



the Almond
CONFERENCE
2019

Tariffs and Trade: Chaos Theory on a Global Level

 **california
almonds**[®]
Almond Board of California

Session Speakers

Julie Adams, ABC

Jason Hafemeister, USDA Special Trade Advisor

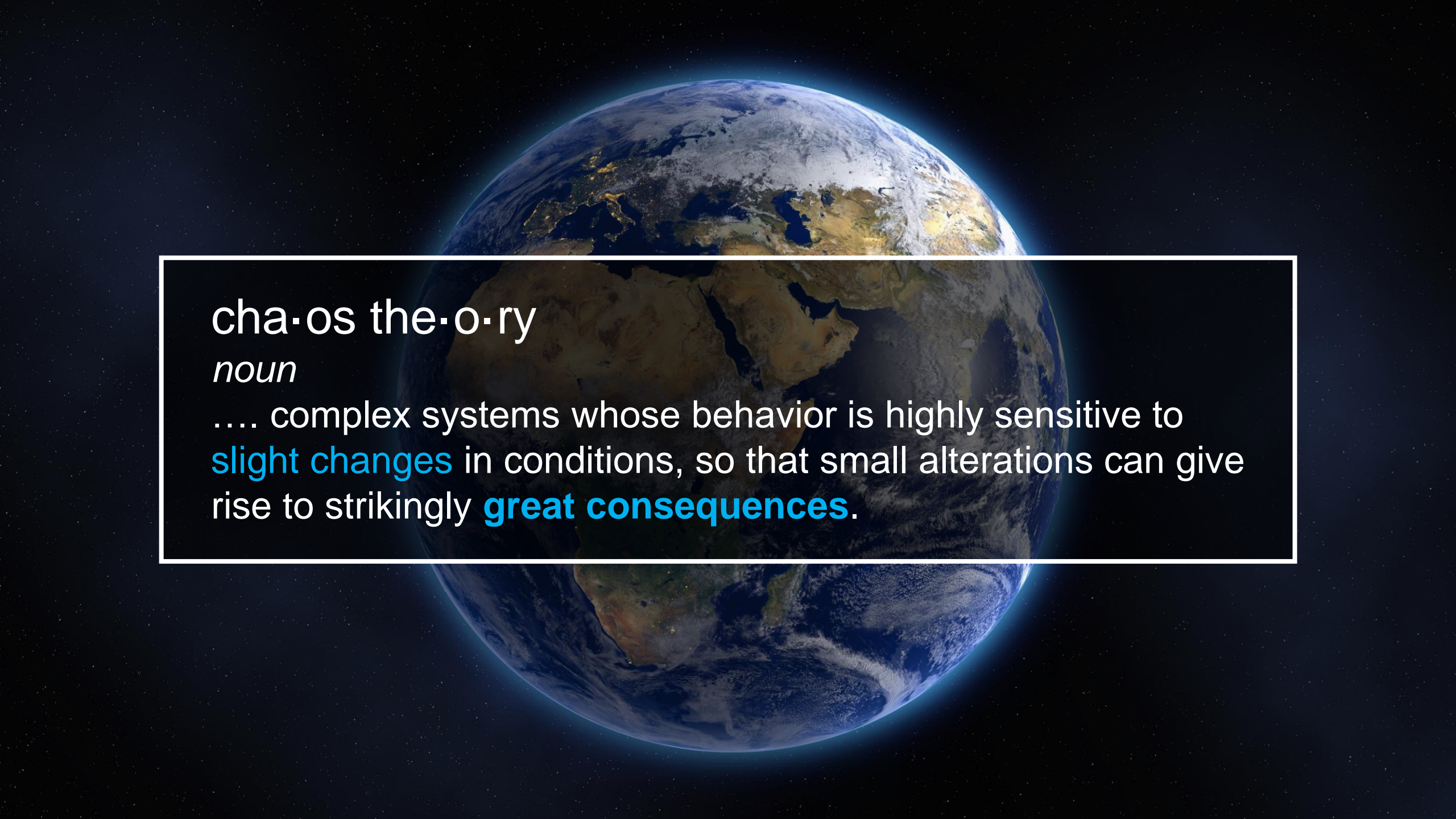
Cynthia Xing, Yuan Associates





TRADE & TARIFFS: CHAOS THEORY
ON A GLOBAL LEVEL!

