Statement of the American Farm Bureau Federation

Statement to the House Committee on Ways and Means Subcommittee on Trade regarding the hearing:

The Effects of Tariffs on U.S. Agriculture and Rural Communities

July 18, 2018

Submitted By:

Scott VanderWal
Secretary/Treasurer of VanderWal Farms in Volga, South Dakota
President of the South Dakota Farm Bureau
Vice President of the American Farm Bureau Federation

Hello, my name is Scott VanderWal. I am a farmer from Volga, South Dakota. With my family I operate a diversified farming business, with the production of corn and soybeans, along with custom cattle feeding and custom harvesting.

I currently serve as President of the South Dakota Farm Bureau. I am also the Vice-President of the American Farm Bureau Federation.

My testimony today will focus on the growing concerns of farmers and ranchers across the country due to the impacts of the tariffs and on farming and ranching in South Dakota.

We urge the Administration and Congress to work to resolve trade imbalances through negotiations, not tariffs or FTA withdrawals that harm agriculture. We need to grow our export markets. At least 20 cents of every dollar in farm income comes from exports.

Our farmers are facing a perfect storm:

- Since 2014, the American farmer's income has fallen 52 percent. Now, farmers are dealing with big shifts in the commodity markets because of trade and tariff threats.

- Throughout history, some farmers have survived by expanding their operations. Today, that option is nearly impossible for many because of the lack of qualified labor.

- We also have the potential of going into harvest without a new farm bill.

The ingredients of this perfect storm—trade threats, lower income, the lack of labor and no farm bill—will be more than our farmers can handle.

We need to head off this perfect storm by showing the world that the U.S. can close a deal. Let's start with our closest neighbors, Mexico and Canada, engage with Japan, and move on to China.

<u>Tariff Impacts</u>

- Crop prices fell sharply after announcements of U.S. tariff actions. New-crop corn and soybean futures have shown extreme volatility, during the first week of July they fell to their lowest levels of the year at $3.600 and $8.556 per bushel, down 66 cents and $1.97 per bushel. The impact will only get worse as the trade fight drags on and harvest season approaches in a month or two.

- Farmers who raise livestock or milk cows have seen their income immediately erode due to trade uncertainty. Milk and dairy product prices have fallen by more than 10 percent over the last month, and going back to the beginning of 2018 lean hog futures have lost 15 percent of their value due to increased trade uncertainty.

- Agriculture has traditionally been a bright spot in our nation's overall balance of trade. In 2017 we exported $140 billion in farm products, which is $21 billion more than we bought. We will quickly lose our place as a leader in the global marketplace, however, if we cannot be trusted as a trading partner and our farmers no longer have access to markets they depend upon.

U.S. Agriculture and Retaliation

U.S. agriculture exported over $140 billion of products world-wide in 2017. Over 25 percent of overall agricultural production goes to export markets, with many sectors, such as cotton and tree nuts, primarily dependent upon exports for their markets.

Trade action by the U.S. on steel and aluminum imports has already resulted in retaliation against U.S. agricultural exports. On April 2, 2018, China began imposing 25 percent tariffs on U.S. pork products and 15 percent tariffs on tree nuts (shelled and in-shell) including almonds, walnuts and pecans; fruit (fresh and dried) including apples, cherries, grapes, oranges and lemons; wine; ginseng; denatured ethanol and other products. This action is in response to increased U.S. steel and aluminum tariffs on China that went into effect on March 23, 2018. These tariffs by China will impact approximately $2 billion of U.S. food and agricultural exports.

Given the significance of the Chinese market, reductions in farm prices and production are expected for each product on China's retaliation list.

Similar negative impacts on farm prices are expected from the retaliatory tariffs that have been imposed by Canada, Mexico and the European Union because of the U.S. imposed steel and aluminum tariffs. A wide variety of agricultural products are on these retaliation lists, including pork, apples, potatoes, rice, orange juice and cheeses. In FY 2017 U.S. agricultural exports to Canada were $20.4 billion, Mexico was $18.6 billion and the European Union was $11.6 billion.

On July 6, in retaliation for the tariffs imposed by the U.S. on $34 billion of their imports, China has placed 25 percent tariffs on $34 billion of U.S. exports to China. For agriculture, this list includes soybeans, wheat, beef, pork, poultry, corn, sorghum, cotton, tree nuts, fruit, wine, tobacco and other products. This action by China is already affecting farmers and ranchers across America.

This now leads to large cumulative tariffs that would completely price U.S. agricultural products out of foreign markets. China has now applied retaliatory tariffs on many agricultural products, such as pork, twice, as the result of the 232 steel and aluminum case and the 301 investigations. The combined new tariffs faced by U.S. agricultural products range from 40 to 50 percent.

South Dakota Impacts

I would like to briefly tell you about the impact on South Dakota specifically. According to the USDA Foreign Agricultural Service, 95 percent of agricultural exports from South Dakota go to the top steel exporters; 84 percent go to the top aluminum exporters; and 73 percent of our ag exports go to the NAFTA countries. Obviously, these markets are crucial to us and retaliatory tariffs on our products hurt our state tremendously.

I am hearing more from farmers as time goes along that they still trust that President Trump knows what he's doing and everything will be fine in the end. We understand that other countries, particularly China, have not played fairly, and we respect his desire to remedy those situations. The problem is, those countries know just where to punch us back in a dispute by targeting our agriculture products. Through no fault of our own, and unintentionally, our industry ends up being used for leverage.

Patience is running out as we get closer to the main selling season. As of July 13, since the end of May, new crop soybean futures prices have dropped $2.20 per bushel and corn has dropped $0.70 per bushel. The markets react daily to the trade war and tariff news, and if sales have to be made at these price levels, this whole issue will show up as a massive shortfall in expected income on our financial statements. Specifically, for our small farm, for just corn and soybeans, this amounts to a negative impact of $160,000 on our income statement. Farmers and ranchers are among the most patriotic people in the country, but going bankrupt should not be a consequence of that dedication.

I want to make it crystal clear that we appreciate many of President Trump's efforts so far, such as reducing unnecessary regulations and taking a more conservative approach to the issues that affect our industry most. However, he also needs to know that the agriculture industry has not shared in the current economic uptrend and reductions in income due to long term trade disputes only make matters worse.

We must ask, what is the exact goal? What is the exit strategy? If we knew this would all be over within a few months, we could hang in there and manage around it. Obviously, none of us know the time frame and that uncertainty is very detrimental.

We know that bankers are extremely worried as well. Ag lending is largely based on personal relationships. Lenders often work very long-term with their customers and can become personal friends as well. They are all members of their communities, attend church together and cheer on their children in school sports. The last thing a lender wants to do is to sit across the desk from one of their customers and say "I'm sorry, but we can't renew your operating loan for next year. You are out of business." I am not exaggerating when I say that this could become commonplace if the trade wars don't end soon.

Rather than fixing all of the problems at once, we would suggest a more targeted approach. Get the Mexico and Canada deals done and then focus on China. We need a win to give farmers and ranchers - and the markets - some optimism.

Conclusion

We urge our trade officials to engage in discussions to resolve trade concerns before resorting to tariffs. Adding additional tariffs, such as those targeting the many countries that export automobiles and automotive parts to the U.S., and on an expanded list of Chinese imports, will potentially result in extensive additional retaliation against U.S. agricultural exports by tariffs and other restrictions.

We must get back to the table and get these issues worked out. If we cannot do that, the consequences are dire.