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Trade War of Words, Threats of Tariffs between the U.S. and China Escalate, Anxiety is High

With dueling lists of products targeted for retaliatory tariffs released this week by the U.S. and China, U.S. agriculture is clearly in China's crosshairs, and the war of words between the two nations escalates daily. However, as White House National Economic Council Director Larry Kudlow told the media this week, "Nothing concrete has actually happened," but even that reality check has not lowered anxiety levels among U.S. farmers and ranchers who rely on global sales.

Earlier this week, the respective tariff totals stood at \$50 billion or so identified by the U.S. in action directed at industrial goods versus about \$3 billion in initial Chinese retaliatory measures, later boosted to \$50 billion, as well. Late Thursday, the U.S. Special Trade Representative's (USTR) office was directed by President Trump to identify another \$100 billion on duties which could be imposed on as-yet unnamed Chinese imports, most likely on consumer products.

Trump said the newest tariff move was in response to "uncivil" reaction by the Chinese in retaliating against the president's earlier steps, stating "Rather than remedy its misconduct, China has chosen to harm our farmers and manufacturers."

"Unfortunately, China has chosen to respond thus far with threats to impose unjustified tariffs on billions of dollars in U.S. exports, including our agricultural products," said USTR Robert Lighthizer in a statement. "Such measures would undoubtedly cause further harm to American workers, farmers and businesses. Under these circumstances, the president is right to ask for additional appropriate action to obtain the elimination of the unfair acts, policies and practices identified in USTR's report." The "report" is a study which outlines alleged Chinese Section 301 violations USTR completed at Trump's request.

While some GOP loyalists so far have held their tongues, many trade analysts, agriculture groups, general industry and lawmakers from both sides of the aisle and both sides of Capital Hill condemned Trump's action, reminding the president of several "we-told-you-so" statements made before the White House acted this week. They all warn an all-out trade war between the globes' two largest economies will devastate an already unsteady U.S. agriculture and rural economy, and could stall worldwide economic growth.

Trump critic Sen. Ben Sasse (R, NE) said in a statement, "Hopefully, the president is just blowing off steam again, but if he's even half-serious, this is nuts. China is guilty of many things, but the president has no actual plan to win right now. He's threatening to light American agriculture on fire. Let's absolutely take on Chinese bad behavior, but with a plant punishes them instead of us. This is the dumbest possible way to do this."

Despite media reports China's proposed tariffs in retaliation for the U.S.'s Section 301 tariff action on steel, aluminum and about 1,300 other Chinese products unveiled this week would take effect "immediately," the Chinese government says it will impose no tariffs until the U.S. formally acts on its proposals. The U.S. won't impose tariffs until the administration goes through a lengthy public notice and comment process, meaning as Kudlow put it, "I doubt if there'd be any concrete action for several months."

While the U.S. list of targeted Chinese products so includes no agricultural items, the Chinese list of U.S. products against which it has threatened to retaliate includes all major U.S. farm exports worth billions of dollars in annual trade with the world's second largest economy. Contemplated tariffs range from 15% to 25%, and would be imposed in two steps, per World Trade Organization (WTO) rules. Included on the list China released this week – which seemed to expand daily based on the volume of political rhetoric – are soybeans, corn, wheat, cotton, sorghum, distillers dried grains (DDGs), fresh and frozen beef and products, fresh and frozen pork and products, fruits, tree nuts, wine, orange juice, ethanol, steel and aluminum products, various car and trucks, certain aircraft and a host of chemicals and plastics.

The Office of the U.S. Special Trade Representative (USTR) said this week, as part of the release of its Chinese tariff target list, it will hold a May 15 public meeting on President Trump's plan to slap tariffs on Chinese imports based on that country's "theft" of U.S. technology and intellectual property as a cost to U.S. companies of doing business in China. Public comments will be taken until May 22, USTR said, with one official careful to remind the media there's no telling how long it will take to process the comments received. To testify, individuals must request a slot from USTR by April 23, and written comments must be filed by May 11, the agency said. Meeting details and processes can be found by going to <https://ustr.gov/>.

Meanwhile, China and the U.S. have begun a 30-day consultation process required by WTO3 in the wake of China's formal complaint filing. It's also widely reported both nations have quietly been talking since before Trump announced his 25% tariff on steel imports and his 15% tariff on aluminum products. Fingers are crossed a compromise will be reached to avoid the tariff tit-for-tat.

