

# The Economics of Trade

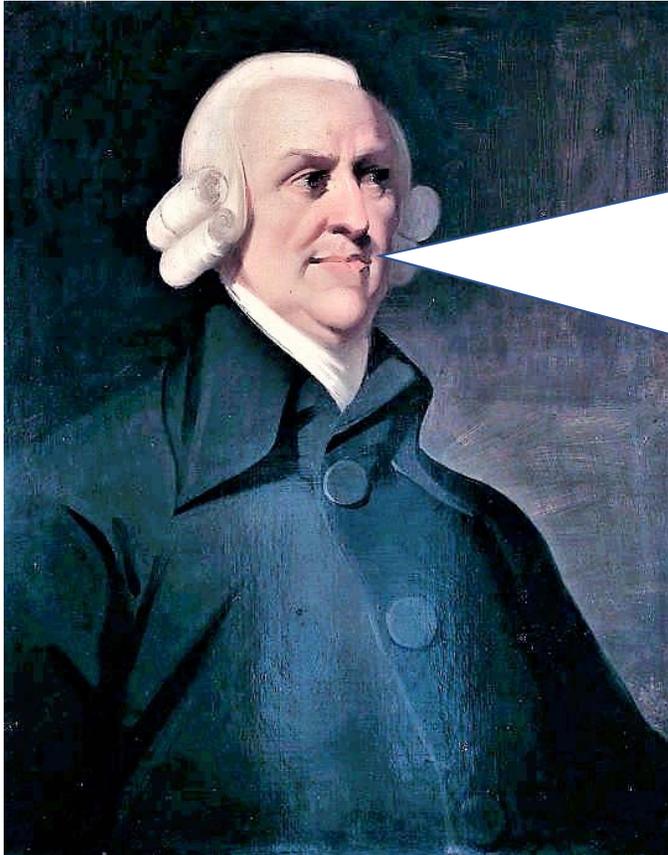
*Mark Nelson*

[nelsonm@kfb.org](mailto:nelsonm@kfb.org)



**KANSAS FARM BUREAU**  
The Voice of Agriculture

AFBF #252 / International Trade  
1. We are strong advocates of fair  
and open world trade.



Adam Smith (1723 – 1790)  
Scottish economist,  
philosopher and author

*The Wealth of Nations* (1776) – “It is a maxim for every prudent master of a family, never to attempt to make at home, what it will cost them more to make, than to buy. The tailor does not attempt to make their own shoes, but buys them of the shoemaker.”

Ricardo's *Law of Comparative Advantage* builds on Smith's work and refers to the ability of one party (person /region /country) to produce goods and services at a lower opportunity cost than another's.

"Classical Economics" – 18<sup>th</sup> and 19<sup>th</sup> Centuries

- ✓ Developed the Concepts of Supply and Demand, and both Comparative and Competitive Advantage;
- ✓ Demonstrated that efficient use of resources, plus trade, results in greater prosperity; by raising incomes and lowering costs.



David Ricardo (1772 – 1823)  
British political economist

# Comparative Advantage

## **Kansas Agriculture:**

- 88% of our state is farmland
- 21 million acres of harvested cropland
- 15 million acres of pasture

- Way more ag capacity than our 2.9 million citizens can consume!

## **IMPLAN** **Studies** (Impact Analysis for Planning)

- Direct Impacts – i.e. Production and jobs created by those involved

- Indirect Impacts – i.e. Increases in productivity and jobs created by suppliers

- Induced Impacts – i.e. Productivity and jobs resulting from direct and indirect income; and increased household spending

# Kansas Agriculture

(KDA IMPLAN Study- adj. for 2017)

- Supports 246,877 jobs, or 13.0% of the entire workforce in the state; and
- Provides a total economic contribution of \$ 67.5 billion, or roughly 44.5% of the total economy.

- Directly employs 125,714 people
- Producing \$47.9 billion in total direct output

- Indirectly employs 64,207 people
- Producing another \$12 billion in output

- The Induced Effect employing 56,956
- And another \$7.6 billion

*Kansas BENEFITS by focusing on our comparative advantage and exporting our production!!*



# US Agriculture Has a Comparative Advantage

<b>USDA-ERS 2016 US Ag Exports</b>	<b>USGC 2015 US &amp; KS Grain Exports</b>
<ul style="list-style-type: none"> <li>• Each dollar, stimulated another \$1.28 in business activity.</li> <li>• Every \$1 billion, supported 8,100 American jobs.</li> </ul>	<ul style="list-style-type: none"> <li>• Each dollar, supported an additional \$2.19 in US business;</li> <li>• Every US export job, supported an additional 4.7 US jobs.</li> </ul>
<p>US Ag Exports Produced:</p> <ul style="list-style-type: none"> <li>• \$134.7 billion in direct output</li> <li>• \$172.1 billion in indirect output</li> <li>• Supported 1,097,000 full-time civilian jobs including 764,000 jobs in the nonfarm sector.</li> </ul>	<p>KS exports of grain, grain products and meat equivalents supported:</p> <ul style="list-style-type: none"> <li>• \$2.6 billion in economic activity;</li> <li>• 782.8 billion in gross state product; and</li> <li>• 8,884 jobs in the state's economy</li> </ul>



## Comparative Advantage

Veris Technologies, Inc., a small Kansas company founded in 1996, creates precision ag solutions that are now being used in more than 40 states and 40 foreign countries.



With “on average” 30-40% of revenue via export activity, this company stays competitive, hires Kansans, and creates the technology solutions that help Kansas farmers stay competitive.



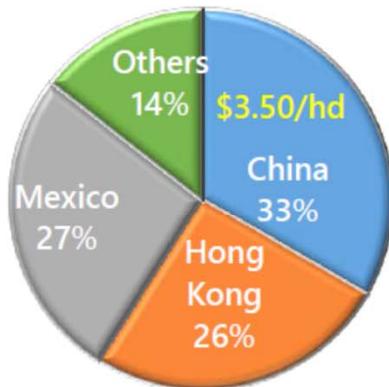
# Trade Increases Income



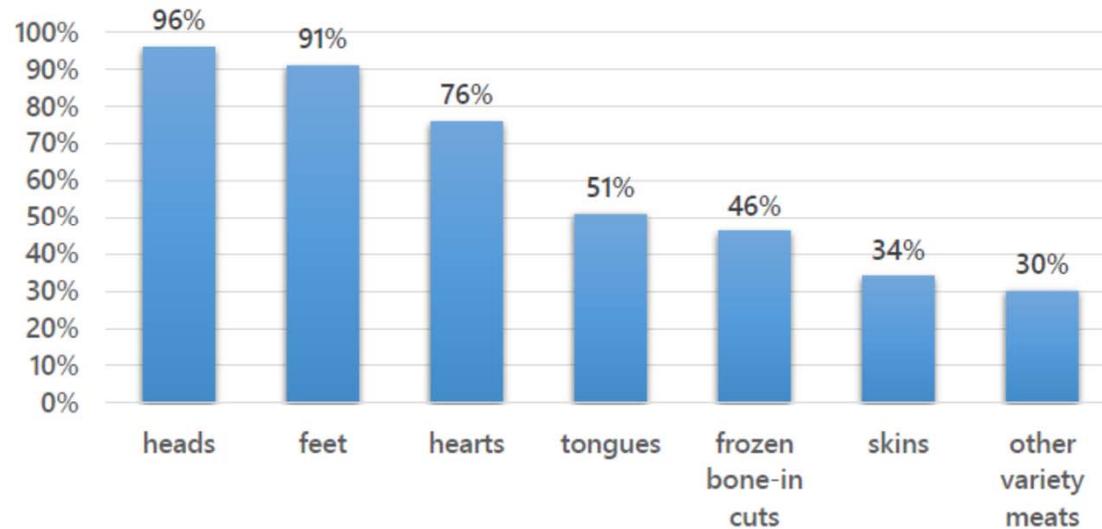
- Create value for carcass down entire carcass – significance of PVM

**US AG NEEDS  
TRADE!**

2017 PVM Exports

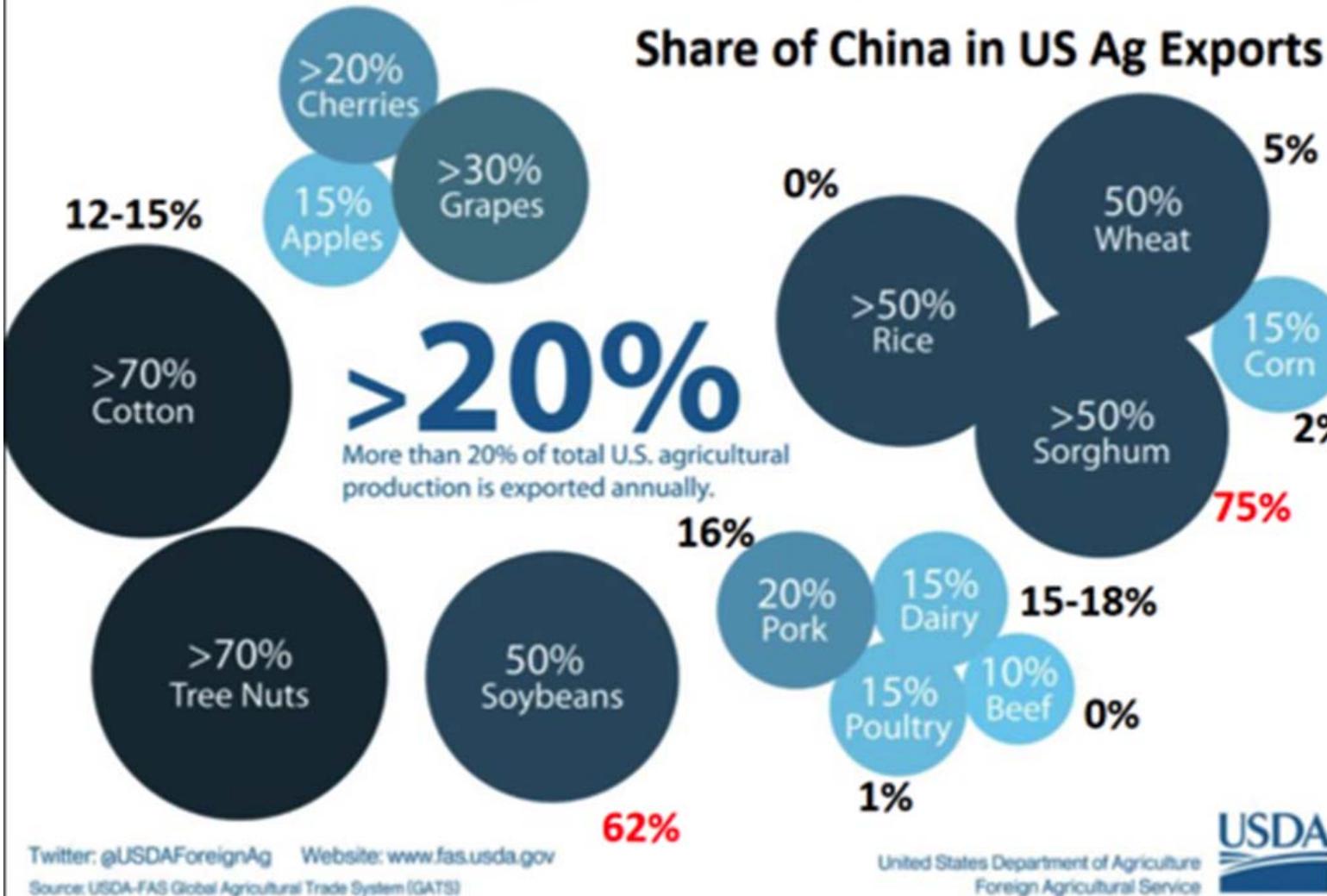


2017 China/HK Share of U.S. Exports for  
Select Pork Offal



# Share of U.S. Agriculture Exported in 2016

## Share of China in US Ag Exports



## AG NEEDS TRADE!

The US Has Overwhelming Agricultural Capacity!

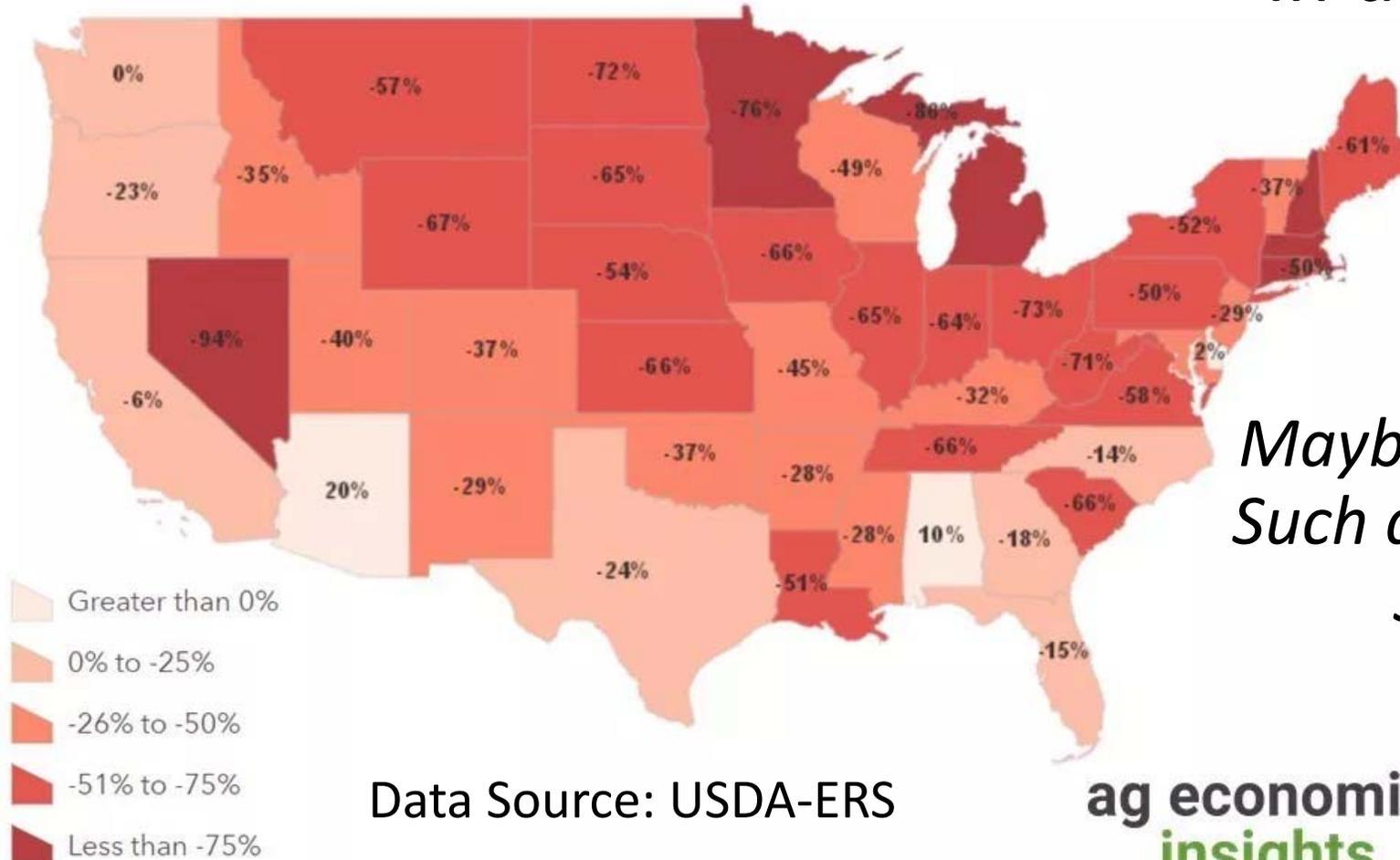
With roughly 10.3% of the world's acreage and 4.6% of it's population.