JULIE ADAMS
JASON HAFEMEISTER
CYNTHIA XING

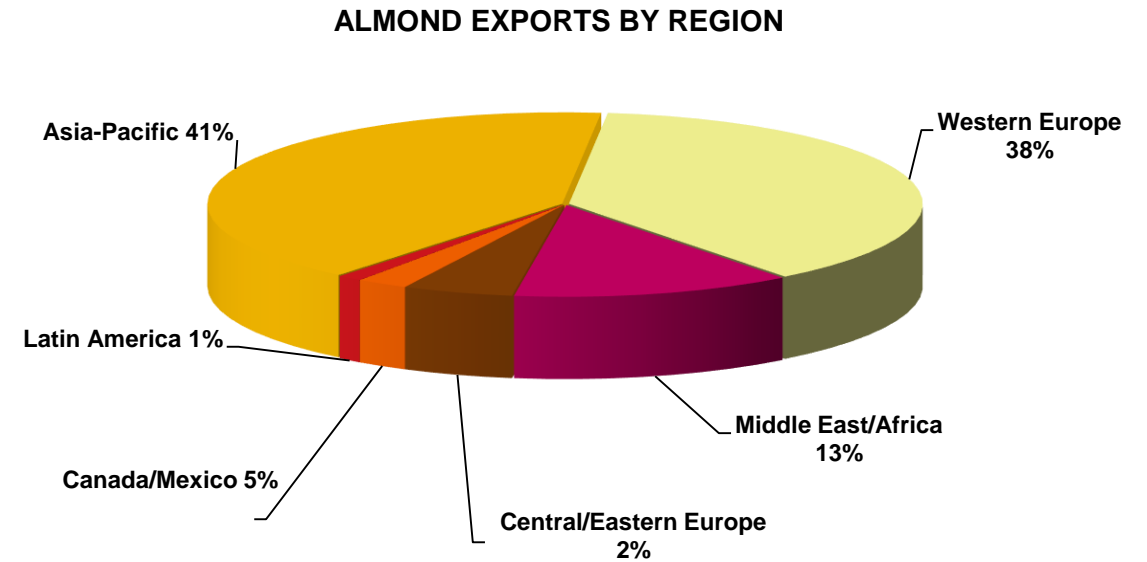
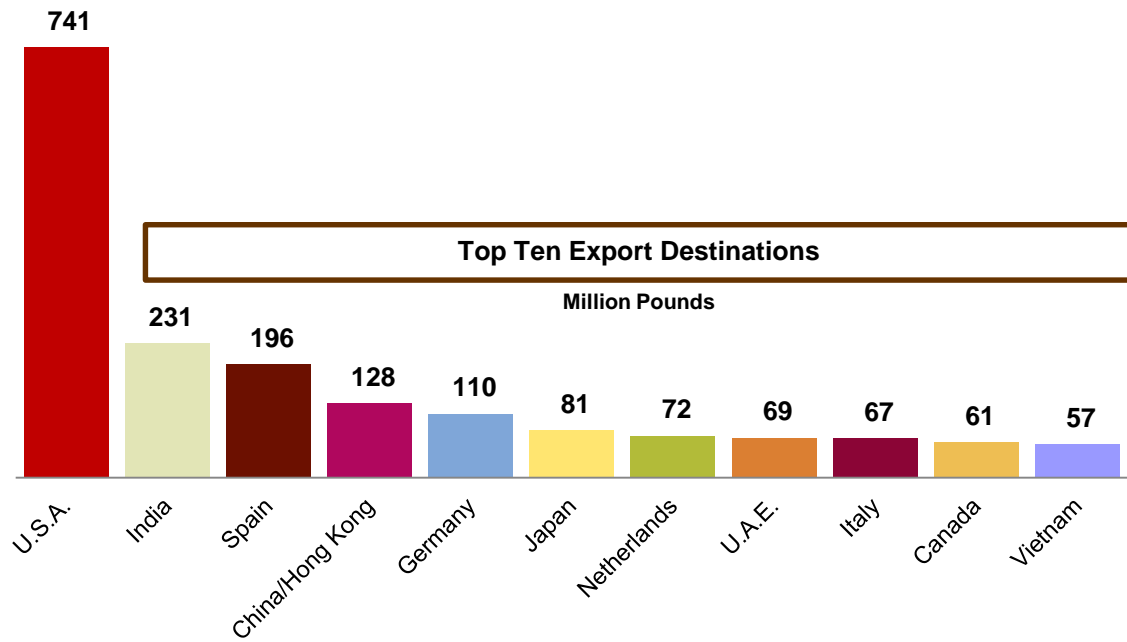


cha·os the·o·ry

noun

.... complex systems whose behavior is highly sensitive to **slight changes** in conditions, so that small alterations can give rise to strikingly **great consequences**.

Diversity of Shipments – Essential with a Changing Trade Environment



E.U.:
Brexit
Import testing
Pesticide MRLs



China:

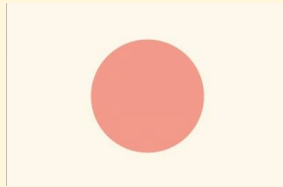
60% tariff on kernel/inshell U.S. almonds
20% tariff on preserved nuts (in cans)
40% tariff on processed or preserved



Turkey:
25% tariff on U.S. Almonds



Japan:
“Partial” FTA
Import testing



India:
35→41 rupees/kg on inshell
100→120 rupees/kg on kernels
Labeling
Grades/standards