The House Ways & Means Committee will hold a hearing April 12, on the impacts of Trump's tariff proposals on various U.S. businesses. Agriculture Secretary Sonny Perdue will testify April 11 before a Senate appropriations subcommittee about the administration's FY2019 ag/FDA budget request, and its assumed Perdue will field several questions and listen to several concerns from subcommittee members.

Perdue Says Administration will "Protect" Farmers if Tariff Tussle Turns into Trade War

Secretary of Agriculture Sonny Perdue supports President Trump's tariff action to protect U.S. technology/intellectual property coerced out of U.S. companies seeking to do business in China, but he acknowledged this week the retaliation axe will fall on U.S. farmers and ranchers if the threatened tariff actions move forward – a reality, Perdue insists, the president understands – and USDA will move to aid producers caught in the tariff crossfire.

"President Trump knows that America's farmers, ranchers, foresters and producers are the ones who feed, fuel and clothe this nation and the rest of the world," Perdue said. "The Administration stands ready to defend agricultural producers who may be harmed. As we take a stronger approach to the way we handle trade as a nation, we will use all of our authorities to ensure that we preserve and protect our agricultural interests."

During his announcement of his request of the U.S. Trade Representative's (USTR) office to identify \$100 billion in additional Chinese exports against which he could take action, Trump said he directed Perdue to "use his broad authority to implement a plan to protect our farmers and agricultural interests."

Perdue said USDA is working on emergency aid programs for commodity producers damaged in any actual trade war, but no details were given as to how USDA will use existing authority to assist farmers and ranchers, not to mention meat processors and other industry segments under its jurisdiction. It's assumed Perdue and his team are starting their process with how to use Commodity Credit Corporation (CCC) emergency market/price stabilization dollars. The secretary acknowledged it will be impossible to come up with a one-size-fits-all aid program given the broad variety of targeted U.S. products on China's retaliation list.

Perdue said even the prospect of a prolonged trade wrangle with China means Congress will have to "take some extraordinary measures" in crafting the 2018 Farm Bill. A few months ago in a warning to the White House from Senate Agriculture Committee Chair Pat Roberts (R, KS) over the broad negative impact of a U.S. withdrawal from NAFTA, Roberts said he and panel ranking member Sen. Debbie Stabenow (D, MI) discussed whether an emergency assistance program may be needed as part of the 2018 Farm Bill.

Committee member Sen. Charles Grassley (R, IA), who agreed China needs to be called out on its trade actions, said this week, "If the federal government takes action on trade that directly results in economic hardship for certain Americans, it's a responsibility to help those Americans mitigate the damage it caused." Grassley, who also chairs the Judiciary Committee and sits on the Finance Committee, says he's prepared to take action.

The recent Trump threats, should they become reality, and given USDA's acknowledged challenge in providing farmers emergency aid, may move creation of such a farmer assistance program higher on the Senate's agenda. So far, no word from the House on how it may approach producer assistance.

It's Tough to be EPA's Pruitt; Trump Says He Backs Him, but...

EPA Administrator Scott Pruitt can't seem to catch a break. The former Oklahoma attorney general could be the subject of another agency Inspector General (IG) investigation – the IG is reviewing requests to launch the probe – as he comes under increasing attack for alleged ethics violations for reportedly renting a Washington, DC, apartment from a lobbyist – and falling behind in his rent – as well as criticism for his first class and private jet travel at tax-payer expense, allegations he approved big pay raises for two employees after the White House nixed the move, and losing a top aide as the furor deepens.

Pruitt says the attacks are unfounded and the result of his success in rolling back 24 Obama administration environmental regulations and programs. Both President Trump and White House Chief of Staff John Kelly spoke with Pruitt by phone this week, with one report indicating Kelly reassured Pruitt of White House support.

However, the seeming avalanche of allegations against Pruitt – and White House frustration over the negative headlines – fuel rumors President Trump may be getting ready to fire him, with one media report this week indicating Kelly is awaiting the EPA IG report before making any recommendations on Pruitt's fate. The White House has said publicly Trump is not happy about the room rental issue. The president said he retains confidence in Pruitt, telling reporters he's "done a fantastic job" and has been "very courageous," but said he'll have to look at the IG reports before he makes a "determination."

Bipartisan calls for the IG investigation started flowing from Capitol Hill this week, demanding the agency look into the \$50-per-day rent Pruitt pays -- \$1,500 per month -- for a room in a condo owned by a health care lobbyist and her husband, who lobbies for the energy industry. At first cleared by EPA's ethics office, the rental agreement is now back in the spotlight as the agency ethics officer said the first review did not benefit from the full story on the lease agreement and how Pruitt and his family used the condo.