Changes in State-Level Net Farm Income  
(Avg. 2016-2017 vs Avg. 2011-2013)

*We Appear to be  
in a Trade War*

*But . . .*

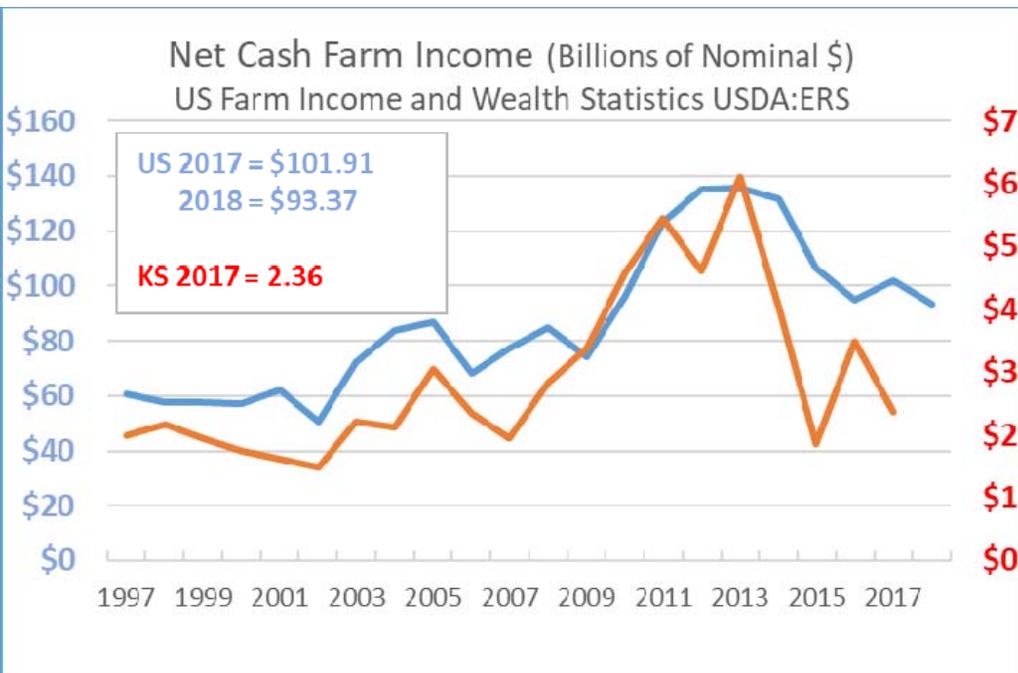
*Maybe 2018 Wasn't  
Such a Good Time to  
Start One*



Data Source: USDA-ERS

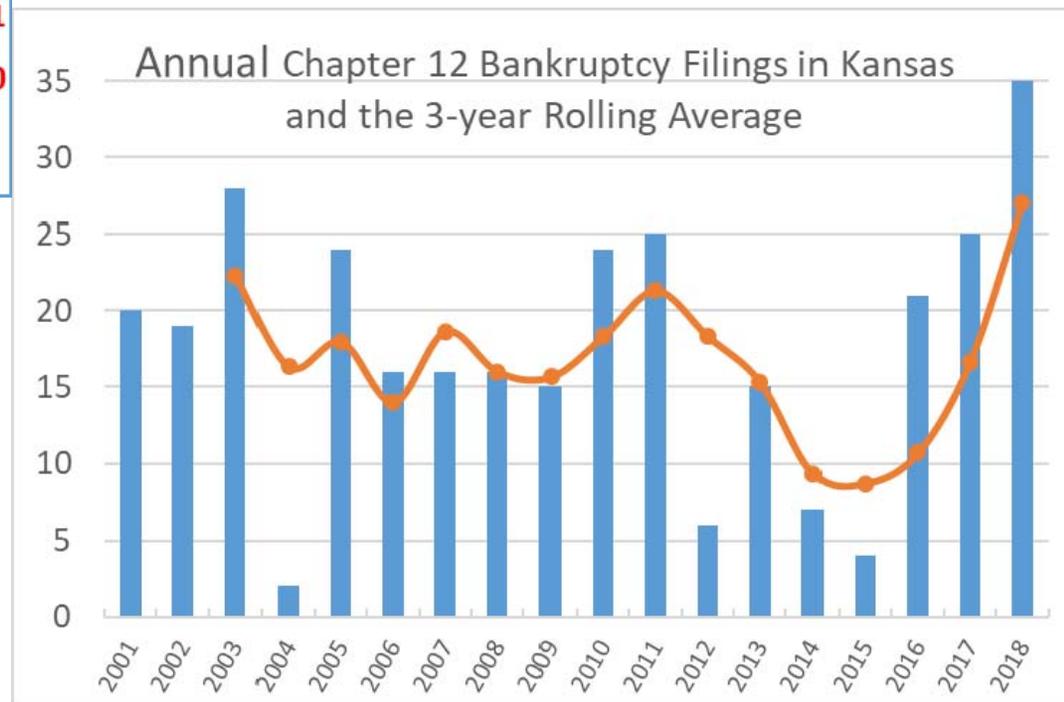
ag economic  
insights



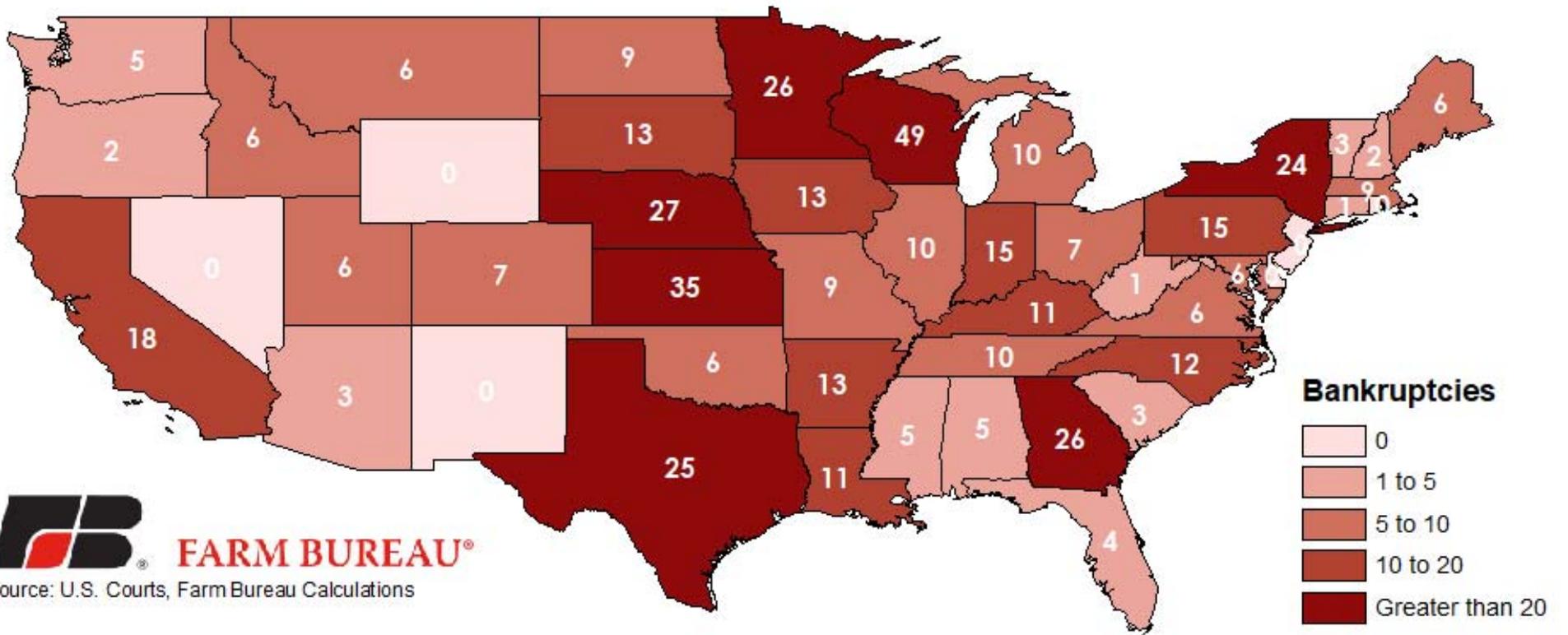


*Maybe 2018 Wasn't  
Such a Good Time to  
Start a Trade War*

Data Sources: USDA-ERS &  
the 10<sup>th</sup> US District Court



# Chapter 12 Farm Bankruptcies, 2018 Calendar Year



**FARM BUREAU®**  
Source: U.S. Courts, Farm Bureau Calculations

*Maybe 2018 Wasn't Such a Good  
Time to Start a Trade War*

# World Trade Organization (WTO)

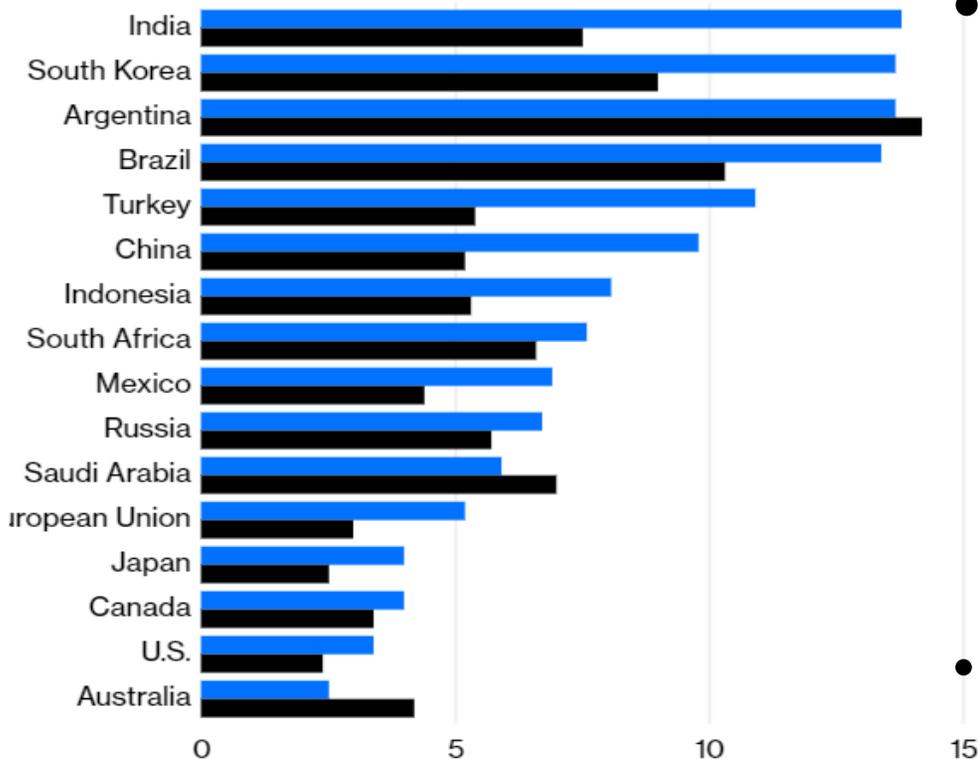


- A 164 member, body of countries formed from the 1994, Uruguay Round of GATT (general agreement on tariffs and trade). Its purpose is to help trade flow smoothly, without discrimination; freely, through gradual negotiation; and more predictably, through binding and transparency.
- The WTO is basically a series of agreements providing the legal rules for world trade including.
  - ✓ dispute settlement procedures; and
  - ✓ periodic multilateral negotiations; Singapore 96', Geneva 98', Seattle 99', Doha 01' to present

# WTO – Binding Tariff Rates



■ Most-favored nation simple average ■ Trade-weighted average



- *To shield delicate economy's, allowable tariffs are greatest for Developing Economies, followed by those for Transitioning Economies, and the lowest tariffs are allowed for Developed Economies.*

- The trade-weighted average is the average of rates, “weighted” by the import shares.

