

We Live in Interesting Times: The Implications of US Trade and Agricultural Policies

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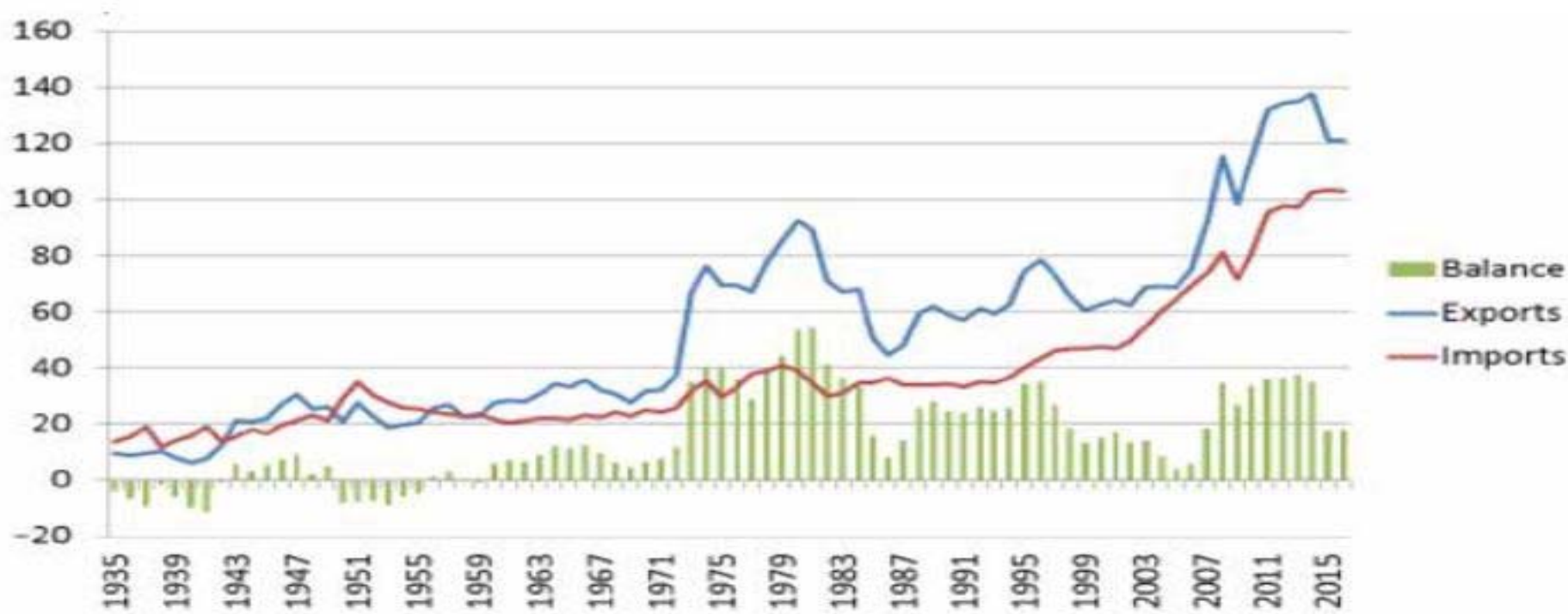
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Outline