The IG acknowledged it's reviewing those requests, but is already investigating Pruitt's use of private government aircraft and first class commercial air travel, the installation in his office of a soundproof phone booth, and the use of an arcane hiring loophole in the Safe Drinking Water Act (SDWA) to give raises to two Pruitt appointees after the White House rejected the salary proposal. On the employee raise issue, Pruitt said he and his immediate staff were unaware of the raises and have reversed the action.

Meanwhile, Pruitt appointee Samantha Davis, senior counsel and associate administrator of EPA's Office of Policy, submitted her resignation this week, but said it has nothing to do with Pruitt's situation. The former policy director and general counsel for the Republican Attorneys General Assn., led agency regulatory reform efforts, and traveled with Pruitt to oil/gas meetings in Morocco last December, and to Italy for the G7 environmental meetings last June.

EPA Grants Andeavor Refineries RVO Waiver; Another White House Meeting Set to Talk RFS/RIN Fixes

As EPA granted waivers from the 2016 Renewable Fuel Standard (RFS) blending mandate to three refineries owned by major petroleum company Andeavor, nervousness among biofuels refiners and feedstock suppliers amped up this week, exacerbated by word the White House will convene April 9 administration meeting to talk RFS policy modifications, including what to do with the Renewable Identification Number (RIN) program.

A report in *Agri-Pulse* indicates next week's energy confab will be attended by White House officials, as well as senior staff from USDA and EPA. In addition to reviewing recent policy options presented to President Trump by Secretary of Agriculture Sonny Perdue and EPA Administrator Scott Pruitt on how to make the RFS/RIN issue go away in a "win-win" context, it's expected there will be strong messages from ethanol supporters on kicking the entire issue back to Congress to fix, as well as ordering EPA to step away from use of hardship waivers, especially for 2017 and 2018.

The most recent agency waivers, usually limited to refineries producing less than 75,000 gallons a year, were granted to three of 10 Andeavor refineries -- two in North Dakota, and one in Utah -- basically exempting them from RFS blending obligations for 2016. The controversy surrounds the authority of EPA to grant the waivers -- restricted to helping out small refiners suffering "disproportionate economic hardship" -- to facilities owned by one of the country's largest petroleum companies. Andeavor is the new name as of August 1, 2017, for the combined operations of the former Tesoro oil company which finalized its acquisition of Western Refining on June 1, 2017.

A report from *Reuters* indicates that in 2017, EPA granted similar hardship waivers to 25 refineries, a move industry contends is designed to undercut the RFS mandate that petroleum companies blend millions of gallons of various biofuels into gasoline on an annual basis. The petroleum industry contends the agency should be granting more waivers, and last year a federal court ordered EPA to relax its

criteria for granting waivers. Industry further contends the dramatic run-up in waiver requests is evidence the RFS must be fixed.

“It appears the agency has initiated a fire sale on RFS demand,” said Bob Dinneen, president of the Renewable Fuels Assn. (RFA). “Providing a small company waiver to a company like Andeavor is laughable and abandons the commitment President Trump made to protect the RFS. This is an outrageous abuse of the statute.” Dinneen also questioned the agency’s lack of transparency, saying the waivers were granted “under the cover of darkness.” RFA wants to know which refineries were granted waivers from 2016 and 2017 RFS obligations, as well as the details of those waivers. Critics estimate waivers have eliminated over 1 billion gallons of biofuel demand.

Sen. Charles Grassley (R, IA) isn’t happy about the waivers. “If the reporting is accurate, it appears EPA granted a secret waiver to one of the largest oil refining companies in the country,” he said. “If refineries are being allowed to retroactively get out of the renewable volume obligations EPA assigned them in November (2017), that fundamentally undermines the RFS, and may be illegal.”

Trade Notes

NAFTA 2.0 a Done Deal? – While word from NAFTA 2.0 negotiators from Canada and Mexico indicates the new tripartite trade treaty may be ready for prime time, the White House is less enthusiastic. Mexican Economy Minister Ildefonso Guajardo and Mexican Foreign Minister Luis Videgaray had White House meetings in Washington, DC, this week, signaling a new “phase of intensive ministerial engagement” hopefully leading to a modernized NAFTA treaty. While another round of negotiations is set for later this month, meetings among Guajardo, USTR Robert Lighthizer and Canadian Foreign Minister Chrystia Freeland were set to begin this week, just ahead of the opening of the Summit of Americas in Lima, Peru next week. It’s unclear whether President Trump will meet with Canadian Prime Minister Justin Trudeau and Mexican President Enrique Peña Nieto in Peru, but some reports indicate Trump wants to unveil a NAFTA 2.0 “agreement in principle” at the meeting. Trudeau this week said, “We have a high chance of reaching a win-win-win deal for Canada, the United States and Mexico,” adding he’d like to see an announcement in Peru. However, the White House said April 5 it didn’t “anticipate substantive discussions on NAFTA at the summit,” adding Lighthizer “continues to lead the negotiations with our partners, separate from the summit.”

