

News from Washington: July 29-August 2

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### **Fed Cuts Rates As Trade War Drags On**

The central bank announced Wednesday that it's lowering interest rates for the first time since the financial crisis, delivering a quarter-percentage point decrease that was widely expected but failed to satisfy President Donald Trump's desire for steeper cuts to juice the economy.

Fed Chairman Jerome Powell cited uncertainty surrounding trade policy as a factor behind the decision, though tariffs have had few "mechanical effects" on the economy so far. In a statement, the bank's rate-setting committee offered no clues about whether additional interest rate cuts might be in store.

Hours later, Trump logged onto Twitter to announce his [displeasure with the Fed chief](#). "As usual, Powell let us down," he wrote.

The Senate is expected today to clear the House-passed \$2.7 trillion budget agreement that would raise defense and domestic spending caps for the next two years and suspend the debt ceiling until July 2021. And Trump has [indicated he'll sign it](#).

Once the budget framework becomes law, senators can work on their fiscal 2020 appropriations bills for the Agriculture Department and other agencies — after they get back from the long August recess, of course. But with only 13 legislative days on the September schedule, it's unclear how much progress they'll make before the new fiscal year begins Oct. 1.

### **More China Tariffs Coming Soon**

Trump is back to ratcheting up pressure on Beijing after a brief round of talks in Shanghai this week didn't produce any major breakthroughs.

The new rash of tariffs are set to kick in Sept. 1, Trump said. They will likely have a more direct impact on U.S. consumers than previous duties because the newly targeted goods include clothes, toys, cell phones, electronics and other retail items.

After his announcement, Trump upped the ante, telling reporters that the tariffs could "be lifted up to well beyond 25 percent" if no deal is reached.

Trump has often used threatening or gradually imposing tariffs to pressure other countries. He used a similar strategy to bring Japan and the European Union to the negotiating table and to extract concessions from Canada and Mexico in USMCA talks.

Earlier on Thursday, USDA reported that a private Chinese buyer made a small-scale purchase of U.S. soybeans. China's latest soybean purchase — 68,000 metric tons — came toward the end of July and was for the next marketing year, which begins Sept. 1 for soybeans, according to USDA's [weekly export data](#).

A positive sign? The buy marked China's first U.S. soybean purchase since USDA reported a 544,000 ton buy in June, just prior to Trump and Chinese President Xi Jinping's meeting at the G-20. But Beijing's willingness to meet its broader commitment to buy more U.S. farm goods is largely seen as contingent on whether the U.S. will ease export restrictions on Chinese telecom giant Huawei.

## **Farm Bankruptcy Bill Clears Congress**

Farmers could soon see a substantial increase of the cap in Chapter 12 bankruptcies after the Senate cleared legislation on Thursday. The House passed the bill last week.

The measure would up the cap to \$10 million. [Under current statute](#), a farmer's total debt must be less than \$4.15 million to qualify.

Supporters of the legislation argued the threshold should be updated to account for increasing farm sizes and land values, especially in an [industry facing stiff economic headwinds](#).

The House bill was co-sponsored by several members of the Agriculture Committee from both parties, including Chairman Collin Peterson (D-Minn.). The Senate companion was backed by Chuck Grassley (R-Iowa) and other farm-state senators.

## **How Trade Aid Boosted The Biggest Farms**

USDA has doled out \$8.4 billion in direct payments to farmers whose 2018 production was affected by retaliatory tariffs. More than half of that money went to just 10 percent of all producers eligible for the aid, the Environmental Working Group said Tuesday.

The group analyzed USDA data obtained through a FOIA request and found that 243 farms received more than the \$375,000 cap set by the department. EWG has long been critical of farm subsidies flowing disproportionately to the largest and wealthiest operations.

The analysis comes just as farmers are signing up for the department's second trade aid program for 2019 production losses. USDA is offering up to \$14.5 billion in additional payments and by raising the cap to \$500,000 per person (or legal entity) and loosening income restrictions, the department made it even easier for producers to collect more in this round.

"Like the first round of taxpayer-funded largesse, we expect the second iteration of this boondoggle to line the pockets of the already-wealthy," EWG spokesperson Sarah Graddy said in a statement.

