

News from Washington: December 3-9

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Trade Deficits Soar in October

Trump's tariffs on steel, aluminum and a wide range of Chinese goods so far haven't done anything to shrink U.S. trade deficits, one of the president's central campaign promises. The gap between U.S. imports and exports is up 11 percent over last year. Trade deficits with China and the EU smashed records in October, according to the latest Commerce Department data.

Last month's trade deficit in goods and services jumped to \$55.5 billion, one of the highest levels in a decade. Measured in goods alone (as the president often does), the deficit was the highest on record at \$77 billion.

Agricultural trade is also down. The U.S. routinely sells more farm goods than it purchases, but the projected [ag trade surplus](#) for fiscal 2019 is \$14.5 billion, potentially the smallest surplus in 12 years, according to a USDA Economic Research Service report this week. Retaliatory duties have curbed Chinese demand for U.S. soybeans, sorghum, pork, dairy and other commodities.

Stabenow Unsold On USDA Civil Rights Nominee

Two of the three USDA nominees approved by the Senate Agriculture Committee on Wednesday had no problem, but the six Democratic votes opposing Naomi Churchill Earp's nomination included ranking member Debbie Stabenow — and the Michigan Democrat made clear afterward that Democrats want to know more about Earp.

Stabenow isn't convinced Earp is the right person for the job of assistant secretary for civil rights, citing the nominee's performance during a confirmation hearing last week.

The ranking member told reporters after the vote that she wants to review more information about Earp's record before making a final decision. "This is a very consequential position, given the very troubling history of the USDA. I didn't feel comfortable with her answers. We want to get more input from people. ... I just want to be sure," Stabenow said.

The troubling record Stabenow referred to involves USDA's history of racial discrimination in loan programs for farmers, and womens' allegations of a culture of sexual misconduct at the Forest Service.

Earp told Senate Ag members last week that she wants to expedite such complaints at the Forest Service. She faced scrutiny from Stabenow when she said that complaints of sexual assault and abuse, which in some cases could rise to criminal investigations, should be handled separately "from the silliness that goes on as a part of harassment."

Clear path for chief scientist, food safety czar nominees. Scott Hutchins and Mindy Brashears were easily approved, though Sen. Kirsten Gillibrand (D-N.Y.) opposed Hutchins, the nominee for undersecretary for research, education and economics. Brashears, the White House's pick for undersecretary for food safety, advanced unanimously.

CBO Key to Final Farm Bill Release

Senate Agriculture leaders told reporters Wednesday they're still waiting for some CBO cost estimates of the farm bill deal as they try to finalize a conference report so it can be released next week.

“We still have some scores out,” Roberts said, referring to the outstanding cost projections. “We have some minor things to work out.”

The chairman said he’s still “very hopeful” the final bill will be ready to debut next week. Senate Ag members know where things stand in the deal that top negotiators announced last Thursday, but they haven’t seen language yet, Roberts added.

House Ag ranking member Collin Peterson says milk producers will be the biggest beneficiaries under a farm bill that largely maintains the status quo. The Minnesota Democrat said the legislation will fix a dairy safety net program created in the 2014 farm bill (that didn’t really work) and help to ensure that participating dairy farmers with 240 cows or fewer break even, at least. The AP has [more](#).

The soon-to-be House Ag chairman said he’s warned Democratic leaders that Congress might need to step in next year to help farmers and ranchers burned by President Donald Trump’s trade war.

Ending Ag’s Reliance on China Sales

Perdue has upped his calls recently to curb America’s reliance on China as a mega-buyer of ag commodities like soybeans. USDA announced seven upcoming trade missions in 2019 that Ted McKinney, undersecretary for trade and foreign agricultural affairs, will lead to developing markets like Colombia, Kenya and Vietnam (and to a few close trading partners like Canada, Mexico and the U.K.).

USDA picked countries that “offer the best prospects for sales of U.S. farm and food products,” said McKinney, who led several trade delegations this year, including recent trips to hunt for deals in South Africa and South Korea.

But replacing Chinese demand is a tall order. China [bought](#) \$19.6 billion in agricultural products in 2017, per USDA — more than any country except Canada.

