TARIFFS

Where are we now?

By Carolyn Riegler

In June of 2018, I discussed the correlation between automotive and agricultural products in the world trade balance equation. For every tariff the U.S. implements, the countries impacted, were implementing retaliatory tariffs on imported goods to strike back at the U.S. trade policy. As imported steel tariffs increased, agriculture exports were hurt with an opposite impact due to tariffs in foreign countries. Soybeans, corn, pork, dairy and more faced tariff increases in China and Mexico from 25 to 40%. In response to the impacts of foreign trade limitations on agriculture products, the USDA announced plans to authorize up to $12 billion for programs to help farmers and ranchers caught in the middle. Steel and aluminum products also faced hardships due to looming price increases on their raw materials, resulting in thousands of manufacturers applying for tariff exemptions.

Fast forward one year....

Some in the manufacturing sector have been successful in obtaining tariff exemption approvals from the U.S. Department of Commerce. The Detroit News reported in the last year, the Commerce Department approved requests from "370 companies for up to 4.1 million tons of foreign steel, with roughly 8 percent of the total coming from China, and close to 30 percent from Japan."[1] Many recipients of the waivers are subsidiaries of foreign-owned manufacturers. These exemptions, however, have not been felt industry wide. The Detroit News also reported on a local supplier, the supplier reported 3 to 4 percent material cost increases since the tariffs went into effect. This manufacturer of automotive components has seen 21 of its steel tariff waivers denied, 15 approved, and 25 are still being processed.[2] The lack of consistency in tariff waiver approvals continues to cause chaos for many manufacturers. The tariff impacts vary widely on a case by case basis.

As for the farmers, what happened to the $12 billion in promised federal aid? According to the publication Successful Farming, "the USDA has received nearly 805,000 applications and paid out $6.4 billion so far to buffer tariff impacts. An additional $1.23 billion could be paid on applications still being processed, which would put the payment total at $7.64 billion."[3] In addition, the USDA reports it awarded $200 million to trade groups and will purchase $1.2 billion in food for donation to public nutrition programs to ease the financial burden of the tariff wars on farmers by purchasing product that cannot be sold to its traditional customers such as China. American farmers continue to bear the financial burden of trade disputes. The Food and Agricultural Policy Research Institute (FAPRI) recently stated "the projected prices for U.S. Soybeans and other products affected by current trade disputes remain below levels that would prevail if foreign tariffs were removed."

In addition to trade constraints, relatively solid growing conditions have produced an oversupply of large crops such as soy, corn and wheat. Farmers in some states have plowed their crops under as there is not enough room to store them in storage facilities because they are unable to sell their products to China. In addition to crops, animal products are experiencing downward pricing pressures due to increasing supplies of livestock and poultry which cannot be sold in their traditional markets. The supplies are increasing because historical customers (China) are no longer purchasing the products in historical quantities.

What about the new Trade Deals?

Much has been said about the new U.S., Mexico, Canada trade deal ("USMCA") which was signed by the three countries on November 30, 2018. The new agreement is touted to significantly improve the trade balance for U.S. companies and workers. While the three countries have reached a new rebalanced agreement, with many benefits to the U.S., it cannot come into effect until the completion of TPA procedures (a legislative procedure written by Congress, through which Congress defines U.S. negotiating objections and priorities for trade agreements), including a Congressional vote to implement the bill. Given the current political environment, this may be an insurmountable task. In addition, on May 31, 2019, President Trump announced an additional 5% tariff effective June 10, 2019. He stated the tariff would take effect "until such time as illegal migrants coming through Mexico and into the U.S. stop."[4] This move may put the new trade agreement back to square one. Tying tariffs to the immigration policy will be a twisted road.

As for China, the trade negotiators for both sides continue to work to find solutions to revamping decades long trade practices. Agreement on the core issues such as patent infringement and intellectual property rights, may be more difficult than others to reach. One of the biggest obstacles will be the negotiation of ongoing enforcement regulations. Additional tariffs were scheduled to go into place by both the U.S. and China earlier this year, however, both sides suspended additional tariff increases to promote a positive atmosphere during the ongoing trade negotiations. This was a promising sign. However, recent developments indicate we are not at the end of the tariff wars. In May, President Trump raised tariffs on $200 billion worth of Chinese goods from 10% to 25% despite the continued negotiations with China. China responded with tariffs on $60 billion of American products days later.

U.S. Secretary of Agriculture Sonny Perdue was joined by multiple USDA undersecretaries and staff in unveiling a general outline of a new farmers' assistance program during a conference call with media, May 23. The new Trade Mitigation Program (TMP) is similar to one implemented last year, although funding for 2019 is boosted by 25 percent to $16 billion, compared to $12 billion last year. Perdue said the higher level of funding is more in line with the estimated impacts of retaliatory tariffs on U.S. agricultural goods and other trade disruptions.

And so it continues... progress is slow and costly. We are feeling the financial impacts all the way from steel to soybeans.

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[1] Detroit News, February 15, 2018, "Steel Tariffs waived for Michigan firms despite Trump's tough trade-talk."

[2] Ibid.

[3] www.agriculture.com/news/business Successful Farmer, "Trump Tariff payments top $6.4 billion as deadline nears," Chuck Abbott, February 5, 2019.

[4] Crains Detroit Business, May 31, 2019, Trump to impose tariff of up to 25% on Mexico, jeopardizing new North American Trade Agreement, Jenny Leonard and Shawn Donnan.

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