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Trump Trade Tiffs Continue, Administration Risks Increasing

This is the week when U.S. tariffs kick in on Chinese, Mexican, Canadian and European Union (EU) imports; it's also the week that tariffs of equal value, levied by those four major U.S. trade partners, kick in on U.S. exports, the majority of which are agricultural products.

However, while agriculture is at the top of trade partner retaliation lists, stock and futures markets have gyrated for the last few weeks, with some analysts warning President Trump's success in jump starting the U.S. economy through enactment of federal tax cuts and other moves are at risk.

Others contend the tariff wars are classic Trump "big stick" diplomacy and negotiating, actions taken by the U.S. unexpected by trade partners, who stand to lose more than the U.S. if the tariff stand-offs continue. They argue the current trade pain will disappear when China agrees to reinvent its economic policies/practices on trade, and the steel/aluminum tariffs are lifted when Trump declares "victory" on reinvigorating the domestic steel and aluminum industries.

The reality of "tough" trade actions is at risk of catching up with the White House as national agriculture and business groups continue to say the right things publicly, but privately, tensions are growing over lost immediate sales and the potential for lost long-term markets for ag products. For instance, the U.S. Chamber of Commerce launched this week a national, multi-million campaign outright opposing Trump's trade actions.

For most farm groups, it's no longer how much economic pain may be felt, but how long can farmers, ranchers and agribusiness withstand the losses, especially as industry enters its fifth year of low prices and overproduction. There's also a political price that could be paid by the Trump camp if the trade battles continue very long. "Political loyalty can only go so far when you're losing money and not confident in what the strategy is," said one veteran ag lobbyist. "To keep saying, 'if you lose a market here or there, just sell somewhere else' doesn't cut it. There's too many casualties from friendly fire."

When the Sen. Pat Roberts (R, KS), chair of the Senate Agriculture Committee, calls President Trump a trade "protectionist," as he did this week, or when the chair of the Senate Finance Committee, Sen. Orrin Hatch (R, UT), says of Trump's tariff tsunami, "I'd like to kill 'em," – meaning the tariffs – a GOP-controlled Congress is firing a last warning shot before it moves to tie Trump's hands on tariffs, a self-defense move in an election year.

The following are this week's trade developments among the U.S. and the rest of the world

based on Trump's 25% tariff on steel imports and the 10% tariff on aluminum purchases, his action on China and intellectual property/technology "theft," as well as impacts on how NAFTA 2.0 is progressing:

Recent White House Statements – Last week, Trump defined the EU as "smaller, but just as bad" as the Chinese when it comes to U.S. trade deficits, and shared that he is contemplating slapping European automobile imports to the U.S. with a 10% tariff. The president floated this week the notion of the U.S. pulling out of the World Trade Organization (WTO), but Secretary of Commerce Wilbur Ross shot down that notion, allowing there are improvements needed in the WTO operation, but the U.S. would not pull out despite Trump's statements. When Canada announced its imposition of retaliatory tariffs in response to the U.S. steel/aluminum tariff action, Trump said he hasn't ruled out imposing "counter retaliatory" tariffs on a longer list of Canadian imports because Canada took "unwarranted" action against the U.S. steel/aluminum levies. On NAFTA 2.0, the president said even if a final deal is reached this summer, he wouldn't move on it until after the U.S. November midterm elections.

Canada, Mexico Retaliate – July 1 saw Canadian Prime Minister Justin Trudeau make good on his pledge to impose about \$12.5 billion in retaliatory tariffs on over 100 U.S. imports – some at 25%, others at 10% -- in response to U.S. steel and aluminum tariffs. The move included a 10% "surtax" on about \$170 million in prepared/cooked U.S. beef exports. Other targets include whiskey, orange juice and maple syrup, along with several consumer products like kitchenware and candles. Trudeau also acknowledged his government is paying out \$1.5 billion to industries hurt by the U.S. tariffs. Mexico moves ahead this week with its second wave of retaliatory tariffs, the two-step process designed to total about \$3 billion. Of that, \$2.5 billion will hit apples, sausages, frozen potatoes, frozen cranberries, orange juice and whiskey. The first tranche kicked in on June 5, including the levies on pork and several cheeses imported from the U.S. The Mexicans are astute at the tariff game, and the American Farm Bureau Federation (AFBF) warns, "The U.S. agricultural industry should expect the number of agricultural products on the list will both increase and change."

