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Policy Report

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***Looking ahead:** Senate bill amendments to focus on EPA, ethanol; China alleges US dumping soybeans; China's corn export subsidy; Beef trade; Dairy policy update.*

***Inside:** USTR Kirk calls for 'thoughtful' retaliation by Brazil … Brazil's JBS poised to become world's largest meat company … Lincoln wants to start over on Doha ag text …*

EPA, ethanol proposals planned for Senate FY 2010 spending bill. Some senators may include language in the FY 2010 Interior-Environment spending bill (HR 2996) that would deal with EPA's climate-change rule, as well as an amendment that would accelerate EPA's decision on a request to increase the percentage of ethanol that can be blended into gasoline for non-flex-fuel vehicles (also see longer item on page 9). The appropriations bill includes funding for the Interior Dept, EPA, the Forest Service, and environmental and cultural agencies.

EPA LANGUAGE: Sen. Lisa Murkowski (R-Alaska) is working with Sen. John Thune (R-S.D.) on an amendment to deal with a pending EPA action that could determine that greenhouse gases endanger human health. Murkowski is the ranking Republican on the Energy and Natural Resources Committee. Murkowski is concerned that the EPA finding, which could lead to administrative regulation of greenhouse gases, would pre-empt work in Congress on a bill to address climate change.

Chinese official say US dumping soybeans in China. An official with China's National Development and Reform Commission reportedly said heavy subsidies paid to US farmers allow the country to "dump" soybeans into the Chinese market. This rhetoric is likely in response to the US imposing a 35 percent punitive tariff on China-produced tires. Because of the need for US soybeans, Asian traders do not see any retaliation against US soybean imports by the Chinese government. Some observers note China's recent aggressive import of soybeans could be a stockpiling strategy ahead of a potential slowdown in further imports.

China set to offer corn export subsidy. The Chinese government is reportedly ready to offer a 250 yuan ($36.61) per tonne subsidy on up to 2 million tonnes of corn exports. Asian traders say even with the government subsidy, Chinese corn is priced above current US prices. Meanwhile, an executive with China's largest grain trader and processor, COFCO, said drought in the country could cut corn production by up to 7.5 percent. However, he sees no need for corn imports in the next couple of years. An official with China's top feed mill, New Hope Group, said they are prepared to import corn if the price is right.

Colombia to let Canada beef in. Colombia is the latest country to remove its ban on Canadian beef, a move welcomed by Canadian ag officials. The trade restart will come once inspection certificates have been agreed upon. Meanwhile, Canada and Colombia are poised to implement a free trade agreement that will boost Canadian access to the Colombian market for wheat, pulse crop and other items. (Also see longer item on page 6.)

Dairy policy update for US, EU. US dairy farmers are clamoring for an investigation into dairy companies that buy their milk as they seek to get their current low-price situation addressed. Meanwhile, EU farm minister Mariann Fischer Boel said she will propose cutting red tape to allow for faster response to future market conditions, but said the EU will not abandon reforms which include scrapping dairy production quotas in 2015 despite calls for even tighter quotas.

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TRADE ...

Kirk Asks Brazil For 'Thoughtful' WTO Reprisal

USTR Ron Kirk yesterday asked Brazil to go easy on up to $800 million in trade reprisals it can impose on the US under a WTO ruling on US cotton subsidies. Kirk, speaking to Brazilian businessmen in Sao Paulo ahead of a meeting today with Brazilian Foreign Minister Celso Amorim, said he hoped Brazil's retaliation would be "deliberate and thoughtful." He declined to go into detail about his talks with Amorim, saying he did not want to "constrain" the discussions. "I don't want to prejudge anything," he said.

Brazil has yet to announce what US products, services and intellectual properties it will hit under the authorization delivered Aug. 31. The WTO found that US subsidies for cotton broke international trade rules and damaged exports for Brazil's cotton industry.

Brazilian officials claim the potential total retaliation is $800 million this year.

Amorim said after the WTO ruling that Brazil would seek to leverage the retaliation to bring about an end to US subsidies.

The WTO dispute was "a healthy sign of any business relation," Kirk told the American Chamber of Commerce in Sao Paulo. "To be part of a rules-based trading system means sometimes you'll be on the other side of rulings." Kirk admitted that "our countries don't always see eye-to-eye" but said there is great potential for US-Brazil trade to grow.

Agence France-Presse reports that in addition to the cotton subsidies issue, the US and Brazil also are clashing on US protection of its ethanol production. Brazil, the second-biggest ethanol producer in the world after the US, sees the US policy as hurting its export prospects. Brazil also is expected next week to call for the establishment of a dispute settlement panel to rule on US duties on Brazilian frozen orange juice concentrate.