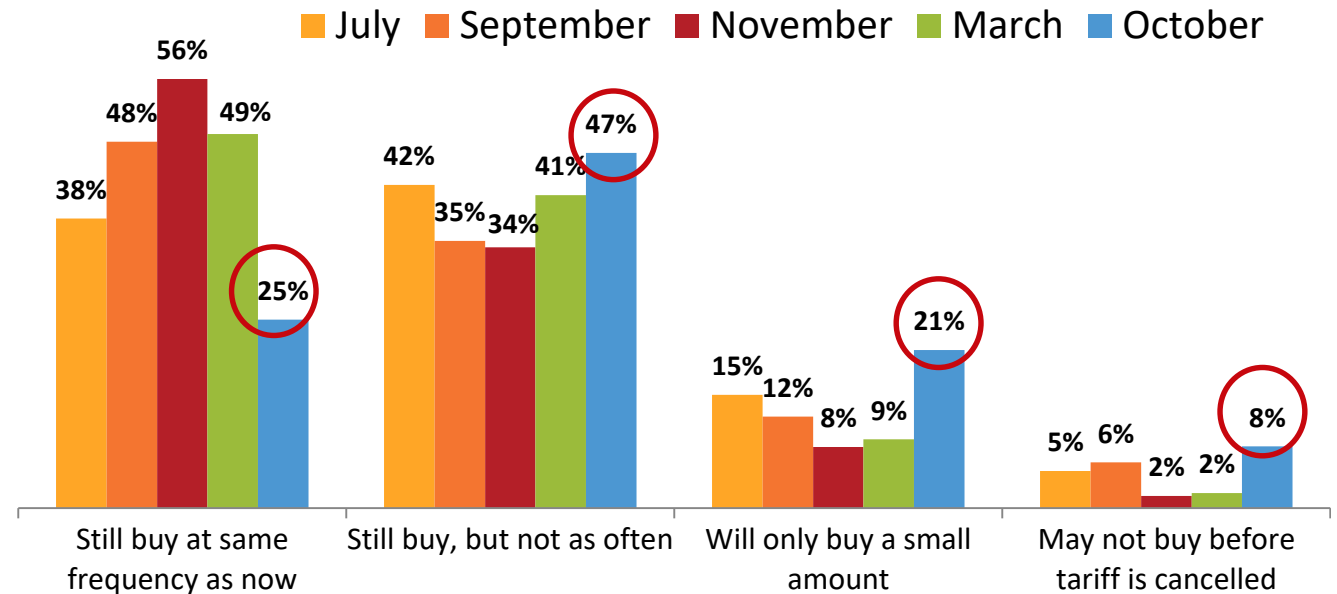


China: Tariffs Impacting the Entire Supply Chain



- Now the world's 2nd largest economy
- Still #3 export market for CA almonds – despite 25% reduced shipments
- A **60% tariff** on kernel (0802.12) and inshell (0802.11)
- Effective December 15(?), Prepared/preserved **20%, 40%**
- Impact of “phase one” agreement?
- Broader concerns: rule of law, internal turbulence, NGO, social responsibility

Tariff Impact on Purchasing Chinese Food Imported from America
(Total Aware of Tariff n=845)



A Few Thoughts.....

Can we get back to a “collaborative” approach to trade rather than an
“*I win, you lose*” philosophy?

How will our trading partners view **U.S. commitments** in the future?

What are the **other emerging events** that could impact global trade
challenges going forward?