Source: World Trade Organization

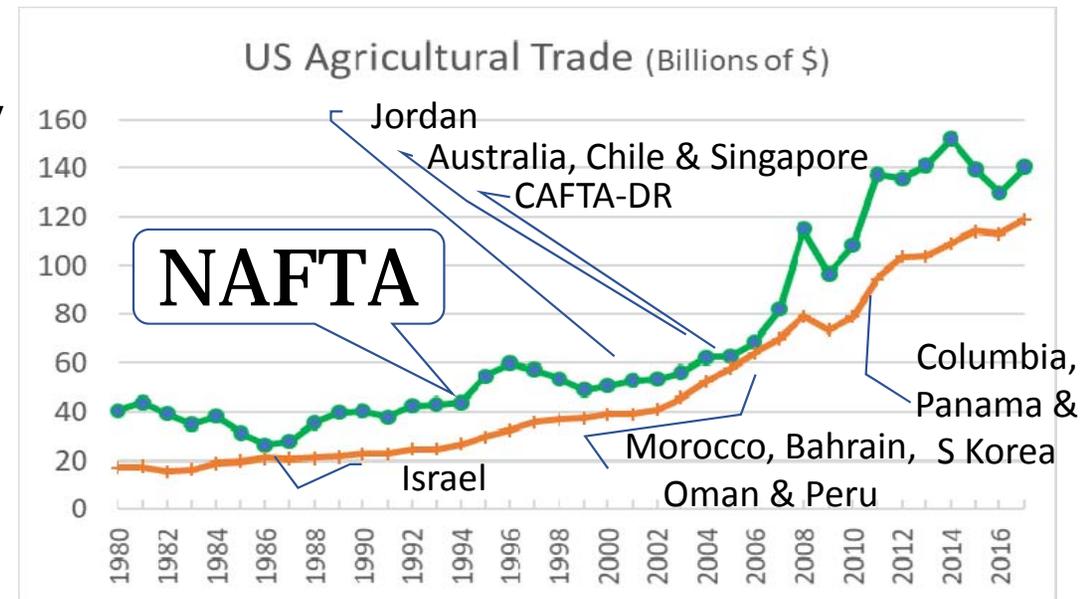
Note: Most-favored-nation tariffs are the levels that countries apply to all other WTO members.

Chart courtesy of Bloomberg News

# Trade Agreements Have Been GOOD for Agriculture

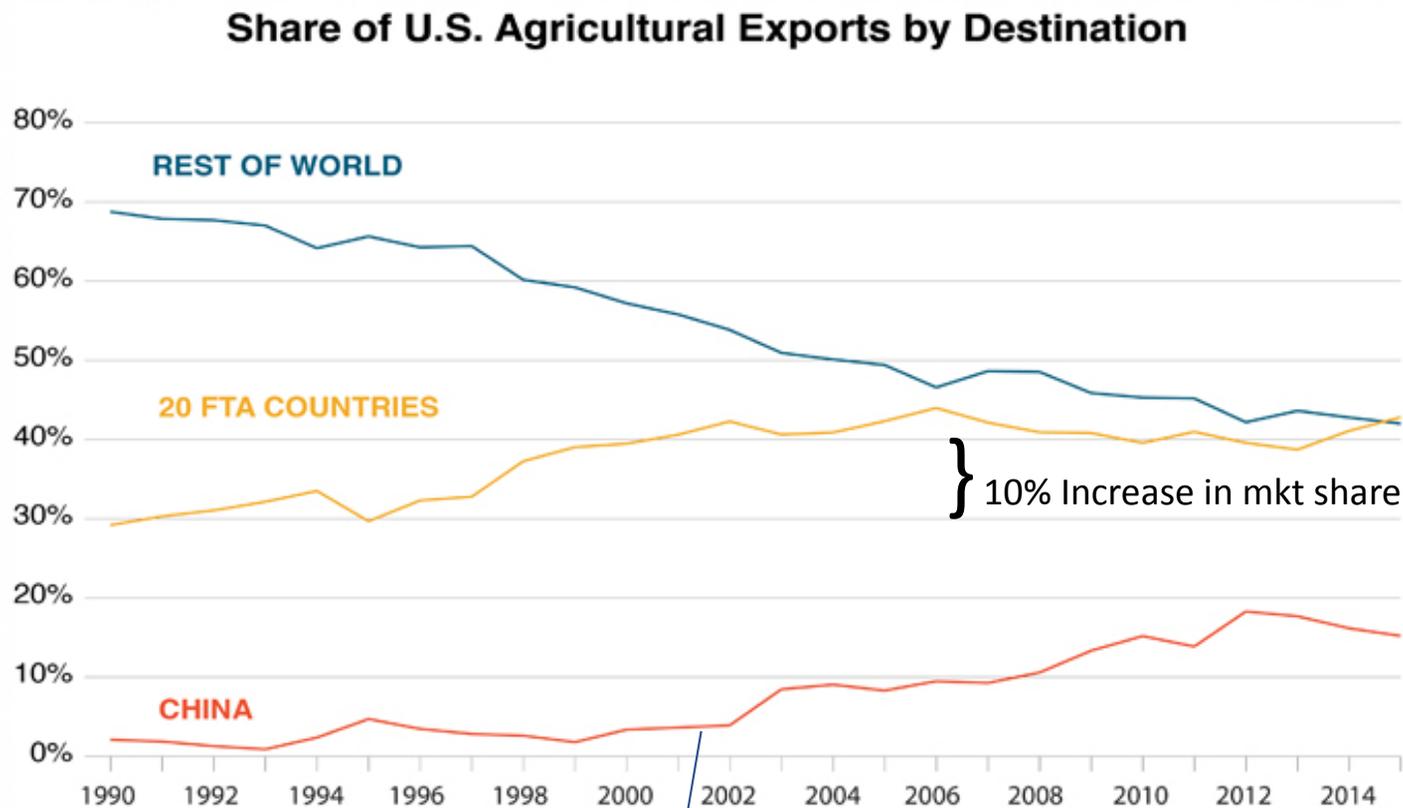
**Trade Agreements are Essential** for addressing many behind-the-scenes barriers, such as quotas, food labeling rules, intellectual property laws, contract dispute, credit availability, sanitary and phyto-sanitary standards, grading standards, GMO approvals, port inspection procedures . . .

## 20 Countries and 14 FTA's



*The **US** ag trade surplus has grown as we've entered more trade agreements*

# Trade Agreements Have Been GOOD for Agriculture



Source: USDA-FAS Global Agricultural Trade System (GATS)

In 2001 China was granted PNTR status by the US and on Dec 11, 2001 joined the WTO

By pulling out of agreements and getting into tariff wars; we're losing our ability to influence global trade rules.

..... Negotiations always begin with the CURRENT agreement.

## US-Mexico-Canada Agreement (USMCA)

- 11/30/18 – The USMCA was “signed” in Buenos Aires. With formal votes in Congress to be held in early 2019.
- Ag highlights include:
  - ✓ **Eliminates Canada’s Class 7 milk pricing policy**, & grants US access to a slightly higher percent of the Canadian market vs. TPP;
  - ✓ **Improved treatment of US wheat imports**;
  - ✓ **Maintains the anti-dumping dispute settlement process (“Ch. 19” from NAFTA)**;
  - ✓ **Tariffs remain at zero (like NAFTA); SPS standards improved, with more cooperation on ag biotech (like TPP); Standards for the use of geographic indications (GI’s); 16 year length, review after 6**;
  - ✓ **Steel and aluminum tariffs remain a complicating factor.**



# Timeline and Requirements for Trade Agreements Under TPA-2015 Legislation



Also required by TPA-2015, under Section 5(f), titled "Other Reports,":

- 1) REPORT ON PENALTIES: not later than one year after imposition of a penalty or remedy to which this Act applies, the President shall submit to the House Ways and Means and Senate Finance Committees a report on the effectiveness of the penalty or remedy applied, including its effectiveness and any adverse consequences on parties or interests not party to the dispute; and
- 2) REPORT ON IMPACT OF TRADE PROMOTION AUTHORITY: not later than one year after date of enactment, and not later than five years thereafter, the USITC shall submit to House Ways and Means and Senate Finance Committees a report on the economic impact of all trade agreements with respect to which Congress has enacted an implementing bill under trade authorities procedures since January 1, 1984.

# Comprehensive and Progressive Agreement for Trans-Pacific Partnership or CPTPP



Originally known as the Trans-Pacific Partnership, or TPP: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the ~~United States~~.

- Intended to contain China, if not induce China to join it;
- The Trump administration pulled the US out in early Jan, 2017;
- The 11 remaining countries continued to negotiate, signing an amended agreement on March 8, 2018;
- Seven countries have ratified it, and are adjusting tariff rates;
- Represents 495 million consumers and 13.5% of World GDP; and
- 22 TPP priority provisions of the US were suspended or modified.  
“lost opportunity to influence global trade rules”



# Comprehensive and Progressive Agreement for Trans-Pacific Partnership or CPTPP

Canada's View:

- Wheat – Japanese tariffs from \$150/mt to \$85/mt (US = \$150/mt); Mexican tariffs go from 67% to 0% 10 years (US = 0%)
- Beef – Japanese tariffs 7% immediately and to 9% in 15 years (US = 38.5%); Mexican tariffs from 25% to 0% in 10 years (US = 0%)
- Pork – Japanese ad valorem eliminated; 2% tariff will be decreased over 10 years (US pays the ad valorem and 4.3%); Mexican tariffs go from 20% to 0% immediately (US 0%)

**Canada Eyes Becoming the No. 1 Chilled Pork Supplier to Japan**  
 AGWEB – 1/25/19





# Keys to Greater US Agricultural Exports

- 1) Free and open world trade
- 2) Advantage
  - a) Produce it for a lower opportunity cost (comparative advantage)
  - b) Ship it for less (distance and infrastructure)
  - c) Market it better (packaging, quality, safety and the ability to provide quality attributes)
- 3) Demand – Willing/able consumers

## Trade Requires Consumers

- 🌐 US, 327 million people (67% of NAFTA)
- 🌐 Canada, 36 million (7% of NAFTA)
- 🌐 Mexico, 125 mil. (26% of NAFTA)

- 🌐 China, 1.34 Billion
- 🌐 India, 1.28 Billion
- 🌐 Nigeria, 203 million

## Trade Requires \$\$

- 🌐 US, \$59,500 GDP-PP index
- 🌐 Canada, \$45,100
- 🌐 Mexico, \$19,500



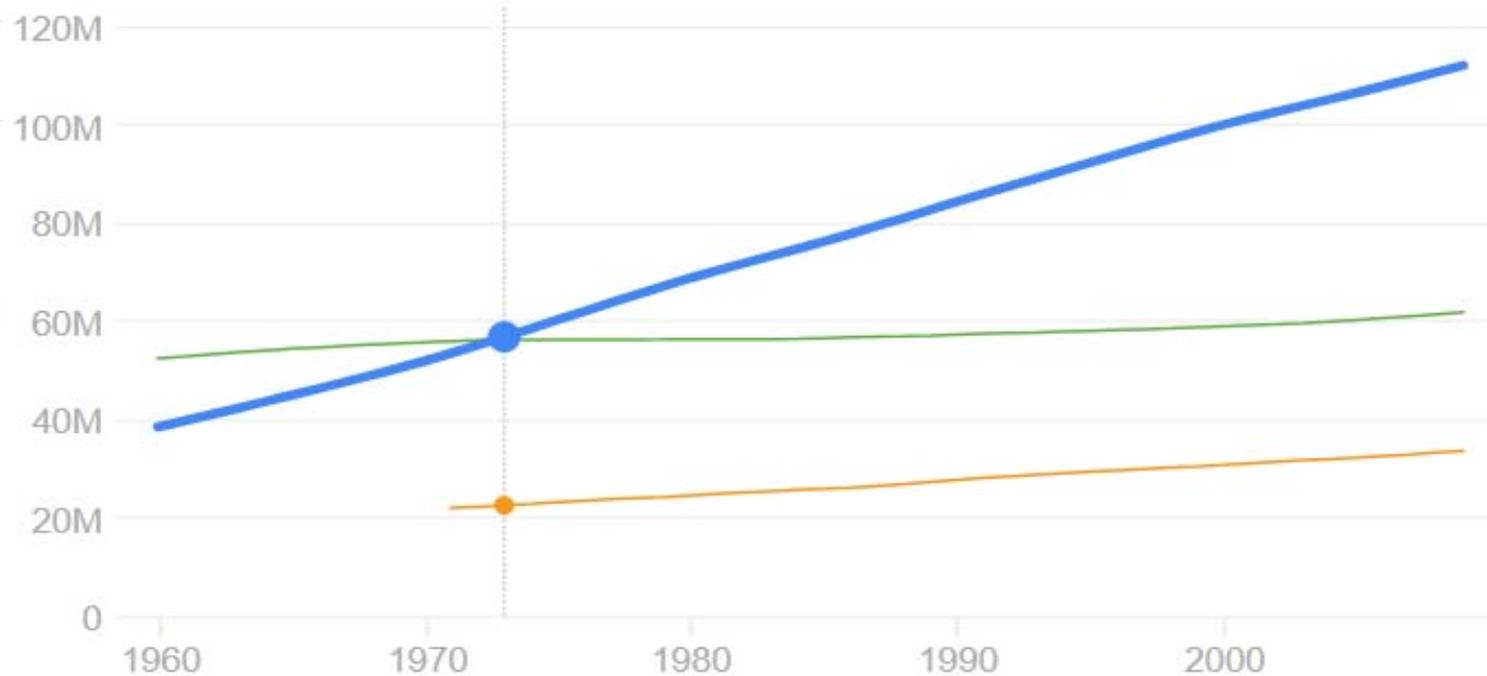
- 🌐 China, \$16,600
- 🌐 India, \$7,200
- 🌐 Nigeria, \$5,900

..... CIA World Factbook

# Tracking Mouths

According to Google, in 2018 Mexico's population was 131 million, the UK's was 67 and Canada's population was 37 million

*Last fall, the administration announced plans to begin FTA negotiations with Japan, the EU and the UK*



Up 74 mil.

● Mexico  
56.77 million  
(1973)

Up 11 mil.