US-Brazil Trade

- Brazil was the United States' 9th largest goods export market in 2008.
- US goods exports to Brazil in 2008 were $32.3 billion, up 31.2 percent ($7.6 billion) from 2007, up 299 percent from 1994 (the year prior to Uruguay Round). US exports to Brazil accounted 2.5 percent of overall US exports in 2008, up from 1.6 percent in 1994.
- The top export categories in 2008 were: Machinery ($6.7 billion), Aircraft ($5.6 billion), Electrical Machinery ($3.5 billion), Mineral Fuel ($2.2 billion), and Organic Chemicals ($2.1 billion).
- US exports of agricultural products to Brazil totaled $677 million in 2008. Leading categories include: wheat ($295 million), cotton ($27 million), dairy products ($24 million) feeds and fodders (excluding pet foods) ($24 million).
- US exports of private commercial services (i.e., excluding military and government) to Brazil were $9.8 billion in 2007, 30.7 percent ($2.3 billion) more than 2006 and 164 percent ($6.1 billion) greater than 1994 levels. Other private services (business, professional, and technical services) and travel categories accounted for most of the US exports in 2007.
- Brazil was the United States' 16th largest supplier of goods imports in 2008.
- US goods imports from Brazil totaled $30.5 billion in 2008, a 18.8 percent increase ($4.8 billion) from 2007, and but up 250 percent over the last 14 years. US imports from Brazil accounted for 1.5 percent of overall US imports in 2008, up from 1.3 percent in 1994.
- The five largest import categories in 2008 were: Mineral Fuel and Oil (crude) ($8.8 billion), Iron and Steel ($3.2 billion), Machinery ($2.7 billion), Aircraft ($2.3 billion), and Woodpulp ($858 million).
- US imports of agricultural products from Brazil totaled $2.6 billion in 2008, the 6th largest supplier of Ag imports. Leading categories include: coffee (unroasted) ($725 million), tobacco ($304 million), red meats prepared/preserved ($303 million), and fruit and vegetable juices ($302 million).

Source: USTR

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Lincoln Calls for Re-Writing Doha Round Text on Agricultural Trade

Senate Agriculture Committee Chairman Blanche Lincoln (D-Ark.) says trade negotiators should write a new agricultural text for the Doha Round because other nations are not willing to match the US offer to cut farm supports. She added that she and other senators would not support a pact that fails to remove barriers to US farm exports.

Lincoln, who was named to head the panel earlier this month, said that when the Doha Round negotiations resume, “we start with a new text so that we don’t assume the same text that we had, which puts us at an increased disadvantage, making an offer that we already know other countries are not going to reciprocate.”

Earlier, USTR Ron Kirk said Washington does not want to unravel the draft negotiating texts and would rather “put some meat on the bones” of what has been agreed during eight years of talks. “It has never been our argument that we should start all over again or reopen them, but we have to have some idea of what those gaps and blanks are,” Kirk said earlier this month.

The disagreement between Lincoln and the Obama administration could come to a head soon as there are signs from Geneva that the stalled Doha Round talks could resume as early as this month.

Lincoln urged the Obama administration to push the Colombia and Panama free trade agreements and make it easier to sell US products in Cuba.

On Cuba, Lincoln recently commented: “The only groups the embargo has hurt are impoverished Cubans and US farmers. As agricultural producers, our farmers and ranchers have much to gain from trade with Cuba. Lifting the Cuban embargo would be an economic stimulus in itself to the farmers and thousands of companies currently cut off from trade with Cuba…The long-term benefits of engagement with Cuba offer better living conditions for the Cuban people, opportunities for Democratic influences inside Cuba, and economic benefits to Americans. Lifting the trade embargo is a no-brainer.”

More Comments From Senator Lincoln On The Doha Round

In a speech given to the National Cattlemen’s Beef Association on September 15, Senator Lincoln made the following comments in reference to the Doha Round:

> *“My message in Washington has been simple: We should meet our global competition, and we should not unilaterally disarm our farmers in the global marketplace.*
>
> *The unfortunate reality is that our global agricultural competition is heavily subsidized, and our competitors’ markets are closed to the agricultural goods that you produce. In fact, we have had to fight tooth and nail for the small bit of access to international markets that we enjoy today.*
>
> *Last year, the Bush administration made a number of offers to reduce our agriculture support levels during the WTO negotiations in Doha. Unfortunately, those offers were not reciprocated with offers from other members for more market access for American producers.*
>
> *Specifically, countries with a rapidly expanding middle class, like India and China, refused to make any significant concessions on market access for our producers and ranchers. US concessions, however, did make it into the current agriculture text.*
>
> *I helped lead that charge with my Senate colleagues to tell the administration that “No deal is better than a bad deal.”*
>
> *We made clear that any future agreement will be unacceptable without considerable changes in market access for our producers.”*

