MICHELLE ERICKSON-JONES TESTIMONY
ON BEHALF OF
FARMERS FOR FREE TRADE

Docket Number: USTR-2018-005

MULTI-INDUSTRY ASSOCIATION COMMENTS ON PROPOSED DETERMINATION OF ACTINO PURSUANT TO SECTION 301: CHINA'S ACTS, POLICIES, AND PRACTICES RELATED TO TECHNOLOGY TRANSFER, INTELLECTUAL PROPERTY, AND INNOVATION

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Good afternoon. My name is Michelle Erickson-Jones and I am a fourth-generation farmer from Montana. I am President of the Montana Grain Growers Association, serve on the Board of Directors of the National Association of Wheat Growers and am a member of Farmers for Free Trade. It is my honor to testify today on the impacts of Section 301 proposed tariffs on U.S. farmers, agribusiness and the entire rural economy.

Farmers for Free Trade is a bipartisan, non-profit organization that represents American farmers, ranchers and agricultural businesses. Our members recognize that their livelihood is supported by and benefits from, the highly-integrated, cross-border supply chains that make up the agriculture and food processing industries serving customers around the globe.

American agriculture is a tremendous global marketing success story. We export 50 percent of our major commodity crops such as corn, wheat and soybeans, 70 percent of fruit nuts, and more than 25 percent of our pork. Exports account for 20 percent of all U.S. farm revenue and rely on strong commercial relationships in key markets including Canada, Mexico, Japan, the European Union and, or course, China – the second largest market for U.S. agriculture, accounting for nearly $19 billion in exports in 2017. U.S. agriculture exports also support over 1,000,000 American jobs. As such, trade is critically important to the U.S. economy and our rural communities.

As I have noted publicly in recent months, "while many rural American families are optimistic about economic growth under the current Administration, there is mounting concern among farmers about trade policies that would reduce access to the export markets they depend on."

Farmers for Free Trade respects the Administration's efforts to address China's unfair trade practices; however, we are very concerned about the unintended consequences if the tariffs are placed on Chinese imports under the Section 301 of the 1974 Trade Act. Of particular concern is the likely damage to a vital market that I, and other farmers, depend on.

The Office of the U.S. Trade Representative has asked whether maintaining or imposing additional duties on a particular product would cause **disproportionate economic** harm to U.S.

interests. With respect to farmers and ranchers, the answer is clear – it will – and we are already seeing the effects. This comes at a time when American farmers are currently bearing the brunt of the U.S.-China trade dispute related to the Section 232 tariffs on steel and aluminum. The retaliation for these tariffs is imposing a staggering burden on key U.S. farm sectors including grapes, wine, almonds, walnuts, pistachios, pork, and oranges.

Let me offer a personal example about how the Section 232 tariffs are raising the cost of capital investments for farmers such as myself. Earlier this year we priced a new 25,000-bushel grain bin to increase grain storage capacity on our farm. The price was 12 percent higher than an identical bin we had built in 2017. As we weighed our options, the initial bid on bin #2 expired, so we sought a second bid. This bid was 8 percent higher than the initial one just a few weeks prior – a 20 percent increase in the cost of a steel product in just one year.

The bin company attributed the increase to a significant increase in their cost of steel. It seems their domestically sourced steel suppliers had increased their prices to match the price of imported steel. As a result of this dramatic cost increase and volatility in the market, we abandoned our grain storage expansion project. The implications of that decision not only harmed my operation, it also hurt my community: a small local construction company lost a project, a U.S. grain bin company missed a sale, and a domestic steel company had one less shipment to send out of their factory.

Now let me provide some real-world examples on the impact of Chinese retaliation on U.S. agriculture from the 232.

China is the third-largest export market for fresh cherries from the United States. In 2017, U.S. exporters shipped $119 million of fresh cherries. For California, cherry exports doubled over the past five years and the California cherry industry sees China as the export market with the greatest growth potential, far surpassing Canada as the largest export market for cherries produced in the Pacific Northwest.

Cherries now also face a 15% retaliatory tariff. The walnut industry is similarly dependent on exports to foreign markets and is now facing a 15% retaliatory tariff from China. Any additional tariffs – and China's likely retaliation – will further exacerbate supply chain uncertainty at a time when farmers' livelihoods are dependent on their ability to export their crops and products to China.

It is important to note that while the Section 301 tariffs are not yet in effect, the U.S. farm community is already feeling the effects of threatened tariff action including depressed commodity prices, shipments held up at port, increased inspections and cancelled orders. This comes at a time when the industry that is already rife with uncertainty around re-negotiation of the North American Free Trade Agreement ("NAFTA"). Make no mistake about it, these market interruptions can devastate ag prices and drive U.S. farmers out of business.

Brent Bible, a Farmers for Free Trade member who operates a 5,000 acre corn and soybean farm in Lafayette, Indiana, states that "for those farmers that are operating on thin lines of profit and credit and are already financial unstable, [any further trade disruption] easily has the ability to be the straw that breaks the camel's back."

The soy industry is close to that breaking point as sales of soybeans to China have fallen from about 255,000 metric tons in the first week of April, when the trade dispute began, to just 7,900 in the last week of April. Cancellations have also jumped, to more than 140,000 metric tons in the week ending April 26; in the same week last year, there were no canceled sales at all.

Further complicating matters, China appears to also be increasing non-tariff barriers, like stepped-up inspections, creating costly and damaging delays for perishable commodities. California winery LangeTwins has experienced this. It previously sold grapes in bulk but has vertically integrated its operation to bring more value back to the farm gate. In recent weeks, this family-owned business has had several wine shipments to China delayed at port or cancelled. Years of effort, negotiation, trust-building, investment and profit lost in an instant.

Meanwhile other industries such as beef and rice that have been working hard to gain market access to China now see their efforts set back while competitors from other countries take advantage of the uncertainty.

We also know from previous trade disputes that the impacts will be felt from farm to fork including secondary industries such as seed manufacturers, agricultural equipment dealers and credit lenders. This would be devastating to America's rural communities where these industries serve as the chief economic driver.

Currently farmers across America are in the field wondering whether the seeds they are planting will produce a profitable crop at harvest time in the fall. On their behalf, Farmers for Free Trade urges the Administration to take a thoughtful and long-term approach to resolving the Section 301 trade dispute with China. We further ask that the U.S. focus its attention on opening this important market to more high quality, safe and affordable food exported from America.

Thank you for your consideration of our comments.