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GOP Shifts Focus to Tax Reform Before Year's End

With Republican strategists concerned that without at least one big ticket legislative win before year's end voters will permanently brand the GOP as "unable to govern," both the House and Senate majorities are furiously crafting tax reform packages they hope will pass muster when Congress returns from its August recess in early September.

Politicians of all stripes agree tax reform is needed – though recent polling shows reform is not consumers' top priority – but what kind of tax reform can be achieved and how quickly will it happen is undecided. GOP leadership looks at the end of 2017 as its deadline; as to how comprehensive that reform will be is another question.

Chair of the Senate Finance Committee Sen. Orrin Hatch (R, UT) said this week he plans multiple hearings on rewriting the federal tax code – and he wants to see Democrats involved – but he'll hold just a single tax reform markup sometime after the August recess. No Ways & Means Committee schedule has been made public.

Senate Majority Leader Mitch McConnell (R, KY) confirmed tax reform will travel through the system on "regular order," meaning hearings, debate and amendments. However, he says he'll use the budget reconciliation process to move the Senate bill on the floor as reconciliation needs only a simple majority to pass, avoiding filibusters and 60-vote hurdles.

At the same time, absent a FY2018 budget agreement – the nonbinding blueprint for all federal spending, an FY2018 spending package, and an affirmative vote on increasing the federal debt ceiling, getting any package to President Trump is going to be tough.

Congress hasn't tackled comprehensive tax reform since 1986. Both Capitol Hill and the White House have championed moves to slash the top corporate tax rate from 35% to 15-25%, depending on who's talking. On the personal side of the tax ledger, the White House wants to see the current seven individual tax brackets consolidated into three, with a top personal rate of 35%, while doubling the standard deduction. Also up for discussion are such moves as elimination of the estate tax – an ag priority and a Trump campaign promise – along with an end to the alternative minimum tax, expensing shifts and similar moves. Such a plan, some critics say, could cost as much as \$5 trillion over a decade.

However, when it comes to drafting a plan – currently underway between House and Senate tax writing committees and the White House – preventing that plan from deepening the deficit is a significant challenge; stimulating the economy is the goal. There are a few ways to avoid exacerbating the deficit and jump start the economy. The first is by finding income to offset the cost of the ultimate package; the other is to craft a package containing some permanent reforms, some temporary, while closing expensive loopholes and simplifying the overall tax code. The third – and an option that has just surfaced among negotiators – is to take whatever permanent and/or temporary tax cuts are coming and make at least some of them retroactive, putting more money in corporate and personal pockets faster.

The moderate side of the Republican caucus ogles a repatriation of U.S. corporate profits stashed overseas, a pot of money amounting to well over a \$1 trillion. A one-time 10% tax on \$1 trillion could go a very long way to offsetting the "cost" – read lost tax income – of a tax code overhaul. This repatriation

could be coupled with a shift of the tax code to a territorial system, a system under which overseas profits of U.S. companies are not taxed, thus preventing companies from continuing to stash those profits overseas. At the same time, House centrist Democrats want this approach to carry some kind of infrastructure investment – the original target of repatriation spending – a position taken by an increasing number of conservative and moderate House Republicans.

A second \$1-trillion in pay-for dollars would have been generated by a border adjustment tax (BAT), a levy on imports, but business found a BAT so unpalatable all parties have agreed it's a no-go as part of negotiations.

Packaging a delicately balanced array of permanent and temporary, immediate and phased-in tax or retroactive changes is gaining popularity, though all parties agree permanent changes are preferred, but temporary fixes are better than the status quo.

'We Have the Facts' on Farm Bill Rewrite, Says Conaway; Grassley Predicts Farm Bill by Christmas

It's full speed ahead on the FY2018 Farm Bill rewrite based on statement made this week by senior agricultural lawmakers.

House Agriculture Committee Chair Mike Conaway (R, TX) says after numerous Washington, DC, committee hearings and a handful of "listening sessions" in the hinterland, "We have the facts...to make the hard decisions" on a Farm Bill rewrite. Meanwhile, Farm Bill veteran Sen. Charles Grassley (R, IA) last weekend predicted the Senate will approve a new Farm Bill by Christmas.