● United Kingdom  
56.19 million  
(1973)

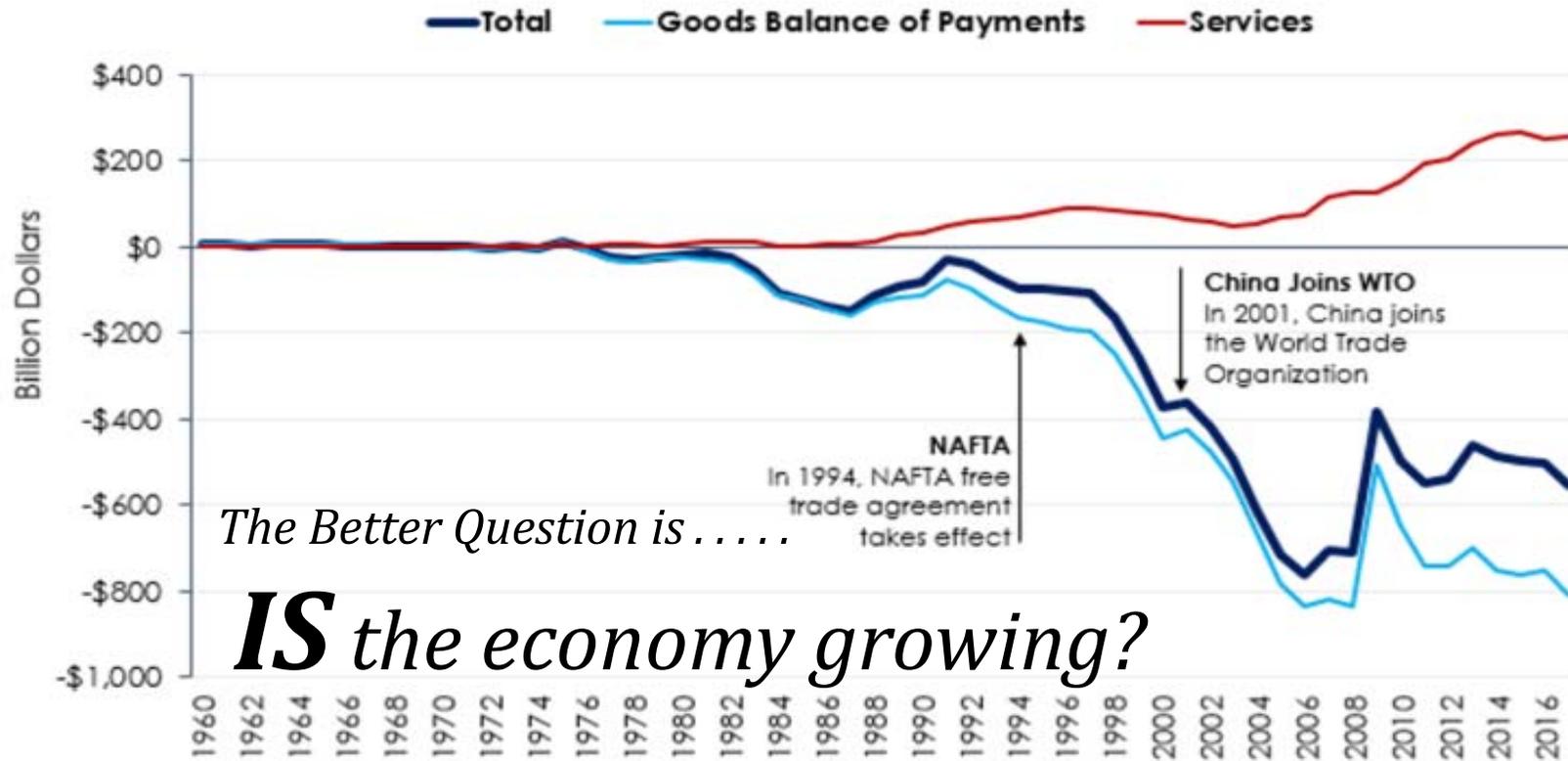
Up 15 mil.

● Canada  
22.49 million  
(1973)



# Should We Care About Trade Balances?

Figure 1. U.S. Goods and Services Trade Balance, 1960 to 2017



91% of US  
GDP is  
Private  
Consumption

<https://www.fb.org/market-intel/tariff-motivation-101-reviewing-the-u.s.-trade-deficit>  
July 25, 2018

*Oh yeah . . . . . Tariffs Are a Terrible Weapon!!*



**Donald J. Trump** ✓

@realDonaldTrump

December 4, 2018



....I am a Tariff Man. When people or countries come in to raid the great wealth of our Nation, I want them to pay for the privilege of doing so. It will always be the best way to max out our economic power. We are right now taking in \$billions in Tariffs. MAKE AMERICA RICH AGAIN



Historically, trade interventions have been disastrous for Agriculture . . . . .

The **Smoot-Hawley Tariff Act of 1930** set US tariffs at their highest levels in over 100 years.

- Other countries retaliated;
- World trade plummeted by two-thirds from 1929-1934; and in part was responsible for deepening and lengthening the Great Depression.



Historically, trade interventions have been disastrous for Agriculture . . . . .

The **Carter wheat & corn export embargo of 1980**,

- Didn't stop the USSR from obtaining grain from other countries; and
- Combined with high loan rates and reduced grain exports, led to burdensome grain stocks in the US;
- Which kept prices low and land values crashed.

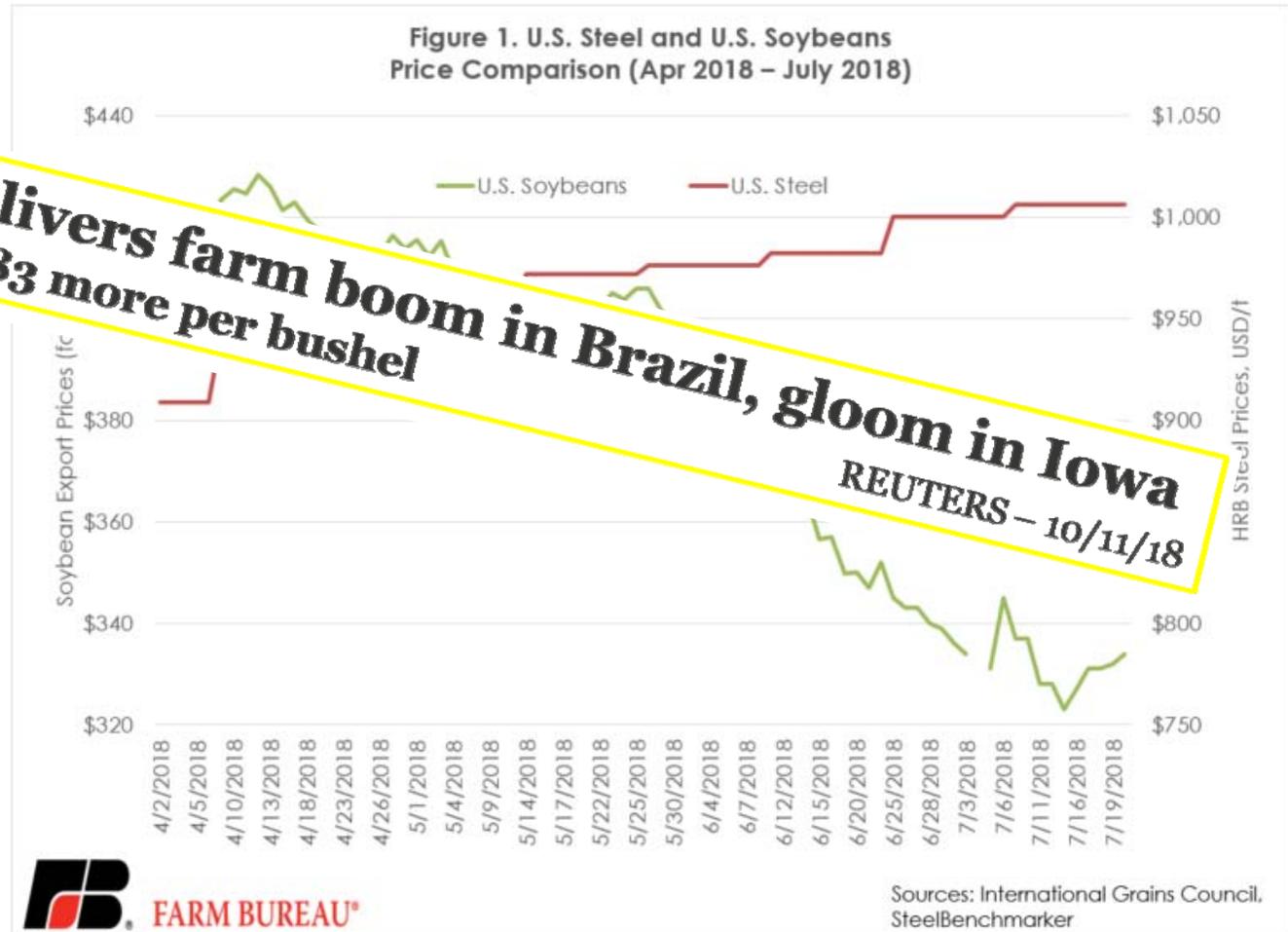


# Tariffs Are Taxes that Pick Winners and Losers

**Trump trade war delivers farm boom in Brazil, gloom in Iowa**  
Brazilian soy fetching \$2.83 more per bushel

Winners: The US Steel Industry

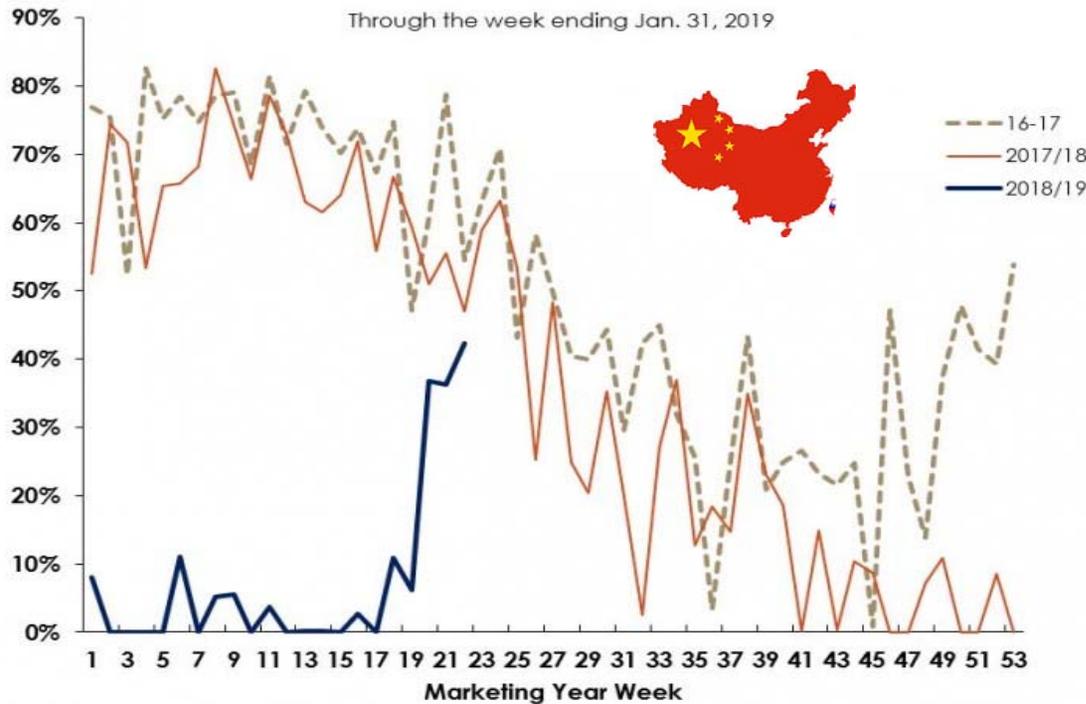
Losers: US Steel Consumers and US Farmers



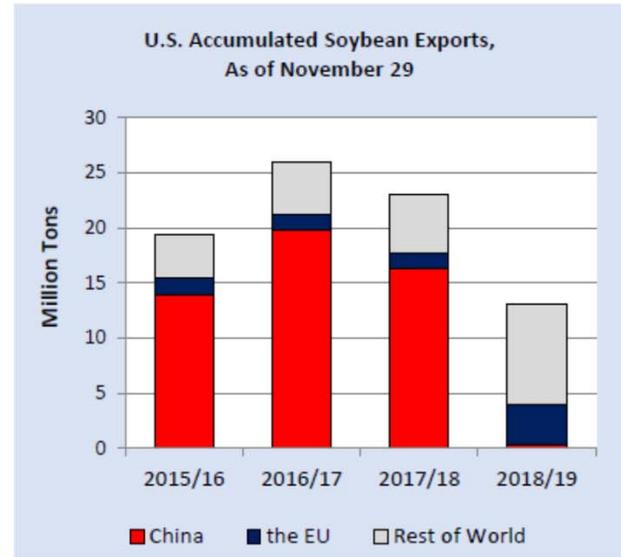
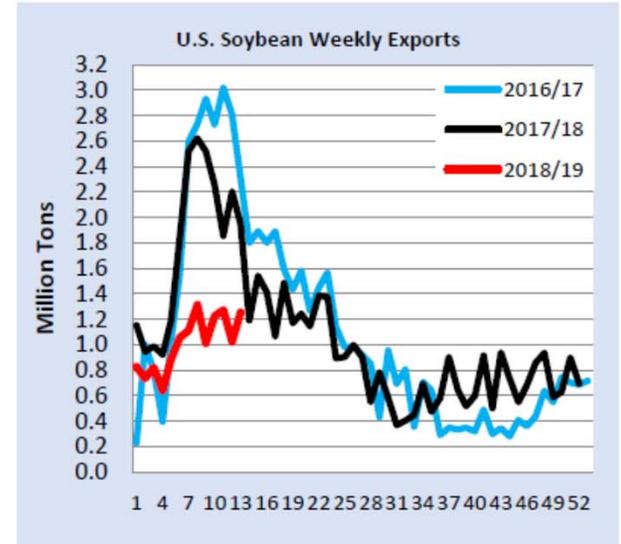
# Tariffs Really Can Disrupt Trade

**Figure 1. Percentage of Total Soybean Export Inspections to China**

Through the week ending Jan. 31, 2019



Source: FGIS, Farm Bureau Calculations



September 1 – August 31 Marketing Year



**Oilseeds:**  
World Markets and Trade

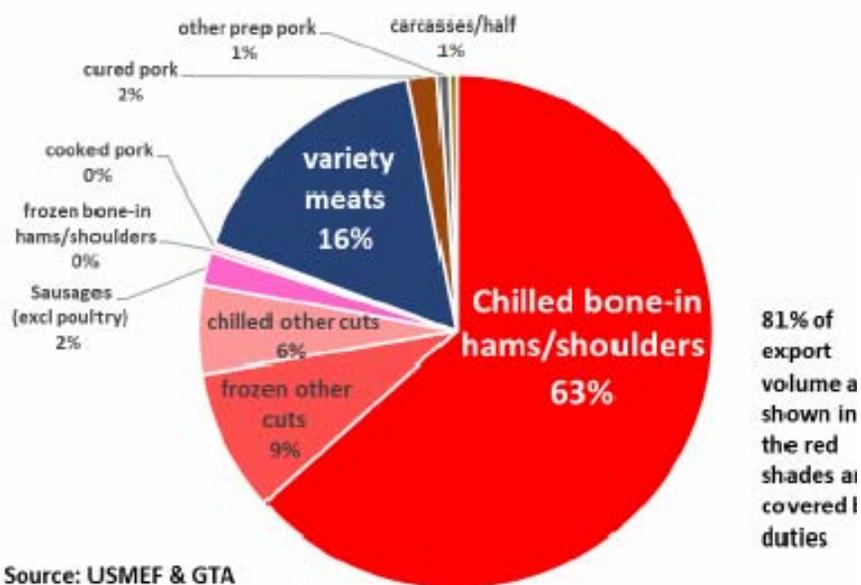


# Pork Exports to Mexico

CHART 1:

Mexico's Imports of Total Pork and Pork Variety Meats from the U.S.

