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Criteria for a China Deal
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The U.S. pork industry provides 26 billion pounds of safe and nutritious pork to consumers worldwide. Pork is the number one meat protein consumed in the world. America's hog farmers depend on exports for their livelihoods. They have invested in new technologies and productivity enhancements to establish themselves as leaders in the world. Indeed, on average, during the past 15 years the United States has been the largest pork exporting nation in the world. Unfortunately, hog farmers have been collateral damage in trade disputes the past year. The retaliation on U.S. pork as a result of these trade disputes has caused severe financial harm to U.S. hog farmers.

Pork is believed to be the largest component of the consumer price index in China. We have always known that China held more potential than any market in the world for increased U.S. pork sales. But, today, because of African Swine Fever, that potential is off the charts offering the single greatest sales opportunity in our industry's history. The question U.S. hog farmers are asking is -- "will we get the main course, or will we get the crumbs off the table."

Before I get to the meat of the matter, I am going to set the table by giving you an overview of our industry. But, first, I want to be clear that U.S. hog farmers understand the challenges faced by this administration in recalibrating U.S. trade policy toward China. The issues are myriad and complex. Moreover, hog farmers appreciate the farmer aid packages that the administration has put forward. I am here today on behalf of hog farmers not to throw stones at the U.S. government – or the Chinese government for that matter. My purpose simply is let you know how hog farmers are being impacted.

Exports of pork add significantly to the bottom line of each pork producer and support approximately 110,000 of the 550,000 jobs generated by U.S. pork and allied industries. In 2018, U.S. pork exports totaled 5.3 billion pounds – valued at nearly $6.4 billion. That represented over

25 percent of U.S. production, and those exports added more than $51 to the $141 average value of each hog marketed in 2018.

Mostly because of free trade agreements, the United States is the leading global exporter of pork. As a result, U.S. pork is an attractive candidate for trade retaliation. America's hog farmers – and many other sectors of U.S. agriculture – have been at the tip of the trade retaliation spear for more than a year.

For most of last year, the U.S. pork industry had the dubious distinction of being on three retaliation lists: China and Mexico related to U.S. actions under Section 232 of the Trade Expansion Act of 1962 and China in response to U.S. tariffs imposed under Section 301 of the Trade Act of 1974.

China and Mexico are critical export markets for U.S. pork. China was the No. 3 volume market in 2018. Mexico is U.S. pork's largest volume market.

China, which already had a 12 percent tariff on pork imports, one year ago today put an additional 25 percent duty on a host of American products, including pork, in response to the United States imposing tariffs on imports of steel and aluminum. Then a few weeks later it levied another 25 percent tariff – bringing the total duty to 62 percent – in retaliation for U.S. tariffs on $34 billion of Chinese goods.

On June 5, 2018, Mexico, where U.S. pork previously shipped product at a zero-tariff rate under the North American Free Trade Agreement (NAFTA), imposed a 10 percent duty on pork imports in response to the U.S. steel and aluminum import tariff. That retaliatory tariff increased to 20 percent one month later. We were overjoyed when the Trump administration last month lifted metal tariffs in North America and restored zero-tariff trade with Mexico. According to Iowa State Economist, Dermot Hayes, Mexico's just-lifted 20% retaliatory tariffs have cost U.S. hog farmers $12 per animal, translating into industrywide losses of $1.5 billion annually.

According to Dr. Hayes, the dispute with China has cost U.S. hog farmers $8 per animal, or $1 billion in annualized cost. The combined impact of the Chinese and Mexican retaliation has been about $2.5 billion on an annualized basis.

Parenthetically, we have another big problem and that's in Japan, our top value market. We're losing sales there. Why? Because competitor nations like Canada, Mexico and Chile have preferential access now because of the CPTPP and because the EU deal with Japan was implemented on Feb. 1. We're the biggest cheerleaders for Ambassador Lightizer and his team to get a quick deal with Japan because we're hemorrhaging there as well.

Market analysts projected 2018 to be a profitable year for U.S. hog farmers. Unfortunately, restricted market access from the trade disputes resulted in the average hog farmer losing $11 per hog last year. This year the average hog farmer is making a very small profit through the first five months of the year. But, those small profits would be much higher in the months ahead but for the trade retaliation from China.

Nowhere in the world is the potential for increased U.S. pork exports as great as in China. That nation already is the largest pork producing and pork consuming country in the world. Pork holds an almost sacred status in the Chinese diet and is believed to be the largest component of the consumer price index in China. We have been saying for years that if all the barriers to U.S. pork exports in China were eliminated that pork could single handedly put a huge dent in the U.S. trade imbalance with China. Today, more than ever before, that is the case because African swine fever is ravaging the Chinese hog herd.

African swine fever (ASF) does not impact human health but, it is almost always fatal for hogs. There is no vaccine for ASF. It has spread to every province in China. Because ASF is spreading not only in China but throughout Asia and Europe, the National Pork Producers Council is working very closely with both USDA and Customs and Border Protection to minimize the likelihood of the introduction of this deadly disease into the country. But, the USA remains free of this deadly disease and the reality is that China will need large volumes of imported pork to cope with the drop in production due to ASF.

Industry analysts estimate that China will lose more pork production than the United States produces. Once China gets through the backlog of culled animals, Chinese pork prices and pork imports will surge.

Hog farmers around the world are watching closely the ASF developments in China. Many are making plans to supply China with the pork it needs. Unfortunately, as previously mentioned, U.S. pork producers are faced with a retaliatory tariff of 50 percent over and above the duties paid by other exporters. U.S. pork production costs are among the lowest in the world with safety and quality that are second to none. But for the retaliatory duties, the United States would be in a perfect position to take advantage of this massive import surge. Pork prices in key exporting countries have already begun to show the impact of ASF. Spanish and German prices are now more than 10 percent higher than in the United States. This price difference will grow once the import surge begins.

Chinese buyers are currently visiting Europe, Canada and Brazil to establish business relationships and line up supplies. Markets in most of these countries are sending price signals to hog farmers to expand. Once new facilities are built – in places like Spain, Germany, Brazil and Poland – they will remain in production even if pork prices fall. The clock is ticking. Unless the U.S. and China soon settle their trade dispute, what should be a time of enormous prosperity and growth for U.S. hog farmers will instead fuel jobs, profits and rural development in competitor nations.

In conclusion, with regard to China, the question that U.S. hog farmers are asking is -- “will we get the main course, or will we get the crumbs off the table.”