Conaway made his statement at the International Sweetener Symposium in San Diego, reiterating it's his plan to have a bill on the floor by the end of 2017, or early in the first quarter of 2018 at the latest. Grassley said his statement comes after a conversation with Senate Agriculture Committee Chair Pat Roberts (R, KS), who has publicly coveted a similar schedule.

The House ag panel is wrapping up its listening sessions – committee members listen and can't interrupt speakers – with sessions August 2, in Morgan, Minnesota, and August 5 in Modesto, California. Previously, Conaway hosted the committee in his district in Texas. There was a Democrat-organized event in Salinas, California, last week as well, and an end-of-the-month session in Illinois is set. No matter the location, the common message: These are bad times on the farm.

The Minnesota session, held in committee ranking member Rep. Collin Peterson's (D, MN) district, focused on the need for risk management tools that keep farmers on the land in the event of natural or man-made disasters. Changes to the dairy Margin Protection Plan (MPP) were also a topic, focusing on the need to adjust the feed cost factor to better reflect producer margins. Organics came up, with a call for better enforcement of the National Organic Standards (NOS) labeling program and more attention paid to organic imports. Cattlemen talked about the need for a food-and-mouth disease (FMD) vaccine bank, while others want to see a higher cap on the Conservation Reserve Program (CRP)

The Supplemental Nutrition Assistance Program (SNAP), formerly known as federal food stamps, was a big topic in Modesto. Speakers want to see the program expanded in ways that benefit not only families but also farmers' markets and fruit and vegetable producers. Witnesses also pushed for increased funding and expansion of the Specialty Crop Block Grant program, with more support for organic research and trade promotion. General trade, conservation and immigration – and more money to

expand these programs – were also hot topics. State dairy producers echoed the need for improvements in the MPP program, and the California Farm Bureau talked about various environmental programs, including the Environmental Quality Incentive Program (EQIP), and emergency assistance programs for livestock producers. The importance of trade was driven home by more than one speaker.

The Humane Society of the U.S. (HSUS) had several speakers talk about the need for the Farm Bill to address “animal welfare” issues, praising Rep. Jeff Denham (R, CA) for his legislation in this area.

In a related Farm Bill evolution development, Sen. John Hoeven (R, ND), along with Sens. Luther Strange (R, AL) and John Boozman (R, AR), introduced legislation before they left for the August recess to increase the maximum loan amount under USDA’s farm credit programs. The bill would increase the Farm Service Agency (FSA) loan guarantee maximum from \$1.39 million to \$2.5 million, and direct loan amounts would double to \$600,000.

Clovis Nomination Remains Controversial, but Perdue Weighs In

Dr. Sam Clovis’ nomination by President Trump to be USDA under secretary for research, education and economics (REE) remains controversial, with the Iowa economist dogged by criticism he’s not a “scientist,” and while routinely reminded of long-ago public statements made about President Obama, minorities, climate change, crop insurance and the like, he got the full support this week of Secretary of Agriculture Sonny Perdue.

Perdue, in Iowa at the Ag Summit, told the press, “It’s amazing how the media goes through (someone’s past) and dredges up these stories. That’s what the opposition does.”

Most critics are less concerned about Clovis’ previous speech and blog statements as they are about what they contend is his lack of qualifications to be USDA’s chief scientist. The REE under secretary slot was created in a Farm Bill, but requires by law the job go to an experienced agriculture scientist, agriculture economist or agricultural educator. Before and after unsuccessfully running against former Sen. Tom Harkin (D, IA), and before he joined the Trump campaign as a national co-chair and senior advisor, Clovis earned a doctorate in public administration, served in the Air Force special services and taught economics at Iowa’s Morningside College.

The National Pork Producers Council (NPPC) and the National Cattlemen’s Beef Assn. (NCBA) say they’re less concerned with Clovis’ food science research resume than they are with his relationship with Trump and his political acumen.

While Senate Agriculture Committee ranking member Sen. Debbie Stabenow (D, MI) has speculated publicly on Clovis’ qualifications because he’s not a scientist, Sen. Charles Grassley (R, IA) said Clovis’ economic background qualifies him for the job and the nomination is likely to be confirmed by the full Senate on a 52-48 party line vote.

