Review of Current Trade Issues

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EXTENDING KNOWLEDGE ▸ CHANGING LIVES
A Change in Trade Strategy

• The U.S. has made a significant shift in trade strategy:
  – Move away from multi-lateral agreements.
    • Withdrawal from Trans-Pacific Partnership (TPP)
    • Did renegotiate sections of North American Free Trade Agreement (NAFTA) to create U.S. – Mexico – Canada Agreement (USMCA).
  – Move towards bi-lateral agreement negotiation.
    • U.S. - China
    • U.S. - Japan
    • U.S. - EU
    • U.S. - Britain
  – Using tariffs to increase negotiating pressure rather than protect domestic industries.
What are the “Benefits from Trade”?  

• Trade between individuals:  
  – Each party has a net gain, otherwise trade would not occur.

• Trade between nations:  
  – Each nation has an *aggregate* net gain, otherwise a trade agreement will not be signed or will not be stable.
  – However, some industries or sectors within the nation will expand while other industries or sectors will contract.
  – Gains from Expansion > Losses from Contraction for each nation.
What are the “Benefits from Trade”? 

• Gains from Expansion vs. Losses from Contraction:
  – Two key assumptions made for economic analysis:
    • Labor mobility is high – it is easy for displaced workers to be retrained and find jobs in the expanding industries/sectors.
      – Is there a need for education and training programs?
    • The currencies of the trading nations can adjust based on market factors (currencies can “float”).
      – This is where political pressure plays a role.
U.S. – China Trade War

• Verbal commitment for a “Phase One” trade deal.
  – Negotiators are working on agreement details.
  – Proposed signing at Asia-Pacific Economic Cooperation (APEC) forum in Santiago, Chili on Nov. 16-17, 2019.
  – U.S. is saying China made a “serious commitment” to scale up purchases of U.S. agricultural products to $40 to $50 billion.

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Cancelled
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China is arguing these levels are not attainable.
U.S. – China Trade War

• “Phase One” continued:
  – China is expected to make concessions on non-tariff barriers and standards that have prevented U.S. ag. products from entering China.
  – The commitments are for dollar amounts not physical quantities.
  – Chinese officials have said purchases will depend upon market conditions and needs of private companies.
    • Suggests that China will be free to choose the quantity, timing and type of agricultural products.
U.S. – China Trade War

• “Phase Two”?  
  – Expected to address more difficult issues including forced technology transfer and non-financial services.
  – China has said tariffs must be removed before a final agreement can be reached.
  – Phase One agreement prevents new tariffs, scheduled for Oct. 15, to be postponed.
  – Proposed tariffs scheduled for Dec. 15, 2019 are still being discussed.
Key Questions for Agriculture

• What “agricultural products” will China purchase and when?
  – Previous purchases include - pork, beef, chicken, animal hides, soybeans, ethanol, DDGs, corn, sorghum, cotton, spring wheat, rice, hay, dairy products, various fruits and vegetables.

• Core issues remain the same:
  – Forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions/theft, services and agriculture.
Other Trade Agreements

• U.S., Mexico and Canada Agreement (USMCA).
  – U.S. Congress and Canadian Parliament must ratify the agreement.
    • Mexican Congress was first to pass agreement.
  – Allows more access for U.S. dairy products into Canada.
  – Faster approval of biotechnologies, including new technologies like gene editing.
  – Canada agreed to grade U.S. wheat the same as Canadian wheat and not require country of origin statement.
  – Enhanced rules for science-based sanitary and phytosanitary measures.
Other Trade Agreements

• U.S – Japan Trade Agreement.
  – Signed Oct. 7, 2019, but very few details have been released.
  – Tariff elimination on fruits and vegetables and staged tariff elimination on processed pork, beef offal, frozen poultry, frozen potatoes, ethanol and other fruits.
  – Tariff reductions to match CP-TPP countries on fresh and frozen beef and pork.
Other Trade Agreements

• U.S – Japan Trade Agreement.
  – Country Specific Quotas (CSQ) at preferential tariff rates for wheat, wheat products, malt, glucose, fructose, corn and potato starch and inulin.
    • Wheat grows from 120,000 metric tons to 150,000 metric tons over six years.
  – “Mark Up” – Japan will provide the same reductions to its wheat and barley mark up as provided to CP-TPP suppliers.
## CPTPP Wheat Tariff Reductions

<table>
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<tr>
<th>Date</th>
<th>Japanese Wheat Tariff Rate (Yen/Kg)</th>
<th>Tariff in USD/Bu</th>
<th>Tariff in USD/MT</th>
<th>Difference USD/Bu</th>
<th>Difference USD/MT</th>
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<td>Jan 2019</td>
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<td>150.00</td>
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<td>Apr 2019</td>
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<td>3.65</td>
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Assumes 108 Japanese Yen = 1.00 U.S. Dollar
Other Trade Agreements

• Comprehensive Economic and Trade Agreement (CETA).
  – Canada – EU agreement expected to be signed soon.
    • Canadian Parliament has ratified the agreement.

• U.S. and EU have just begun negotiations.
  – Steel (25%) and Aluminum (10%) tariffs are still in place.
    • Agriculture is one of the key hurdles in future negotiations.

• Brexit?
Other Trade Agreements

• “Brexit” – The exit of Britain from the European Union.
  – British and the EU leaders have agreed to an exit plan.
  – British Parliament must still approve the plan by October 31, 2019, or they will “leave” the EU without a plan.

• Britain is seeking a trade agreement with the U.S.
Questions?