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Policy Issues and the Beef Industry

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The current climate in Washington is one where lawmakers have been lurching from one confrontation to another, with seemingly little ability to do much more than kick a problem down the road. This has been underscored by the process which led to the partial government shutdown that lasted for 16 days. As the beef industry looks ahead, some of these lingering Washington issues could well have an impact on the US cattle industry and others.

Farm Policy

We have now at least moved the process of getting a new farm bill closer to the finish line than we did in 2012. Both chambers have passed their versions of the legislation and the "heavy lifting" of the House-Senate conference process is underway. Keys for the US cattle/beef industry in this legislation may not be some of the "headline" grabbing materials like the farmer safety net, the issue of crop insurance and others. But there are implications for the industry relative to some key matters:

Nutrition programs: The chasm between the House and Senate versions of the bill is a wide one – the House package would cut nutrition programs such as the Supplemental Nutrition Assistance Program (SNAP) by $40 billion over 10 years while the Senate would reduce that by $4 billion. In addition, Senate Ag Committee Chairwoman Debbie Stabenow (D-Mich.) has signaled she wants to combine the reduction in SNAP benefits that took place Nov. 1 when the increase via economic stimulus efforts ran its course without any action to restore the extra spending. Sen. Stabenow says that would amount to around $15 billion in savings when the Senate-cut level and the expired SNAP boost are combined. Indications are it may well take an agreement at a higher level than farm bill conferees to finalize a spending-reduction level for SNAP and other nutrition programs. That's important since those programs account for an estimated 80 percent of the farm bill spending.

How those spending cuts shake out will impact benefit levels to consumers. That, in turn, will affect what users of the program can purchase via the benefits they receive under the program. Demand at the meat case is one of the keys for the US beef industry and the prospect of fewer benefit dollars will be an important one to watch.

Livestock Disaster programs: This is one of the least-controversial issues in the new farm bill. Both the House and Senate Farm Bills reauthorize and fully fund livestock disaster assistance provided in the 2008 Farm Bill, providing coverage retroactively to 2012.

There are some areas that will still need to be tweaked, though, including under the Livestock Indemnity Program. The House provides indemnity payments at 75 percent of the market value of livestock. The Senate provides indemnity payments at 65 percent of the market value of livestock.

Under the Livestock Forage Program, the House maintains current law while increasing the payment rate. The Senate combines ELAP forage assistance and NAP. The Senate also lowers the payment rate to 50 percent of monthly feed costs and limits the grazing period to 240 days per year.

Other farm bill items to watch: Bovine tuberculosis in cattle. The House version would require the secretary to submit to Congress a report on the incidence of bovine tuberculosis in cattle in Texas.

GIPSA. The House bill prohibit the Grain Inspection, Packers and Stockyards Administration from issuing any rulemaking.

Dairy policy issues. The key is on supply management as House Ag Committee Ranking Member Collin Peterson (D-Minn.) favors supply management language to go along with a gross margin safety net program for dairy producers. But the House-passed farm bill soundly defeated supply management language.

The Senate farm bill includes such language, and USDA Secretary Tom Vilsack has been calling various dairy industry stakeholders to support supply management language. But Lucas as chairman will or should follow the "will of the House" and try to delete such language. Besides, House Speaker John Boehner (R-Ohio) has made his opposition to supply management very clear.

As always, the key issue here is whether the dairy policy provisions enacted in the bill negatively affect the US beef industry via additional marketing of dairy animals, increasing beef supplies and potentially lowering prices received by cattle producers.

Research: Under the Senate bill, the Agriculture secretary would be required to research initiatives critical to the needs of animal agriculture and disseminate science-based tools to promote food security. The secretary also would be required to award grants to carry out such initiatives and prioritize projects that are multistate and multidisciplinary and include methods to communicate results to the public. It would authorize $50 million per year from fiscal 2014 through 2018 to carry out the research initiatives and grants.

Undersecretary for Trade: The secretary would be required to propose a plan to establish an Agriculture under secretary for trade and foreign agriculture affairs, determine how the under secretary could serve as a multiagency coordinator of sanitary and phytosanitary issues and nontariff trade barriers with respect to imports and exports. This is an effort to bring several agency efforts under one top-level USDA official and streamline the myriad of trade efforts.

Food aid: While some will continue to push for shifting the way the US provides food aid, Congress has been resistant to just simply handing out cash to recipient countries.

Country of Origin Labeling (COOL)

This is one of the longer-running issues that the US livestock industry and our trading partners have been wrangling over. The USDA final rule published in May has prompted a host of actions and threatened actions from both within and outside the US. The new labels which would display where the animal the meat came from was born, where it was raised and where it was slaughtered.

<u>Court challenge</u>: A preliminary injunction was rejected and that decision is currently under appeal. The overall challenge of the COOL law also remains a potential area that could shift the operation of this program, There is no timeline on this front.