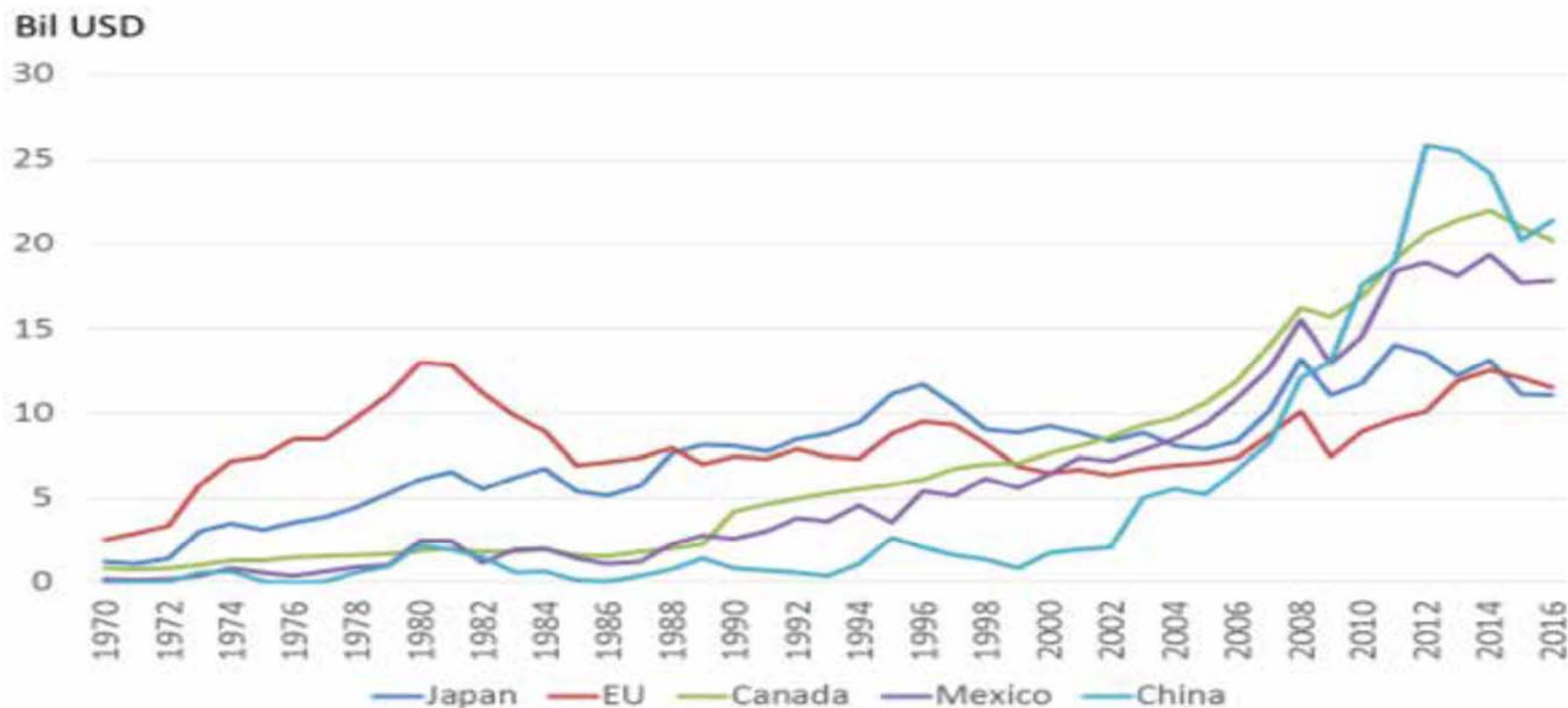
- US Agricultural Trade; past and present
- Trade and trade relations implications of current US agricultural policy:
 - Cotton
 - Dairy
 - Sugar
- Implications of the Trump, Navaro, Ross and Lighthizer trade war follies

US Agricultural Trade Since 1935 (Billions of constant 2009 dollars)



Source: Joseph W. Glauber and Daniel A. Sumner, *US Farm Policy and Trade: The Inconsistency Continues*, AEI October, 2017

US Agricultural Exports by Destination: 1970 - 2016



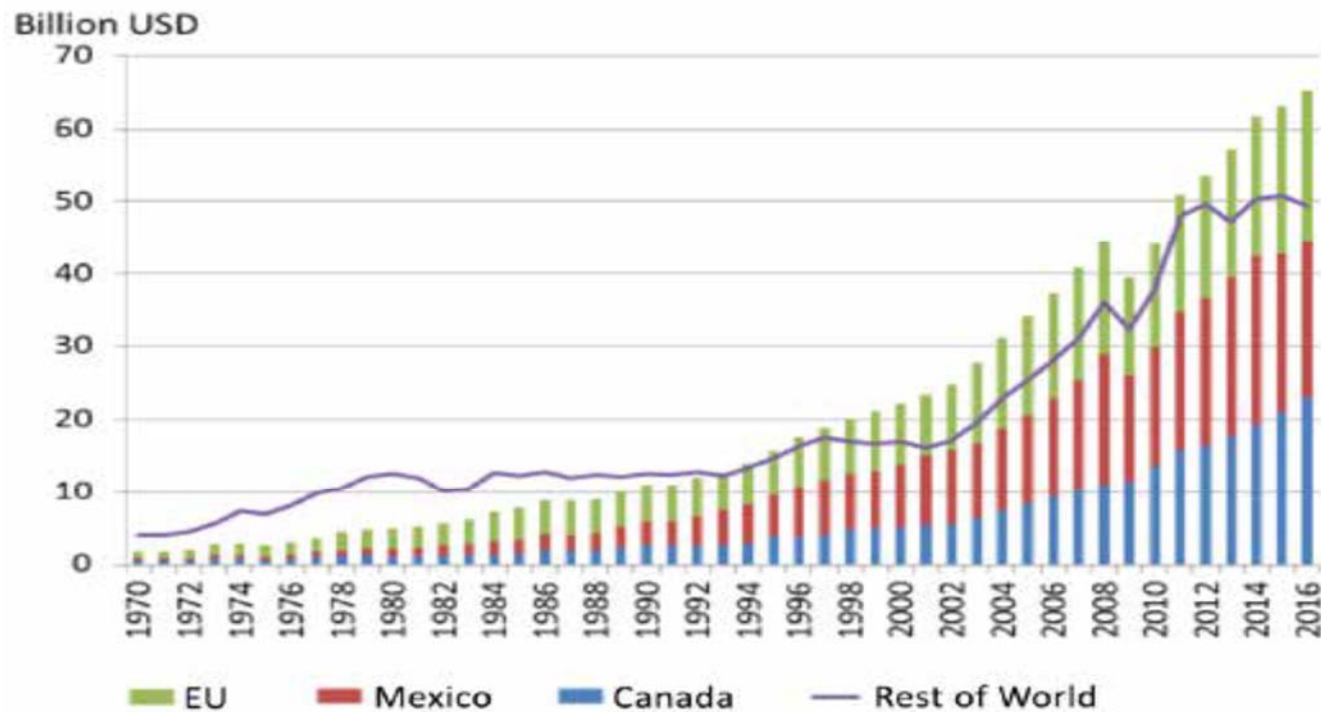
Source: Joseph W. Glauber and Daniel A. Sumner, *US Farm Policy and Trade: The Inconsistency Continues*, AEI October, 2017

