



January 29, 2019

China's Retaliatory Tariffs on U.S. Agricultural Products

United States and Chinese officials are engaged in talks to resolve a trade conflict that began in 2018 and resulted in the imposition of tariff hikes by the two countries on each other's goods. The outcome of the talks could affect U.S. agricultural and food exports. President Trump and Chinese President Xi Jinping agreed on December 1, 2018, to suspend additional planned increases in punitive and retaliatory tariffs for 90 days to allow for negotiations. During that meeting, China agreed to make "substantial" purchases of U.S. agricultural products, according to the White House. Representatives from the Office of the U.S. Trade Representative (USTR) and other U.S. trade officials, including the U.S. Department of Agriculture's (USDA) Under Secretary for Trade and Foreign Affairs, held talks with Chinese officials in Beijing on January 7-9, 2019, the first formal meeting between the two countries since Trump and Xi met the prior December. Purchases of U.S. agricultural products were among the topics discussed in Beijing.

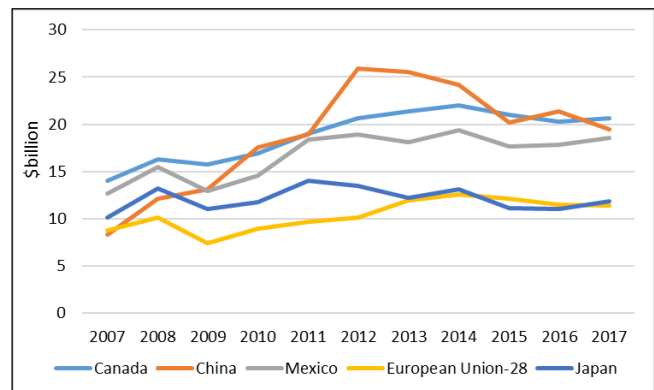
China has levied retaliatory tariffs on almost all U.S. agricultural and food exports, among other products, in response to trade actions by the Trump Administration. In spring 2018, the Trump Administration applied tariffs under Section 232 of the Trade Expansion Act of 1962 on all imports of aluminum and steel products. The Administration also applied tariffs to certain imports from China under Section 301 of the Trade Act of 1974 in response to China's intellectual property rights and technology policies. All told, about 99% of the value of U.S. food and agricultural exports are subject to China's retaliatory tariffs. For more information on the retaliatory tariffs imposed on U.S. food and agricultural exports by China (and other retaliating countries), see CRS Report R45448, *Profiles and Effects of Retaliatory Tariffs on U.S. Agricultural Exports*.

Agricultural Trade with China

Since 2010, China has competed with Canada as the leading market for U.S. agricultural and food exports (see **Figure 1**). However, the tariffs China imposed in 2018 caused overall U.S. agricultural and food exports to China to decline, largely due to a drop in exports of U.S. soybeans, according to USDA. U.S. agricultural and food exports to China in FY2018, amounted to \$16.3 billion (calendar year 2018 data are not available), a decline of about 25% from FY2017. In its trade forecast of November 29, 2018, USDA projected that U.S. agricultural exports to China would fall to about \$9 billion in FY2019 due to the tariffs. It is unclear when, or even whether, U.S. agricultural and food products would regain their market share if China were to remove its retaliatory tariffs.

Figure 1. Leading Markets for U.S. Agricultural and Food Exports

Calendar Years 2007-2017



Source: USDA Global Access Trading System (GATS). Accessed January 28, 2019. Values are not adjusted for inflation.

China's Retaliatory Tariffs

China has levied retaliatory tariffs of 5%, 10%, 15%, 20%, and 25%—or a combination of those amounts—of the value of the exported product on more than 800 U.S. food and agricultural products. The first retaliatory tariffs, which were in response to the Section 232 tariffs, went into effect on April 2, 2018, and were applied to about 90 food and agricultural products. China applied tariffs to more than 500 additional food and agricultural products, including soybeans, on July 6, 2018, in response to the Section 301 tariffs. On September 24, retaliatory tariffs were levied on a third tranche of about 350 additional food and agricultural products following an escalation in Section 301 tariffs by the United States. The products subject to retaliatory tariffs span all agricultural and food categories, including grains, meat and animal products, fruits and vegetables, seafood, and processed foods.

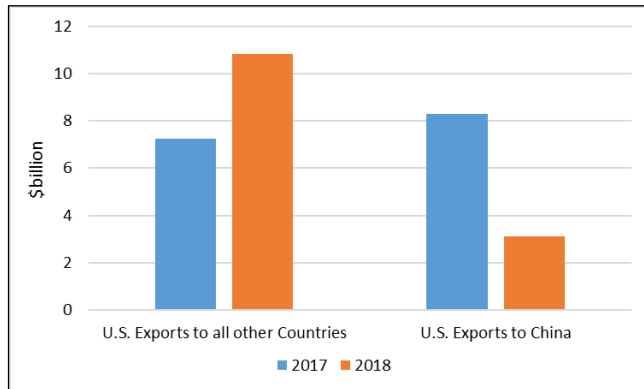
Effects on U.S. Soybean Exports

China has levied retaliatory tariffs of 25% on U.S. soybeans, raising the total tariff rate to 27% and effectively restricting access to what was the largest U.S. export market for that crop in 2017. About one-half of all soybeans produced in the United States were exported prior to the application of the tariffs. Of those U.S. soybean exports, more than one-half—about \$12 billion worth—were shipped to China in 2017, where they were used largely for animal feed.