Stocks [sold off](#) Tuesday as doubts swelled about the trade truce Presidents Donald Trump and Xi Jinping reached at the G-20 meeting in Argentina. (Grain markets escaped the dropoff, however, with [soybean prices](#) trending higher.)

Confusion amid key differences about what China said it will do, and what the White House said was agreed to, factored into the market drop. Perdue’s comments on the deal were an example of the uncertainty that’s spooked some investors, as he said Tuesday (much like he did on Monday) that USDA is seeking clarity on what the White House said was China’s pledge to start buying U.S. agricultural goods.

Perdue said he wants to find out “exactly what that means” and “when can we go on the offense to start selling again.” The secretary has also been looking beyond his foxhole. He’s mentioned more than a few times of late that the trade standoff shows the need to wean U.S. agriculture off its reliance on the Chinese market.

“While we’re all worried about China and its impact on our business, I say that we probably became too dependent on one customer,” Perdue said Monday at an Illinois Farm Bureau event in Chicago.

He noted that McKinney “is trying to develop a market that would benefit us for the long-term future not to be held hostage to one major customer, as we’ve been this year.”

Other “major customers” like Canada and Mexico are pushing to cut a deal with the Trump administration to lift the steel and aluminum tariffs.

U.S. Trade Representative Robert Lighthizer has confirmed that talks with Mexico and Canada about the tariffs were “not going to take a pause” and would continue this week in an effort to “come to a conclusion before long.”

As long as those duties are in place, farmers and ranchers will continue feeling the sting of retaliatory tariffs — and the new U.S.-Mexico-Canada Agreement will face roadblocks to approval in Congress

USDA Gets Moving on Regs

The department has been off to a slow start issuing major regulations during the Trump administration, but some key rules are starting to shake loose. Among the issues moving forward:

- **School lunch rollback:** USDA has released a long-awaited final rule to relax some of the nutrition standards that were a major priority during the Obama administration. The rule follows a 2017 pledge that the then-newly named Agriculture Secretary Sonny Perdue made to give schools more flexibility, but it goes further on rolling back whole-grain standards than had been anticipated. (Low-fat flavored milk is also permanently back on the menu under the rule. Previously, only non-fat flavored milk was permitted.)
- **Tariff relief on tap:** The second tranche of trade aid is still being worked out. Perdue is “working through the final steps with the president to make that determination,” Ibach said at an American Seed Trade Association event in Chicago. USDA is expected to make an announcement by early next week.
- **GMO labeling imminent:** USDA’s GMO labeling rule will be released by Jan. 1, Ibach said. USDA’s new rule on labeling genetically engineered ingredients will likely line up with FDA’s Nutrition Facts compliance schedule, he said. The FDA rule begins to take effect in January 2020.
- **Regulatory slowdown:** This administration, operating under President Donald Trump’s deregulatory executive order, has adopted a decidedly slower pace in issuing major regulations, even when it undoes Obama-era rules.

By this point in the Obama administration, USDA had finalized at least a dozen rules that were considered economically significant, according to a historical log at OMB and reviewed by MA. Over the same time frame, USDA has completed five economically significant rules during the Trump administration, OMB records show. Two of those rules were related to the trade-aid program and one was pulling the plug on the Obama-era organic livestock standards.

Fed Could Hit Pause on Rate Hikes

After steadily hiking interest rates in recent years, the Federal Reserve might ease off in 2019. Another increase this month is all but certain, but markets will be watching what Fed officials indicate is on the horizon — namely, whether they’ll scale back their estimates to just two rate hikes next year.

Fed Chairman Jerome Powell has increased interest rates three times since he took over in February, and three more are expected next year. But with global growth slowing and trade tensions simmering — not to mention the Fed’s own policies taking hold — the central bank might step more cautiously.

Next year could feature some major economic headwinds at home and abroad, including a strong U.S. dollar, trade feuds, funding fights in Congress, Brexit, Italy's budget problems and more.