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AFL-CIO Delegates Approve Resolution Calling for Halt to WTO Talks Pending Review

Organized labor, feeling increasingly stronger because of the support it has received from friends in the White House, flexed its muscles again this week as delegates attending the AFL-CIO national convention in Pittsburgh endorsed legislation introduced in the House in June aimed at forestalling the revival of WTO negotiations and at pressuring the Obama administration into holding off on any new trade agreements. The delegates unanimously approved a resolution calling for a halt to the adoption or negotiation of new trade agreements "until we review the record of existing trade agreements and build a comprehensive new trade policy that will support the creation of good jobs at home." The resolution said that such reform should apply both to bilateral agreements and to any new talks at the WTO. The AFL-CIO delegates also called on Congress to introduce and pass a comprehensive trade bill that would give the administration the tools it needs to address the "imbalanced" trade relationship between the US and China.

EDITORIAL -- Obama All Talk on Trade

Is President Obama a free trader? He has said so, many times.... Yet, for all that, the most significant action he has taken on trade was last weekend's decision to slap a stiff tariff on Chinese tire imports for the next three years. In the name of protecting jobs in the US tire industry, the president has effectively imposed a tax on tires for every American, and a particularly regressive tax at that, since the impact will fall most heavily on the cheap tires that China makes and that lower-income Americans buy....

The question is: Exactly what is he doing to advance additional market-opening agreements that are clearly in the US interest, such as pending deals with Colombia, South Korea and Panama? Or the Doha talks on reducing global tariffs? So far, the answer is somewhere between not much and nothing. Just as the tariff against Chinese tires reflects the unilateral urging of the United Steelworkers of America — not US tire companies — so does Mr. Obama's broader trade policy seem pretty close to that of organized labor, which adamantly opposes all of the above-mentioned deals.

The damage done by the China tariff can probably be contained, albeit concentrated on those poorer Americans who will have to pay more to maintain their cars. But unless Mr. Obama not only declares but pursues a clear pro-trade policy, the US economic recovery — which must depend in large part on exports — will suffer.

On Sept. 24, the G-20 leaders assemble again in Pittsburgh. Through his actions on China and his inaction on everything else involving free trade, the summit host has given those leaders reason to question his commitment to open markets. Mr. Obama must reassure them. Words alone will not suffice.
The Washington Post (A-24) Story Link

US, Canada Dismiss 'Buy American' Spat

President Obama and Canadian Prime Minister Stephen Harper yesterday concluded a meeting in Washington by playing down their biggest bilateral dispute: what to do about protectionist "Buy American" provisions written into the US economic-stimulus program. At a joint news conference, Obama said the two countries are looking into ways of alleviating the trade friction, but noted that the effects of such protectionist measures were relatively minor, given the "robust" business between the US and Canada, its biggest trading partner. "There is no prospect of any budding trade wars between our two countries," Obama said.

Harper will lobby for the lifting of Buy American provisions in meetings today with the leadership of the Senate and House. For Canada, the provisions are the biggest irritant in its relationship with the US. The rules, imposed as part of February's stimulus package, bar projects from getting federal money to buy goods made abroad.

In theory, the provisions are supposed to help US businesses. In practice, Canadian and US manufacturers say products such as construction equipment or water-filtration systems often contain parts from both countries, and may pass back and forth over the border while they're being finished, making enforcement difficult and costly. The Wall Street Journal (A-15)

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WTO's Lamy Sees Threat to Doha Round From US-China Feud on Tire Safeguards

WTO Director-General Pascal Lamy says he sees a risk that the feud over the recently announced US safeguard measure raising tariffs on tires imported from China could spill over into other areas of trade between the two economic giants at a time when world leaders have committed themselves to refraining from imposing protectionist measures.

"It certainly is a matter of concern, not the least because both the US and China are members of the G-20, and the G-20 has taken a stance that there should be no recourse to trade-restrictive measures during the crisis," Lamy said. "It's the sort of situation that increases the risk of spillover," he added. "Anything that increases the risk of spillover into trade is a matter of concern for me."

Earlier this year, leaders from the G-20 reaffirmed their pledge to refrain from raising new barriers to investment or to trade in goods and services as a reaction to the global economic crisis. Members of the G-20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the US.

China Trade Dispute Concerns US Poultry Sector

The US poultry industry is concerned that China will penalize US chicken exporters in retaliation to the Obama administration's decision to place duties on the import of Chinese tires. "It's certainly a concern," says Dick Lobb, spokesman for the National Chicken Council, who pointed to an announcement by China's Commerce Ministry that it has begun an antidumping investigation into whether the US is selling chicken to China at prices below-market prices.