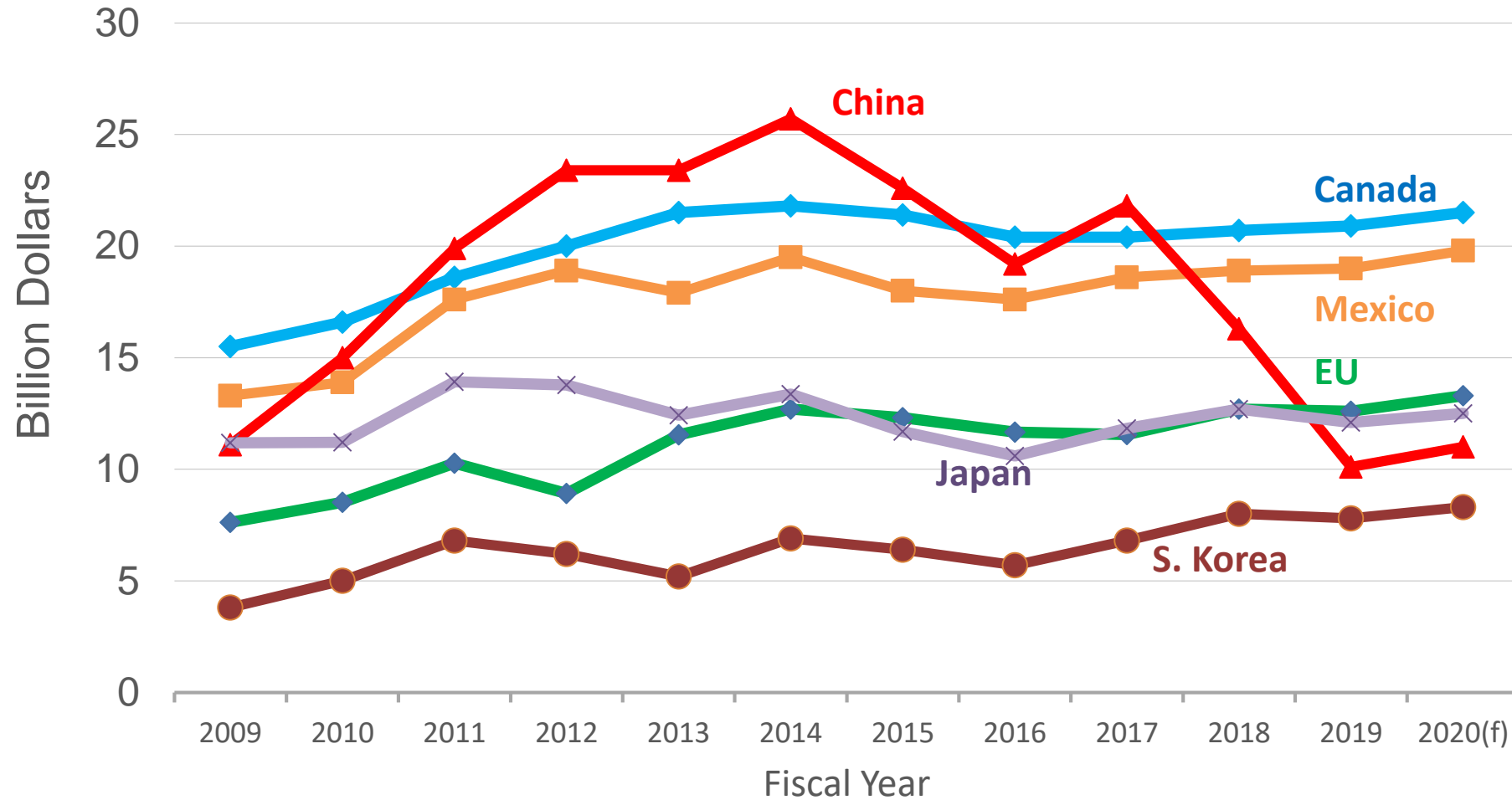


Jason Hafemeister
Secretary's Trade
Counsel

Ag Trade Policy Overview

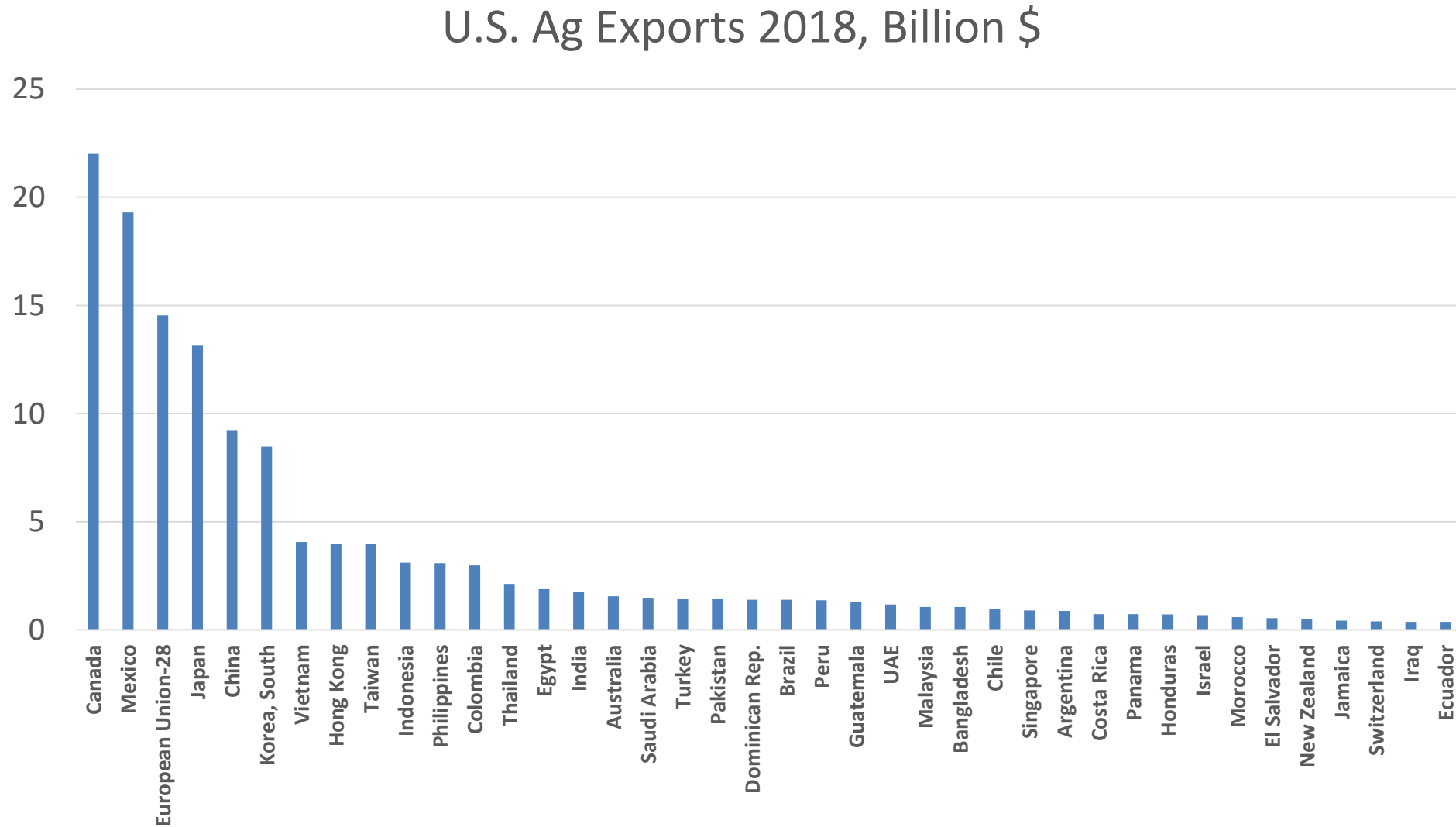
