NEBRASKA FARM BUREAU®

A PATH FORWARD ON TRADE
RETALIATORY TARIFFS AND NEBRASKA AGRICULTURE

OVERVIEW

The United States' ongoing trade disputes with several trading partners has been and continues to be a contributing factor to agriculture's deteriorating financial condition. Retaliatory tariffs imposed by other countries on U.S. agricultural exports have in part caused significant price declines for many agriculture commodities in 2018.

In any given year, the value of exports will equal roughly 30 percent of the total agriculture commodity receipts or sales for the state of Nebraska, making agriculture trade vitally important to Nebraska farm and ranch families, main street businesses, and ultimately the state's broader economy. Revenue from the production of corn, soybeans, and beef cattle account for more than 90 percent of Nebraska's total agricultural sales. Events impacting trade for these three commodities have the most impact on Nebraska agricultural trade. With economic forecasts suggesting the agriculture sector will continue to struggle into the foreseeable future, it is critical the United States move forward on a path to address and remedy the trade disputes that have contributed to the difficulties for the agriculture sector.

This report contains two parts. The first specifically identifies the financial implications of retaliatory tariffs on Nebraska's agricultural goods to Nebraska's economy. The second identifies key actions needed to move the U.S. forward on a path to address and remedy the trade disputes that have contributed to the difficulties for the agriculture sector, as well as promote long-term expansion in sales of U.S. agriculture commodities into international markets.

It is important to note that Nebraska's beef sector has largely escaped negative impacts as countries imposing retaliatory tariffs on U.S. commodities have not included major U.S. beef customers like South Korea and Japan. To the contrary, total U.S. beef exports are projected to exceed $8 billion in 2018, exceeding record exports of $7.25 billion in 2017. That expansion has been fueled by tremendous growth in markets like South Korea and Taiwan, and steady growth in Japan. Given the ongoing trade disruptions have not had ramifications for the beef sector like those experienced in other commodity markets, beef is not included in this report's retaliatory tariff analysis.

PART I: IMPACTS OF RETALIATORY TARIFFS

Retaliatory tariffs of some kind have been imposed on U.S agricultural exports by nearly all of Nebraska's major customers *(Table 1.)*. The tariffs, in combination with record crop production this year, have caused significant price declines for many agricultural commodities since June 1. Comparing the United States Department of Agriculture's (USDA) June farm-level price estimates with its November price estimates and applying the difference to the November crop production estimates results in a loss of more than $1 billion in farm level receipts for Nebraska producers.

TABLE 1. RETALIATORY TARIFFS & NEBRASKA'S TOP EXPORT MARKETS

Canada (U.S., Mexico, Canada Agreement negotiated - retaliatory tariffs in place)
China (retaliatory tariffs in place)
European Union (retaliatory tariffs in place)
Japan (U.S. not part of the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP)
Mexico (U.S., Mexico, Canada Agreement negotiated - retaliatory tariffs in place)
South Korea (U.S. finalized U.S. South Korea Free Trade Agreement (KORUS) no retaliatory tariffs)

ANALYSIS - METHODOLOGY

In September of 2018, the Center for Agricultural and Rural Development (CARD) at Iowa State University published an analysis of the impact of trade disruptions to the Iowa economy. As part of the study, an IMPLAN model (an input-output modeling system) of the Iowa economy was used to examine the impacts of decline in farm level receipts due to tariffs on the state's economy through input purchases, employment, and household spending. Borrowing from the CARD study, this analysis uses a similar approach to analyze the impacts of the retaliatory tariffs on specific agricultural goods to Nebraska's economy using an IMPLAN model of the Nebraska economy.

The analysis examines the impacts of retaliatory tariffs on corn, soybeans, and hogs to the Nebraska economy. As previously noted, beef, another major Nebraska export product, was not included in this analysis. The CARD study also included impacts to Iowa's ethanol industry. These impacts are not included in this analysis, but no doubt similar impacts have been experienced by Nebraska ethanol producers as Iowa ethanol producers.

