Tariffs just the precursor regarding US ag exporters' pain

Bill Mongelluzzo, Senior Editor (/users/bill-mongelluzzo) | Jun 25, 2018 11:12AM EDT

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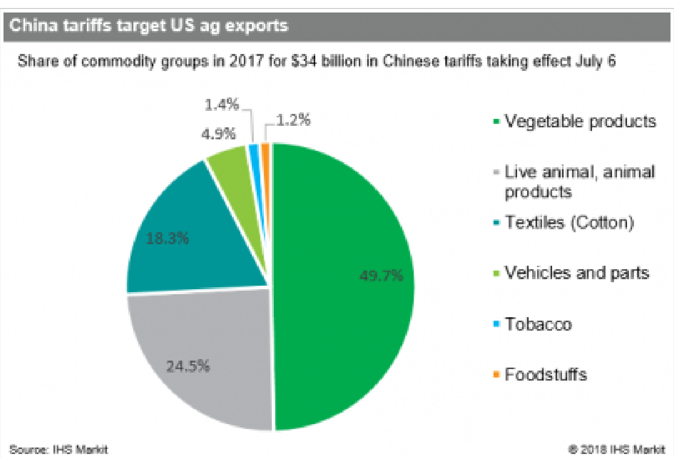
The immediate impact of lost export opportunities because of retaliation by US trading partners to the Trump administration's tariffs is a major, negative development for US businesses. Even so, the longer-term damage from the erosion of the US's reputation as a reliable supplier of agricultural products should really concern beneficial cargo owners, ag exporters have been told. (Above: Silos at a soybean farm in Kansas, United States.) Photo credit: Shutterstock.com.

TACOMA — Facing immediate retaliatory tariffs on their food grade and animal feed products from China when the Trump administration unleashes new tariffs July 6, US exporters should be more concerned about the long-term damage to their business, said Paul Bingham, Hackett Associates economist.



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"We already started a trade war. It has been proven again and again, trade retaliation inevitably results," he told the annual conference of the Agriculture Transportation Association. If the administration's trade policies result in tariffs against US exporters, shippers of soybeans, fruits and nuts, dried distillers grain (DDGs) and identity preserved grains, and other specialty crops will feel the impact when many of the crops are harvested. "If this continues, we will see a drop in ag exports in the second half of the year," Bingham said.

The impact of trade wars involving not only China (https://www.joc.com/regulation-policy/trade-policy/united-states-trade-policy/tariffs-threaten-nearly-7-percent-china-us-container-trade_20180405.html) but also Canada, Mexico

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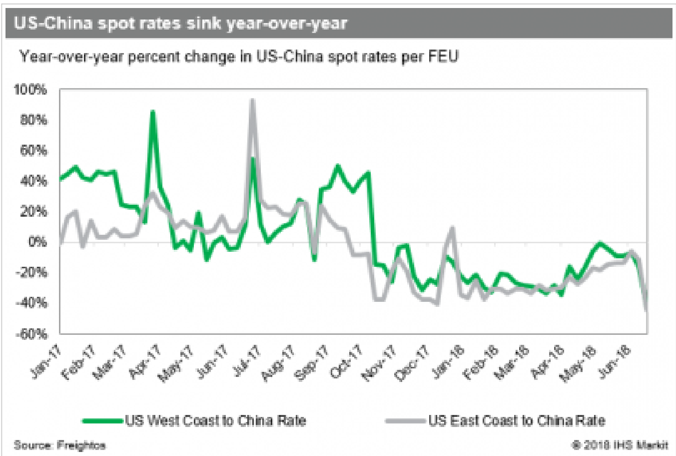
(https://www.joc.com/regulation-policy/trade-policy/us-ports-criticize-trump-planned-steel-aluminum-tariffs_20180302.html), and the European Union will certainly impact agricultural exporters. Additionally, shipping lines, railroads, and trucking companies will be caught up in the turmoil. Shipping lines are vulnerable because agricultural commodities are a natural backhaul that produce revenue from containers that would otherwise be returned empty to Asia and Europe, said Bruce Abbe, president and CEO of the Midwest Shippers Association.

Non-tariff barriers

In addition to the quantifiable impact on US exports that can be traced to tariffs imposed by other nations, there is the unquantifiable impact of non-tariff barriers, such as ramped up inspections of agricultural products or phytosanitary requirements that are suddenly imposed, said Hayden Swofford, independent administrator of the Pacific Northwest Asia Shippers Association. Those requirements could make certain markets so difficult to operate in that "some exporters will simply pull out," he said. China has already shown a willingness to impose such barriers (https://www.joc.com/regulation-policy/customs-regulations/international-customs-regulations/china-tightens-screws-tariff-deadlines-draw-near_20180509.html) on ag goods, as well as exporters of lumber and waste.