US exports of five bulk commodities:2010-2017 Average Shares

	US Exports Share of Domestic Production	US Exports Share of World Trade
Corn	13.00%	35.90%
Soybeans	46.60%	39.80%
Wheat	48.20%	17.50%
Cotton	75.40%	30.30%
Rice	49.90%	8.20%

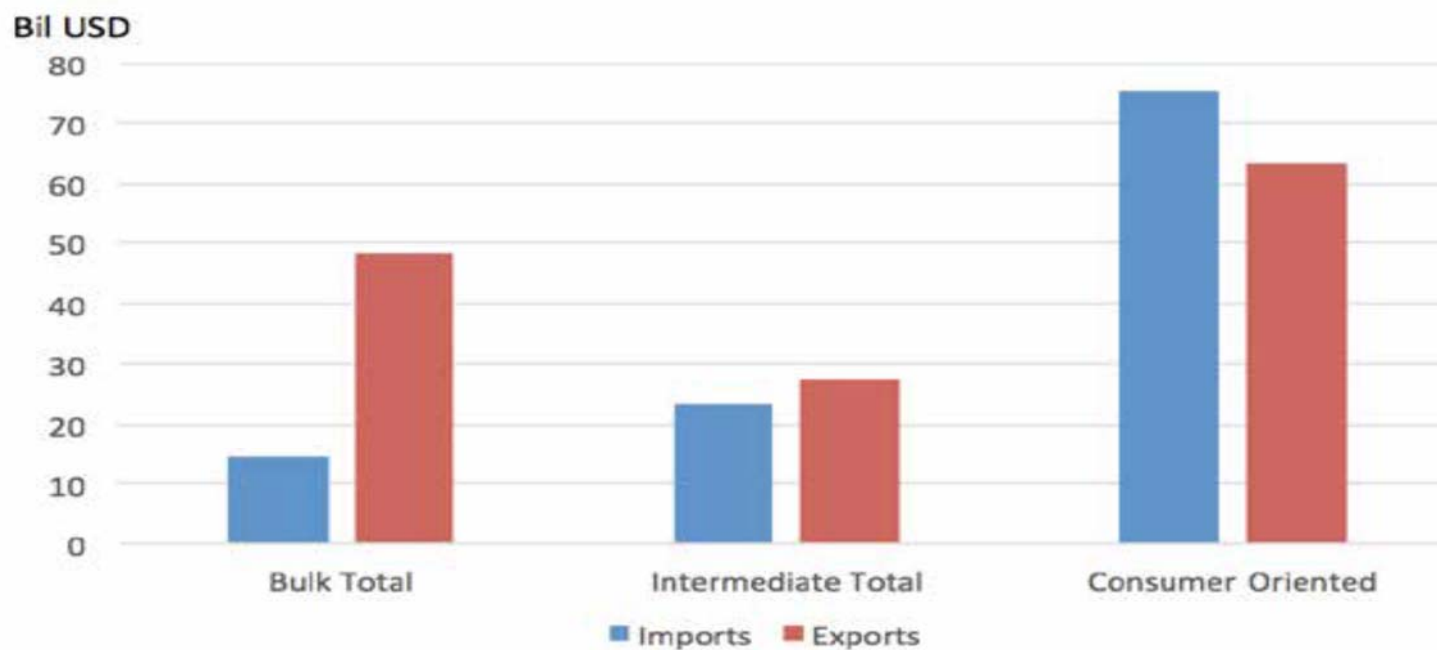
Source: USDA

U.S. Agricultural Imports: 1970-2016



Source: Joseph W. Glauber and Daniel A. Sumner, *US Farm Policy and Trade: The Inconsistency Continues*, AEI October, 2017

