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# Soybean Farmers and Tariffs

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Bill Gordon, a soybean farmer from Minnesota, leaned back and shook his head, "It's crazy. You sit there and try to raise a crop and do everything you can. You fight mother nature like we did last year and again this year, and then you come to find out, 'Oh, hey, by the way, the government got in the way and you don't have a market. They took the market away.'" After a sip of coffee and a quick glance at the other five soybean farmers around the table, Gordon continued, "Soybean farmers have sunk their own money, blood, sweat and tears for the last 40 years into building the Chinese market up and getting trade partners and building this two-way relationship, then it gets taken away overnight."

The U.S. soybean industry had grown as a result of Chinese demand for beans, which are crushed to make feed for animals and oil for humans. The states in the upper Midwest, where 80 percent of the 89 million acres of soybeans are grown, had benefitted the most from increased Chinese demand. This was especially true for Cass County, North Dakota, where farmers had grown more soybeans than any other county in the United States and most of those beans were shipped across the Pacific Ocean. Greg Gebeke, who farmed 5,000 acres in Cass County, struggled to understand the goals of the Trump administration, "I'm trying to figure out who the winners are in this trade war, I know who one of the losers are and that's us. And that's painful."

Although nobody said so, it was clear that the people around the table were second-guessing recent crop choices and investment decisions. They, together with thousands of fellow soybean farmers, had invested in larger grain elevators, new pickup trucks, and traded their wheat equipment for machines to plant soybeans. Krista Swanson, a soybean farmer from Illinois, captured the mood of the group, "About two out of three rows of soybeans grown on our farm would be sold to China." After a brief pause, Swanson continued, "They're the U.S.'s single largest customer. It's hard to replace a single large market with a lot of small markets." The combination of China buying fewer U.S. soybeans and U.S. farmers paying higher tariffs, had forced all of them to reconsider how many rows of soybeans to plant for next year.

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## The Election

They had followed the rise of Donald J. Trump with interest. Some were even familiar with Mr. Trump's book in which he laid out the case for how he would solve the nation's problems. Mr. Trump identified China as a top threat to U.S. interests when he wrote, "There are people who wish I wouldn't refer to China as our enemy. But that's exactly what they are. They have destroyed entire industries by utilizing low-wage workers, cost us tens of thousands of jobs, spied on our businesses, stolen our technology, and have manipulated and devalued their currency, which makes importing our goods more expensive— and sometimes, impossible."

However, back in 2016, these opinions seemed unrelated to the average soybean farmer. In fact, many shared candidate Trump's opinions that large U.S. trade deficits, especially with respect to China, hurt American workers. They were thus not alarmed when Trump's "Contract with the American Voter," co-authored with Peter Navarro, Trump's chief advisor on trade and a well-known opponent of trade deficits and China, promised to "identify all foreign trading abuses that unfairly impact American workers and direct [the Secretary of Commerce and the U.S. Trade Representative] to use every tool under American and international law to end those abuses immediately."

After the election in November of 2016, many in the upper Midwest cheered when President Trump issued a Memorandum (August 14, 2017) that proclaimed that U.S. policy is "for our trade relations to enhance our economic growth, contribute favorably to our balance of trade, promote reciprocal treatment of American goods and investment, and strengthen the American manufacturing base." The memorandum also charged China with implementing policies related to intellectual property and technology that encouraged the transfer of U.S. intellectual property to Chinese enterprises that in turn reduced U.S. exports, diverted American jobs to workers in China, and contributed to a trade deficit with China.

## Trade War

On October 31, 2017, the U.S. International Trade Commission established that imports of solar panels and washing machines were hurting U.S. industries producing these products. The Commission recommended that President Trump impose "safeguard tariffs" on these products under section 201 of the Trade Act of 1974. President Trump agreed and implemented tariffs on $8.5 billion worth of solar panel imports and $1.8 billion worth of imports of washing machines. In response to these tariffs China and South Korea filed WTO disputes claiming that the safeguard tariffs violated WTO rules.

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At the time, many farmers around the country felt that President Trump was right to use tough negotiation tactics. If you had asked them, they would probably have agreed with Benjamin Smith, an Iowa soybean farmer, who noted that “When I run into my neighbors at the feed store, they’re saying they don’t think there will be a trade war. They say that Trump’s bluffing; he’s a deal maker.”

In February of 2018, Secretary of Commerce Wilbur Ross concluded an investigation under section 232 of the Trade Expansion Act of 1962, which determined that imports of steel posed a threat to U.S. national security due to the weakness of the domestic industry relative to global excess capacity. The report stated that the U.S. was the largest importer of steel, while China was mainly responsible for global excess capacity of steel production. Subsequently President Trump ordered 25 percent tariffs on imported steel products and 10 percent import tariffs on aluminum. The President claimed that these actions would “help our domestic steel industry to revive idled facilities, open closed mills, preserve necessary skills by hiring new steel workers, and maintain or increase production,” which would reduce the U.S. reliance on foreign steel and ensure that domestic producers could provide the amount of steel necessary to ensure national security.

At this point farmers, together with many other U.S. manufacturers, started to feel pain as a result of the administration’s trade policies. Anyone who purchased a significant amount of equipment containing steel watched with unease as the price of steel in the U.S. increased sharply (Table 1). The global response to the steel and aluminum tariffs was swift, the European Union threatened to retaliate immediately by putting 25 percent tariffs on several U.S. products, including Harley Davidson motorcycles, blue jeans, and Bourbon. Shortly afterwards China responded to the tariffs by announcing 25 percent tariffs on scrap aluminum and pork products, as well as a 15 percent tariff on fresh and dried fruit, nuts, and sparkling wine. Even worse to the group seated around the table, China threatened to impose 25 percent tariffs on soybean imports and started to sharply curtail purchases from the United States. In response to the pushback, the Trump administration issued several exemptions, announcing that most countries would be exempt from the tariffs. However, China was not exempted.