December 9, 2019

Top 6 Export Markets Account for 60% of Total US Ag Exports

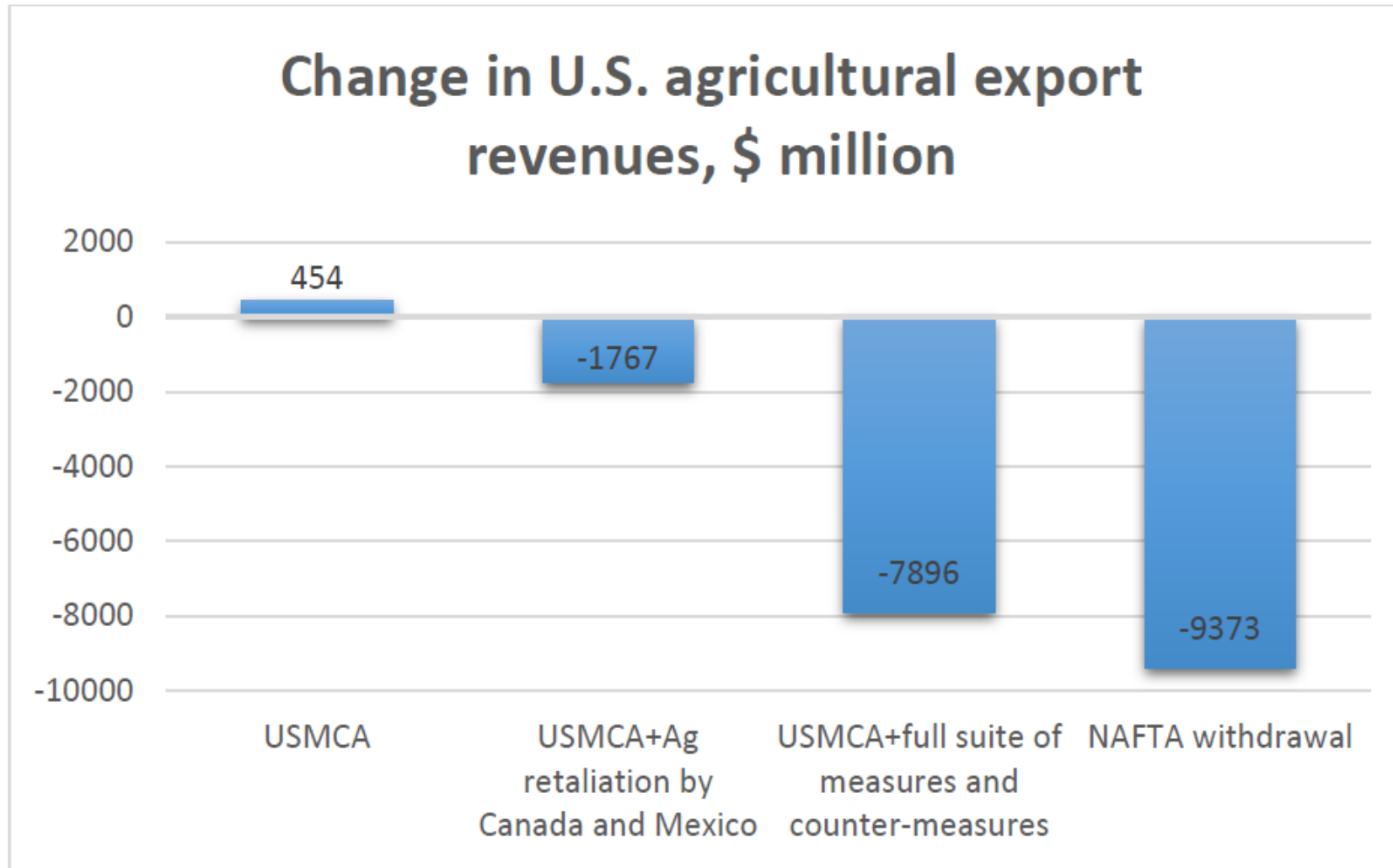


A Classic “long tail distribution”