If China retaliates against the US poultry industry, there is a lot of money to be lost, said Toby Moore, a vice president of the USA Poultry & Egg Export Council (USAPEEC). The US sells almost all of the chicken feet it produces to China and as most US consumers do not eat chicken feet, there is no domestic market, but exporters can get 65-70 cents per pound, Moore said. However, if China's market for chicken feet was blocked, producers would have to sell the feet for 2 cents a pound to renderers.

Trade analysts in the US question how China could find that chicken feet that have virtually no value in the US could be considered dumped in China if they sell there for 65 to 70 cents per pound. Dumping traditionally involves selling a product in a foreign market for less than in the domestic market, or selling below the cost of production. The US exported 436,544 tonnes of chicken worth $376 million to China during the first seven months of 2009, about half of which were chicken feet, figures from the National Chicken Council show.

US imports accounted for 73 percent of China's total poultry imports in 2008, rising to 89 percent in the first half of this year, according to the China Animal Agriculture Association (CAAA) and some have said that China will not be able to meet domestic needs if the country takes action against the US.

James Sumner, president of the USAPEEC said the trade decision effectively bans imports of cooked poultry. "Our own government is creating these problems more so than the Chinese," Sumner said. "We are upset with the way this has been handled by the administration. While the council understands China's frustration, the dumping claims are baseless," he added.

USAPEEC's Moore said there have been "rumblings" from Chinese chicken producers for the past couple weeks about a potential action against US exports and the US decision to put duties on Chinese tires was the final straw.

"China's announcement is obviously in direct retaliation for the US action in putting tariffs on tires made in China," the National Chicken Council said in a statement. "Charges of dumping of poultry products are completely unjustified. Our companies engage in normal trade with China, not dumping," it continued. NCC said it believes US chicken was singled out for retaliation because the US banned imports of Chinese chicken. Due to sanitary concerns, the US congress stopped the USDA from allowing the import of Chinese chicken in 2008.

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Russia Seeks to Become Virtually Self-Sufficient in Pork, Poultry Production

Russia will rely on imports for no more than 10 percent of its poultry and pork within three to four years as growing domestic output squeezes other suppliers from the market, the head of the Russian meat producer Cherkizovo said this week. Russia has invested billions of dollars in recent years to increase domestic production of poultry and pork and reduce its reliance on imports, potentially pushing the US poultry sector out of a market that consumed a quarter of its exports in 2008. Cherkizovo CEO Sergei Mikhailov yesterday told the Reuters Russia Investment Summit that broiler meat production in Russia had risen by between 15 and 16 percent annually in the last five years.

Last April Russian First Deputy Prime Minister Viktor Zubkov said the country aimed to reach self-sufficiency in poultry meat and pork by 2011, with exports a possibility by 2012. "This goal is quite attainable, give or take a year," Mikhailov said yesterday. "I don't think we'll be able to do without imports altogether, but their share will shrink to about 10 percent, which is normal for keeping competition on the market."

Russia produced 64 percent of the poultry meat it consumed last year, Agriculture Ministry data showed, meaning imports took a 36 percent market share. Self-sufficiency would help Russia to avoid the crises that importers have faced when food prices rose. Russia last year produced about 6 million tonnes of meat in total and consumed almost 9 million tonnes, or 3.1 percent of the world's total, data from industry lobby the National Meat Association showed.

Colombia Resumes Imports of Canadian Beef

Colombia yesterday said it again would permit imports of Canadian beef from animals of all ages once valid certificates are agreed to. In addition, the Canadian government says it will continue to work with Colombia to ensure resumption in trade in live cattle. Canada and Colombia recently signed a free trade agreement which, when fully implemented, will provide duty-free access for a wide range of Canadian goods and services. Implementing legislation was introduced in the House of Commons in March 2009 and is currently being reviewed by members of Parliament. According to a statement from the Canadian government, the FTA will provide greater market access for Canadian exporters of products such as wheat, pulses, barley, paper products and heavy equipment. In 2008, two-way merchandise trade between Canada and Colombia totaled more than C$1.3 billion.

The US also has negotiated an FTA with Colombia and, as with Canada, that agreement has yet to be approved by the legislative branch.

Potential Benefits For US Beef Industry Under The US-Colombia Trade Promotion Agreement

Under the US-Colombia Trade Promotion Agreement, the US secures immediate duty-free treatment on products most important to the US beef industry: high quality, USDA Prime and Choice beef cuts. All other tariffs on beef and beef products will be eliminated within 15 years and earlier in a number of cases. For standard quality beef cuts, the agreement provides for immediate duty-free access through a 2,100-ton TRQ with a 5 percent annual growth. Colombia will phase-out the 80 percent out-of-quota tariff over 10 years after a 37.5 percent cut at the beginning of the first year of implementation. Additionally, the agreement establishes a 4,642-ton duty-free TRQ for beef variety meats (offals) with 5.5 percent annual growth. Colombia will phase-out the 80 percent out-of-quota tariff over 10 years with a 37.5 percent cut immediately upon implementation of the agreement. If imports surge, Colombia will have the right to use safeguards during the implementation period on standard quality beef only.