After China hiked its tariff on U.S. soybeans in early July 2018, U.S. exports to China essentially halted. U.S. soybean exports for January through October 2018 were 63% lower than during that time period in 2017 (see **Figure 2**). Meanwhile, China has increased its soybean purchases from Brazil and elsewhere. U.S. soybean prices have declined by

about 20% since China's retaliatory tariffs took effect, according to the American Soybean Association (ASA), with the reduction in U.S. exports contributing to the decline. U.S. soybean exports have increased to the European Union and other countries, but those sales have not been enough to replace the Chinese market. Thus soybeans producers are selling their crop at lower prices or, in some cases, are unable to sell their crops at all.

Figure 2. U.S. Soybean Export Totals for January-October 2017 and 2018



Source: USDA GATS, January 28, 2019.

Notes: U.S. 2018 export values have been reported only through October 2018.

USDA's Trade Aid Package

USDA has indicated that it will make available up to \$12 billion in financial assistance for producers of products that it determined would be the most directly impacted by the retaliatory tariffs from China and the other retaliating countries, which include Canada, Mexico, the European Union, and Turkey.

Most of the money from USDA's trade aid package will go as direct payments to U.S. producers of corn, cotton, soybeans, sorghum, wheat, hogs, and dairy. Some funding will also be used for the purchase, distribution, and trade promotion of affected commodities. About \$5.2 billion in payments had been distributed as of January 9, 2019, but some payments have been delayed by the government shutdown that affected operations at USDA agencies tasked with implementing the program. For more discussion of the trade aid package, see CRS Report R45310, *Farm Policy: USDA's Trade Aid Package*.

USDA expects to issue about \$7.3 billion in payments to soybean producers under the trade aid package. ASA has supported the package but has also expressed "extreme disappointment" over the escalation of tariffs on China by USTR that preceded China's retaliatory tariffs on U.S. soybeans. ASA has urged USDA to focus on gaining additional market access in China and elsewhere for U.S. soybean exports.

Trump-Xi Agreement

On December 1, 2018, at the end of the G-20 summit in Buenos Aires, Argentina, Presidents Trump and Xi held a working dinner at which the Section 301 tariffs were a major topic of discussion. According to a White House statement following the Trump-Xi dinner, the two sides

agreed to immediately begin negotiations on "structural changes" in regard to intellectual property and technology issues, along with agriculture and services, with the goal of achieving an agreement in 90 days. According to the White House, China agreed to make "very substantial," though unspecified, purchases of U.S. agricultural products, particularly soybeans. President Trump, in turn, agreed to suspend further tariff increases, contingent on an agreement being reached within 90 days. For more details on the summit, see CRS Report R45448, *Profiles and Effects of Retaliatory Tariffs on U.S. Agricultural Exports*.

On December 13, 2018, USDA reported the sale of 1.1 million metric tons of U.S. soybeans to China, followed by two more soybean sales to China later that month, marking the first U.S. soybean sales to China since the retaliatory tariffs went into effect in July 2018. Additional purchases by China of U.S. agricultural goods were discussed during the talks on January 7-9, 2019, according to USTR.

Congressional Interest

Many agricultural groups have expressed concerns about the retaliatory tariffs. Exports account for about 20% of U.S. farm income, according to USDA, so U.S. farmers and ranchers have a strong interest in maintaining and expanding export markets. Because of the broad scope of farm products subject to the retaliatory tariffs from China and other countries and the importance of some of the markets involved, many farmers and ranchers are likely to experience some negative effects, such as lost market opportunities and potentially lower prices for their products.

While the Administration has released the trade aid package to mitigate short-term losses to farmers and ranchers, it is not designed to address potential longer-term negative consequences, such as lower commodity prices and reduced farm income from lost export sales. Some agriculture industry stakeholders have suggested that the potential effects of the retaliatory tariffs could be longer lasting because they have created uncertainty about the reliability of the United States as a trading partner.

As U.S. farmers and ranchers look to regain or expand existing markets and establish new ones, Members of Congress may consider oversight activities to identify actions that would facilitate additional sales of agricultural products in domestic and export markets and enhance the long-term economic vitality of U.S. food and agricultural interests. Congress may also consider legislation aimed at providing more assistance to U.S. farmers and ranchers. Similar legislation was introduced in the 115th Congress (H.R. 6396 and S. 3258) that would have required that any duties collected as part of the Section 232 or Section 301 tariffs on U.S. imports be provided to USDA export promotion programs to help farmers and ranchers find new markets.

Jenny Hopkinson, Analyst in Agricultural Policy

IF11085

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.