AGRICULTURE FINDINGS

To examine the impacts of retaliatory tariffs on Nebraska's economy the effects of the tariffs on prices must be separated from the price-dampening effects of this year's record setting production. The CARD study found the retaliatory tariffs reduced prices of corn by 4-6 percent, soybeans by 10-16.25 percent, and hogs by 11.5-12 percent. Translating these percentage declines into price reductions for corn and soybean prices using Nebraska June 1 cash prices at Hastings, Nebraska results in price reduction ranges of:

Corn	**$0.14-$0.21/bushel**
Soybeans	**$0.95-$1.54/bushel**

Note the percentage declines in soybean prices are twice that of corn prices. While exports of corn are important, any trade disruptions in soybeans ripple more quickly, and directly, through the soybean markets. Roughly 50 percent of the nation's soybeans are exported in any given year. Plus, China, the world's largest importer of soybeans, imposed a 25 percent tariff on shipments of U.S. soybeans. This one-two punch means soybean markets are feeling the pinch of the trade disruptions more intensively that other commodities. The reduction in hog prices estimated for the Iowa hog industry was also used in this analysis. Using those estimates the Nebraska pork industry experienced a per/head price reduction in the range of:

Pork	**$17.81-$18.80/head**

Based on the most recent crop production and hog inventory estimates for Nebraska, the decline in prices due to the tariffs translates into a $257-$327 million loss in farm level revenue for corn and a $384-$531 million loss for soybeans. For hogs, the revenue loss would equal approximately $111 million. The total loss in Nebraska farm revenues due to the retaliatory tariffs ranges from $695 million-$1.026 billion, roughly 11-16 percent of Nebraska agricultural goods export values in 2017.

NEBRASKA FINDINGS

An IMPLAN model of Nebraska is used to examine the impacts of the above farm receipt losses to the Nebraska economy. The model is backward looking in that it determines the impacts of a change to an industry to industries which supply it with services and goods. The model can provide insight into the short-run economic impacts of the loss of revenues to producers of these commodities. *Table 2.* lists the impacts of the retaliatory tariffs to total jobs, labor income, and total output in the Nebraska economy. Each is just a different way of measuring the change in the economy due to the loss of farm revenues. Two scenarios are shown: the low scenario depicts a loss of farm revenues of $695 million; and the high scenario depicts a loss of farm revenues of $1.026 billion.

TABLE 2. RANGE OF TARIFF IMPACTS TO NEBRASKA ECONOMY

	Direct Farm Loss	Labor Income	Jobs	Total Output
Low	($695 million)	($164 million)	(4,068)	($532 million)
High	($1.026 billion)	($242 million)	(5,997)	($784 million)

Using the lower estimate, the reduction in additional labor income to Nebraska's economy equals $164 million, and the loss in jobs equals more than 4,000. The total impact in income losses to the Nebraska economy equals $859 million. On the high end, the $1.025 billion on lost receipts results in another $242 million in lost labor income and almost 6,000 jobs. In other words, for every $1.00 lost in farm receipts for these commodities, the Nebraska economy loses about $0.23 in lost labor income. This ratio is very similar to that found in the CARD study ($0.22) for the impacts to the Iowa economy.

It should be noted this analysis does not account for the economic impact of the Market Facilitation Payments (MFP) to be made to producers to offset the loss in receipts due to retaliatory tariffs. The first-half of payments announced earlier this year for Nebraska are expected to equal roughly $300 million. Details for the second half of the payments are expected soon.

PART II: A PATH FORWARD

Given the significant impacts and financial losses to Nebraska agriculture and the state's economy associated with the retaliatory tariffs, it is critical the U.S. work to chart a path forward that creates a climate conducive to long-term access and growth in international markets. Preserving current market access, securing access in new markets, and addressing the challenges posed by China provide a foundation for doing so. Nebraska Farm Bureau believes there are several key actions needed to move the U.S. in that direction. These can be summarized by the following:

Action 1 – Secure Congressional Approval and Finalization of the U.S., Mexico, Canada Agreement (USMCA)