NAFTA Talks Begin Next Week in DC

A Washington, DC, hotel will be the site next week for the first round of formal renegotiation of the North American Free Trade Agreement (NAFTA), and while collective agriculture keeps a positive public outlook despite President Trump’s off again/on again NAFTA comments, it won’t be pretty for any of three countries if the talks start to go badly.

Agriculture Secretary Sonny Perdue said this week “I plan to be engaged” in the August 16-20 talks. He told reporters in a conference call, “The mantra I’ve continued to promulgate in the White House is, first of all, do no harm to agriculture. Every time they mention something about that, they look at me and acknowledge that, first of all, do no harm to agriculture and don’t hurt our farmers.”

All three nations agree the priority for the talks must be no harm, meaning 23 years of free market access among the U.S., Canada and Mexico must continue. It was this duty-free movement of goods among the three nations which took U.S. exports both north and south from \$8.9 billion in 1993, to \$38.1 billion in 2016. Agriculture currently enjoys support of its position from Perdue and U.S. Special Trade Representative Robert Lighthizer, and by extension trade lead Secretary of Commerce Wilbur Ross.

Lighthizer will lead the U.S. negotiating team next week, and Perdue said “I’ll be singing in his ear regarding ag issues.”

Roberts Gets 100 Senators to Back Dole Gold Medal

The cynics said it couldn’t be done, but most underestimate Sen. Pat Roberts (R, KS) at their own peril as the Kansas ag committee chair garnered all 99 of his colleagues as cosponsors of his bill to authorize former presidential candidate and Sen. Bob Dole (R, KS) to receive the Congressional Gold Medal, the highest civilian honor Congress can bestow.

The Senate unanimously approved awarding Dole the honor before it left for August recess. The unanimous Senate support for the Dole medal should help Rep. Lynn Jenkins’s (R, KS) efforts. She needs two-thirds of her colleagues to cosponsor her companion bill.

Dole, former Senate Majority Leader, is one of the most recognized champions of food, agriculture and feeding the world’s hungry in Washington, DC. He also served as ranking member on the Senate Agriculture Committee.

FSMA CCMP, Preventive Control Compliance Dates Coming, but Control Inspections Deferred

On September 18, large feed companies must be in compliance with preventive controls rules under the Food Safety Modernization Act (FSMA), and “small” animal food facilities – those with under 500 full-time employees – will need to be in compliance with Current Good Manufacturing Practices (CGMPs). These small companies get an extra year to get into compliance with preventive controls.

A major benefit to the animal food industry came this week in the form of delayed preventive controls inspections, detailed in an article published by FDA this week in which Center for Veterinary Medicine (CVM) consumer safety officer Jenny Murphy explains the requirements and compliance dates.

In response to a question on “what happens next?” on CGMPs and preventive controls, Murphy said, “We will not be conducting routine regulatory inspections to ensure compliance with those specific requirements (preventive controls) until the fall of 2018.” There will be CGMP inspections, she said.

Murphy also answers questions relative to the responsibility of both domestic and foreign suppliers and the impact of the compliance dates and inspection deferrals on distillers. The full question/answer document can be found by going to www.fda.gov/food/guidanceregulation/FSMA/ucm570439.htm.

When asked why the agency won't begin "routine" preventive controls inspections until next year – a formal request of FDA by the American Feed Industry Assn. (AFIA) over time – Murphy said, "This is new territory for all of us, and we have heard from animal food producers that they need more time and technical assistance to fully understand the requirements. We want to give the larger facilities some flexibility to further develop their plans and ensure their systems are operating correctly as guidance from FDA and other resources are put in place."

"By keeping the compliance dates, but not beginning routine regulatory inspections, we're protecting food safety while giving facilities additional time to make sure the system is working correctly and to make adjustments if needed," Murphy said, calling preventive controls "in the best interest of public health."

Murphy stressed this does not let companies off the compliance hook for another year. "Our job is to protect public health. If there is a problem, whether it's a potential or actual food safety hazard, we will use the tools available to us to keep that food out of the marketplace," she said. Murphy reminded readers FDA now has mandatory recall authority and the ability to suspend a facility's registration.