<u>WTO challenge</u>: Both Canada and Mexico have requested a panel to look at whether the May USDA final rule meets the US's WTO obligations after the initial WTO ruling against the US COOL implementation. The same officials as made the initial determination have been requested to do the exam and that is expected to reach a conclusion in Feb. 2014.

<u>Canada and Mexico retaliation</u>: Both nations believe the US final rule does not meet the US commitments and responsibilities after the initial WTO ruling. Canada has readied a list of products they will seek retaliation in the event that the US does not change the COOL provisions as they currently exist. That list could approach $1 billion annually if the WTO again rules the US law doesn't pass WTO muster and the US fails to bring it into compliance with such ruling. Mexico has also readied such a list, but has not yet published it.

Their goal is to bring pressure to bear on the US administration from sectors outside of the meat and poultry industry to change the COOL law. Canadian officials have made it clear they will pursue all options in this case. The WTO-related process in this case could take another nine months to unfold.

<u>Commercial impacts</u>: Already, some major US beef processors have signaled they will no longer purchase market-ready cattle from Canada as a result of the requirements under the COOL rule. Those opposed to COOL will argue this will increase costs to consumers at the meat counter as the supply of beef and other meats could be limited to just a US-only supply, a situation which would coincide with an already reduced beef herd.

<u>Farm bill linkage</u>: Included in the House bill is a "placeholder" on COOL, and that will be important to watch for in the final conference report as it could significantly impact COOL provisions currently in place.

Biofuels Policy

Biofuels production in the US has focused primarily on corn-based ethanol, building a major usage category for US corn that has created tensions between the livestock and cropping interests in this country. The availability of ethanol co-products has taken some of the "sting" out of the rise in corn prices, but has not totally offset the increased feed prices. In addition, Mother Nature's role in 2012 in reducing the US corn crop further accented the price increases seen. The recovery in production expected for 2013 has helped ease feed costs, but that has not changed the call for adjustment to US biofuels policies.

<u>Corn Ethanol Mandate</u>
2013: 13.8 billion gallons
2014: 14.4 billion gallons
2015: 15 billion gallons
<u>Biodiesel Mandate</u>
2012: 1 billion gallons
2013: 1.28 billion gallons
2014: 1.7 billion gallons

The issues that have created the calls for action on US biofuels policy include the 2012 drought, but also involve issues beyond – rising CAFÉ standards for cars and light trucks, fewer miles driven and the E10 "blend wall."

For 2013, EPA altered the volume requirements for cellulosic ethanol as it remains a trickle of supply as opposed to the growing major component of US biofuels production. The EPA also extended the compliance period for 2013 for four months beyond the normal timeline – through June 2014. Biodiesel was left unchanged in the 2013 process.

For 2014, EPA stated when they issued their final 2013 plans for the Renewable Fuels Standard (RFS) that they would likely reduce mandates for 2014. EPA has shifted their planned release of their proposed RFS plan for 2014 twice and most recently targeted November.

The ethanol mandate, specifically the corn-based ethanol portion, is likely to be reduced from the 14.4 billion gallon level spelled out in law. EPA may also opt to take a similar action for 2014 relative to firms having to demonstrate compliance with the mandates – June 2015 is a possibility. And, EPA said they will not likely finalize the 2014 requirements until June 2014.

Legislative efforts are uncertain at best. The House has held hearings on the RFS, the blend wall and other ethanol/renewable fuels issues. The House Energy and Commerce Committee issued several white papers on the matter and reached no conclusion so far on how best to proceed.

Key lawmaker to watch is Rep. John Shimkus (R-Ill.) and he so far has signaled that from a legislative perspective, he'll be watching to see what EPA proposes for 2014.

In the Senate, they are on a slower path. No legislation is seen coming from the Senate this year and about the most action expected will be hearings.

Bottom line: Any legislation on the RFS, biofuels or other matters on renewable fuels will be driven in large part on how lawmakers react to what EPA proposes for 2014.

2014 and 2016 Elections

Control of the House and Senate could loom large on several fronts as voters will go to the polls in November amid. As partial government shutdown ended, polls clearly signaled voters were placing the blame at the feet of Republicans even though there was plenty of blame to go around! That blame could alter what had been expectations for Republican to be in line to potentially retake the US Senate and even pad their level. Key now will be the candidates that both parties field, especially in areas of the country where Democrats hold Senate seats in particular where GOP Presidential standard bearer Mitt Romney carried in 2012. Again, the potential for shifts in the control of the two chambers remains uncertain and it will potentially depend on how long of a memory that voters have. The health care reform law also looms large as another potential issues that Democrats are clearly concerned over, given that "glitches" have become an official government explanation for the issues faced by consumers in attempting to enroll in the new law.

One potential area that was raised as a campaign issue in the just-completed elections: The Virginia governor's race where the issue made a race that was initially expected to be an easy win for the Democrats a "nail biter."

Conclusion

While there are many potential issues and areas in the political arena that could impact the US cattle industry, they are looking forward at these issues with an income picture at least holds promise. USDA projections into the future indicate while crop receipts will be on the decline, livestock and products income will continue steady gains.