News from Washington: October 7-11

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Trump Seals the Deal with Japan

U.S. Trade Representative Robert Lighthizer and Japan's envoy to the U.S. officially signed the new mini-trade pact at the White House on Monday. The agreement offers welcome relief to farmers and ranchers who have seen international competitors like Canada and New Zealand gain ground in the lucrative Japanese market under their own trade deals with Tokyo.

Still, the U.S.-Japan agreement is less comprehensive than many lawmakers had hoped. It doesn't cover everything that had been addressed under the original Trans-Pacific Partnership, which Trump withdrew from in 2017 — though it includes similar market access for U.S. farm goods.

Pence Back on the USMCA Stump

Vice President Mike Pence visited a Tyson Foods processing plant in Nashville on Monday, where he again called on Congress to ratify the new NAFTA agreement. The event was funded by Trade Works for America, a group pushing for the deal's passage, and Agriculture Secretary Sonny Perdue and Tennessee Gov. Bill Lee were also on hand.

The vice president has crisscrossed the country to talk up the importance of USMCA and blame House Democrats for the holdup. His message might be more meaningful this month: It's now been a full year since the U.S., Mexico and Canada announced the landmark trade agreement. House Democrats working with the White House on potential changes to the deal recently sent a letter to Lighthizer touting significant progress in the talks and praising the "concessions" made by both sides, as POLITICO reported last week.

Pence will visit Iowa on Wednesday to continue his USMCA promotion tour and to lend his support to Republican Sen. Joni Ernst's reelection bid.

China Gobbles Up Soybeans as Trump, Liu Prepare to Meet

Sales of the crop to Chinese buyers are picking up serious momentum, a gesture of goodwill as President Donald Trump prepares to meet face-to-face today with Chinese Vice Premier Liu He, who's been in Washington this week for another round of negotiations.

"I think it's going really well," Trump said on Thursday before leaving for a political rally in Minneapolis. "We had a very, very good negotiation with China. They'll be speaking a little later. They're basically wrapping it up and we're going to see them tomorrow right here and it's going very well."

USDA reported nearly 400,000 metric tons of new soybean purchases on Thursday. China has now purchased nearly 5 million metric tons this marketing year, which began Sept. 1. That's a significant buying spree in a month's time, even for a country that's overall expected to buy nearly 90 million tons of soybeans this year. Last year, China bought about 13 million tons of American soybeans. (USDA reports all large export purchases on its website.)

Top leaders were sending positive signs about the talks after initial reports this week that the Chinese delegation could cut its trip short sent futures markets into a tizzy. The White House meeting between Trump and Liu suggests negotiations are rolling ahead at the highest level.

A mini deal in the works? Both sides appear to be signaling that a more modest deal could be coming. They note that Chinese officials are offering some concessions, including increasing U.S. access to its financial services and automobile markets as well as bolstering intellectual property protections. TBD on whether that's enough to stave off the next tariff hike that's scheduled to take effect on Tuesday.

No Plans for U.S.-EU Talks Ahead of Tariff Hike

Brussels hasn't heard from the Trump administration about finding a possible solution to their dispute over European subsidies for Airbus, according to an EU spokesperson. Barring a last-minute deal, U.S. retaliatory tariffs on $7.5 billion of European cheeses, wine and other products will take effect on Oct. 18.

U.K. International Trade Minister Conor Burns said Monday that London is urging U.S. officials to remove single-malt Scotch from the list of goods that will face 25 percent duties. Burns told the House of Commons that the U.K. government will spend the next 10 days trying to convince Trump to change his mind before the tariffs take effect.

Fed Officials See Rising Recession Risk

The central bank released the minutes from its September meeting, revealing several warnings about the potential for an economic downturn and looming threats to employment.

Once again, uncertainty about trade policy and global conditions were the primary factors clouding the U.S. economic outlook. But the downside risks were seen as more serious than the last time the committee met in July. Officials warned that a "clearer picture of protracted weakness in investment spending, manufacturing production and exports had emerged."

A downturn is already playing out in the industrial Midwest, where Trump's promises to bring economic greatness back to the region are falling short. The president's trade tactics — and confusion among corporate executives about how to handle the unpredictability — are accelerating the manufacturing sector's spiral into recession.

Trump's reelection hopes are also in jeopardy, especially in critical states like Michigan, Pennsylvania and Wisconsin, unless he can ram the new USMCA deal through Congress and eventually cut a deal with China to end the historically high tariffs that are hampering business activity.

"To the extent that the manufacturing slowdown continues unabated, which is likely unless there is a de-escalation in trade tensions, the electoral map could be more difficult for President Trump and Republicans in 2020," Deutsche Bank analysts wrote in a report this week.