Composition of US Agricultural Trade (Annual Average over the period 2014-2016)



Source: Joseph W. Glauber and Daniel A. Sumner, *US Farm Policy and Trade: The Inconsistency Continues*, AEI October, 2017

US Agricultural Policy and US Trade Relations

Price Loss Coverage and Agricultural Risk Coverage (about \$6.5 billion , 70% of which goes to corn, soybeans and rice)

- Subsidies are driven by market prices
- Within the period covered by a farm bill, area (ARC) and volume (PPLC) are fixed, **but it is clear Congress will allow base updating and yield updating in any new farm bill, relinking current production decisions to program subsidies.**
- So PLC and ARC are amber box programs and potential problems in WTO disputes

US Agricultural Policy and US Trade Relations

Federal Crop Insurance

- Federal outlays are driven by market prices
- Every acre planted can be insured with additional subsidies linked to every additional insured acre.
- Losses covered in excess of 30% of expected yields and revenues (e.g., 85% revenue coverage available in most corn and soybean growing areas).
- Amber box (and clearly problematic in WTO disputes)

Cotton

- The Bipartisan Budget Act of 2018 (2018 Budget Act) introduced PLC/ARC subsidies for seed cotton.
- This clearly violates the cotton agreement with Brazil.
- Given the volatility of cotton prices, even though CBO has scored this initiative very modestly (see Glauber's AEI study's analysis of the seed cotton provision), there is potential for substantial outlays.
- From a trade perspective, a foolish policy initiative?
- The orphan acres problem with PLC/ARC is resolved, but given the impact on peanut production and exports and access to base updating by farmers, may have come too late to mitigate potential trade problems related to peanuts (which receive about \$340 per acre in subsidies)

Milk

- The Bipartisan Budget Act of 2018 (2018 Budget Act) “reformed” the Margin Protection Program for milk by increasing subsidies.
- While federal subsidy spending on the previous version was minimal, the old program had the potential to occasionally be extremely expensive (north of \$5 billion in a given year)
- The revised MPP has the same potential to occasionally be expensive and CBO estimates spending would only increase modestly (about \$100 million annually).
- However, the program is tied to current production, is amber box, and as the US is now a substantially exporter of dairy products, trade issues could arise as a consequence
- Further, the 2018 Budget Act allowed milk producers to sign up after they knew whether or not they would get payments – could be a short run trade problem