Almost 30 markets over \$1 billion in Ag Exports

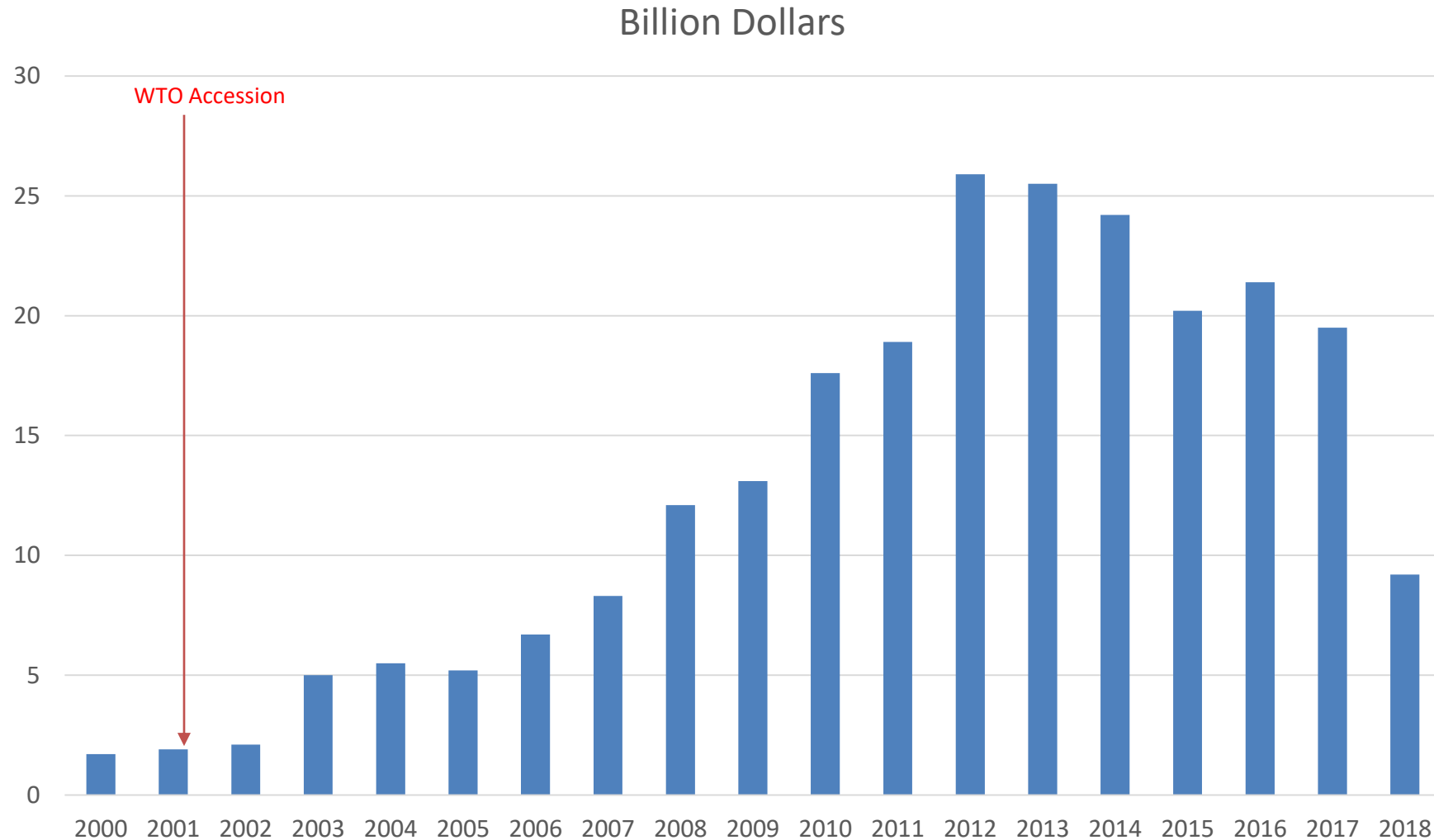


We Want USMCA



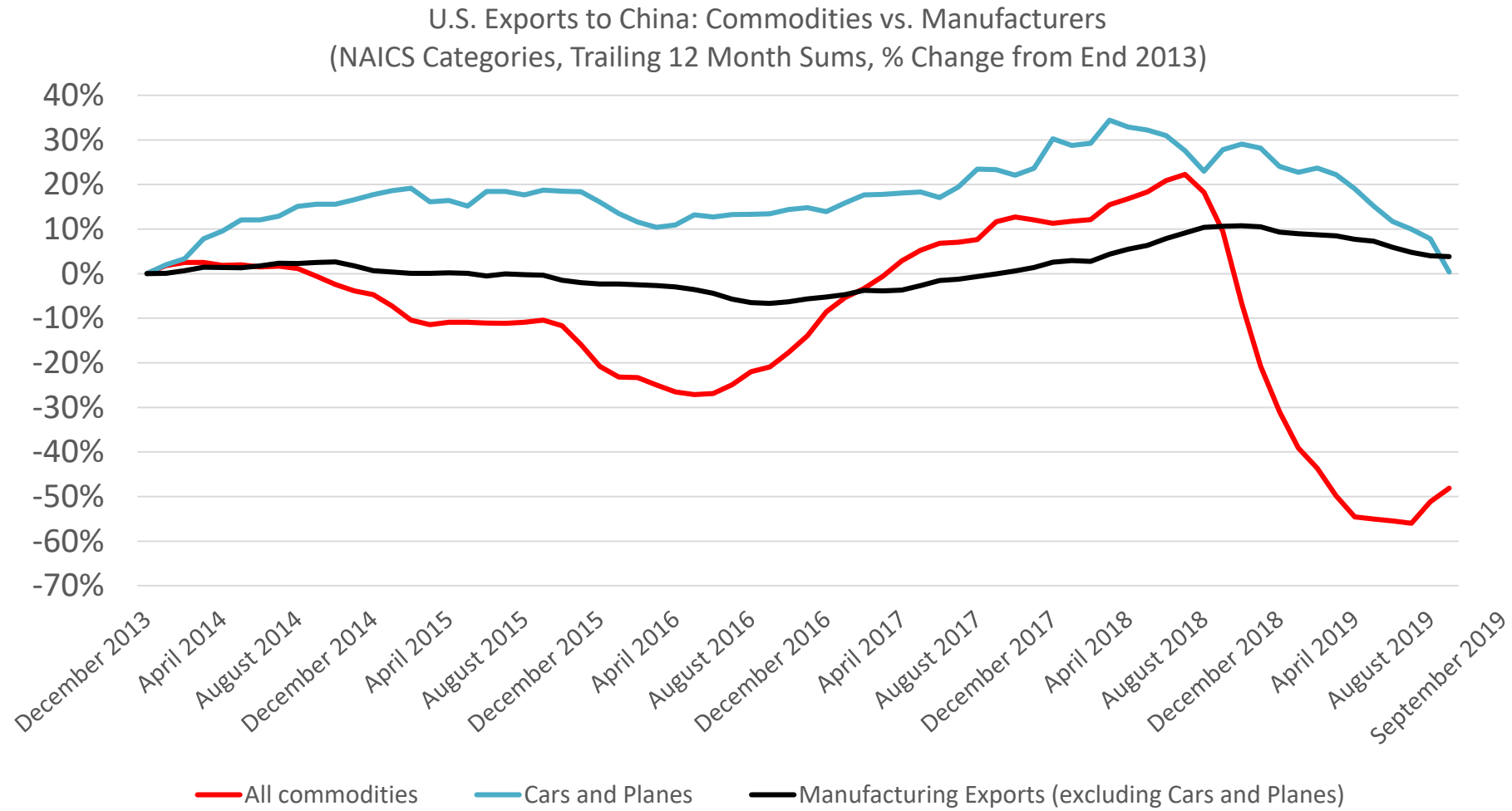
Source: How U.S. Agriculture Will Fare Under USMCA and Retaliatory Tariffs. Farm Foundation. October 2018

