

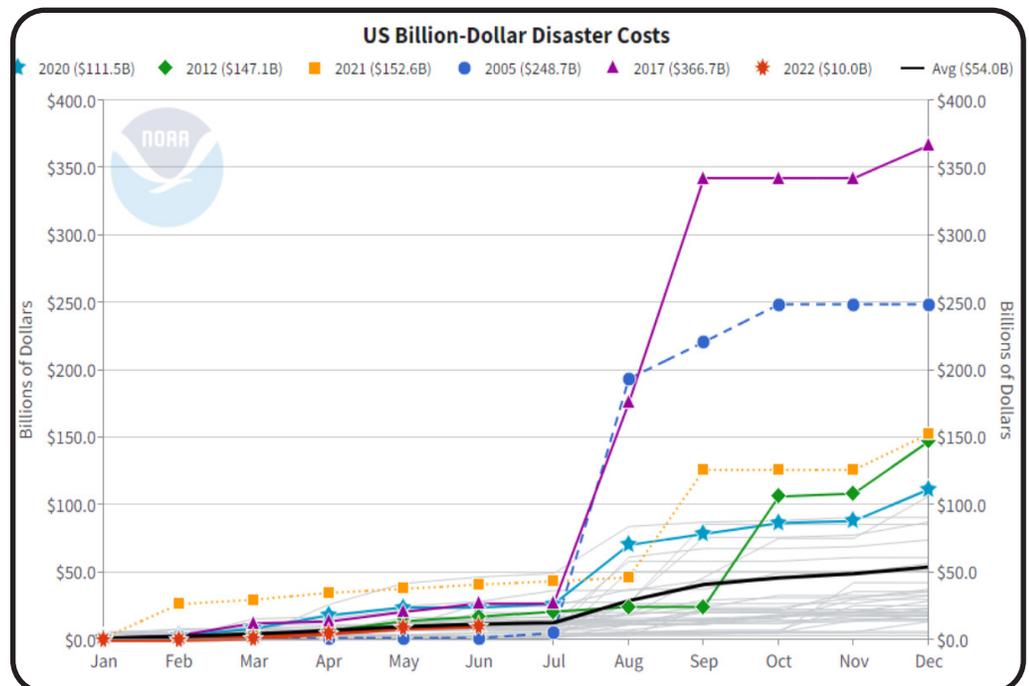
Incentivizing Net-Zero Agriculture

Climate and weather-related disasters have been on a worrying trajectory in recent years. According to research from NOAA National Centers for Environmental Information, the total cost of U.S. billion-dollar disasters over the last five years (2017-2021) is \$742.1 billion, with a five-year annual cost average of \$148.4 billion. To put those numbers in context, both of those figures set new records and are nearly triple the 42-year inflation-adjusted annual average cost. Stepping back to look at the past decade, billion-dollar disaster damage costs were also historically large, totaling more than \$1.0 trillion from 142 separate billion-dollar events.

Efforts are underway on multiple fronts to help manage climate impacts on the foodservice industry, though farms are a natural place to focus. At the time of this writing, the USDA had just announced a fresh investment in climate-smart agriculture, which takes the carrot-vs.-stick approach to incentivizing climate-friendly developments at farms. U.S. Secretary of Agriculture Tom Vilsack said the \$1 billion investment commitment made in February to fund greener agricultural practices would now be tripled. This expansion of the Partnerships for Climate-Smart Commodities program includes \$3 billion to fund projects aimed at reducing greenhouse gas emissions and isolating carbon in agriculture and forestry.

The program's goal is to create economic incentives (as opposed to punitive regulations) to encourage agriculture producers to reduce emissions and improve soil

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Sources: NOAA National Centers for Environmental Information, ZingChart

Agricultural Commodities

Inflation and extreme weather deflate expectations

Consumers continue to spend, though perhaps more selectively, with inflation and a possible recession in the back of their minds. Around the world, containing inflation has been a key focus for governments eager to stabilize their economies. In the meantime, agricultural commodities are reflecting those strains, with energy and feed costs weighing on producers and keeping growth expectations in check. While the gradual weakening of the dollar following its surprising rise against other global currencies this summer could ease pressure on exports, rising interest rates could make that less certain. Here is a look at the outlook for key agricultural commodities in the coming months:



Wheat: The September USDA World Agricultural Supply and Demand Estimates (WASDE) report included an upward revision in the agency's global wheat production estimate, from 779.6 million metric tons estimated in August to 783.92 million metric tons in September. If achieved, this would result in a new record for global production. However, uncertainty remains in the global wheat market amid roadblocks to Ukrainian grain exports. U.S. wheat futures climbed recently on concerns about tight global supplies if shipments from Ukraine slow despite a U.N.-brokered export corridor deal.

Corn: According to the most recent report from the USDA, expected harvested acres dropped by one million to 80.8 million acres, resulting in a decline in production to just under 14 billion bushels. U.S. and global corn stocks are expected to decline into next year. While good prices are expected to continue, uncertainty about fertilizer supplies and other production costs may put that into question.