"We don't want people to think that by not beginning preventive controls inspections we'll be letting our guard down when it comes to keeping consumers, both human and animal, safe," she added.

USDA Accused of Censoring Use of "Climate Change;" Stabenow Wants Answers

The Guardian this week reported USDA's Natural Resources Conservation Service (NRCS) has instructed employees in a series of emails to not use the term "climate change" during the Trump presidency, a charge USDA vehemently denies. However, Senate Agriculture Committee ranking member Sen. Debbie Stabenow (D, MI) wants answers.

A series of emails sent in January and February published by *The Guardian* and alleged to be from career USDA officials, indicate staff should use the term "weather extremes" instead of "climate change." Instead of the phrase "reduce greenhouse gases," one email is reported to have recommended the use of the phrase "build organic soil matter." A USDA spokesperson said NRCS received no instruction from the secretary's office or the administration on the use of the terminology.

Stabenow wrote to Secretary of Agriculture Sonny Perdue this week wanting to know if he's sanctioned any changes to department protocol or terminology or any other aspect related to climate change. Her letter asks a dozen questions, and she wants to know in detail if USDA has plans to close its Climate Hub centers – created under President Obama – and if staff have been told they can't attend or participate in studies or public meetings on the climate change issue. The full Stabenow letter can be found at www.agriculture.senate.gov.

"Censoring the agency's scientists and natural resource professionals as they try to communicate these risks and help producers adapt to a changing climate does a great disservice to the men and women who grow the food, fuel, and fiber that drive our economy, not to mention the agency's civil servants themselves," wrote Stabenow in a statement. "This censorship makes the United States less competitive, less food secure, and puts our rural families and their communities at risk."

Stabenow also wants to know if "any other USDA official issued a directive, written or verbal, concerning the removal of the term 'climate change,' 'reducing greenhouse gases,' 'sequester carbon,' or any other

terms related to climate change. She wants to know if USDA intends to write rules to “accompany this significant change in executive branch policy.”

The National Farmers Union (NFU) this week capitalized on the “censorship” furor and urged President Trump to expand USDA efforts to mitigate the impact of climate change. “There is little doubt that farmers and ranchers want to do the right thing and leave the land in a better state than they found it,” wrote NFU President Roger Johnson. “USDA agencies, like NRCS, are extremely effective in connecting with producers and landowners – regardless of their views on climate change – and encouraging them to take action.”

Icahn Loses, Biofuels Wins in Likely EPA RFS Decision

EPA is expected to reject a petition from Valero Energy Corp. and CVR Energy to rewrite Renewable Fuel Standards (RFS) programs rules to shift the “point of obligation” on blending biofuels with gasoline from the makers or refiners of gasoline to the to the sellers of the fuel, according to *Politico* and *Reuters* reports. CVR Energy is majority owned by billionaire investor Carl Icahn, a close friend of and advisor to President Trump.

While EPA did not give a reason for rejecting the fuel refiners’ petition, the agency began working on its response after a DC Circuit Court of Appeals rejected a challenge to the point of obligation rules two weeks ago. Both major oil companies and ethanol makers oppose the petition.

Fuel makers say the point of obligation rule, which requires them to buy fuel blend credits or RINS to offset actual blending requirements, costs them millions in compliance costs and serves no real purpose.

POET, a major ethanol producer, said, “Changes to the point of obligation would create market confusion, raise fuel prices and remove incentives for offering cleaner-burning biofuels to consumers.”

Biodiesel Makers Nervous over Import Impact on RFS Mandate

Surging imports of biodiesel may inspire EPA to lower its biodiesel fuel blend mandate under the Renewable Fuel Standard (RFS), a move which would frustrate domestic biodiesel refiners who have lobbied hard against allowing imported biodiesel to qualify for blending under the RFS.

The U.S. imported 731 million gallons of biodiesel last year from places like Argentina and Indonesia, and the trend continues this year. The National Biodiesel Board (NBB) filed a formal trade complaint in March, contending both Argentina and Indonesia governments subsidize biodiesel production and the two nations dump excess production on the U.S. market. The International Trade Commission at the Department of Commerce is expected to release its estimate of potential subsidy rates this month, and make a final decision in October.