A USDA spokesperson said the trade relief program "is designed to provide a level of support that's proportionate to a farm's size and success," with payments linked to production levels.

## **USDA Asks States To Step Up On Snap Error Rates**

Agriculture Secretary Sonny Perdue has sent letters to the governors of 15 states with "the most significant error rate problems," and USDA's Food and Nutrition Service is planning to issue \$26 million in sanctions to states with high error rates, the department announced Tuesday.

The program's error rate was 6.8 percent in 2018, up from 6.3 percent in 2017, according to FNS data. The rate isn't a measure of fraud, but an indication of how well states are doing in terms of getting the right level of benefits to individuals and households that qualify.

The error rate released by USDA adds up the rate of overpayment (5.6 percent) and the rate of underpayment (1.2 percent).

Which states are on the list? The 15 states and territories with the highest error rates include Maine, Virginia, Michigan, Georgia, Illinois and Guam. State error rates are all over the map, according to a list shared by USDA.

D.C., for example, has an unusually high overpayment rate (nearly 13.7 percent) as well as a higher than usual underpayment rate (nearly 2.7 percent). Idaho has a very low rate for both overpayment (1.8 percent) and underpayment (0.3 percent).

The new round of data comes after USDA grappled with how to accurately calculate the error rate when it was revealed that many states were essentially gaming the reporting system to tap into millions in performance bonuses, which lawmakers tried to address in the 2018 farm bill. After a two-year hiatus, USDA resumed reporting an error rate last June. Before the controversy, USDA had reported the rate at 3.66 percent in 2014.

### **Crop Conditions Mixed, But Analysts See An Opening**

USDA's National Agricultural Statistics Service said Monday that 58 percent of planted corn and 54 percent of planted soybeans this year are in "good" or "excellent" condition, compared with 72 percent of corn and 70 percent of soybeans at this point last year.

On the other hand, 61 percent of this year's cotton crop was considered good or excellent — up from 43 percent at this point in 2018, according to the agency's latest [crop progress data](#). Planted sorghum is also doing significantly better than last year.

After unprecedented planting delays, a normal frost this year could be more damaging to row crops that haven't yet matured, [AccuWeather reports](#).

This year's historic weather woes could still provide an opportunity for parts of the ag industry to stage a comeback. Analysts at investment research firm Morningstar said in a recent report that financial markets have overreacted to the low planting estimates and their potential impact on agribusinesses.

For example, while fewer planted acres could directly weigh on seed sales, the analysts expect sales of fertilizer and crop chemicals will be less affected. That's because farmers facing difficult field conditions might lean more heavily on those products to boost crop yields.

### **Lawmakers Lobby FDA To Change Gene-Editing Regs**

More than 20 House Energy & Commerce Committee members sent a letter to acting FDA Commissioner Ned Sharpless on Friday urging the agency to "develop a more appropriate, workable approach" to regulating animal biotech. The bipartisan group said the FDA's regulatory framework threatens farmers and consumers' access to such advances, while driving research "into the hands of foreign competitors."

Under the current system, the agency regulates the DNA of intentionally altered animals as an "animal drug," even if the genetic variations could have occurred naturally. The regulatory process can drag on for years, and it leaves the door open for other countries to impose trade barriers on U.S. livestock products.

"This burden is deterring many academics and developers from conducting research and will likely consolidate the industry to only the largest companies," the lawmakers wrote in the letter. They cited potential benefits of animal gene-editing like limiting the spread of African swine fever or allowing livestock producers to curb their use of animal antibiotics.

The latest call for changing the GE rules comes amid a broader regulatory turf war: Farm groups have pushed for USDA to play a bigger role in regulating the burgeoning biotechnology

— but the FDA has warned that it has no intention of handing over authority of the animal biotech approval process.

The FDA has only approved one GE animal for food, the faster growing AquaAdvantage Salmon developed by AquaBounty Technologies. The agency [earlier this year](#) cleared the sale of the genetically engineered salmon after years of political wrangling.

### **Democratic Field Brings Ag Into Climate Debate**

When South Bend, Ind., Mayor Pete Buttigieg was asked about climate change during the first round of Democratic debates in June and he brought up soil, of all things, it took some by surprise.