Chinese Tariffs – On July 6, the U.S. slaps 25% tariffs on about \$34 billion in Chinese imports, the first round of about \$50 billion in tariffs planned, primarily over the administration's concerns over Chinese appropriation of U.S. intellectual property and forced high-tech transfers imposed on U.S. companies trying to do business in the world's second largest economy. China will likely immediately retaliate with \$34 billion tariffs on U.S. imports – on top of the 12-25% existing value added tax already imposed by China on imports – including levies on soybeans, sorghum, corn, nuts, strawberries, apples, cotton, melons, oranges, grapes, raisins, catfish, tuna, oysters, wine, butter, milk, buttermilk, cheeses, wheat, pork and beef. If China carries through on its retaliatory tariffs, the U.S. has threatened to hit another \$200 billion in Chinese imports with tariff action, and if China matches that action against U.S. products, Trump has said another \$200 billion in Chinese imports could come in for new levies, bringing the total on threatened tariff action to \$450 billion. Meanwhile, China continues to woo the EU to join it in an anti-U.S. partnership, issuing a joint public statement condemning the U.S. steel/aluminum tariffs and overall trade policy. The EU rejected the notion just ahead of a July 16-17 Sino-EU summit in Beijing, according to Reuters. One diplomat said, "China wants the EU to stand with Beijing against Washington, to take sides. We won't do it and we have told them that," reported CNBC.

Mexico, Canada Call for NAFTA 2.0 Talks to Resume – Despite the tariff tit-for-tat with the U.S., both Mexico and Canada are eager to resume this summer high-level negotiations to resolve NAFTA 2.0, but Trump says he's in no hurry to finalize a new treaty, at least until after the U.S. November elections. The Mexican presidential election, which observers feared would lead to Mexico complicating or walking away from NAFTA talks, so far appears to have had little impact. Mexican President-elect Andres Manuel Lopez Olbrador, who takes office December 1, is a known anti-establishment politician and a skeptic of free trade, and in a Trump-like statement, Olbrador told reporters he'd like to complete the talks, but is willing to walk away from the table. However, Olbrador met with Mexican business groups to assure them the new government will be "business friendly," promising them "nothing will be imposed from above." His new finance minister, academic Carlos Urzua, told reporters this week that as far as the new government is concerned, NAFTA 2.0 talks remain on track and could speed up after November's U.S. elections, possibly leading to a finished treaty by the end of the year. Urzua said Olbrador's incoming government would be closely collaborating with Mexico's current NAFTA team. Canadian Foreign Affairs Minister Chrystia Freeland said this week her government wants to see all three nations resume talking now that Mexico's election is over and Olbrador has blessed the NAFTA effort. She said she talked to U.S. Special Trade Representative (USTR) Robert Lighthizer six times last week. Canadian Prime Minister Justin Trudeau has talked with Olbrador about a "mutually beneficial economic and trading relationship between the two countries."