Mexico's 2017 Volume Imports of U.S. Pork



- And . . . Mexico has opened up a 350,000 mt duty free TRQ for pork cuts from countries without duty-free status.

TABLE 6:  
Country and Number of Pork Slaughter Plants  
Currently Approved to Export Chilled/Frozen pork to Mexico

Pork Slaughter Plants Approved to Export Chilled/Frozen Pork to Mexico	
<i>Within the TRQ, Duty is Reduced from 20% to Zero up to Dec. 31 2018:</i>	
Denmark:	11
Spain:	28
France:	4
Germany:	4
Italy:	4
Belgium:	9
Australia:	28
Other Pork Slaughter Plants Approved	
<i>Already at zero duty</i>	
Canada:	20
Chile:	4

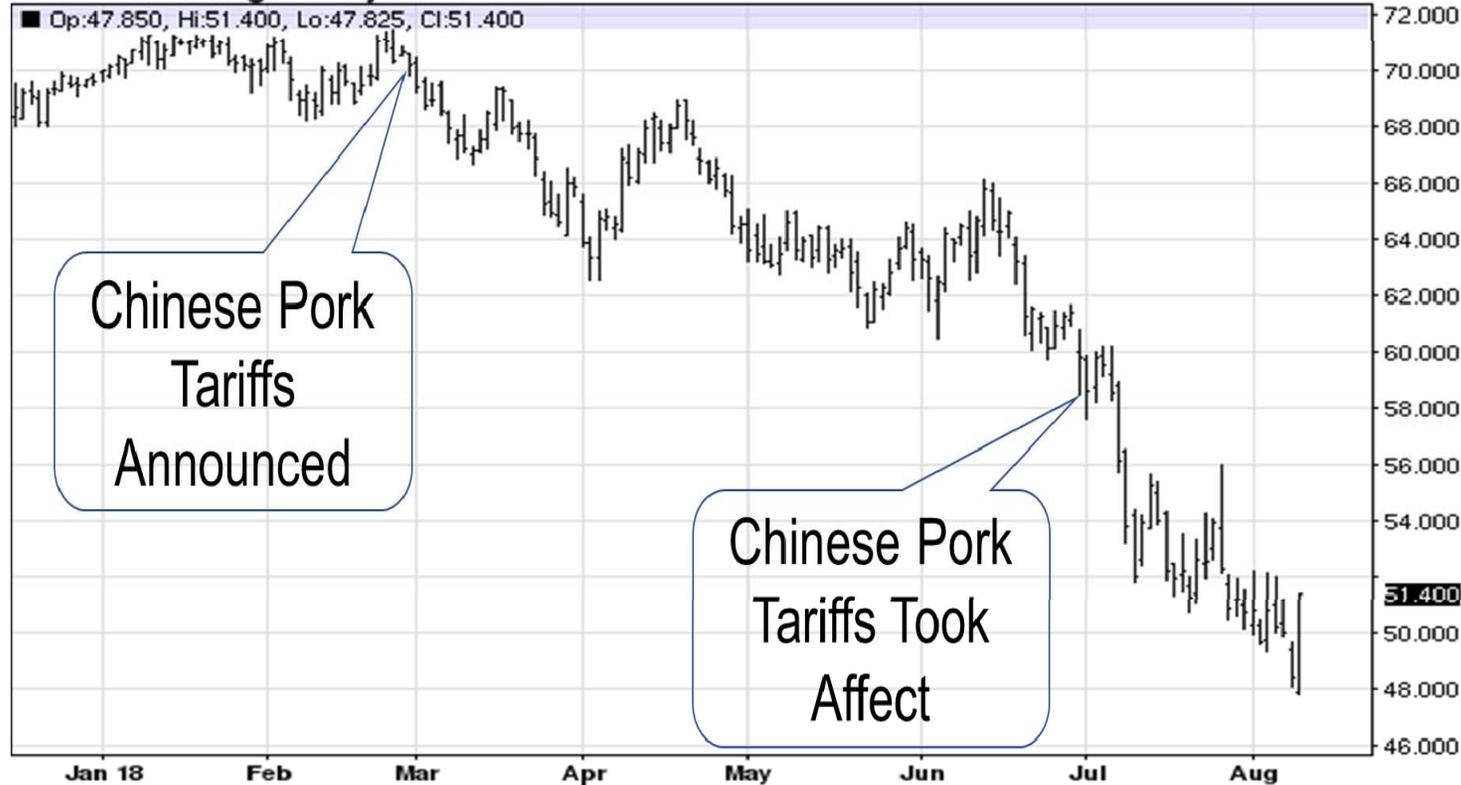
\*Note that plants in the Netherlands could soon be approved  
modernized FTA will eliminate Mexico's tariffs on most EU pork once implemented  
New Zealand also has one plant approved, but only for offal

- Because of NAFTA, the U.S. has a 0% tariff into Mexico!
- Today, with retaliatory tariffs (to U.S. 232 steel tariffs) most U.S. pork products must pay a 20% tariff (pork sausage = 15%) .



# Tariffs Are Taxes that Distort Markets

HEV18 - Lean Hogs - Daily OHLC Chart



**16%**  Is the tariff

**China** charges on pork imports (12% - 20% range).

However, with retaliatory tariffs, the total tariff on U.S pork is now between **45%** and **70%**, while competitors continue to pay a 16% tariff.



China bought \$237 million worth U.S. pork in 2017,

making that nation our **5th** largest customer.



# WHY Steel Tariffs?

Section 232, Dept. of Commerce

## Steel Imports Report: United States

### Overall Production and Import Penetration

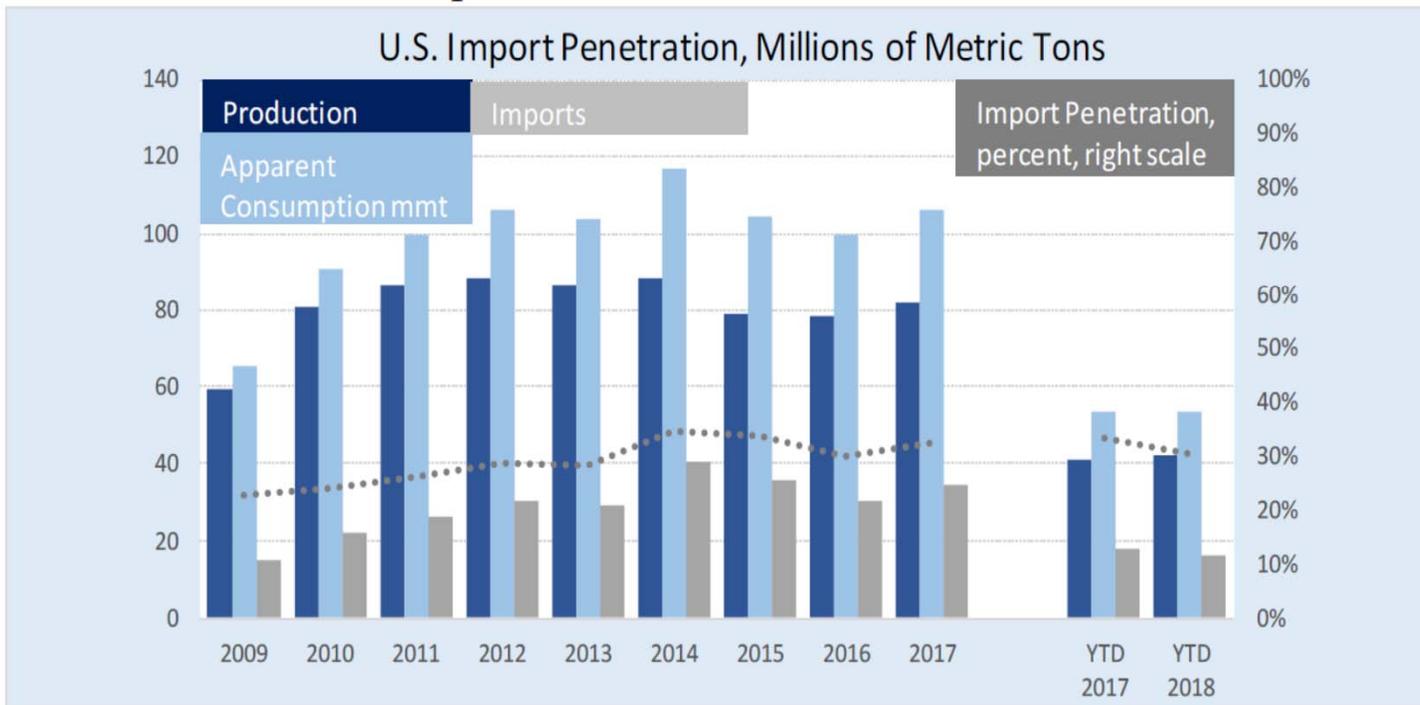


Chart courtesy of *Global Steel Report*,  
<https://www.trade.gov/steel/index.asp>

*Tariffs can be used if it is determined that our national security is threatened by imports.*

*But the US only imports 30-35% of total steel consumption*

# WHY Steel Tariffs?

Section 232, Dept. of Commerce

U.S. Top Steel Producers in 2017

Rank	Company	Production (mmt)	Main Products
1	Nucor Corporation	24.39	Bars, beams, sheets, plate
2	ArcelorMittal USA* United States Steel	15.00	Hot-rolled, cold-rolled, plate, coated products, rails
3	Corp.	14.43	Hot-rolled, cold-rolled, coated sheets, tubular products
4	Gerdau North America	12.40 (N. Amer. capacity)	Beams, pilings, billets, rebar, wire rod
5	Steel Dynamics Inc.	8.27	Flat-rolled, structural, bars, rails
6	AK Steel Corporation Commercial Metals	5.60	Hot-rolled, cold-rolled, galvanized, stainless, electrical
7	Co.	3.00 (capacity)	Rebar, bars, sections, billets

Source: Bloomberg; Company websites \*Denotes foreign-owned producer

*“US Steel Consumers employ 46 times more people and add 29 times more to GDP than US Steel Mills.”*

*. . . Dan Pearson*

*July, 2018, USGC Summer Meeting*

Table courtesy of *Global Steel Report*,  
<https://www.trade.gov/steel/index.asp>

# There are Issues with China

National Security?

Top 10 Crude Steel Producing Countries in 2017



Source: World Steel Association

U.S. Imports of Steel Mill Products-2017 (Top Ten in Blue)



*But China . . . . Is by far NOT a major importer to the US*

Data Source: Global Trade Atlas Copyright © IHS Global Inc 2018. All rights reserved.

*Bad Economics: China subsidizes steel production, is the world's largest importer of iron ore, and largest exporter of steel.*

Charts courtesy of Global Steel Report, <https://www.trade.gov/steel/index.asp>



## China Presents Multiple Challenges

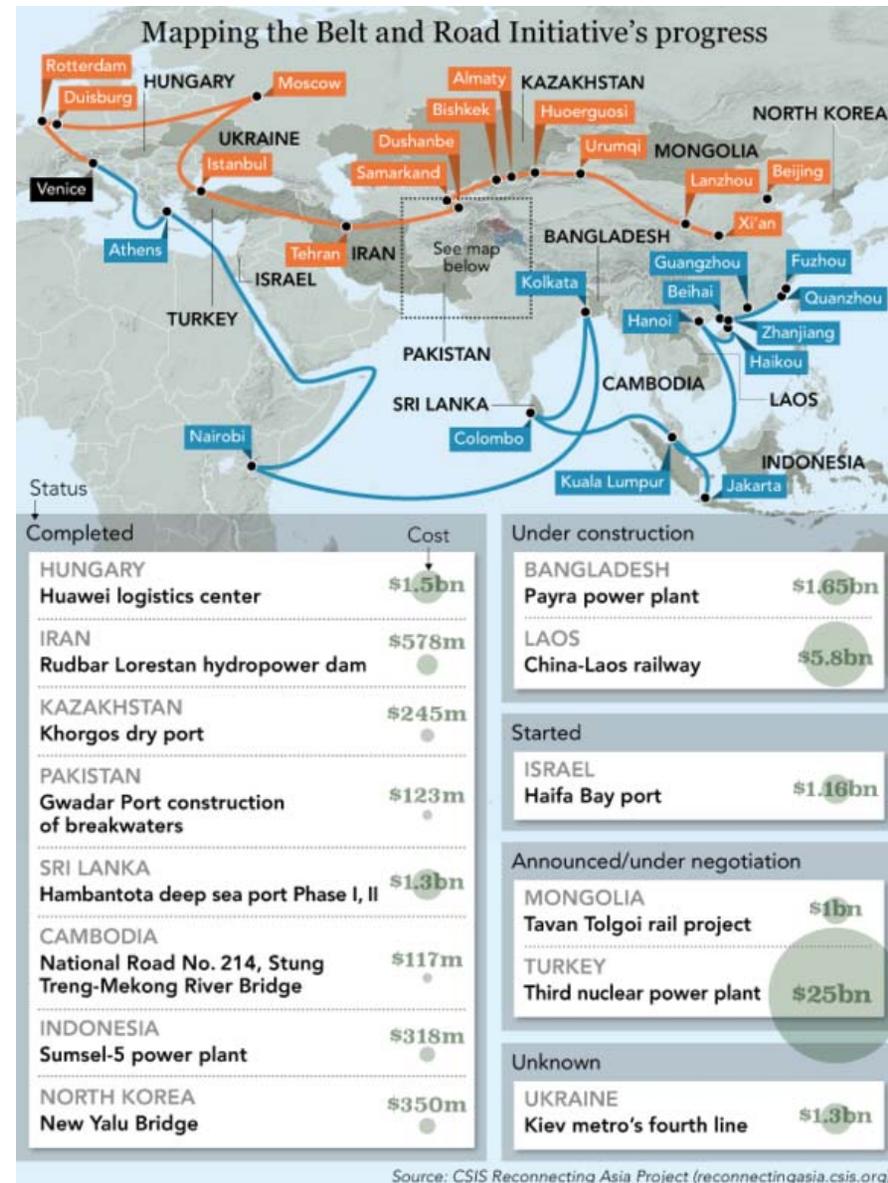
- The World's most populous country, with the largest army and the 2<sup>nd</sup> largest economy.
- There has ALWAYS been trade challenges with China both before and after their ascension into the WTO in 2001:
  - ✓ Forced transfer of technology & intellectual property;
  - ✓ Domestic subsidies & excess, non-economic capacity;
  - ✓ Delays in GMO product approvals; have cost the U.S. about \$7 billion over the past five years (CropLife International);
  - ✓ A general lack of transparency.