“Rural Americans can be part of the solution instead of being told they’re part of the problem,” Buttigieg said. “With the right kind of soil management and other kinds of investments, rural America could be a huge part of how we get this done.”

A bubbling trend? Now, as candidates roll out their climate plans and grind through more gladiator-style debates, it seems like agriculture is starting to break through as a piece of the environmental puzzle.

Front-runner Joe Biden has proposed taking American agriculture to net-zero emissions. The former vice president wants to “dramatically expand and fortify” a voluntary USDA conservation program that pays farmers, under five-year contracts, to adopt certain practices. He also said the program should be part of potential carbon markets by allowing corporations, individuals and foundations to help offset their emissions.

Sen. Bernie Sanders (I-Vt.) [wants to provide](#) grants, technical assistance and debt relief to support farmers’ transition to more sustainable practices. Former Rep. Beto O’Rourke, as part of his \$5 trillion [climate plan](#), said he would create grants for farmers to secure better soil management and new technology.

In the Democratic primary, farmers so far have gotten just about as many mentions in the context of climate as they have from the trade war. The night before soil management got its shoutout, O’Rourke had also pitched making ag part of the solution. “We’re going to put farmers and ranchers in the driver’s seat ... to make sure that we capture more carbon out of the air and keep more of it in the soil, paying farmers for the environmental services that they want to provide,” he said.

At the debates this week, O’Rourke reiterated his position and Rep. Tim Ryan jumped into the fray. “You cannot get there on climate unless we talk about agriculture,” Ryan said, as he called to move toward “regenerative agriculture” practices that sequester carbon. Sen. Amy Klobuchar seemed to endorse the idea, too.

### **New Political Group Gives Peterson Some Sugar**

A new super PAC is going all in on helping the House Ag chairman win another election in his heavily rural and Republican-leaning district. The [Committee for Stronger Rural Communities](#), which launched in July, plans to concentrate all of its 2020 efforts on Peterson, who the group calls a “staunch and loyal friend of rural America.”

The group appears to be backed by sugar producers, some of Peterson’s staunchest allies. His western Minnesota district is home to [more than 1,100 sugar beet farms](#) — by far the most of

any congressional district in the country. Peterson has delivered results for the broader sugar industry, like helping to defeat a farm bill amendment in 2018 that would have upended federal support for sugar.

Support from the sector and other ag interests could once again be key for Peterson in 2020. He's won recent elections by single digits in a district that favored Trump by about 30 percentage points over Hillary Clinton in 2016.

Kelly Erickson, a Minnesota sugar beet grower who chairs CSRC's steering committee, said farmers and rural communities are facing increasingly tough times and "desperately need leaders in Congress who understand agriculture, the importance of rural development and how to support Main St." Erickson told MA in a statement that "rural communities from coast to coast are depending on [Peterson] to be reelected."

### **Conaway Makes It Official**

Peterson's partner atop the House Ag panel, ranking member Mike Conaway (R-Texas), announced Wednesday that he's retiring from Congress after 2020, saying it was time for him to put his family first. "This chapter in our lives has been more fulfilling than I could ever have imagined. But all things come to an end point, and my 8th term will be mine," he said in a statement.

Peterson praised Conaway as a "steadfast champion for America's farmers and ranchers and a fighter for the interests of West Texas" in a statement. POLITICO reported Conaway's decision to call it quits [earlier this week](#).

### **U.S.-Mexico Tomato Spat Heats Up**

The Mexican government is threatening to dramatically increase border inspections of U.S. farm goods unless the Commerce Department backs down on its proposal to ramp up inspections of tomatoes from Mexico. The U.S. sold about \$18.8 billion in farm goods to Mexico in fiscal 2018, while Mexico exported about \$25.7 billion to the U.S. that year, including \$2 billion worth of tomatoes.

The standoff stems from the Florida tomato sector's long-standing complaints that their Mexican competitors sell tomatoes in the U.S. at unfairly low prices. The Commerce Department last week slapped a preliminary 25 percent tariff on tomato imports, and plans to issue a final duty determination by Sept. 19 — unless the two sides strike an agreement.