U.S. Ag Exports to China



U.S. Exports to China

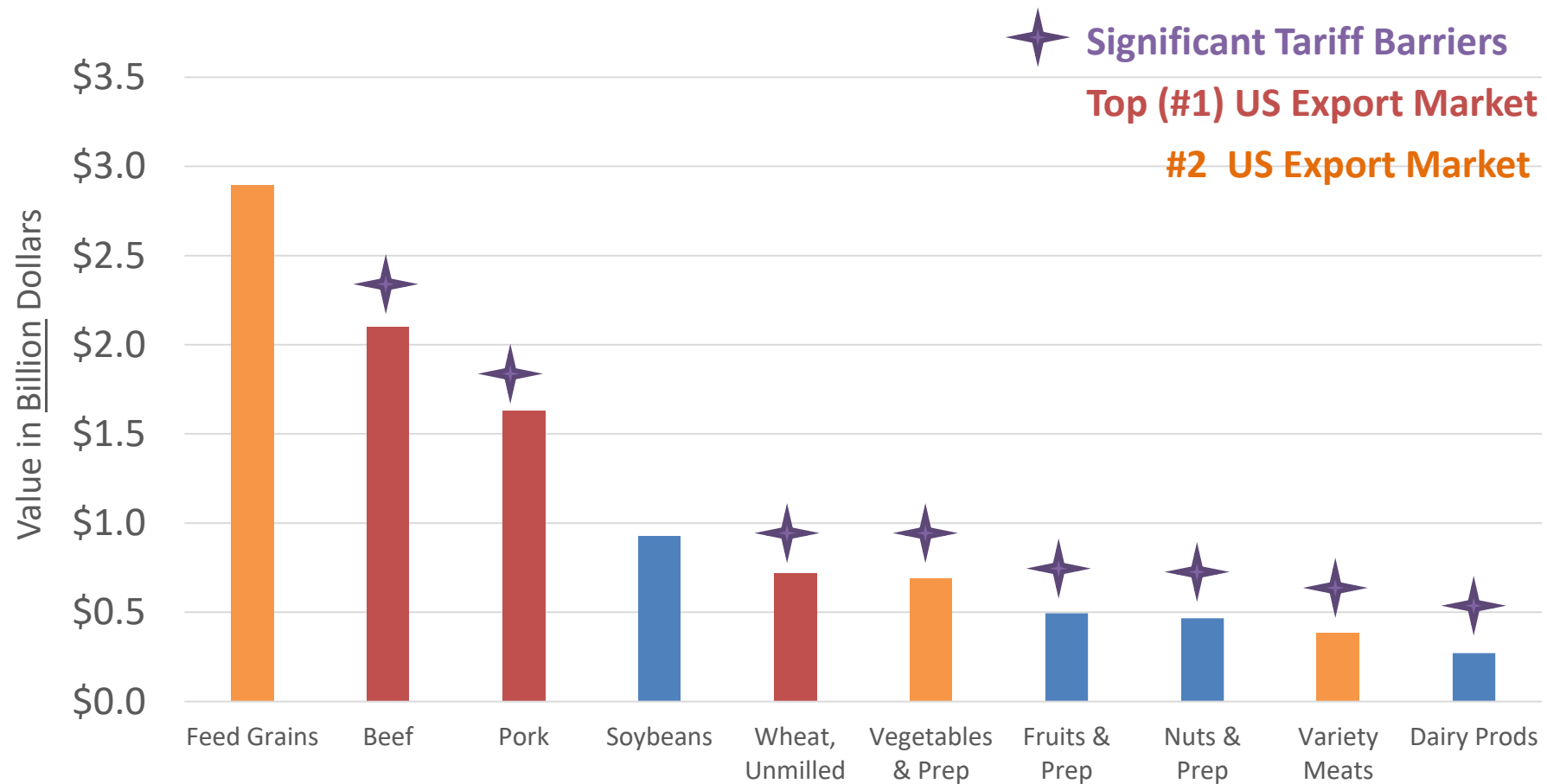
Retaliation Amplified on Agriculture



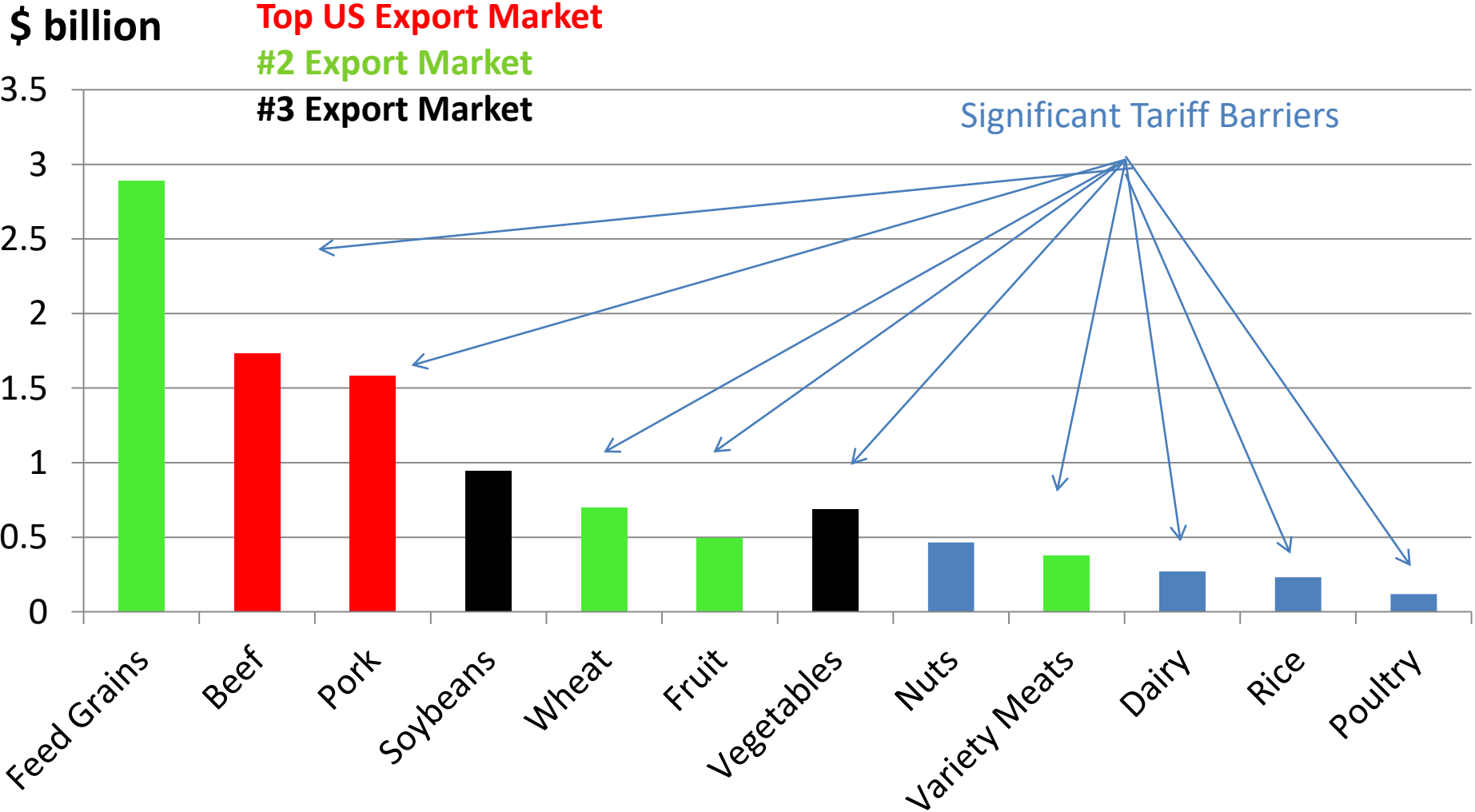
Source: U.S. Census Bureau/Haver Analytics
NAICS Categories