Doud Hears of Need for New Trade Deals – Newly confirmed USTR chief agriculture negotiator Gregg Doud held two meetings last week on industry priorities and concerns – one with producers, another with processors – and heard nearly identical messages. Farm and processing groups told Doud, a former economist for cattle and wheat industries and a Senate Agriculture Committee staffer, of their fears over Chinese retaliation should President Trump make good on his proposed tariffs, and that NAFTA, the Korea-U.S. trade pact (KORUS) and revisiting the Trans-Pacific Partnership (TPP) treaty signers to get new Pacific Rim bilateral treaties are important moves for USTR. Agriculture hammered on the need to get new bilateral treaties with countries like India, as well as a trade deal with Japan.

ITC Finalizes Approves Biodiesel Antidumping Duties on Argentina, Indonesia – The International Trade Commission (ITC) this week voted unanimously to approve antidumping duties on more than \$1.5 billion in Argentine and Indonesian biodiesel exported to the U.S. The vote hands the National Biodiesel Board (NBB) a major victory, which said in a statement: “The vote...finalizes the case to address the harm that unfair trade practices have had on the U.S. biodiesel industry. Foreign producers dumping product into

American markets below cost has undermined the jobs and environmental benefits that U.S. biodiesel brings to the table.” NBB filed its petition with the Department of Commerce (DOC) a year ago, contending biodiesel production in the two countries was heavily subsidized and priced under market value. DOC agreed, recommending duties ranging from 60.44-86.41% on Argentine producers, and 92.52-276.65% for Indonesian production shipped to the U.S. Countervailing duties were also imposed by DOC and approved by the ITC last December. Argentina shipped \$1.2 billion in biodiesel to the U.S. in 2016, and Indonesia shipped about \$270 million worth of the alternative fuel.

USDA Opens Sign-up for New, Improved Dairy MPP

Dairy farmers may begin signing up next week for the new and improved Margin Protection Program (MPP), an invention of the 2014 Farm Bill which provides a crop insurance-like product paying dairy producers when the margin between milk prices and the cost of “feed” drops below the insurance policy protection level selected by the farmer.

The enrollment period begins April 9 and ends June 1. Producers already enrolled in MPP in 2017, must reenroll in the new program, and coverage under new program terms will be retroactive to January 1, 2018. “All dairy operations desiring coverage must sign up during the enrollment period and submit an appropriate form (CCC-782), and dairy operations may still ‘opt out’ by not submitting a form,” said USDA.

MPP has been controversial given the relatively low level of participation demonstrated by farmers since the program was initiated. The changes, included in the recent FY2018 bipartisan budget act signed by President Trump, fix loopholes identified by industry in the program. Changes include calculations on potential payments will be made monthly rather than every two months; the amount of farmer production that can be covered at lower premium rates is raised from 4 million pounds to 5 million pounds; premiums for the first 5 million pounds of production have been “sharply reduced” at higher production levels, and no administration fee need be paid by “limited resource, beginning, veteran and socially disadvantaged farmers.”

If a producer enrolls in MPP, he/she can’t enroll in the Livestock Gross Margin (LGM) insurance program for dairy. Observers say generally larger dairy farms will opt for LGM. USDA has a new website to help farmers determine how much coverage they may need. That MPP tool can be found by going to <http://www.fsa.usda/mpptool>.

Judge Says Six Arkansas Farmers Can Use Dicamba

A state judge this week said six Arkansas farmers will be allowed to use Monsanto dicamba-based herbicides on their crops this summer, in spite of a state-wide ban on the product’s use. The ban, however, will still apply to all other producers. The six farmers who can legally use the herbicide this summer were plaintiffs in a suit against the Arkansas State Plant Board over its decision to ban the use of dicamba-based products April 16-October 31. The farmer suit was dismissed, but the judge said the ruling got in the way of due process and the farmers’ right to appeal the board’s ban. Monsanto sued the plant board, as well, challenging the ban, but that suit was ultimately thrown out.