The US will establish a 5,250-ton beef TRQ with 5 percent growth as part of the agreement. The US 26 percent out-of-quota tariff on beef will be phased out over 10 years. Additionally, if imports surge during the implementation period, the US will have the right to use a volume-based safeguard that will impose higher tariffs on additional over-quota imports. Other US beef tariffs on imports from Colombia are zero under the ATPDEA. The CTPA will continue the zero-duty treatment of these products.

Source: USDA/FAS

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CLIMATE CHANGE LEGISLATION ...

Cap-and-Trade Memos Fire Up the Skeptics of Climate Change Legislation

Climate-change legislation might be on the Senate's back burner, but the heat's still on climate politics.

The latest flare-up occurred this week when the Competitive Enterprise Institute, which questions whether human and industrial activity is linked to global warming, released a one-page internal Treasury Department memo from March estimating potential government revenue from a cap-and-trade climate bill at $100 billion to $200 billion a year. The memo assumed that 100 percent of the emission permits would be auctioned, unlike in the plan approved by the House in June. The Treasury had blacked out a phrase at the end of the following sentence: "It will raise energy prices and impose annual costs on the order of . . ."

CEI also released a second memo, written by the presidential transition team late last year, which said that as a result of climate action in general, without reference to any specific plan, "economic costs will likely be on the order of 1 percent of GDP, making them equal in scale to all existing environmental regulation."

A CBS News blogger named Declan McCullagh seized on the documents, which CEI obtained through a Freedom of Information Act request, and said: "The Obama administration has privately concluded that a cap and trade law would cost American taxpayers up to $200 billion a year, the equivalent of hiking personal income taxes by about 15 percent." He added: "At the upper end of the administration's estimate, the cost per American household would be an extra $1,761 a year."

But environmental organizations fired back that McCullagh and the CEI were making two key false assumptions. In the auction plan initially proposed by President Obama, revenue from cap-and-trade allowances would have been used to cut taxes. Many economists, including those who are Republican, have argued that using such revenue to cut payroll taxes would be good for the economy. Second, the plan in the March Treasury memo is not the one being debated in Congress.

The Treasury said the furor was much ado about little. The March memo was not based on any independent Treasury analysis and summarized other studies. The transition team memo said that the government could use the revenue to "offset distortionary taxes on labor or capital."

"The reporting on the Treasury analysis is flat out wrong," said Alan B. Krueger, Treasury assistant secretary for economic policy. "Treasury's analysis is consistent with public analyses ... and the reporting and blogging on this issue ignores the fact that the revenue raised from emission permits would be returned to consumers under both administration and legislative proposals." The Washington Post (A-9) Story Link

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Expectations Wane for Senate Climate Bill

With international climate talks in Copenhagen just three months away, some Senate Democrats are beginning to tamp down expectations of getting a climate bill onto the Senate floor and suggest other countries may have to settle for a "road map" that can point to passage by several committees.

"We could still go to Copenhagen even if the bill has [only] gotten through the committees," Sen. Amy Klobuchar (D-Minn.) yesterday told the *Bureau of National Affairs*. Even without a vote on the Senate floor, committee approval of the bill would provide a road map of US intentions to cap its greenhouse gas emissions.

Klobuchar, who sits on the Senate Environment and Public Works Committee, said getting a bill through the committee and others with jurisdiction would send a strong signal of US commitment, considering the House has already passed its climate bill.

The prospect of US negotiators heading to Copenhagen without a Senate vote on mandatory US emissions caps appears increasingly likely, with Senate Majority Leader Harry Reid (D-Nev.) telling reporters Sept. 15 that the Senate is going to have a "busy, busy time the rest of this year" given the protracted negotiations over health care reform and other issues.

Democrats had hoped to capitalize on momentum from House passage of its climate legislation in June, but the outlook for passage on the Senate floor is uncertain. Democrats need 60 votes to overcome a filibuster

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threat and bring it to the floor, but they are just shy of that number with 59 seats following the death of Sen. Edward Kennedy (D-Mass.).

Since the House vote in June, an increasing number of Democrats have expressed reservations about climate legislation, including several who have supported mandatory caps on emissions in the past.

Administration Signals Willingness to Regulate Greenhouse Gas Emissions

The Obama administration has details of its plan to reduce greenhouse-gas emissions from cars, with EPA Administrator Lisa Jackson noting the proposal paves the way for regulating emissions from other sources within the next year. Jackson said in an interview with the *Wall Street Journal* that “we must consider the implications of the Clean Air Act and how it might apply to other sources.” She said it was “certainly a possibility” that the agency could propose emissions regulations covering other sources within the next year.