Commodities

(from page 2)

Soybeans: Just a month ago, the USDA's outlook for the entire soybean harvest was well within industry expectations. Now, it's well below what the market has been expecting. WASDE's latest report announced drops in soybean yields and harvested acres, leading to a lower production estimate for this crop year of 4.38 billion bushels (down from a forecast of 4.5 billion). Drought in the Southern Plains has been a key driver of the weaker estimates, offsetting record yields in other states. The 2022-2023 crop carryout is now estimated at 200 million bushels, almost 47 million off expected levels.



Pork: The U.S. pork industry continues to be resilient. While the level of demand has been flattening out somewhat from where it was, pork is still holding up domestically as a good-value protein. Exports are expected to be flat into next year, with anticipated lower pork production in the European Union potentially canceling out reduced exports to China following the recovery of the Chinese pork market.

Beef: Cattle markets have rallied lately and delivered strong continued demand both domestically and internationally, though reduced beef production is expected into next year due to drought in the Northern and Southern Plains. The futures market seems to anticipate this, with some in the industry believing this will make less-available proteins compete with pork in the coming year. Significantly higher costs of cattle and feed, as well as higher interest rates, are motivating some producers to consider Livestock Risk Protection to help protect against downside risk in the mid term.



OUTLOOK

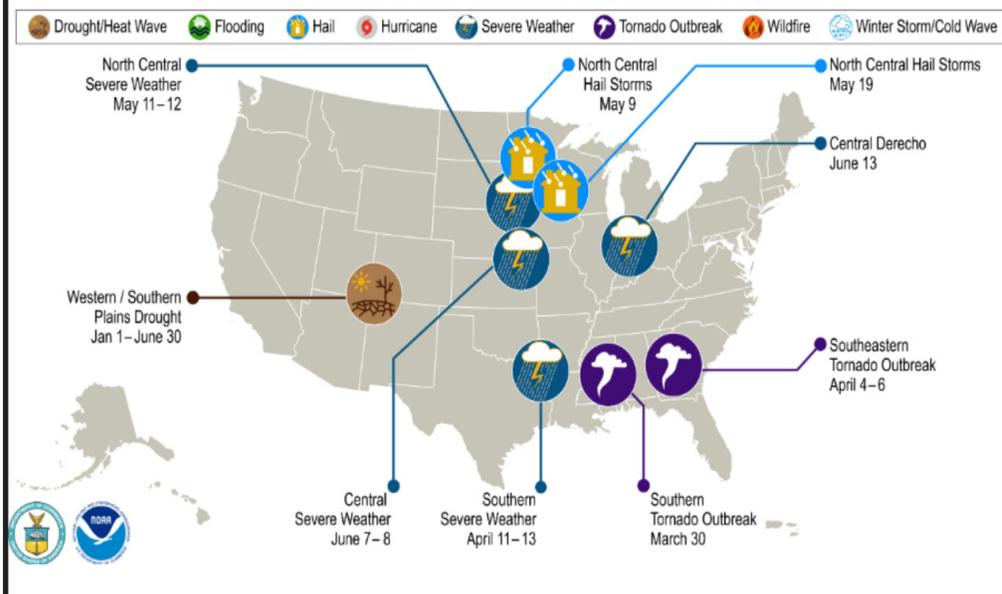
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Net-Zero (from page 1)

health. To accomplish this, it will create markets that support these green strategies. The 70 projects selected to receive initial funding of \$1.4 billion include operations producing livestock, wheat, corn, soybeans and a range of other commodities. Throughout the next five years, the projects will provide technical and financial assistance to farmers looking to implement climate-smart production practices, introduce methods for tracking and verifying greenhouse gas benefits, and develop markets for the climate-smart commodities that emerge from these efforts. (One of the selected projects, which encompasses 28 states, aims to create a self-sustaining, market-based network to broaden farmer access, encourage the adoption of climate-smart practices at scale, and sustainably produce grain and dairy commodities with verified and quantified climate benefits.)

Producers in each state will be included in at least one project. The USDA received 450 applications for the first round of funding, with project proposals requesting anywhere from \$5 million to \$100 million. The second round of funding, for project grants ranging from \$250,000 to \$4.9 million, is expected to be announced later this fall.

U.S. 2022 Billion-Dollar Weather and Climate Disasters



This map shows the approximate location of each of nine separate billion-dollar weather and climate disasters that impacted the U.S. between January and June 2022.

Alt Proteins are On the Menu

\$7.4B: The retail market for plant-based foods is worth \$7.4 billion, up from \$6.9 billion in 2020

54%: Plant-based food dollar sales grew 54 percent in the past three years

74%: Plant-based meat dollar sales grew 74 percent in the past three years

33%: Plant-based milk dollar sales grew 33 percent in the past three years

3x: Plant-based food dollar sales grew three times faster than total food sales last year

Source: Good Food Institute, 2021