Wheeler Tries to Clarify Ethanol Uncertainty

President Donald Trump left some in the oil and agriculture industries scratching their heads when he proclaimed on Monday that the EPA will direct refiners to blend 16 billion gallons of ethanol in 2020. Wheeler has since offered some clarification during an interview on a North Dakota radio station: The agency will set the mandate at 15 billions gallons after taking into account its blending exemptions for small refiners.

During the interview on Tuesday, a refinery industry representative told the EPA chief that "there's still a little bit of confusion" and that Trump's comment was interpreted as "an off-handed way to refer to the reallocation plan."

The agency announced last week that it will require larger refiners to blend additional gallons, based on a three-year rolling average of the number of exempted gallons, to offset lost demand from the EPA's extensive use of waivers. Corn growers and ethanol producers have widely praised the plan as a win for agriculture.

Flood Fallout in The Upper Midwest

Corn and soybean production this year is on track to decline across the country, in part because of trade fights and severe weather that caused record planting delays. The impact is especially pronounced in the Federal Reserve's 9th District, which includes Minnesota, Montana, North Dakota, South Dakota and parts of Michigan and Wisconsin.

According to the Minneapolis Fed, corn production in the district is expected to drop by nearly 10 percent from 2018, compared with a 4 percent decrease nationally. Planted corn acreage was 5 percent lower in the district, while national acreage was roughly flat. And soybean production in the district is projected to decline by 26 percent, compared with 20 percent nationwide.

A drop in soybean production was likely this year regardless of the weather; exports of the oilseed to China have plummeted in fiscal 2019 under Trump's trade war with Beijing, and soybean stockpiles have more than doubled since September 2018. But a "dramatic surge" in prevented planting claims in the Upper Midwest "suggests that flooding played a large role in the decline," per the bank's analysis.

The numbers offer another snapshot of how this year's historic mix of headwinds is affecting major agricultural regions. And it's still unknown how much the dropoff in production will affect farm finances; commodity prices rallied earlier this year on initial reports of lower production — but as the bank notes, "that price bump has since subsided."

USDA Pork Slaughter Rule Draws Lawsuit

The department last month published its final rule to overhaul the hog slaughterhouse inspection system, eliminating limits on processing line speeds and shifting certain inspection tasks from federal employees to plant workers. Now a coalition of advocacy groups are going to court to halt the regulation.

In a lawsuit filed Monday in a U.S. District Court, the United Food and Commercial Workers union and Public Citizen argue that USDA violated federal guidelines by failing to address concerns from public commenters during the rulemaking process. Critics have long warned that lifting the cap on line speeds — 1,106 hogs per hour — will put meatpacking workers in danger and potentially undermine food safety.

"Increasing pork plant line speeds is not only a reckless giveaway to giant corporations, it will put thousands of workers in harm's way," UFCW International President Marc Perrone said in a statement.

The department has said the rule will save millions of taxpayer dollars, allow inspectors to conduct more crucial food safety checks and let meatpackers set their own line speeds "based on their ability to maintain process control." The Food Safety Inspection Service predicted that about 40 facilities would adopt the new system. An FSIS spokesperson declined to comment on pending litigation.

EPA Looks to Crack Down on Lead in Water
Administrator Andrew Wheeler unveiled a sweeping new drinking water rule in Wisconsin on Thursday. The proposal would tighten monitoring requirements for lead contamination in drinking water but extend the time that utilities have to replace corrosive lead service lines. The EPA also rejected calls for wholesale replacement of the lead pipes across the country.

The rule is arguably the centerpiece of the Trump EPA's efforts to improve environmental protection — rather than roll back Obama-era regulations. The president campaigned on promises of "crystal clear water" and infrastructure investment, and Wheeler regularly mentions that the Obama administration never got an update to the lead rule across the finish line, despite having been at the wheel during the Flint, Mich., contamination crisis.

The proposed rule wouldn't change the current "action level" of 15 parts per billion — the level at which drinking water utilities must replace lead service lines — even though the CDC has concluded there's no safe level of lead exposure. The proposal would add a new "trigger level" of 10 ppb that would require utilities to start planning how they would respond if lead levels rise to the action level.

The update is the first in nearly three decades, and it represents one of the most significant actions taken by the Trump EPA to proactively address environmental concerns. But while environmental and public health groups acknowledge the changes are an improvement, they say the benefits are outweighed by the slower rate at which the rule would require utilities to replace dangerously corrosive lines.