Under the proposal, the fleet-wide corporate average fuel economy (CAFE) standard will rise to 35.5 miles per gallon by 2016. The 2007 energy law requires a 35.5 mpg CAFE standard, but that law stipulates a timeline that ends in 2020, not 2016. The current standard is 27.5 mpg.

Vehicles also would have to meet a combined average emission level of 250 grams of carbon dioxide per mile. The requirements could raise new-vehicle prices by as little as $476 per vehicle in 2012 to as much as $1,091 per vehicle in 2016, according to a Transportation Department analysis. The administration estimated that the new regulations would reduce greenhouse gas emissions by almost 950 million tonnes, conserve 1.8 billion barrels of oil and save the average car buyer more than $3,000 in gasoline expenses over the lifetime of a 2016 vehicle.

Earlier this year, EPA declared greenhouse-gas emissions a threat to human health and welfare, the legal trigger for regulating them under the federal Clean Air Act. The agency’s declaration was a response to a 2007 ruling by a divided Supreme Court that held that the act authorizes the agency to regulate greenhouse-gas emissions from autos if it determines they cause or contribute to air pollution that may reasonably be anticipated to endanger public health or welfare. However, some legal experts believe the Clean Air Act does not provide EPA much leeway to pick which sources to regulate and Jackson recently admitted the matter was an “open legal question.”

The Obama administration has said it would prefer to deal with climate change through legislation that requires companies to pay for the right to emit greenhouse gases. While the House passed its climate-change legislation in late June, Senate Majority Leader Harry Reid (D-Nev.) said the Senate might delay voting on such legislation until next year, though his spokesman said no decision had been made.

The EPA announcement was timed to remind lawmakers of the White House’s leverage to impose regulations unilaterally and to prod the Senate into passing a climate-change bill before a December UN conference in Copenhagen. The EPA announcement also lays the groundwork for a more sweeping executive order expected in the coming weeks: an “endangerment finding” that would trigger a requirement for the federal government to regulate greenhouse gas emissions under the Clean Air Act without new legislation.

Sen. John Kerrey (D-Mass.), who has taken a lead role in writing a Senate climate-change bill, said the new fuel economy rules and the threat of an endangerment finding are reminders to lawmakers and industry that they are better off helping to shape legislation that might reflect their views than allowing federal regulation over which they would have little input.

“They’re concerned that next the EPA may regulate with the Clean Air Act, affecting coal emissions,” Kerry said, according to *Congressional Quarterly*. “It’s a very compelling argument — the more they see EPA moving in that direction, the hope we have here that people will pull up to the table.”

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ENERGY ...

Nelson May Attach Ethanol Provision to Interior-Environment Appropriations Bill

The Senate today is expected to take up the Interior-Environment appropriations bill for fiscal 2010. The measure would provide $32.1 billion in discretionary spending for FY10, which is 16 percent above the previous year, not including funds from the economic stimulus law. The bill would increase funding for the Interior Department, EPA, US Forest Service, Smithsonian Institution, and other environmental and cultural agencies.

There are reports that Sen. Ben Nelson (D-Neb.), may offer an amendment that would require EPA to announce before December whether it will permit the sale of E15. Ethanol producers and corn farmers have lobbied in favor of the higher blend as a way to sell more of their product. EPA earlier indicated it might not issue its decision until late December.

GLOBAL DAIRY INDUSTRY ...

Program Asks Consumers to Help New England Farmers

Several New England states are urging consumers to chip in and save the region's dwindling dairy farms, which are having to deal with low milk prices. The *Associated Press* reports that agriculture officials and farmers in Vermont, New Hampshire and Massachusetts have launched a program called Keep Local Farms to stop a trend that has seen New England lose two-thirds of its dairy farms since 1990. Organizers say they hope to appeal to consumers' growing taste for local foods, pitching dairy products from anywhere in the six-state New England region as local.

As part of Keep Local Farms, organizers set up a Web site for people to make contributions, which will be divided among farmers, and are urging universities and other institutions to charge a little extra for dairy products in their cafeterias, with the proceeds going to farmers. Organizers also hope within the next year to launch a co-branding effort that would put labels on local dairy products and ask consumers to pay premiums for the locally made milk, cheese and other dairy goods.

In July, USDA said it would temporarily raise the price paid for milk and cheddar cheese through its dairy price support program, although a spokeswoman for the Vermont Agency of Agriculture said that USDA's action hadn't had much of an effect on the prices farmers get for fluid milk so far.

US Dairy Farmers Want Industry Probe

In the past year the price dairy farmers get for their milk has dropped 36 percent, to the lowest level in three decades. As a result, the farmers are pressing federal antitrust regulators to investigate competition in the industry.