Farmers could also benefit from a pause on rate hikes, which can weigh on profitability and the value of large farm assets. A monthly [survey](#) from Purdue University and CME Group found 76 percent of ag producers predict higher interest rates for the next five years compared with 2018.

Pelosi: USMCA Needs Changes Before Approval

House Democratic Leader Nancy Pelosi cast fresh doubt on whether Congress will approve the so-called U.S.-Mexico-Canada Agreement when her party takes control of the House next year.

After meeting with U.S. Trade Representative Robert Lighthizer in her Capitol office, Pelosi issued a statement on Thursday saying the trade pact includes some positives but is "just a list without real enforcement of the labor and environmental protections."

But she praised Lighthizer for a "constructive conversation." Trump's chief trade negotiator told reporters last week he wants Democrats not only to vote for the deal but also to "be happy with the agreement."

Trump is threatening to raise the stakes by pulling out of NAFTA, potentially leaving lawmakers to choose between ratifying his landmark trade achievement or reverting to the pre-NAFTA trade system. A Pelosi spokesperson called the tactic "disappointing but not surprising."

Perdue Eyes Post-Farm Bill Rule on SNAP Waivers

The delayed release of USDA's proposed rule to rein in waivers that exempt some food stamp recipients from current work requirements could be an important selling point for the Trump administration as it looks to rally support for the bipartisan farm bill compromise.

Perdue said the rule will appeal to conservative lawmakers who are frustrated that House Republicans came up short in their push for stronger work requirements for millions of Supplemental Nutrition Assistance Program recipients.

USDA will issue the proposed rule after the farm bill is passed, the secretary said. The rule has been in the works for months and many had expected it to be released before the midterms, but the administration held off. Perdue previously said he didn't want to preempt Congress as they were negotiating the farm bill.

USDA has been looking at ways to crack down on some 36 states that currently waive at least part of their SNAP populations from the existing three-month limit for able-bodied adults without dependents to receive benefits within a three-year period if they're not working at least 80 hours a month.

"Through regulation we'll be able to please those conservatives who expected more work requirements in the farm bill, as I did, as President Trump did," Perdue said after an Illinois Farm Bureau event in Chicago.

Perdue was set to visit House Republicans today to help sell the bill, but those plans were canceled along with all votes in the House this week, owing to the passing of former President

George H.W. Bush. The conference report likely won't be released until early next week, potentially setting up floor votes next week as well.

What Happens To Ag Research Under a CR

When Congress this week officially delays the government funding deadline until Dec. 21, it'll avert a potential shutdown at midnight Friday. But passage of yet another continuing resolution also means two more weeks of federal agencies — including the Agriculture Department and FDA — bumping along under last year's spending and policy guidance.

Under a short-term continuing resolution, H.J. Res. 143 (115), that Trump and congressional leaders have agreed to pass this week, a 3 percent bump in USDA research funding proposed by House appropriators would be put on hold for another two weeks.

The House Agriculture-FDA Appropriations bill, H.R. 5961 (115), would hike research and education programs under the National Institute of Food and Agriculture by \$28 million in fiscal 2019, compared with the previous year.

That includes money for biotech research at historically black institutions and grants for studying salmonella and pathogens in animal feed.

The proposed NIFA funding increase is one of many bipartisan funding efforts still on ice while Congress tries to reach a final spending deal to fund the remaining departments and agencies through Sept. 30.

What's holding things up? A partisan battle over funding for Trump's promised U.S.-Mexico border wall, among other issues.

Seeking Japanese Markets

Dairy farmers are urging the Trump administration to open up the market in Japan as officials get ready to begin trade talks next month. The National Milk Producers Federation was one of only four groups that submitted testimony on Thursday at a U.S. International Trade Commission, which will hold a hearing on the potential pact. The Office of the U.S. Trade Representative will hold its [own hearing](#) on the Japan talks on Monday.

Full access to Japan's dairy market could boost U.S. exports to the country by 450 percent — and raise U.S. dairy farmers' income by \$12 billion, or 3 percent, over a decade.

Trump already agreed to not to press Prime Minister Shinzo Abe to expand access to Japan's ag markets when they agreed in September to launch talks toward a bilateral agreement.