President Trump's first trade efforts focused on the renegotiation of existing trade agreements with some of the U.S.' closest allies and largest trading partners. The agricultural community largely requested the administration "do no harm" to the gains created by the existing agreements. Since that time the Trump Administration has successfully completed two renegotiation efforts, one being the South Korean Free Trade Agreement (KORUS). KORUS renegotiation was key, as the U.S. has grown into the largest supplier of beef to Korea and trails only the European Union as the second-largest pork supplier. U.S. red meat exports to Korea set a record in 2017 at $1.7 billion, up 19 percent year-over-year and up 69 percent from 2012. This impressive growth is due to the agreement's reduction of the duty on U.S. beef which has been reduced from 40 percent to 21.3 percent and will continue to decline each year until it is eliminated by 2026. The deal has prevented U.S. steel and aluminum tariffs from being placed on South Korea, and as such, prevented South Korea from placing retaliatory tariffs on U.S. agricultural goods.

Similarly, the administration has successfully renegotiated an updated version of the North American Free Trade Agreement (NAFTA) under a new name of the U.S., Mexico, Canada Agreement (USMCA). The United States entered into the original NAFTA agreement with Mexico and Canada on January 1, 1994. The agreement created the world's largest free trade area, and largely because of this, Mexico and Canada became Nebraska's two largest customers for agricultural goods. The American Farm Bureau Federation reports exports of Nebraska agricultural goods to these two countries exceeded $2.9 billion in 2016 and accounted for 45 percent of Nebraska's total agricultural exports that year. While clearly beneficial to Nebraska agriculture, the renegotiation of NAFTA was a top priority for President Trump throughout the 2016 Presidential campaign and early on in his administration. Those negotiations formally began in July of 2017 and concluded with a new agreement reached in September of 2018 and signed in November of 2018. The U.S. agricultural sector secured several important wins in the renegotiated deal including a new chapter on biotechnology, Canada's agreement to drop its Class 7 dairy program, as well as increased access for both U.S. wheat and poultry products.

Congress must approve of the USMCA agreement for it to take affect making it critical Congress acts quickly to ensure these key markets remain open to U.S. agriculture products. However, for the U.S. to take full advantage of the agreement it's also important U.S. steel and aluminum tariffs on Canada and Mexico are eliminated.

Action 2 – Eliminate U.S. Imposed Steel and Aluminum Tariffs

Following the U.S. Commerce Department's investigation into the effects on imported steel and aluminum on national security, President Trump announced the U.S. would be placing tariffs of 25 percent and 10 percent on imported steel and aluminum respectively in March of 2018. While initially left off the tariff list, the administration added tariffs to steel and aluminum from Canada, Mexico, and the European Union (EU) in May of 2018. Following the implementation of the tariffs, six of the U.S.' closest allies and trading partners initiated retaliatory measures on a considerable list of products imported from the U.S. including a large variety of agricultural products grown and raised in Nebraska. *Table 3*. highlights the retaliatory tariffs initiated by Canada, China, the EU, Mexico, Turkey, and India.

TABLE 3. U.S. STEEL AND ALUMINUM TARIFF RETALIATION

Country	Types of Goods
Canada	Steel, aluminum, food products, and consumer goods
China	Aluminum waste, ag products, including soybeans
EU	Ag and consumer goods, bourbon, and motorcycles
Mexico	Steel, ag products including pork
Turkey	Cars and tobacco
India	Almonds, apples, and metals

Nebraska Farm Bureau believes the administration must start the process of removing these tariffs to both eliminate the retaliatory measures highlighted above, as well as to continue to fully experience the benefits that exist in the newly renegotiated USMCA. Not only are Nebraska and U.S. farmers and ranchers experiencing the economic challenges previously highlighted, they are also hit with higher prices for many of the products needed to operate their businesses. For example, farmers facing significant price declines based on the near elimination of U.S. soybean exports to China, are also facing increased prices for grain storage facilities, equipment, and machinery parts. This double and sometime triple hit to the bottom lines of our nation's food producers can only be absorbed for so long. It is time for these tariffs to end. If the goal of these renegotiations is to open more free and fair trade with our trading partners, we cannot continue to protect certain industries at the expense of others.