A group of dairy farmers is slated to meet with antitrust enforcers Thursday in Washington, and Christine Varney, chief of the Justice Department's antitrust division, is scheduled to appear Saturday at a Vermont hearing of the Senate Judiciary Committee, which is populated with several Democrats from big dairy states such as Wisconsin, Minnesota and New York.

The price of milk began a historic run-up in 2007, and dairy farmers raced to cash in by expanding their herds. Then, the global recession doused foreign demand for milk in 2008, contributed to an oversupply. Between early 2007 and December 2008, US farmers added about 190,000 milk cows, an increase of 2 percent, according to industry economists. In August, farmers on average were paid $11.80 for every hundred pounds of milk, down from $18.40 in August of last year.

Dairy farmers have long complained that they have too few buyers and too little competition for their milk. The industry is dominated by two players: Dean Foods Co. of Dallas, which is creating a national brand in what had been a fragmented industry, and Dairy Farmers of America Inc., a Kansas City, Mo., cooperative that buys milk from farmers and sells some of it to Dean Foods.

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In a statement, Dean said it "does not control dairy prices or the dairy market. The numbers that have been reported by various media are grossly inaccurate. We buy less than 15 percent of [the] nation's raw fluid milk supply."

Dairy Farmers of America said in a statement: "The national scope and size of our cooperative brings about scrutiny. We understand that and we invite open dialogue with those who want to understand our business better." The Wall Street Journal (A-3)

Senator Kohl Calls For Antitrust Enforcement In Dairy Industry

Sen. Herb Kohl (D-Wis.) is calling on two federal agencies to scrutinize antitrust enforcement within the dairy industry. In a letter to Secretary of Agriculture Tom Vilsack and Assistant Attorney General Christine Varney, Kohl asked that their respective departments focus on the consolidation of milk processors and anticompetitive practices in agriculture, and urged them to hold a workshop on dairy in Wisconsin as part of upcoming series of DOJ/USDA workshops about agriculture competition.

Kohl chairs the Senate Agriculture Appropriations panel and Chairman of the Senate Subcommittee on Antitrust, Competition Policy and Consumer Rights. He says hard-working family farmers are the backbone of the dairy industry and face significant competitive constraints – especially during the current dairy crisis.

"They currently struggle with milk prices that have fallen to historic lows while the costs of production – including feed, fertilizer and fuel – have risen drastically," Kohl said. "This makes it increasingly difficult for continued operation, and many are forced to close their doors. Processor consolidation, especially where fluid milk is concerned, has in some regions left farmers with few marketing options."

The letter goes on to say that processor consolidation is also an area of legitimate concern for consumers. Kohl says despite historically low farmgate prices for fluid milk, consumers have seen little of the benefit of lower prices. "We need to explore in assertive detail whether the exercise of monopoly pricing power is contributing to this situation," he noted.

Kohl also praised efforts to help farmers by strengthened the Milk Income Loss Contract program in the last farm bill and working on an appropriations measure that would bolster dairy support. But he says more needs to be done.

European Dairy Farmers Spill Milk

Belgian farmers, apparently unaware of the role played by US companies in setting the price of milk, yesterday sprayed 790,000 gallons of fresh milk onto their fields to protest the low prices that they say are bankrupting them. The *Associated Press* reports that European farmers' groups said world prices had sunk so much they have to sell milk at half their production costs.

As the *AP* notes, agriculture is still one of the most shielded economic sectors in the EU, but it has not been able to protect farmers from the global financial crisis that caused demand to crash. The EU opposes tougher production quotas, seeking instead to abolish the practice to let market forces have a stronger influence on production.

PERSONNEL …

European Commission President Received 2nd Term

The European Parliament has approved current European Commission President José Manuel Barroso for a second term. The move was not unexpected: Barroso was the only candidate in the parliament vote and was elected by a substantial majority, 328 votes in favor and 219 against. Barroso was prime minister of Portugal from 2002 to 2004 before being elected as president of the European Commission from 2004 to 2009.

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Senate Agriculture Committee Names New Staff Director

Robert Holifield has been named staff director for the Senate Agriculture Committee. He is a former senior policy adviser on agriculture and international trade for the committee's new chairman, Blanche Lincoln (D-Ark). Holifield previously worked for the Commodity Futures Trading Commission, most recently as deputy chief of staff. He also served as acting director of external affairs and chief of staff to CFTC Commissioner Bart Chilton.

FOOD & FOOD SAFETY …

Brazil's JBS to Become World's Largest Meat Company

Brazil's top meat firm JBS says it plans to take over bankrupt US chicken company Pilgrim's Pride and Brazilian rival Bertin, in deals that would make it the world's largest meat company with $30 billion in annual revenue.