"Unless the lead lines come out of the ground, there's always a possibility for a similar crisis," said Dimple Chaudhary, a senior attorney for the Natural Resources Defense Council, in reference to Flint.

Wheeler argued on Thursday that complete replacement wasn't financially realistic, adding that his proposal would ensure "that those communities that have the worst lead in their pipes get those pipes replaced first."

Currently, utilities are only required to replace water lines if they continually test above EPA's action level, and they have roughly 14 years to complete the replacement. Environmental advocates have pushed EPA to mandate that all lines be replaced, which would come with an estimated $1 trillion price tag.

Welcome To The Post-'Big Food' Era
When the Grocery Manufacturers Association announced last month that it will change its name to the Consumer Brands Association, the move in many ways marked the end of an era,

The association is pivoting to focus on the consumer-packaged goods sector — a change that comes nearly two years after about a dozen GMA members split from the group over policy disagreements.

The rebrand signals the emergence of a new landscape for foodmakers, one in which there is no central, unified lobbying group representing the sector inside the Beltway. The splintering was driven by changes within the marketplace: Food companies have become highly fractured in D.C., consensus on pressing policy issues is nearly impossible to achieve, and things are likely to stay that way, according to interviews with more than a dozen industry leaders.

“This is the new norm,” a food industry executive, granted anonymity to speak candidly about the sector, told POLITICO. “It’s not just the fact that there was a lack of consensus within GMA, or that they made mistakes; it’s the state of the industry. Food in general is just changing.”

A decentralized lobby: Several major food companies have shifted how they approach federal policy issues, relying more on sector-specific associations such as the American Beverage Association, National Confectioners Association, and the American Frozen Food Institute. Companies are also turning to more informal alliances and coalitions, which are easier to navigate than trying to forge industry-wide consensus.

Dean Foods Leaving Dairy Coalition Over Labeling Feud
The Dallas-based dairy processor is dropping out of IDFA, faulting the industry group for not taking a firm stance against plant-based products using traditional dairy terms like “milk” or “butter” in their labeling, a Dean Foods said.

“We believe it is wrong that many plant-based products are currently marketed using milk’s good name yet are lacking several of the inherent nutrients of their dairy counterparts,” the company said in a statement Tuesday. “Unfortunately, IDFA has been unable to reach consensus and take a stance on this important issue.”

Dean Foods said it will divert its advocacy efforts to focus on the product labeling fight, which the company called “one of our core priorities.”

An IDFA spokesperson said departures from the group “are very rare,” and that more than 30 companies became members in 2019 “thanks to a more inclusive association that represents and engages all segments of the growing dairy industry, from milk, yogurt and ice cream to cheese and dairy-derived ingredients.”

“Dean Foods has been an important member of IDFA and we wish them well,” the spokesperson said.

Lipps Headed to the Hill to Talk SNAP
USDA’s top nutrition official will testify at a House hearing next week on the department’s proposal to curb so-called broad-based categorical eligibility under the Supplemental Nutrition Assistance Program — a move expected to cut kids’ access to free school meals.

Brandon Lipps, the deputy undersecretary for food, nutrition and consumer services, will appear before a House Education and Labor subcommittee on Oct. 16. Chairman Bobby Scott (D-Va.) has accused the department of withholding internal estimates about the impact of its proposal — including projections that more than 500,000 low-income students would lose automatic eligibility for free school meals.

Democratic lawmakers on Tuesday launched a coordinated messaging blitz on social media against USDA’s policies to limit SNAP after another proposal was rolled out last week that would cut billions in benefits.

The campaign, using the hashtag #WarOnWorkingFamilies, included tweets from House Speaker Nancy Pelosi as well as Majority Leader Steny Hoyer. The House Agriculture Committee retweeted many of the posts.

D.C. Launches Soda Tax Effort
The soda wars are coming to the swamp. City Council members and other community leaders today are unveiling a new sugary drink tax bill aimed at pouring money into healthy food access, child care and better parks.

A majority of the council supports the tax, according to The Washington Post.

The tax on sweetened beverages would be 1.5 cents per ounce, which is on par with Philadelphia but more than what other jurisdictions like San Francisco have adopted (1 cent per ounce). If passed, it would replace the ramped up sales tax the city recently approved for soft drinks.

“In the District, residents living in the lowest income neighborhoods have the least access to healthy drink and full-service grocery options, along with the highest rates of diabetes and other diet-related chronic diseases,” said Brianne K. Nadeau, a Democratic councilmember who represents part of Northwest D.C. and authored the bill. “The bill will fund programs that help communities most affected by sugary drinks and lack of access to healthy food.”