**China's Belt and Road Initiative** is focused on creating a trade-zone that represents:

- Two-thirds of the World's population;
- 30 percent of global GDP; and
- An estimated 75 percent of known energy reserves.

Since 2000, Chinese-led policy banks have invested \$160 billion in coal, oil, natural gas, ports, airports, mines, factories and industry to build up those countries.

<https://www.nextbigfuture.com/2019/01/china-belt-and-road-is-replicating-chinas-coal-fueled-climb-from-poverty.html>



## Selected AFBF Policy



### #252 / International Trade

1. We are strong advocates of fair and open world trade.

### 7. Trade Agreements

7.4. We support entry of the U.S. into the Comprehensive and Progressive Agreement for Trans Pacific Partnership (CPTPP).

### 8. Trade Negotiations

8.5. We support limiting trade disruptions and resolving trade disputes through negotiations, not tariffs or withdrawals from other trade agreement discussions.

# Additional Trade Negotiations



- 10/16/18 - The Trump administration formally announced that it intended to begin negotiating free trade agreements with Japan, the EU and the UK, plus talks to improve trade with the Philippines.
  - Progress with the UK will be limited until BREXIT (3/29/19?)
  - The EU does NOT want to include Agriculture in the trade talks.
  - EU challenges include: biotech and pesticide approval process, along with an ongoing WTO dispute over the EU's refusal to import U.S. beef treated with hormones.
    - ❖ 2009, the US and EU agreed to an import quota of 45,000 MT, of hormone-free-beef. Australia & Uruguay now take up much of it.
    - ❖ The US wants a minimum of 35,000 metric tons; Australia and Uruguay, strongly protest this.



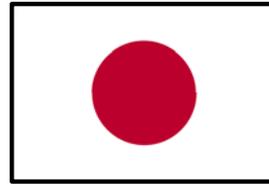
# The World Will Trade Without US

- EU-Japan agreement concluded last year – the agreement will eliminate or significantly reduce, duties on pork, resulting in a significant duty disadvantage for U.S. exporters.
- EU-Mexico – The EU won provisions that could potentially prevent U.S. exporters from marketing cheeses south of the border with common names such as feta, parmesan, romano, and muenster.
- EU-Vietnam negotiations complete – U.S. corn and soybean exports will be disadvantaged
- Mexico-Argentina reached an agreement on sanitary and phytosanitary rules on wheat

**Brazil taking steps to move more grains**

WORLD-GRAIN – 1/22/19

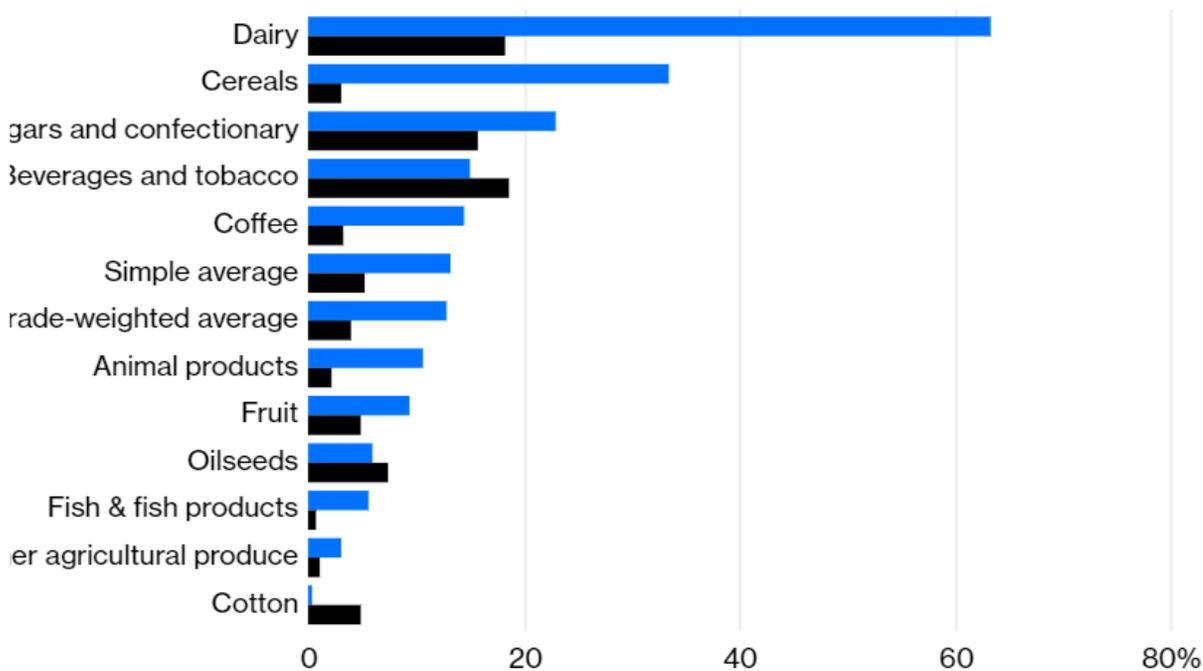
# Japan Negotiations – Awesome for Agriculture!



## Country and Western

Japan's heaviest tariffs are levied on agricultural produce, where its barriers are higher than the U.S. for everything except beverages and tobacco, oilseeds, and cotton

■ Japan ■ U.S.



Source: World Trade Organization

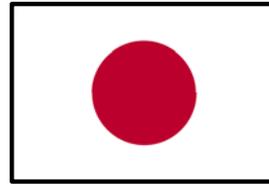
Note: Averages are for agricultural products. The WTO classifies fish as non-agricultural in these averages but we've included it here.

The Ag perspective is to get at least the deal that was part of the TPP.

- ✓ 38.5% Beef tariff dropping to 27% and to 9% in 15 years
- ✓ \$150/mt Wheat tariff dropping to \$85/mt

Chart courtesy of Bloomberg News; data from the WTO

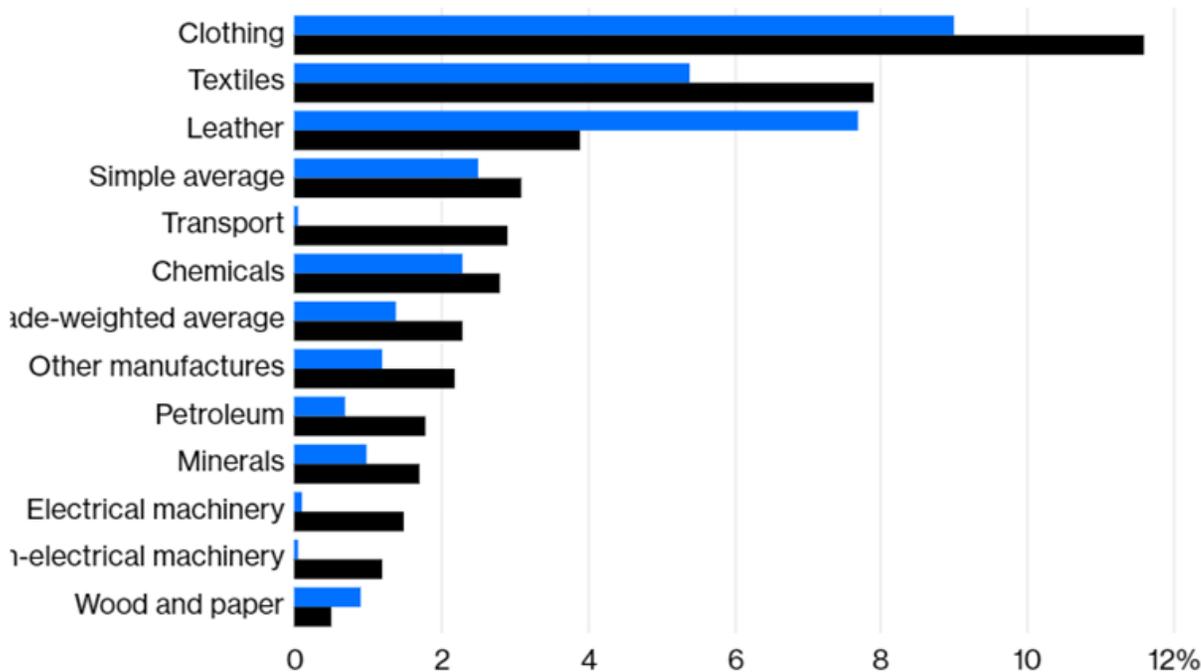
# Japan Negotiations – Awesome for Agriculture!



## Making It

In almost every category of manufactured goods, with the exceptions of quasi-agricultural leather, wood and paper, Japan's import levies are lower than those in the U.S.

■ Japan ■ U.S.



Source: World Trade Organization

Note: Based on most-favored-nation tariff levels. The averages are for non-agricultural goods. The WTO classifies fish and fisheries as non-agricultural, but we've included it in the agricultural chart.

But are we willing to give on manufacturing items, including transportation, where the U.S. still charges 2.5 percent on cars and 25 percent on light trucks?

Chart courtesy of Bloomberg News; data from the WTO

# Where to From Here?

## Reasonable Negotiations

1. Current Free Trade Agreements often serve as the starting point for future agreements (NAFTA was the starting point for TPP).
2. World Trade Organization (WTO) negotiations and enforcement of WTO rules.

i.e. Improved sanitary and phytosanitary (SPS) language was negotiated and agreed upon within the TPP negotiations, including:

- Rapid Response Mechanism (i.e. if a problem arose at a border crossing)
- Agreed upon levels for Low Level Presence for biotechnology along with Adventitious Presence

# Where to From Here?

## Reasonable Negotiations

1. Current Free Trade Agreements often serve as the starting point for future agreements (NAFTA was the starting point for TPP).
2. World Trade Organization (WTO) negotiations and enforcement of WTO rules.

i.e. In the fall of 2016, the US filed a WTO case challenging China's domestic policy for corn, wheat and rice because they exceeded maximum allowable support levels. The panel report is expected in the 2<sup>nd</sup> quarter of 2019.

**Note: The US has prevailed in 91% of the 114 WTO disputes where we've been the complainant.**



## Wrapping Up

- Free trade makes society better off;
- Trade agreements have been GREAT for agriculture;
- Tariffs are TAXES that distort markets, picks winners and losers, and only demonstrate that you are hard to get along with and an unreliable supplier;
- Reasonable Negotiations, Free Trade Agreements and the WTO are a much better path to improving US agricultural trade.
  
- KFB USDA Reports Trip, August 10-13, 2019!

# Questions?

Mark Nelson  
Director of Commodities  
Kansas Farm Bureau  
(785) 587-6103

[nelsonm@kfb.org](mailto:nelsonm@kfb.org)

[www.kfb.org](http://www.kfb.org)





# Foreign Trade Barriers

- ① Tariffs – A tax or duty to be paid on a particular class of imports or exports.
- ① tariff rate quota – Quantities within a quota being charged one rate, with those outside charged another, greater rate.
- ① Domestic Support - any domestic subsidy or other measure which acts to maintain producer prices at levels above those prevailing in international trade; direct payments to producers, including deficiency payments, and input and marketing cost reduction measures available only for agricultural production.

# Foreign Trade Barriers

- 🌐 Technical Barriers to Trade – Discriminatory technical regulations, sanitary and phyto-sanitary standards, legal rules and conformity assessment procedures.  
<https://ustr.gov/about-us/policy-offices/press-office/reports-and-publications/2017/2017-national-trade-estimate>

## Section 232

- 🌐 Section 232 of the Trade Expansion Act of 1962 (19 U.S.C. §1862) was designed as an “out” for the US in order to sign the General Agreement on Tariffs and Trade (GATT).
- 🌐 Authorizes the Secretary of Commerce to conduct investigations to determine the effects of imports on the national security of the United States.
- 🌐 If it is determined that our national security is threatened by imports, which can include “substantial unemployment, decreases in government revenue, or displacement of any domestic products by excessive imports,” the importing country can levy additional tariffs on those products.

## Section 301

-  Section 301 of the U.S. Trade Act of 1974, authorizes the President to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international trade agreement or is unjustified, unreasonable, or discriminatory, and that burdens or restricts U.S. commerce.
-  Section 301 cases can be self-initiated by the United States Trade Representative (USTR) or as the result of a petition filed by a firm or industry group.