JBS, a huge beef producer with some pork operations, will buy a 64 percent stake in Pilgrim's Pride for $800 million in cash, pitting it against current No. 1 meat company Tyson Foods in the chicken business in addition to its pork and beef divisions.

"It's a good deal for both parties," Morningstar analyst Ann Gilpin said. "JBS is able to get a lot of scale in an industry where it doesn't have any presence for pennies on the dollar."

It also provides JBS with a share of the US chicken export market. "In terms of benefits, it is a global story rather than a US story," said Jim Robb, economist with the Livestock Marketing Information Centre. "They well understand the international focus. When about 20 percent of US chicken is exported, they see some potential in that poultry complex from a global demand perspective."

JBS, which already is the world's largest beef processor, will take a controlling stake in Brazil's second-largest beef producer Bertin. The all-stock transaction has an estimated value of 5.2 million reais (US$2.9 billion), based on Tuesday's JBS share price.

Reuters reports that the deals are the latest in a string of acquisitions by JBS, which started as a butcher shop in 1953. In the US, it bought beef and pork company Swift & Co. in 2007 and a year later the US cattle feedlots and beef plants from Smithfield Foods.

Amid the Downturn, Stores Slash Grocery Prices

Supermarket prices are plunging as the global downturn drives down the cost of staples such as wheat, corn and milk and grocers fight for the wallets of penny-pinching consumers. The heated competition is being fueled in part by the steep decline in commodity prices after a year of dramatic increases, one of the few silver linings of the deep recession that continues to transform the economy.

The renewed focus on price represents a significant shift for the grocery industry, which promoted such amenities as olive bars and in-store sushi restaurants to lure shoppers whose palates had become increasingly discriminating during economic boom times. Then the recession hit, and gourmet grocers that were once emulated struggled to hold on to shoppers. The Washington Post (A-1) Story Link

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Japan's New Leader Seeks Revision of Relations With US

Hours after he became prime minister Wednesday, Yukio Hatoyama said he wants to change Japan's "somewhat passive" relationship with the US and review the large American military presence in Japan.

However, in a sign that he was trying to find the right balance, he said Wednesday that he didn't "believe we can do things without the US"

Hatoyama, who has a doctorate in engineering from Stanford University, is expected to travel to New York next week to participate in the UN General Assembly session and might meet with President Obama during the trip. The Washington Post (A-15) Story Link

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Chinese Farmers Raise Rents

Chinese farmers are getting higher rents for their land and increasingly renting it out for longer, a new survey says, in a trend that is enlarging the market for farmland and transforming the rural economy.

Median annual rent for farmland more than doubled from 2005 to 2008 in the survey, reaching the equivalent of $267 an acre. That figure, up from $125 three years earlier, is comparable to rents paid for irrigated cropland on parts of the US West Coast, according to USDA figures.

Meanwhile, wages from employment have been rising to nearly match the share of Chinese rural income that comes from agriculture; most rural households now earn much of their income from something besides working their own land. The Wall Street Journal (A-7)

International Market Watch September 16

World Stock Markets		
Dow-Jones	9791.71	+ 108.30
NASDAQ	2133.15	+ 30.51
S&P 500	1068.76	+ 16.13
Toronto S&P/TSX	11555.60	+ 59.77
Mexico IPC	29625.02	closed
Frankfurt DAX	5700.26	+ 71.28
London FTSE-100	5124.14	+ 82.00
Tokyo Nikkei	10270.77	+ 53.15
Agricultural Futures (cents/bu.)		
Dec Corn (CBOT)	349.50	- 10.25
Nov Soybeans (CBOT)	950.50	- 9.50
Dec Wheat (CBOT)	467.25	- 3.25
Dec Wheat (KCBOT)	480.00	- 2.25
Agricultural Futures (cents/pound)		
Dec Live Cattle (CME)	86.65	- 0.18
Dec Hogs (CME)	51.45	- 0.43
Mar World Sugar (ICE)	24.00	+ 0.68
Dec Cotton (ICE)	63.52	+ 0.50
Ethanol, Gasoline Futures ($/gallon)		
Jan Ethanol (CBOT)	1.640	- .011
Nov Gasoline (NYM)	1.8501	+ .0574
Crude Oil Futures ($/barrel)		
Nov (NYM)	72.87	+ 1.57
Dec 2010 (NYM)	77.95	+ 1.24
Spot Metals ($/ounce)		
Gold	1018.90	+ 13.90
Silver	17.40	+ 0.51
Interest Rates		
3-Month T-Bill	0.10	- 0.04
10-Year T-Note	3.46	+ 0.05
Exchange (currency per U.S. $)		
Japanese Yen	90.81	- 0.25
Canadian Dollar	1.07	no change
Mexican Peso	13.18	- 0.12
Euro	0.68	no change
British Pound	0.61	no change

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