Capitol Hill Actions Coming? – The newest reported development, likely spawned by growing congressional push-back on administration tariff actions, is White House draft legislation to expand the president's executive authority on raising and setting tariffs and to do so without worrying about WTO rules or congressional permission or oversight. GOP lawmakers have dismissed "The U.S. Fair & Reciprocal Tariff Act, which critics like to call "the FART Act." Meanwhile, Trump critics Sen. Bob Corker (R, TN) and Sen. Pat Toomey (R, PA) continue their march to limit the president's tariff-setting authority without congressional approval. Corker tried to tie the pain of U.S. ag exporters to last week's floor consideration of the Senate Farm Bill, and while he elicited sympathetic comments from his colleagues, he was blocked procedurally from offering his bill as an amendment. Hatch – described by Sen. John Thune (R, SD) as "pretty fired up" – fears the administration will squander the economic gains made this year, acknowledging his committee is preparing a separate approach to inserting Congress into the tariff-setting process. Senators, for instance, are reviewing a menu of five minor changes to the Sec. 232 and 301 executive tariff authorities that would rewrite and tighten the definition of "national security" as grounds for imposing tariffs. Hatch admits any relief from his committee won't come soon. Said Roberts, "Individual Senators have met with the president, including me. The ag committee met with him, the finance committee met with him, and there's nobody for this (tariffs). But Trump is a protectionist who has his policy wrapped around the rear axle of a pickup. It's hard to get out."

Russia Files Steel/Aluminum WTO Complaint – Russia this week joined five other nations filing its own formal complaint with the World Trade Organization (WTO) over U.S.-imposed tariffs on imported steel and aluminum. Other complaints were filed by Canada, China, the European Union (EU), India and Norway. The Russian action, seeking WTO-refereed formal discussions with the U.S., is the first step in pursuing a WTO sanction on the U.S. tariff action. Russia contends the U.S. tariffs are inconsistent with the WTO's General Agreement on Tariffs & Trade (GATT), as well as violating the Agreement on

Safeguards. While the U.S. claims it imposed the tariffs for “national security” reasons, other WTO members call the actions “safeguards,” allowed tariff actions which must meet very strict criteria to be imposed and blessed by the WTO. When President George W. Bush tried to impose safeguard tariffs on imported steel in 2002, the WTO rejected the action. President Trump meets with Russian President Vladimir Putin later this month.

Farm Bill Conference Formally Begins Next Week, Players Remain Optimistic

While House and Senate agriculture leaders remain optimistic a final bill can be ready by the August House recess, formal House and Senate negotiations to reconcile their parochial versions of the 2018 Farm Bill will begin next week when Congress returns from its July 4 recess and conferees are named. Meanwhile, informal discussions between House and Senate staffs from the respective agriculture committee continue.

The goal is to get a final compromise Farm Bill approved by both chambers and on the president’s desk by September 30, when current law expires. Failing that, lawmakers will have to approve a one-year extension of current law to keep most farm programs operating.

Neither side of the Hill or aisle would comment on the respective Farm Bill versions. “I don’t see why we can’t get it done,” said House Agriculture Committee Chair Mike Conaway (R, TX) in an Agri-Pulse interview.

Ranking committee member Rep. Collin Peterson (D, MN) told a Minnesota radio show he wouldn’t be part of a “right wing fantasy,” referring to the House bill’s nutrition title controversy, but said, “It wouldn’t take more than a day or two to conference this. We could do it. I’m for getting it done.” He cautioned, however, the process could always be derailed.

Controversial conference committee issues include House language tightening eligibility and requiring able bodied federal food stamp recipients to work or be in training; Senate language seeking to limit federal income support payments and rigidly defining who qualifies as “actively engaged” to receive payments; House language which reinvents the conservation title by combining major programs, killing off other programs and cutting funding for conservation, and various animal rights sections, including a ban on raising and killing dogs and cats for their meat; extending a federal ban on animal fighting to all U.S. territories and protectorates; extending federal payments for a federal spousal abuse program to cover the costs of victims bringing pets to shelters, including both feeding and vet care, and House language that would preempt state laws which bar the sale of livestock and poultry products if they are not raised in their state of origin as they’re raised in the state of sale.

EPA Calls for WOTUS Public Comment

EPA and the U.S. Army Corps of Engineers published June 29, a supplemental proposal to their previous proposed repeal of the Obama administration final rule defining “waters of the U.S. (WOTUS),” this time specifically asking for public comment on the legal basis for the original 2015 rule which the Trump administration and most of agriculture contend has led to “uncertainty and confusion across the country.”