Action 3 – Act Swiftly to Secure a Free Trade Agreement with Japan

In October of 2018, the Trump administration formally announced its intent to enter into negotiations with Japan on a bi-lateral free trade agreement. Japan remains Nebraska's fourth largest trading partner importing $569.7 million worth of agricultural goods and is a key trade partner for Nebraska beef. The prospect of a free trade agreement with Japan would benefit Nebraska agriculture, especially Nebraska's beef producers. Currently, U.S. beef is subject to a 38.5 percent tariff when it enters Japan. Even with such a high tariff, Japanese consumers continue to demand more and more of the U.S.' high quality product. Finalization of a new free trade agreement with Japan would at a minimum, reduce tariffs on U.S. agricultural products to levels currently offered to other countries. It would also allow U.S. farmers and ranchers to take advantage of a substantial new market.

Action 4 – Join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) or Secure Bi-lateral Trade Agreements with CPTPP Nations

Nebraska Farm Bureau was a strong supporter of the Trans Pacific Partnership (TPP) trade agreement. When fully implemented TPP was projected to increase cash receipts and net exports from Nebraska by $378.5 million and $229.2 million respectively. Now that a majority of the eleven remaining member nations have ratified the new Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) agreement, Nebraska farmers and ranchers risk being left behind as some of the world's largest emerging markets move to implement the agreement at the beginning of 2019. The best option would be for the U.S. to join the new CPTPP. However, if that's not an option, it is imperative that bi-lateral agreements with Japan and other CPTPP nations be reached quickly in order to limit any potentional market-share loss caused by U.S. exclusion from the CPTPP agreement.

Action 5 – Secure a Trade Agreement with the European Union

In October of 2018, the Trump Administration formally announced plans to begin trade negotiations with the European Union. While the inclusion of agricultural products in any EU agreement is uncertain, it is imperative the U.S. push for an agreement that not only includes agriculture but also works to treat U.S. agricultural products fairly. The EU's current restrictions on biotechnology as well as their extensive use of Geographic Indicators and other non-tariff trade barriers are substantial hurdles that must be addressed.

Action 6 – Use a Multi-National Approach with U.S. Trade Partners to Address China

Improving trade relations with China is the largest task at hand for the U.S. From the stealing of intellectual property in multiple industries, including agriculture, to the failure of China to meet World Trade Organization rules and standards, it is clear China must be held accountable for their actions. At the same time, China is a major market for many U.S. agricultural products especially U.S.

soybeans. Lack of access to the Chinese market has already imposed clear economic costs to the state's agriculture and overall economy. China must be held accountable, but it must be done in an economically effective manner. A clear set of objectives would let the rest of the world know exactly what concessions the U.S. is looking to achieve.

The collective actions previously noted present an opportunity for a multi-lateral approach for the U.S. and its trading partners to push China in the right direction. By building a coalition with China's neighbors and largest customers, the U.S. creates a path forward in trying to change China's behavior. Unilateral action against China by the U.S. will not be successful. Establishing a clear set of objectives to help partners understand the concessions the U.S. is seeking from China and eliminating U.S. steel and aluminum tariffs on our allies will promote this collaborative effort. Establishing a more multi-nation approach to China, improves the opportunity to force China to play by the same World Trade Organization rules as other member nations.

SUMMARY

As the world's population grows and incomes rise, world demand for food and Nebraska agriculture products increases. Nebraska agriculture producers are some of the most competitive in the world in terms of producing crops, livestock, and food products. In the past, free trade agreements have opened the doors and provided access for Nebraska products to the world. However, retaliatory tariffs have lessened these opportunities.

Retaliatory tariffs by U.S. trading partners in 2018 are estimated to have lowered farm level revenue in the range of $700 million to $1 billion so far. Similarly, these tariffs are estimated to have cost the Nebraska economy in the range of $859 million to roughly $1 billion in lost income and between 4,000 to 6,000 jobs. Given the financial impacts of retaliatory tariffs, it is critical U.S. take actions to eliminate these tariffs and create opportunities for continued and growing access to world markets for commodities and products produced by Nebraska farm and ranch families.