The implementation of additional tariffs on imports from China beginning July 6 (https://www.joc.com/regulation-policy/trade-policy/us-trade-agreements/us-agri-exporters-hardest-hit-retaliatory-tariffs_20180622.html), and China's expected retaliation against US exports, will affect 6.2 percent, or 830,095 TEU (https://www.joc.com/regulation-policy/trade-policy/united-states-trade-policy/us-exports-most-exposed-china-us-trade-dispute_20180620.html), of the China-US container trade that totals 13.5 million TEU a year, according to an analysis by PIERS, a sister product of JOC.com. US exporters will take a much bigger hit than importers. The merchandise imports targeted by the proposed US tariffs would affect only 5.5 percent of containerized imports from China, while the US exports targeted by China cover 351,479 TEU, or 12.8 percent of exports to that country, according to PIERS.



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High-volume commodities such as cotton, soybeans, and animal feeds are subject to the tariffs, and adding to the troubles for US ag exporters, the US tariffs on imports from China include a wide array of agricultural equipment, including harvesting machinery, machinery for processing agricultural goods, and related parts.

While the tariffs have yet to take effect, and US export data from after March is still not available, spot shipping rates from the United States to China suggest that the 0.2 percent decline in first-quarter volume may have continued. The latest rate from the US West Coast is down 42.2 percent year over year to $455 per FEU, according to the Freightos Baltic Index, while the rate from the East Coast is down 44 percent to $574 per FEU.

Brazil soybeans may displace US

Mike Steenhoek, executive director of the Soybean Transportation Coalition, told JOC.com that Chinese tariffs on US soybeans would come just as the largest competitor, Brazil, is preparing to harvest a bumper crop estimated to be 115 million metric tons (126.8 million tons). That would make Brazil the world's largest producer of soybeans, and would give the South American country a head start over the United States in filling China's needs for soybeans this year. The US crop will not be harvested until late autumn. Brazil, however, must deal with its handicap of having poor infrastructure between the growing regions and the ports, and inadequate storage capacity, he noted.

The threat of tariffs and counter-tariffs have contributed to the volatility in soybean prices so far this year. Several months ago the price rose above $10.50 a bushel because of projections of a poor crop in drought-stricken Argentina. However, with the trade war brewing, soybean prices dropped, and on Thursday the price was $8.80 (http://markets.businessinsider.com/commodities/soybeans-price)a bushel. "Below $9 a bushel. That's tough," Abbe said.

Mexico is also an important market for US soybeans, but if the Trump administration's sabre-rattling over the North American Free Trade Agreement (https://www.joc.com/maritime-news/tariffs-trade-uncertainty-cloud-canada-shipping-outlook_20180619.html) negotiations results in restrictions on US soybean shipments, that market could also diminish for soybean exporters. Whether the issues involve China, Mexico, or other trading partners, uncertainty over the reliability of the United States as a supplier of soybeans will cause those countries to look elsewhere, Steenhoek said. It took "years and many airline miles" accrued by the soybean industry to build good relationships with overseas buyers, and years of performance to establish the United States as a reliable supplier, but that reputation can be destroyed overnight because of a trade war, he said.

Impact on animal feed industry

The animal feed industry has also worked vigorously to establish itself as a dependable source country that also has the infrastructure to support exports of DDGs and other feed grain products. The industry has built its business plan on the basic premise that animals have to eat every day, Abbe said, but the recent trade disputes have created an environment of "complete uncertainty" as to where the industry is going, he said. The DDG (https://www.joc.com/regulation-policy/economy-watch/us-economy-news/weakening-dollar-strengthens-us-exports_20170727.html?page=0,2&page=0=2) market in China was already roiled by actions China has taken to limit DDG imports to protect its domestic industry, he noted.

Abbe's organization, the Midwest Shippers Association, also represents growers of higher-priced specialty crops, such as identity-preserved grains, peas, and lentils. While those commodities are shipped mostly to Japan, Korea, and Taiwan, China has the potential to be an important market for specialty crops, he said. However, the administration's actions are creating an overall chaotic situation for US growers. "When you're in ag, that's not a good thing," he said.

Similarly, Cargill sees a growing international market for polylactic acid (https://www.smithsonianmag.com/science-nature/corn-plastic-to-the-rescue-126404720/), plastic resin (https://www.joc.com/port-news/us-ports/delayed-us-resin-export-boom-arrives-year-officials-say_20180329.html) made from corn that can be used as a substitute for petroleum-based plastics. Since it is plant-based, it should not be affected by China's strict requirements for scrap imports under its Green Fence (https://www.joc.com/breakbulk/us-export-recyclables-%E2%80%93-china-shifts-market-shudders_20180528.html) environmental policy, said Duncan McGrath, business logistics leader at Cargill Bioindustrial. "We feel the demand will increase," he said, which is why fostering good relationships with trading partners is important. "Cargill is for trade," he said.

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