The profitability of soybean farms was now threatened. The increased price of steel raised cost of production, which in turn decreased farm profits. The possibility of future tariffs against soybeans was most concerning. In fact, apart from the weather, no issue loomed larger for farmers than the prospect of retaliatory tariffs against American agricultural products. “China is our most important export market for soybeans,” Smith said. Nevertheless, Smith was still optimistic that a trade war could be averted, “I can’t say that Trump has gone about this the way I would. As a farmer, I try to stay positive.”

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Meanwhile U.S. Trade Representative Robert Lighthizer initiated an investigation into whether China's laws and policies were harming American intellectual property rights, innovation, or technology development, as specified under section 301 of the Trade Act of 1974. On March 22, 2018, the Trump administration released its section 301 report which concluded that China was conducting unfair trade practices in terms of its administrative approval process related to intellectual property, technology transfer, and foreign investment. Subsequently, the Trump administration issued a list of 1,333 Chinese products that would be considered for a 25 percent import tariff. Since approximately 85 percent of the targeted imports were intermediate inputs, the tariffs raised production costs of U.S. companies, including farmers. This announcement set off another round of retaliatory tariffs by China on mostly transportation and vegetable products. As expected, one of the affected agricultural products was soybeans, which was indeed hit with 25 percent retaliatory tariffs.

Gordon, Swanson, Gebeke, and Smith, and their fellow soybean farmers in the upper Midwest, now faced the additional financial impact of a decrease in the demand for their products and, consequently, lower prices. In fact, the prices of soybeans had already begun to drop (Table 2). As Swanson pointed out, "If you look at the prices, you would say it is already impacting us, the price that we can sell for. It's a direct factor in our income. China is still buying soybeans, but losing even 20 percent of the market there is a really big deal because they're such a big customer."

Unfortunately, it was about to get worse. In 2016, total exports of soybeans were valued at $22.4 billion and 61 percent of those exports went to China ($14 billion). In 2017, there was a slight decrease in total export sales to $22 billion, of which 57 percent went to China ($12.4 billion). However, in 2018 the soybean export market collapsed as a mere $3.1 billion worth of exports were shipped to China (18 percent of total soybean exports). This was a decrease of almost 80 percent since 2016. The decrease in sales and lower prices meant that soybean growers, like Gordon and the others, had to adjust. As Gordon noted, "[Trump's tweets] has definitely made it interesting, that's for sure. You never know what's going to happen anymore – kind of like the weather." He concluded, "When the market drops 30 cents on a tweet, it's frustrating."

**It was time…**

Farmers in the upper Midwest had prospered over the last two decades by growing soybeans that were mostly shipped to China to feed Chinese pigs and chickens. But in 2018, the Chinese all but stopped buying as the Chinese Government imposed tariffs on American soybeans in response to the Trump administration's tariffs on Chinese goods. Gordon and his fellow soybean farmers were stockpiling soybeans, hoping that prices and demand would increase before the beans rot. They also tried to diversify but their efforts had not been able to replace the lost sales. Instead, they now worried that millions of dollars spent on cultivating the Chinese market through marketing programs and research, would be for naught. Even if the U.S. and China made a trade deal, it was not clear that the Chinese would once again buy soybeans from the United States. Relationships might be damaged, as Gordon grumbled, "They've already shifted more of their purchasing power to the South American market."

There was much on the line. "It is emotionally draining. It goes beyond us farmers," John Heisdorffer, chairman of the American Soybean Association, lamented, "We're in rural communities, so when we stop buying equipment from our equipment dealers and we use not quite as expensive a seed or don't use as much fertilizer; all those things go to the community, so the community suffers also." Heisdorffer continued, "You keep telling yourself it will get better, and hope. That's about all you can do." Nancy Johnson of the North Dakota Soybean Growers Association, leaned in and quipped, "Hope is unfortunately a terrible marketing plan." With that comment silence spread around the table as they all considered their plans for next year.

*Table 1: Steel Prices (Hot Rolled Ribbed (HRB) Steel Bar). U.S. dollars per metric ton*

| DATE | Price U.S.$ |
|---|---|
| May 23, 2016 | 684 |
| Oct., 24, 2016 | 546 |
| May 22, 2017 | 673 |
| Oct. 23, 2017 | 661 |
| United States imposed 25% tariffs on steel imports February, 2018 | |
| May 28, 2018 | 974 |
| Oct. 22, 2018 | 928 |
| May 27, 2019 | 700 |
| Oct. 28, 2019 | 557 |

Source: www.steelbenchmarker.com

*Table 2: Soybean Prices. U.S. dollars per bushel*

| DATE | Price U.S.$ |
|---|---|
| May 23, 2016 | 10.87 |
| Oct., 24, 2016 | 10.08 |
| May 22, 2017 | 9.27 |
| Oct. 23, 2017 | 9.80 |
| May 21, 2018 | 10.42 |
| China imposed 25% tariffs on soybean imports July 6, 2018 | |
| Oct. 22, 2018 | 8.48 |
| May 20, 2019 | 8.30 |
| Oct. 21, 2019 | 9.20 |

Source: https://www.macrotrends.net/2531/soybean-prices-historical-chart-data

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