“We are making it clear that we are proposing to permanently and completely repeal the 2015 WOTUS rule, and keep the pre-2015 regulatory framework in place as we work on a new, improved WOTUS definition,” said EPA Administrator Scott Pruitt in a statement. While EPA continues to review comments received on its July, 2017, call for public input, it will accept supplemental public comments for 30 days from publication.

EPA said last week’s publication responds to public comments already received, but expands “opportunities for comment, and provides clarity and transparency” to the Trump administration process to repeal and replace the WOTUS rule. Part of that effort is to give the public a chance to comment on additional “considerations that support the agencies’ proposed repeal, some which the agencies did not discuss in detail in the initial proposal.”

After receiving “hundreds of thousands of stakeholder comments” last summer, EPA said it was apparent clarification of administration intent was needed and decided to issue a supplemental notice of proposed rulemaking to clarify EPA’s intent to “recodify the pre-2015 regulations – a long-standing regulatory framework that is currently being administered by the agencies – to keep them in place until the agencies finalize a new definition of WOTUS.”

CFTC Reports Say Block Trades Don’t Move Markets, “Sharp, Disruptive” Price Moves Not Increasing

A report analyzing “sharp, intraday price movements” in commodity markets was released late last week by the Commodity Futures Trading Commission (CFTC), revealing neither frequency or intensity of price movements are increasing and they’re not affecting market activity.

A second CFTC report released July 2, says so-called “block trades,” a target of smaller futures traders who claim the products reduce market transparency and allow big managed money accounts to effectively trade in secret, don’t impact liquidity as alleged. Block trades are “a very small portion of overall volume,” occurring generally where markets are liquid, the report said. “All block trades reviewed appear to be priced within the CME rule for ‘fair and reasonable’ prices,” the commission concluded.

Block trades are large packages of privately negotiated futures and/or options deals for ag commodities, and were introduced by the CME Group in January, 2018. Reuters reported CME executives met with Secretary of Agriculture Sonny Perdue last week to report on the new product, and said they’re meeting regularly with the National Grain & Feed Assn. (NGFA).

Last week’s report analyzed 2.2 billion transactions in 16 of the most actively traded futures contracts in all major market sectors from 2012 through 2017, CFTC said. The report

concluded price movements linked to “volatility, market fundamentals and new and data releases” don’t show signs of futures market weakness or “fragility” that would lead to disruptive price movement. The report shows, the commission said, “The U.S. commodity futures markets are very efficient, incorporate new information quickly and continue to support the price discovery process.”

Soybean Acres Outstrip Corn Plantings; Wheat Acres Up 4%, but Still Second Lowest on Record: USDA

For the first time since 1983, soybean acres planted for all purposes this year, estimated at 89.6 million acres, outstrip planted corn acres, coming in at 89.1 million acres. Both planted areas are down 1% from 2017, according to USDA’s June 29 Acreage Report.

All wheat planted for 2018 is estimated at 47.8 million acres, up 4% from 2017, but still the second lowest all-wheat planted area on record since 1919 when USDA began keeping records.

Corn planted for all purposes this year is down or unchanged in 31 of 48 reporting states. The area harvested for grain at 81.8 million acres, is also down 1% from a year ago, USDA reports. Soybean planted acreage is down or unchanged in 14 of 31 states providing estimates.

Winter wheat was planted on 32.7 million acres, up less than 1% from last year; 23.2 million acres of this area is hard red winter wheat, 5.89 million acres are soft red winter wheat, and 3.62 million are white winter wheat, USDA said. Other spring wheat planted took up 13.2 million acres, up 20% from 2017, with about 12.7 million acres planted to hard red spring wheat. Durum, the department said, was planted on 1.89 million acres, down 18% from 2017.

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