The current RFS mandate for biodiesel is right around 2 billion gallons, and is set to increase to 2.1 billion gallons in 2018. In its recent proposal for 2019, EPA held the line, saying 2.1 billion gallons of biodiesel is the indicated amount for fuel blending. NBB is optimistic, however, the final mandate due in November, will be higher, more reflective of the industry’s actual production capacity.

Capitol Hill Weighs into Glyphosate Issue

The ongoing controversy over whether the herbicide glyphosate causes cancer got a new player this week when Rep. Trey Gowdy (R, SC), chair of the House Oversight Committee, asked the National

Institutes of Health (NIH) about its decision not to publish an exposure study that found no evidence of cancer from exposure to the chemical.

Gowdy told NIH Director Dr. Francis Collins that NIH's 2013 Agricultural Health Study (AHS), if published, could have informed the review and prevented a decision by the 2015 International Agency for Research on Cancer (IARC) that glyphosate is a "probable carcinogen." Gowdy also wants to know why Dr. Aaron Blair, an NIH scientist who was a senior researcher on the AHS study, did not raise the issue during his role in leading the IARC review.

Gowdy wants to see "all documents and communications referring to or relating to the decision whether to publish the AHS findings on glyphosate." He also wants NIH to provide "all documents and communications to or from Dr. Aaron Blair referring to or relating to the AHS findings." The committee gave NIH until August 22 to comply.

The safety of glyphosate, the main ingredient in Monsanto's RoundUp weed killer, is the subject of several lawsuits, including one by farmers against Monsanto in which Blair gave a sworn statement.

West Coast Dock Contract Approved through July, 2022

As expected, the membership of the International Longshore & Warehouse Union (ILWU) voting at 29 ports in California, Oregon and Washington, approved a three-year extension of its contract with the Pacific Maritime Assn. (PMA). The contract is good through July, 2022, replaces the current contract which would have expired in mid-2019.

ILWU reported 67% of members voted in favor in of the extension. The union says the extension will raise wages, maintain health benefits and increase pensions from 2019-2022.

August 31 is Date for Dow, DuPont Deal Closing

All regulatory approvals necessary to consummate their historic merger are now in hand, said Dow Chemical Co. and DuPont Co. late last week, and the deal will be done after the stock market closes August. 31. The two largest chemical companies will see trading in DowDuPont Inc. stock shares (DWDP) beginning September 1.

Within 18 months of the closing date, the company will split into three separate companies, with one focused on agriculture, one on specialty products and one on materials. The boards of both companies are examining which combination of activity spin offs will return greatest value to shareholders.

The combined market value of the merged company will be \$150 billion, surpassing BASF SE as the world's largest chemical company.

Corn, Soybean Production Drops; Storage Supply Keeps Prices Steady: USDA

USDA predicts corn and soybean production will drop from last year's record level, but that historically high harvests combined with grain and beans in storage should keep prices steady.

The corn harvest is predicted to hit 14.2 billion bushels, down 7% from 2016. Yields, as of August 1 conditions, are expected to be 169.5 bushels per acre, down 5.1 bushels from 2016, and coming off a total of 83.5 million acres, down 4% from last year, the department said, adding this will be the third

highest corn yield on record. Corn ending stocks are down to 52 million bushels, and the projected range for the season-average corn price received by producers is unchanged at \$2.90-3.70 a bushel.

Soybean production is predicted to hit 4.38 billion bushels, up 2% from last year. Yields are expected to hit an average 49.4 bushels per acre, down 2.7 bushels from 2016. Total acres to be harvested sits at 88.7 million acres, up 7% from last year, USDA said. Total 2017-2018 oilseed production should hit 130.9 million tons, up nearly 4 million tons from last month's prediction due to the higher soybean production forecast.

Soybean supplies for 2017-2018 are projected at 4.78 billion bushels, with soybean exports raised 75 million bushels to 2.2 billion. Soybean ending stocks should hit 475 million bushels, up 15 million from July, and the season-average price for 2017-2018 is forecast at \$8.45-10.15 per bushel, down 10 cents at the midpoint, the department said.