## Section 301

- 🌐 If USTR initiates a Section 301 investigation, it must seek to negotiate a settlement with the foreign country, or in cases involving trade agreements, request formal dispute proceedings as provided by the agreement.
- 🌐 Then it must accept public comments on the recommended tariffs, hold a hearing, and then the Administration has 180 days in which to make a decision.
- 🌐 The Special 301 Report is prepared annually by the Office of the USTR and identifies trade barriers to U.S. companies and products due to the intellectual property laws, such as copyright, patents and trademarks, in other countries. <https://ustr.gov/issue-areas/intellectual-property/Special-301>



Top Five Kansas Agricultural Exports (Source: USDA-ERS 2017 data)

<u>(millions of \$)</u>	<u>KS</u>	<u>% of US</u>	<u>US</u>
Wheat	\$968	16.0%	\$6,062
Soybeans	\$896	4.2%	\$21,452
Beef and veal	\$891	12.3%	\$7,263
Feeds and other feed grains	\$452	5.4%	\$8,312
Corn	\$418	4.6%	\$9,119
Other ag	\$1,206		\$85,943
Total Agricultural Exports	\$4,831	3.5%	\$138,152

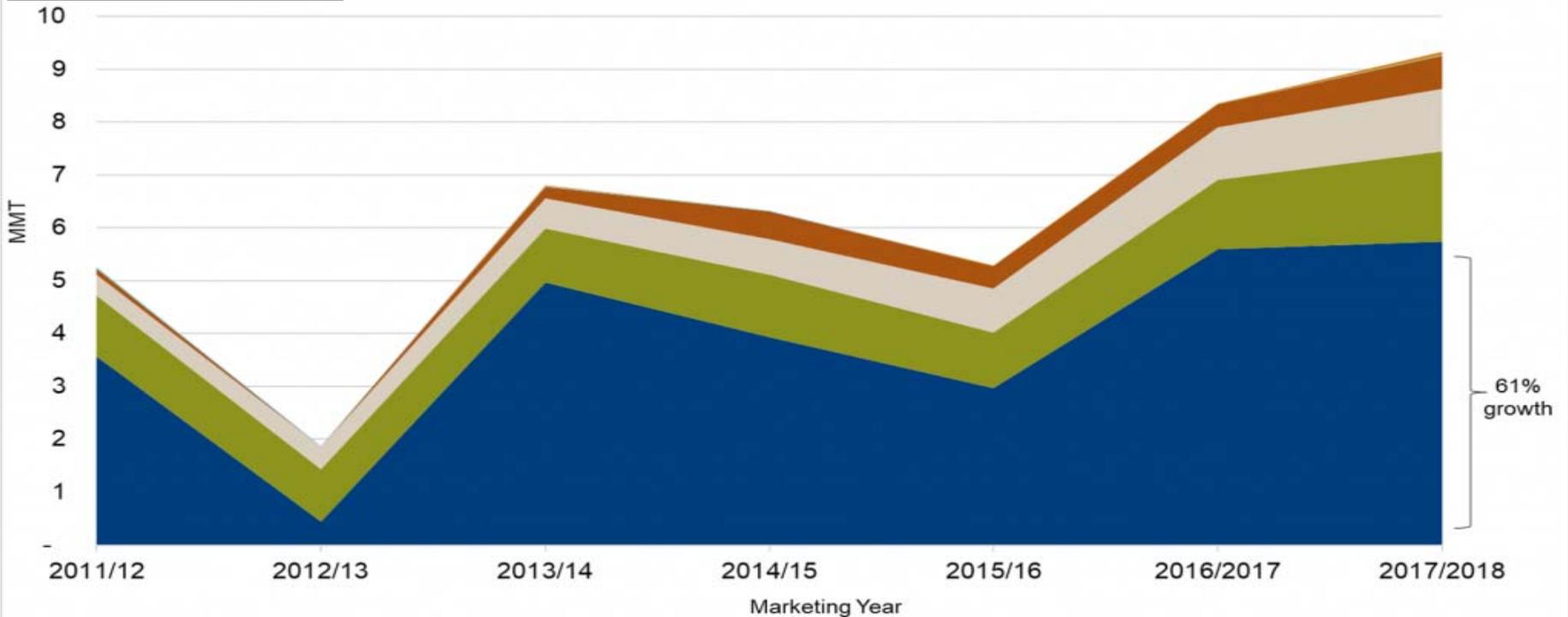
*Keep in mind, "Trade Occurs Between People and Businesses; Not States and Countries."*



# Trade Agreements Have Been GOOD for Agriculture

## Exports Of GIAF Have Increased 78% Since Implementation Of KORUS

Grain In All Forms (GIAF)



Source: USDA  
GATS/USGC Analysis

- Corn
- Beef, pork & poultry (in com equiv)
- DDGS & CGF&M
- Ethanol (in corn equiv)
- Processed Coarse Grain Products
- Barley & Sorghum



# Trade Agreements Have Been GOOD for Agriculture

**0%**



Because of NAFTA the U.S. is charged a 0% tariff in **Canada** and **Mexico**.

Without NAFTA, U.S. soybeans would be charged an average tariff of **7.5%** in Mexico, just like competitors without free trade agreements.

S  
O  
Y  
B  
E  
A  
N  
S

Mexico is our **2nd** largest customer, buying \$1.7 billion worth of U.S. soybeans in 2017. Canada purchases \$145 million worth of U.S. soybeans.

**0%**



With NAFTA, the U.S. is charged a 0% tariff on corn exports to **Canada** and **Mexico**.

Without NAFTA, the U.S. would be charged a **4%** tariff on corn exported to Mexico.

C  
O  
R  
N

Mexico is our **#1** customer buying \$2.7 billion worth of U.S. corn in 2017.

**0%**



Because of NAFTA the U.S. is charged a 0% tariff in **Canada** and **Mexico**.

Without NAFTA, U.S. pork would be charged **20%** in Mexico, just like competitors without free trade agreements.

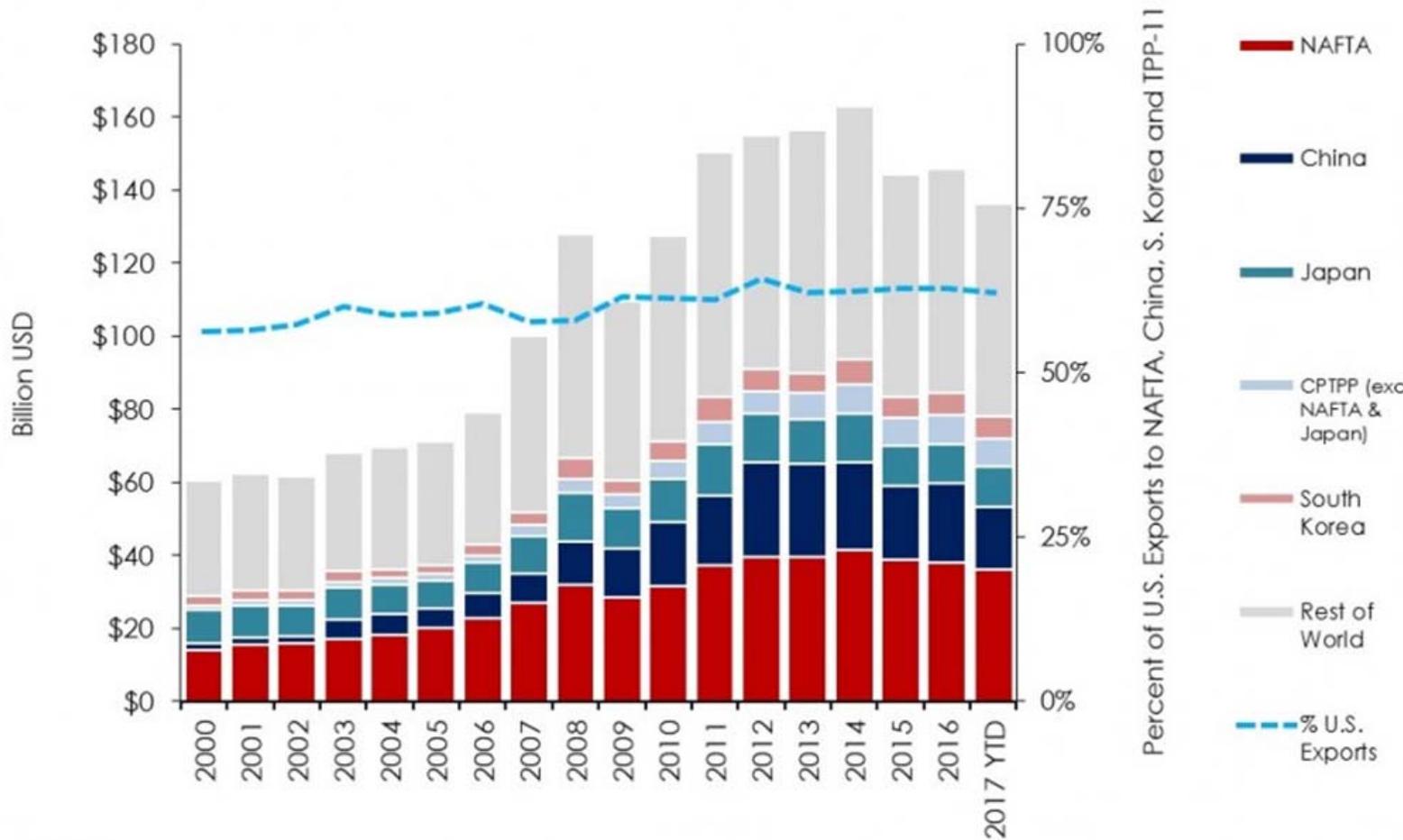
P  
O  
R  
K

Mexico is our **2nd** largest customer, buying \$1.2 billion worth of U.S. pork in 2017. Canada purchased \$379 million worth of U.S. pork.

## The International Trade Commission Estimated the Economic Effects of U.S. Trade Agreements in June of 2016 (For 2012)

- 🌐 Increased bilateral trade with partner countries by 26.3%.
- 🌐 Increased total U.S. exports by 3.6%, and increased total U.S. imports by 2.3%.
- 🌐 Increased real US GDP by \$32.2 billion (0.2%).
- 🌐 Increased total employment by 159,300 fulltime equivalent employees (0.1%) and increased real wages by 0.3% .
- 🌐 The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) resulted in an increase in IP receipts to US companies of 10.3 billion (12.6%) in 2010.

**Figure 1. U.S. Agricultural Exports to NAFTA, China, South Korea, CPTPP and Rest of the World**



Agriculture is often a bulk product that relies more on:

- Population;
- Productive capacity; and
- Transportation

**Roughly 65% of US Ag exports go to 13 Countries**





## Wrapping Up

- Free trade makes society better off;
- Trade agreements have been GREAT for agriculture;
- Tariffs are TAXES that distort markets, picks winners and losers, and only demonstrate that you are hard to get along with and an unreliable supplier;
- Reasonable Negotiations via Free Trade Agreements and the WTO are a much better path to improving US agricultural trade.
- KFB USDA Reports Trip, August 10-13, 2019!

# Tariffs Are Taxes that Distort Markets



**Study: Tariffs on metals will cost U.S. agriculture billions**

United States		Foreign Countries
Increase	Steel Prices	Decrease
Decrease	Supplies	Increase
US Steel Industry	LOSES	
Steel Consumers		
US Steel Consumers employ 46 times more people and add 29 times more to GDP than US Steel Mills . . . Dan Pearson		

US NEWS - 1/24/19  
 "In Jan, SteelBenchmarker, reported the US price of steel at \$726/MT; it was \$995/MT, up 37%!" . . . Dan Pearson

# Tariffs Are Taxes that Distort Markets



## Retaliatory Soybean Tariffs

		United States
Increase		Decrease
Decrease	Soybean Supplies	
Chinese, Brazilian and Argentine Soybean Growers	WINNERS	Soybean Consumers
Chinese Consumers	LOSERS	US Bean Growers

**Trump trade war delivers farm boom in Brazil, gloom in Iowa**  
 Brazilian soy fetching \$2.83 more per bushel  
 REUTERS - 10/11/18

# The United States Participates in 14 FTAs with 20 Countries

There are 159 countries in the World Trade Organization (WTO)

**2011** - Colombia; Panama; and South Korea

**2007** - Peru

**2006** - Morocco; Bahrain; and Oman

**2005** - CAFTA-DR, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, & the Dominican Rep.

**2004** - Australia; Chile; and Singapore

**2001** - Jordan

**1994** - NAFTA, Canada and Mexico

**1987** – Canada

**1985** - Israel

Of the \$2.261 trillion in total 2015 US exports, 39% went to these 20 countries.

# A View of US Trade for 2015

Billions of Dollars	All Countries			20 FTA Countries		
	Exports	Imports	Net	Exports	Imports	Net
US Totals	2,261.2	2,761.6	(500.4)	885.5	877.7	7.8
	As a % of All Countries			39%	32%	
Goods	1,510.3	2,272.9	(762.6)	710.3	774.3	(64.0)
Services	750.9	488.7	262.2	175.2	103.4	71.8

US Totals from, "US Trade with Free Trade Agreement Partners," CRS, November, 2016 (data: US Census Bureau)

US Totals from, "Outlook for U.S. Agricultural Trade," USDA, ERS, FAS, November, 2017

**Don't** get caught up in the trade balance of "Goods." **Dollars** spent on foreign GOODS, may return to the US and be spent on GOODS, but more likely be spent on CAPITAL ASSETS



***IS** the economy growing?*

## Comparative Advantage Plus Trade

Importing Location		Exporting Location
Uncompetitive businesses <b>Lose</b>	Producing Businesses	Competitive businesses <b>Win</b> thru expanded sales
<b>Win</b> thru more choices and lower prices	Consuming Public	<b>Win</b> thru greater income, more choices, lower prices



**“Free trade more efficiently utilizes resources; provides more choice & higher-quality goods; increases competition; lowers prices; and breaks down domestic monopolies”**

## Chinese 25% tariff on U.S. pork exports

- 🌐 In 2017, the U.S. exported 495,637 metric tons (2<sup>nd</sup> most) of pork and pork variety meat to China/Hong Kong, valued at \$1.08 billion (3<sup>rd</sup> most).
- 🌐 Largest destination for pork variety meat exports in both volume (321,116 mt) and value (\$741.8 million), accounting for 63% of U.S. export value.
- 🌐 Variety meat exports make a critical contribution to industry profitability, and last year these exports to China/Hong Kong alone equated to more than \$6.00 per U.S. hog slaughtered.
- 🌐 Note: Henan Luohe Shuanghui Industry Group Limited Liability Company owns Smithfield Foods (31% of the US Hog Market(?))

# Where to From Here?

Top 15 US agricultural export destinations			
	Country	\$ billions	FY 2017
	World Total	140.471	% of Tot
	<b>FTA Counties</b>		<b><u>48.407</u></b>
2	Canada	20.361	14.5%
3	Mexico	18.624	13.3%
6	South Korea	6.867	4.9%
12	Colombia	2.555	1.8%
	<b>Non-FTA Counties</b>		<b><u>66.092</u></b>
1	China	21.950	15.6%
4	Japan	11.844	8.4%
5	European Union	11.606	8.3%
7	Hong Kong	4.044	2.9%
8	Taiwan	3.404	2.4%
9	Indonesia	2.965	2.1%
10	Philippines	2.626	1.9%
11	Vietnam	2.565	1.8%
13	Thailand	1.779	1.3%
14	Turkey	1.719	1.2%
15	Saudi Arabia	1.590	1.1%

## CLEARLY! US Trade Agreements Can Be Improved!

- Canadian protectionist dairy policies; tariff rate quota on dairy, poultry eggs and wine; and wheat classification rules
- Mexican dispute settlement procedures for fresh fruits, vegetables and horticultural products

## How Do We Negotiate With Those Countries We Don't Have Agreements With?

- Chinese process for biotech approvals; total lack of transparency; capricious inspection and quarantine rules; cyber-security and intellectual property theft
- The EU's policies on geographical indicators; approval process for biotech traits; and hormone ban

# Brief Update

**Mark Nelson**  
**Director of Commodities**  
**Kansas Farm Bureau**

(785) 587-6103  
[nelsonm@kfb.org](mailto:nelsonm@kfb.org)

[www.kgfb.org](http://www.kgfb.org)



## Day 27 of the Federal Govt. Shutdown



Activities and programs funded 100 percent through appropriations will **not** operate; those funded thru user-fees or mandatory spending will.

