



With the White House rolling out new trade moves at a dizzying pace, pork may become an example of what could be in store for other agricultural sectors and parts of the American economy. | AP Photo

## Trump's tariffs threaten billions in losses for U.S. pork

By ALEXANDER NIEVES | 06/27/2018 05:01 AM EDT

The pork industry was one of the first U.S. agricultural sectors to suffer blowback as President Donald Trump embarked on his aggressive program to reshape America's trade relationships — and the hits keep coming.

Trump pulled the U.S. out of the Trans-Pacific Partnership on his first full day in office last year, sending pork producers scrambling to shore up relationships with their top buyer by value, Japan, which remained in the 11-nation deal that was struck after Trump's exit.

Despite that setback, pork producers were riding high earlier this year on the strength of solid predictions for the sector's growth. Now, though, U.S. pork is at risk of losing billions of dollars in business as Mexico, the industry's largest buyer by volume, and China/Hong Kong, its third or fourth most important market in recent years, have readied retaliatory tariffs that will come down heavily against American agriculture — a key part of Trump's political base.

With the White House rolling out new trade moves at a dizzying pace, pork may become an example of what could be in store for other agricultural sectors and parts of the American economy as Trump pursues tariffs on \$250 billion in Chinese goods and Beijing vows to

retaliate in kind. Pork producers fear that a protracted trade war or a withdrawal from NAFTA could result in their hard-won export markets being seized by foreign competitors.

“Do I think tariffs are a good thing? The answer is no. I think they are horribly trade-distorting. I think they are a blunt instrument,” said soybean and corn farmer David Miller, the director of research for the Iowa Farm Bureau, in the country's top pork-producing state. “But the reality is, they're the instrument this administration has chosen to use to facilitate negotiations.”

Pork took a hit in the first tit-for-tat trade action between Washington and Beijing after Trump announced tariffs on \$3 billion in Chinese steel and aluminum imports — duties that were imposed on global imports, with a few exceptions. Those tariffs, part of Trump's effort to protect sectors deemed critical to national security, were later imposed on Mexico.

In retaliation, the U.S.' southern neighbor and NAFTA partner said it will impose a 20 percent tariff on U.S. pork products early next month — bumping it up from the 10 percent duty it first announced on June 5, after Trump denied Mexico and fellow allies Canada and the European Union further exemptions from the steel and aluminum tariffs.

China again took aim at U.S. pork in its first list of retaliatory duties stemming from Trump's plan to impose tariffs on \$50 billion in Chinese goods. Those U.S. tariffs, which will begin to take effect on July 6, are an effort to force Beijing to change practices that the White House says force U.S. companies to surrender intellectual property and other sensitive information to access the Chinese market.

Early last week, China updated its list of targeted products after Trump upped the ante on his tariffs, expanding from seven to 13 the number of pork products that will be subject to 25 percent duties — and that, notably, includes offal, for which China is the biggest buyer. Offal consists of items like feet and internal organs — products that would otherwise be ground for dog food, which is a far less lucrative option for producers.

Even before the acceleration of tensions with China this month, expectations that Trump's strategy would invite punitive responses were already causing losses. Dermot Hayes, an economist at Iowa State University, estimated that decreasing prices for hog futures have caused producers to suffer a loss of \$2.2 billion on an annual basis.

Hayes said the “main factor” in hog futures plummeting by \$18 per animal after March 1 was the expectation that China would come after U.S. pork if Trump imposed duties on steel and aluminum imports. China did just that on April 2.

“Look back at February, for example, and we were projecting to make about \$10 a pig for the next 12 months,” David Preisler, CEO of the Minnesota Pork Board, told POLITICO earlier this month. “Projecting out today for the next 12 months, we’d be at a loss of right around \$8 to \$10 a pig.”

The quick turnaround in the pork industry's fortunes was the kind of retaliatory damage that Senators from both parties were referring to when Commerce Secretary Wilbur Ross, whose department led the charge on the steel and aluminum duties, was grilled last week at a Senate Finance Committee hearing on Trump’s tariffs.

Senators from both parties argued the steel and aluminum duties are damaging U.S. agriculture and manufacturing without addressing Chinese overproduction in those sectors, which is generally viewed within the industries as the cause of the flood of cheap imports that the duties were meant to arrest.

“I just don’t see how the damage posed on all of these sectors could possibly advance our national security,” Senate Finance Chairman Orrin Hatch (R-Utah) said during the hearing.

Ross defended the administration’s actions against the bipartisan rebuke — one of the latest signs of the fraying relationship between Capitol Hill Republicans and the administration on trade.