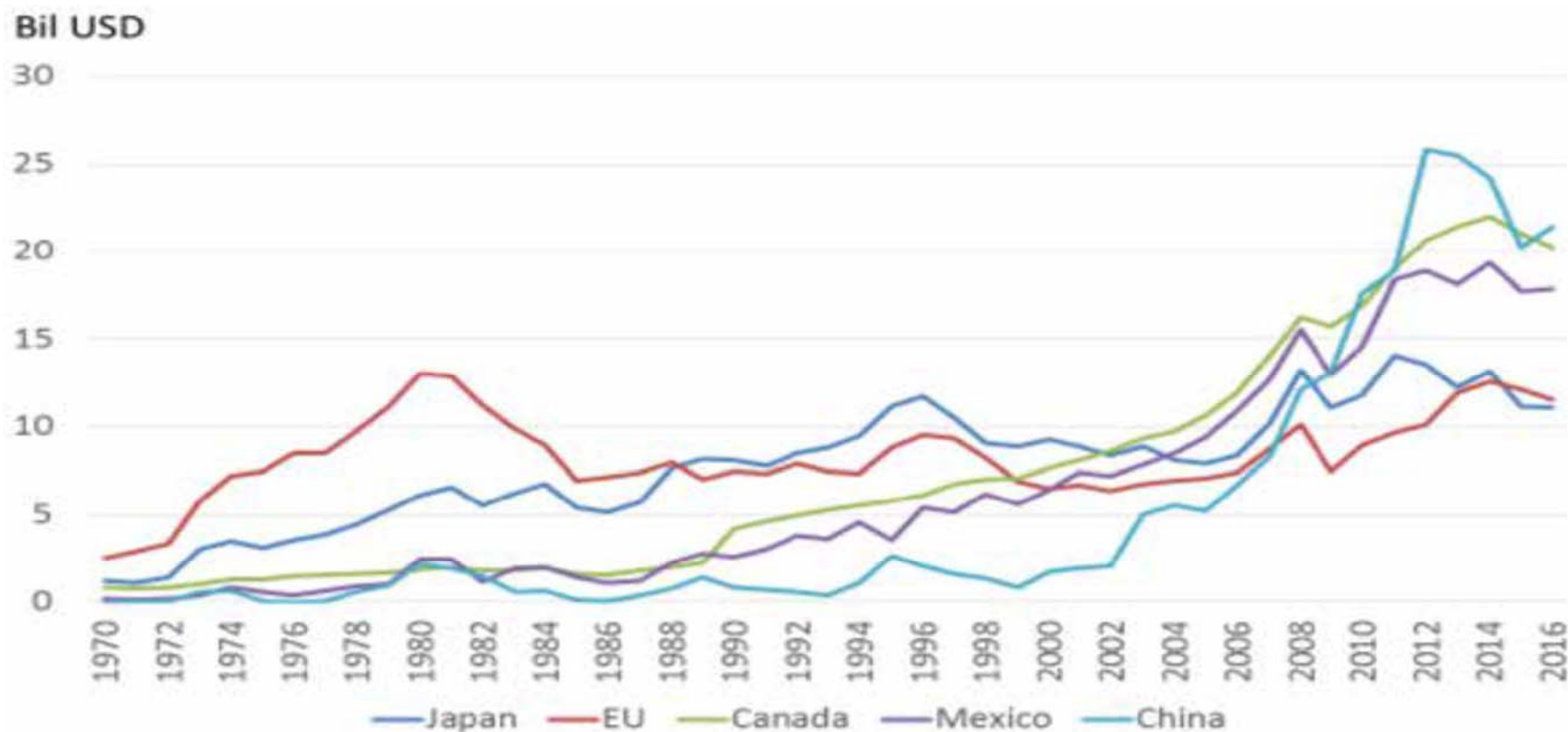
Sugar

- Sugar has been another “third rail” in US trade relations
- The House farm bill makes no changes.
- It is still possible that the provisions of the *Sugar Policy Modernization Act* will be incorporate in a Senate bill **but** the reforms included in that Bill are extremely modest.
- So sugar will remain an issue

Implications of the Trump, Navarro, Ross and Lighthizer (TNRL) tariffs for US agricultural and food exports

- After much Sturm and Drang the current US administration imposed substantial tariffs on steel (25%) and aluminum (10%) imports from Canada,, Mexico, and the EU at the end of May, 2018.
- The TNRL approach was also to impose substantial (25%) tariffs on a wide range of imports from China (in aggregate valued at \$50 billion of imports), approved by the White House on June 14, with a proposed expansion of 10% tariffs on an additional \$200 billion of imports.
- Canada, Mexico, the EU and China have announced they will retaliate, using countervail provisions available under the WTO agreement and file complaints with the WTO. The US would almost certainly lose in any WTO Dispute Resolution hearings.

US Agricultural Exports by Destination: 1970 - 2016



What Agricultural and Food Products are on the Canada, Mexico, EU and China Hit Lists

China

- Soybeans (China) – impact estimated to be about a \$300 million reduction in revenues (there could potentially be a modest domino effect on other animal feed crops)
- Other targets identified by China include beef, pork, chicken, turkey, and duck, fish, dairy products, fruits, nuts and vegetables, rice, alcohol, and tobacco.

Canada

- Countervail measures that affect up to C\$16.6 Billion in US product imports to Canada
- Food product exports to Canada will be subject to a 10% tax.
- Commodities include: yogurt, roasted coffee, meat products and prepared meals, alcohol products, maple syrup (a true disgrace), fruit products, condiments, soups and bottled water.
- Will file WTO complaints through the Dispute Resolution Process.

Mexico

- Has already initiated a complaint through the WTO Dispute Resolution Process (June 7).
- Will countervail with “equivalent tariffs” on a wide range of products including:
 - Steel, lamps, pork, sausage, prepared food, apples, grapes, blueberries, cheeses, and others.

The European Union

- Will file a dispute settlement complaint with the WTO
- Impose countervail measures that affect up to an equivalent amount of US exports (about \$66 Billion) on July 1
- US products targeted include:
 - corn , beans, rice (and rice based products), peanut butter, certain juices, whiskey (Jack Daniels), tobacco and tobacco products
- And, most importantly, **rowing boats**
- Which tells us how bizarre trade wars can get, and, according to almost all well-educated economists, how potentially damaging they can be
- And this current example of trade war tariff follies will likely be no different.

Thank You