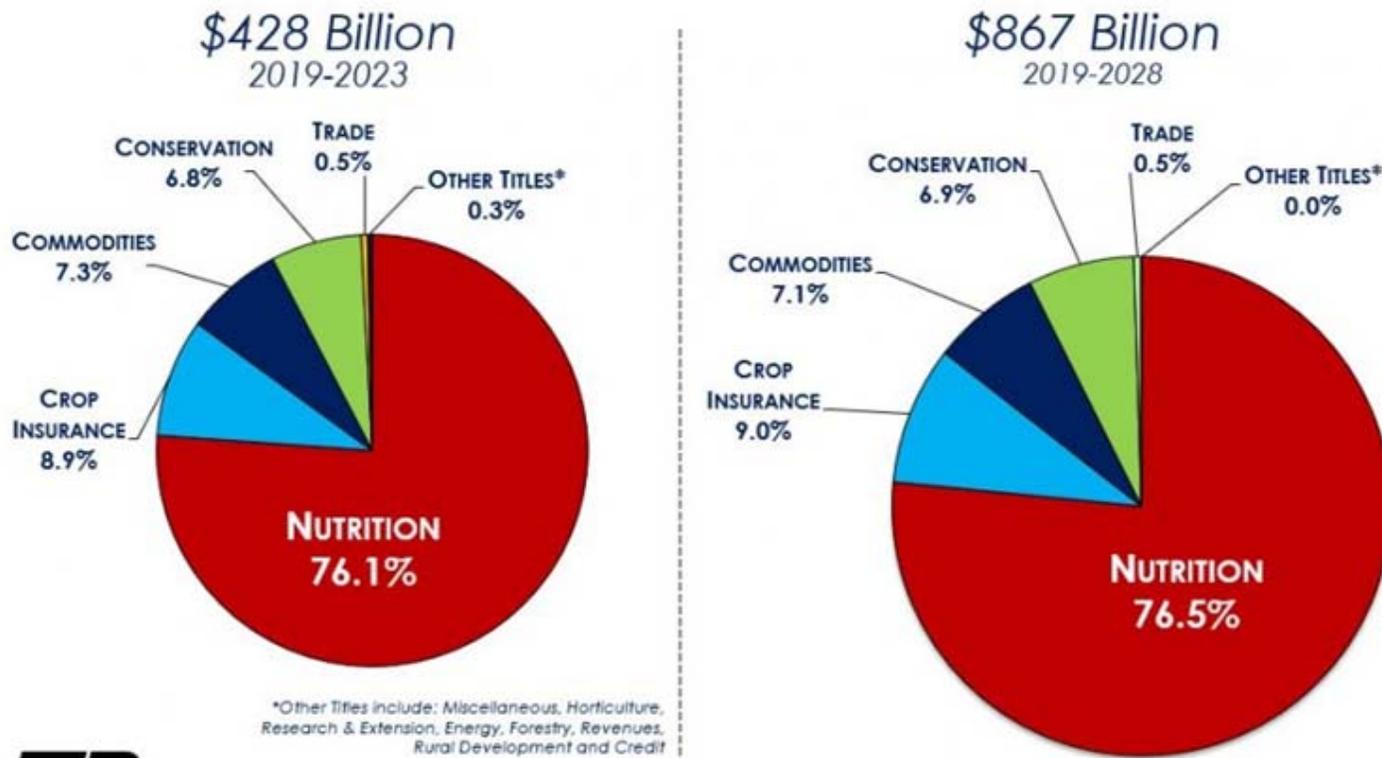
- **Much of both EPA and FDA are Closed**
- **USDA NASS & ERS are Closed along with FSA Offices**
  - ✓ But FSA offices WILL reopen January 17, 18 & 22, to process payments made in 2018, continue expiring financing statements, and opening mail to identify priority items.
  - ✓ MFP – Payments will continue if production was previously certified, closing date has been extended;
  - ✓ No commodity loan activity;
- **Food Safety Activities via AMS, FSIS and APHIS will Continue**

# The Farm Bill was Signed Into Law



## Figure 1. 2018 Farm Bill Spending

5- and 10-Year Baseline



**But Farm Bill  
Implementation  
is Largely at a  
Standstill**



Source: Congressional Budget Office April 2018 Baseline, 2018 Farm Bill, Farm Bureau Analysis

# The Farm Bill was Signed Into Law



- **ARC/PLC Election** – Farmers can choose on a crop-by-crop and farm-by-farm basis for 2019 and 2020 crop years; Annual decision thereafter;
- **Base Acres Planted to Grass/Pasture 2009-2017** – Will be maintained intact, along with payment yields, but no ARC or PLC payments will be made, 2019 thru 2023 crop years;
- **CRP** - Increases acreage cap from 24 to 27 million acres (8.6 & 2.0 mil. for continuous & grasslands). Rental rates reduced to 85% of the average county rental rate for general enrollments and to 90% for continuous CRP enrollments. Also provides additional flexibilities for haying and grazing on enrolled acres;

# The Farm Bill was Signed Into Law



**Loan Rate Comparison Table**

Commodity	2014 Farm Bill		2018 Farm Bill
Barley	\$1.95/bu		\$2.50/bu
Chickpeas (Large)	\$11.28/cwt		\$14.00/cwt
Chickpeas (Small)	\$7.43/cwt		\$10.00/cwt
Corn	\$1.95/bu	↔	\$2.20/bu
Cotton (ELS)	\$0.7977/lb		\$0.95/lb
Cotton (Upland)	\$0.45 - \$0.52/lb		\$0.45 - \$0.52/lb
Dry Peas	\$5.40/cwt		\$6.15/cwt
Grain Sorghum	\$1.95/bu	↔	\$2.20/bu
Lentils	\$11.28/cwt		\$13.00/cwt
Minor Oilseeds	\$10.09/cwt		\$10.09/cwt
Oats	\$1.39/bu		\$2.00/bu
Peanuts	\$0.1775/lb		\$0.1775/lb
Rice	\$6.50/cwt		\$7.00/cwt
Soybeans	\$5.00/bu	↔	\$6.20/bu
Sugar (Raw Cane)	\$0.1875/lb		\$0.1975/lb
Wheat	\$2.94/bu	↔	\$3.38/bu

# The Farm Bill was Signed Into Law

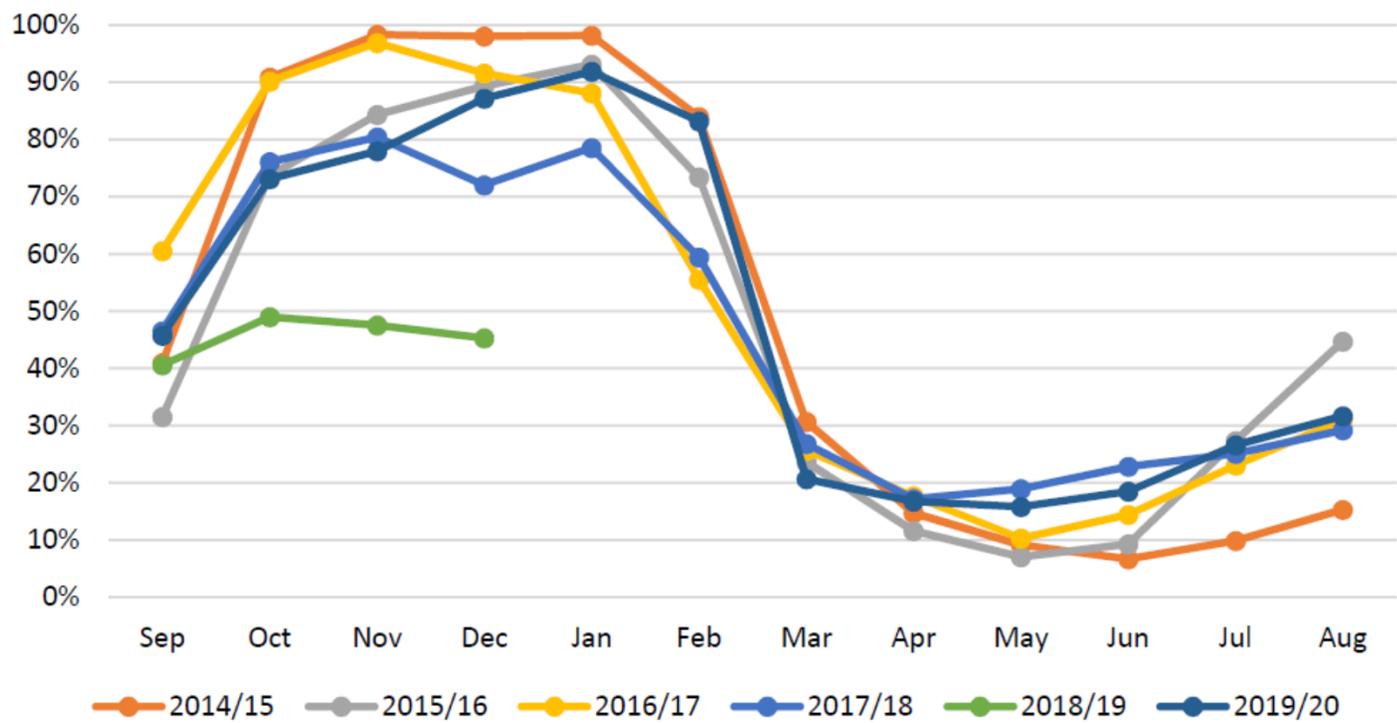


- **PLC** – Improvements include an opportunity to update PLC program yields and the fixed reference prices are now allowed to “float” higher, as much as 115% of the reference price;
- **ARC** – Using RMA as the first source for yield data, the use of trend adjusted yields, increasing the yield plug from 70% to 80%, and creating separate irrigated and non-irrigated guarantees and payments for all counties.
- **Trade** – Consolidates the MAP, FMD, EMP TASC, all under one, Agricultural Trade Promotion and Facilitation program. Maintaining the unique functions and relative funding levels for each but establishing a permanent baseline funding of \$255 mil.

# Trade Headlines



**US Soybean Exports as % of "Big 3" Total Exports  
US, Brazil, Argentina**



- ✓ **Canada**
- ✓ **Japan**
- ✓ **US trade**
- ✓ **Growth**
- ✓ **U.S. Farm**
- ✓ **EU, 1**
- ✓ **Joint**
- ✓ **USM**
- ✓ **House**
- ✓ **CPTI**
- ✓ **Versu**

- ier to**
- B – 1/25/19
- LSE – 1/15/19
- vay,**
- FBF – 1/14/19
- LSE – 1/10/19
- AP – 1/3/19
- ge**
- IN – 12/27/18

## AFBF #252 / International Trade

1. We are strong advocates of **fair** and open world trade.
2. Aggressive efforts must be made at all levels to open new markets and expand existing markets for U.S. agricultural products.
3. Agricultural exports will be increased by:
  - 3.1 Continuing to seek new markets for commodities and value-added products to enhance farm income and improve the farm economy;
  - 3.2 Continuing to export regardless of domestic supply;
  - 3.3 **Reducing trade restrictions;**
  - 3.4 **Immediate, unrestricted trade and distribution of U.S. approved biotech products;**
  - 3.5 Aggressive market development;
  - 3.6 The use of export licenses only for information purposes and not to limit the amount, timing or destination of exports;
  - 3.7 Providing USDA and U.S. Trade Representative (USTR) with the necessary resources to monitor and aggressively enforce trade agreements **and reduce trade barriers;** and
  - 3.8 **Decreasing the regulation on the movement of U.S. agricultural commodities** to Canadian ports for overseas shipment.



# Free Trade or Fair Trade?

***free trade*** – trade based on the unrestricted international exchange of goods; with tariffs used only as a source of revenue.

***AFBF Policy*** – We are strong advocates of ***fair*** and open world trade.



***fair trade*** – 1) trade in conform agreement; 2) a movement whos producers in developing countrie for their products so as to reduce the ethical treatment of workers promote environmentally sustain



# Trade War Escalates as Trump Pushes for \$200 Billion in Tariffs

## Why Are We Here?

- 1) To end “unfair” trade practices:
  - a) That involve intellectual property theft; and
  - b) Imperil American jobs
- 2) To bolster US economic growth by fostering a “buy american” mentality

July 11, 2018

**Jan 2018** – US imposes 30% tariff on solar panels. China responds w/ A/D investigation of US grain sorghum (Apr 179% tariff).

**Mar 2018** – US imposes \$2.8 billion in Sec. 232 steel/alum tariffs, China matches, with tariffs on US pork, steel, fruits, nuts, etc.

**Apr 2018** – US imposes \$50 billion in Sec. 301 elect., mach. and aerospace tariffs, China matches, with tariffs on soybeans, beef, wheat & airplanes.

# USMCA Approval (Trade Promotion Authority law of 2015)



From [redacted] signed (November 30, 2018):

- The administration filed their report to Congress on January 30, 2019, describing the US law required to comply, the “implementing bill.”
- <https://theinterior.gov/uploads/2019/01/USMCA-Changes-To-Existing-US-Law.pdf>
- The International Trade Commission has 105 days to complete a study of the agreement’s economic impact (due in early May).

From the date the administration submits the USMCA “implementing bill:”

- 30 days prior; the administration must submit the bill with the final legal text of the trade agreement and a draft Statement of Administrative Action (SAA) by which it proposes to implement the accord.
- Congress has 90 “in session” days to act on the legislation. The implementing bill can be amended, not the treaty itself.
  - ✓ **House Ways and Means Committee has 45 days before it goes to the House**
  - ✓ Then Senate Finance has 15 days to consider and vote before going to the full Senate.

**USMCA approval not a done deal**  
**House Dems will have big say in implementing legislation**

AP - 1/3/19