“The purpose of this is to get to an endgame that's much closer to free trade than anything the world has seen before,” Ross said when Sen. Maria Cantwell (D-Wash.) asked why the administration is taking action that could harm American businesses. “The tragic fact is that, historically, we are the least protectionist country in the world, and we have the deficits to show for it. It would've been much easier to solve these problems sooner. They were neglected. The president has decided to take decisive action to deal with those problems.”

At the beginning of this week, with retaliation from Mexico and China drawing near, Iowa's entire congressional delegation wrote to Trump, imploring him resolve trade disagreements and avoid a trade war.

"Mr. President, these tariffs have real consequences on states like Iowa, rural communities across the nation and on America's farms," the Iowans wrote, citing the drop in pork futures. "We encourage you to act expeditiously to save our rural communities."

And on Tuesday, pushback on the Hill intensified, with Senate Foreign Relations Chairman Bob Corker (R-Tenn.) moving to add an amendment to the Senate farm bill, S. 3042 (115),

that would allow Congress to block tariffs that are imposed for national security reasons.

Pork has been one of the fastest growing sectors of U.S. agriculture in recent years, and producers have made investments in many cases that were based on trade relationships. Pork exported a record 5.6 billion pounds of product in 2017, according to a USDA report in February that predicted the industry's total output would jump by more than 24 percent by 2027.

Five new pork processing plants have recently opened or will soon begin operations, according to the National Pork Producers Council, which projected that the investments will expand production capacity by roughly 10 percent from 2015 levels by next year.

USDA's outlook report for livestock, dairy and poultry, released last week, predicted that hog production will continue to ramp up, even as Mexico's tariffs drive prices downward. The report forecast that third-quarter prices would fall 19 percent below the same point last year, with fourth-quarter prices dropping off by 17 percent compared with the prior year.

The USDA report struck a note of optimism, in terms of demand. "It is anticipated that the low relative prices expected to accompany increased U.S. pork production and strength in demand among important importing countries will provide strong incentives for all foreign buyers to purchase U.S pork," the report said.

The pork industry exported about 26 percent of total production in 2017, according to the National Pork Board, with the top three markets — Japan, Mexico and China/Hong Kong — taking in more than \$4 billion.

Japan, which accounted for \$1.6 billion of that, has been seeking to diversify its sources of imports since Trump pulled the U.S. out of TPP. It has negotiated a new trade agreement with the EU and is looking to the 10 other nations in the reconstituted Comprehensive and Progressive Agreement for Trans-Pacific Partnership to send it more pork products.

"Markets are very difficult to get," Preisler, of the Minnesota Pork Board, said. "When you got them, you don't want to lose them."

Both China and Mexico have also started looking toward new markets that could fill the hole left by the U.S., in the event that Trump stands his ground and trade tensions intensify.

Mexico, the top importer of U.S. pork by volume last year, mostly buys products like legs and shoulders that are less popular in the American market. Those products won't be so

easy to ship elsewhere if Mexico — which also upgraded its trade deal with the EU recently — finds several other alternative sellers.

In the short term, Miller, of the Iowa Farm Bureau, said he thinks tariffs on pork could actually be a windfall for chicken producers, as increased pork prices could lead Mexican consumers to look to different sources of protein.

Advocates for rural areas that rely heavily on the agricultural economy worry that increased pressure on pork producers will have detrimental effects on these communities. The industry supports about 550,000 jobs, according to the National Pork Producers Council, the main industry group.

"The crop side of agriculture is struggling, the dairy side has struggled, and if we started to pile the pork industry on top of that, it's just not good for rural communities," Preisler said.

Jim Monroe, senior communications director for the NPPC, said the group has had trade-focused conversations with the Trump administration. He would not go into detail about the specifics of those conversations, but said the priority for industry remains to expand export opportunities.

Andy Curliss, CEO of the North Carolina Pork Council, says most producers in his state — the country's second-biggest pork producer — are worried about the effects of Trump's tariffs, but understand the president's motivations for trying to reset trade relations, especially when it comes to China and the impact of its trade policies on U.S. manufacturing.

"It's a feeling of concern as we're in the renegotiation phase, but there's a feeling of optimism that people understand how important agriculture is and there's not an effort underway to harm the farmer."

But in the case of a long-term trade standoff, there's no doubt that pork producers are worried that competitors from EU nations and elsewhere will try to cut away at market share now controlled by the U.S.

Standing on the edge of a field on his farm, Randy Spronk, a pork producer from southwest Minnesota, said trade deals usually take years to be finalized, and he's not hopeful for a quick fix. "I don't think we'll see a quick resolution to it here, but I hope there is," said Spronk, who also grows soybeans — another U.S. commodity that would be hit by China's coming retaliation.