gas prices climbing above $4. “While some ethanol plants were flooded, the primary effect of the rising waters was to shut rail lines that serve as the main arteries for corn and ethanol deliveries,” *Reuters* reports.

Ethanol prices on the coasts spiked due to shortages, but Midwest producers have been unable to take advantage because of washed-out rail lines.

At Iowa forum, Democratic presidential candidates vowed to take on Big Ag. Antitrust enforcement took center stage at a Heartland Forum in Storm Lake, Iowa, a platform for Democratic presidential hopefuls to share their visions for rural America. Nearly all of the candidates said reversing consolidation would be part of their rural agenda, with Sens. Elizabeth Warren (D-Mass.) and Amy Klobuchar (D-Minn.) calling it a main priority.

Some farmers at the forum were buoyed by the candidates’ attention to an issue that is a top priority for many rural communities who believe they have been irked by the effects of economic concentration and “the grip of agribusiness.”

Census data available. USDA’s National Agricultural Statistics Service (NASS) released the 2017 Census of Agriculture results this week. The full Census report includes millions of data points, including farm numbers, land in farms, total value of production, demographics and more at the national, state, and county levels. The report, along with several related publications, video presentations, and searchable data query interfaces, is available on the NASS website at www.nass.usda.gov.

The first Census of Agriculture was conducted in 1840 in conjunction with the 10-year Census. After 1920, it was conducted every four to five years. By 1982, it was regularly conducted once every five years as it still is today, mailed to every known farm and ranch in the United States.
FAPRI outlook a grim picture for ag... but lots of what-ifs. Pressure on farm finances is likely to continue, according to the latest analysis of national and global agricultural trends from the University of Missouri’s Food & Agricultural Policy Research Institute (FAPRI). The analysis calls for an increase in net farm income in 2019, but net farm income is still expected to fall below the 2014 through 2017 average. And long-term projections suggest little change in real net farm income over the next decade, which would increase the farm sector’s debt-to-asset ratio, according to the report.

Assumptions used in the report are based on information available in February 2019 and an outlook from IHS Markit for moderate growth in the U.S. and global economies. Of particular note, the baseline assumes a continuation of 2018 Farm Bill policies and trade policies, including the tariffs on U.S. farm products from China, Mexico and other countries since 2018. The report notes that varying scenarios generate significantly higher or lower results versus what it is reporting now.

Some of the report’s highlights are included below.

Projected prices for U.S. soybeans & other products affected by trade disputes remain below levels that would prevail if foreign tariffs were removed. Marketing-year-average (MYA) soybean prices stay below $9.00 per bu. for a second straight year in 2019-20.

Projected corn prices increase for a second straight year in 2019-20. Further recovery in wheat prices could be limited by continued large global supplies, while cotton prices could fall in 2019-20 in response to increased U.S. production. Estimates were prepared before the March 29 USDA planting intentions report was released. That report suggests slightly more acres of corn and fewer acres of wheat and cotton. Actual 2019 acreage will also depend on spring weather and other factors.

Increasing U.S. meat supplies continue to weigh on livestock and poultry prices in 2019. The possible impacts of African swine fever (ASF) in China and other countries have pushed up pork, poultry and beef prices since these estimates were prepared.

Corn: USDA this week raised carryover for 2018-19 by 200 mil. bu. to 2.035 bil. bushels. That will temper most weather-related rallies.

Soybeans: Bean carryover for 2018-19 was cut 5 mil. bu. from last month by USDA. National average on-farm cash bean price is now $8.35 to $8.85, up a quarter on the bottom and down a quarter on the top end of the range from last month.

Wheat: USDA boosted carryover 32 million bu. from last month and 15 mil bu. above the average pre-report trade estimate. National average on-farm cash wheat price at $5.15 to $5.25 is up a nickel on both ends of the range from last month.

Cotton: Carryover stocks are up 100,000 bales from last month. USDA made no change on the supply side of the balance sheet and cut 100,000 bales from estimated domestic use to 3.1 million bales, the lowest since the late 1800s.

Rice: USDA’s outlook for the U.S. 2018-19 rice balance sheet is for reduced exports, unchanged domestic and residual use and higher ending stocks... bearish.

Dairy: Milk is widely available for cheese production, but heavy stocks are causing some to shift cheese production to other products or decrease production targets.

Cattle: USDA sees beef production in 2019 down from March, primarily on lower carcass weights, but higher total cattle slaughter for 2019 is expected to partially offset declines in carcass weights.

Hogs: Prices have retrenched some from the recent surge but will be supported by African swine fever impacts in China and elsewhere, resulting in the need for more pork imports. Expanded U.S. production will eventually cap rallies.
Pelosi pushes $1 trillion infrastructure measure. House Speaker Nancy Pelosi (D-Calif.) wants at least a $1 trillion investment in a range of infrastructure needs... from roads and bridges to airports and schools to broadband and clean water. “This has always been bipartisan until recently. But now hopefully again it will be nonpartisan and it will be at least $1 trillion,” Pelosi told the North America’s Building Trades Union at its annual Washington event.

National Governor’s Association (NGA) outlined infrastructure priorities for Congress and the Trump administration, including critical infrastructure, transportation systems and food supply chains. The group of governors from both political parties detailed the following four principles to guide a state-federal partnership on infrastructure funding, reform and innovation.

* Create certainty and stability in long-term federal resources to ensure workforce and economic vitality through dedicated funding and financing.
* Fix and expand existing infrastructure and invest in resiliency and security to modernize it for future generations.
* Streamline project delivery, increase transparency, while achieving environmental protection.
* Embrace new practices and technologies that provide innovative solutions to traditional infrastructure needs.

Outlook: While getting agreement on any issue in the very divisive Congress is very hard, Trump is more aligned with Democrats on this issue.

Walmart Inc. is getting more robotic in its drive to cut labor costs. The retailer is expanding its use of robots in stores to help monitor inventory, unload trucks and clean floors, the Wall Street Journal reports, as the company looks to reset its workforce and operations to serve online business. At least 300 stores this year will add machines that scan shelves for out-of-stock products. Walmart will more than double the number of conveyor belts that automatically scan and sort products as they come off trucks.

Walmart wants to save money as it raises wages, but it also desires flexibility. The retailer says automation at truck dock doors can cut the number of workers there from eight to four, allowing for more hiring targeted at expanding e-commerce efforts.

Roundup faces a legal reckoning. The weedkiller’s owner, Bayer, says studies prove the product is safe amid lawsuits alleging a cancer link. Two juries have found in favor of plaintiffs who developed lymphoma and who claim company cooperation with scientists skewed the research.

Say ‘glyphosate-free’ and charge more? Seattle research company Hartman Group says “glyphosate-free” is one of four food descriptors that food companies can use in charging higher prices for their products. The firm released a graphic showing four premium labels: ▪ Glyphosate-free certification ▪ Beyond “natural flavors” ▪ Botanical flavorings ▪ Clean meat (plant-based or lab grown).

U.S. still not fully satisfied in U.S./China trade talks. While progress has been made, U.S. officials are not yet satisfied with progress in all areas. Existing tariffs put in place by both countries are an issue that has yet to be settled.

No one other than Trump wants to give a timeline for completion of the deal. Trump on April 5 said we should know more in four weeks. Even if there is an accord, it will take another two weeks to complete translations and other things before a signing ceremony between Trump and his Chinese counterpart, Xi Jinping, can take place.

Best regards,

April 12, 2019

THE AGRICULTURE LETTER EDITORS