Brad Setser
crf.org/blog/setser

Key U.S. Ag Exports to Japan: 2018



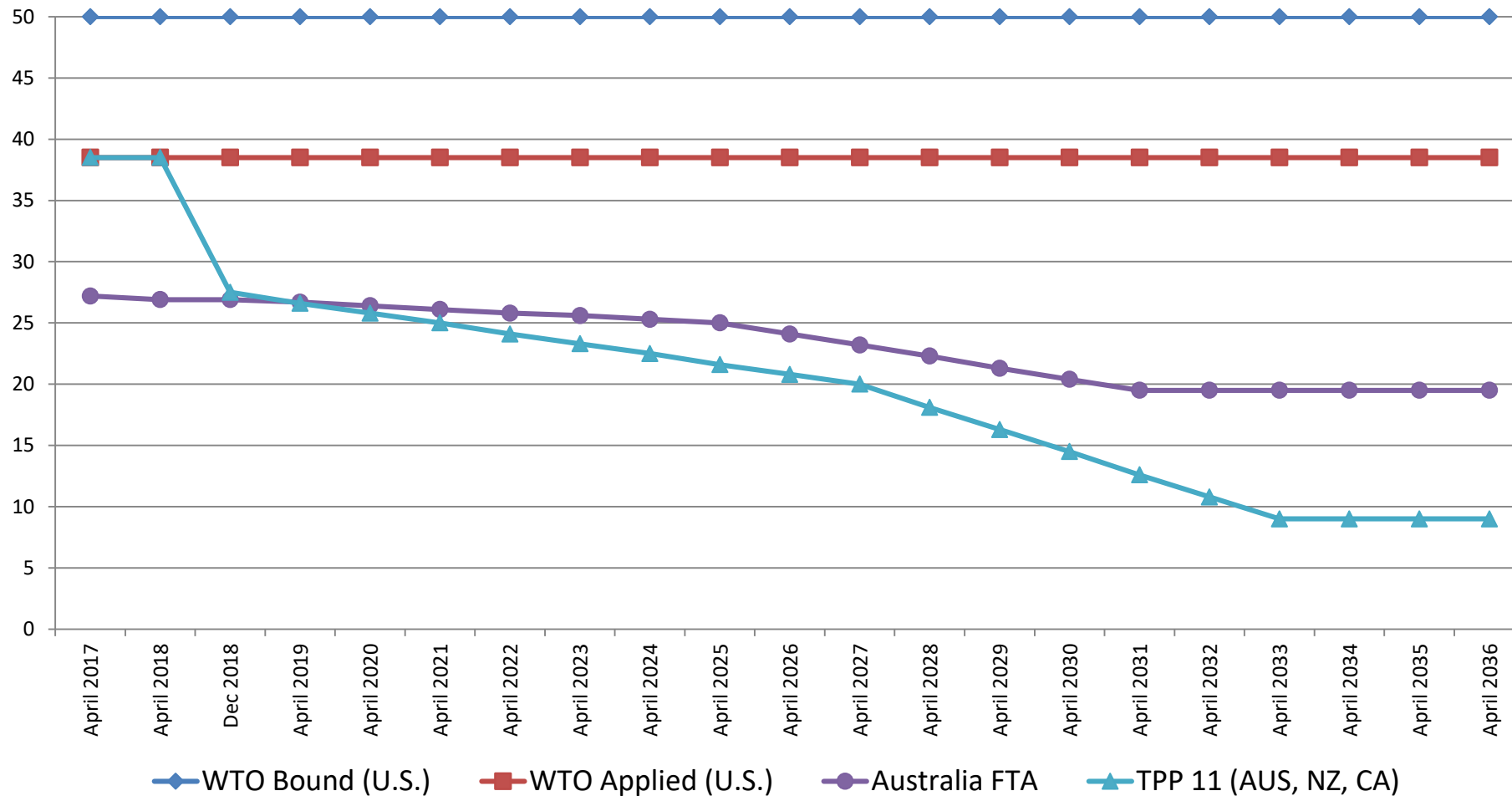
Key U.S. Ag Exports to Japan: 2018



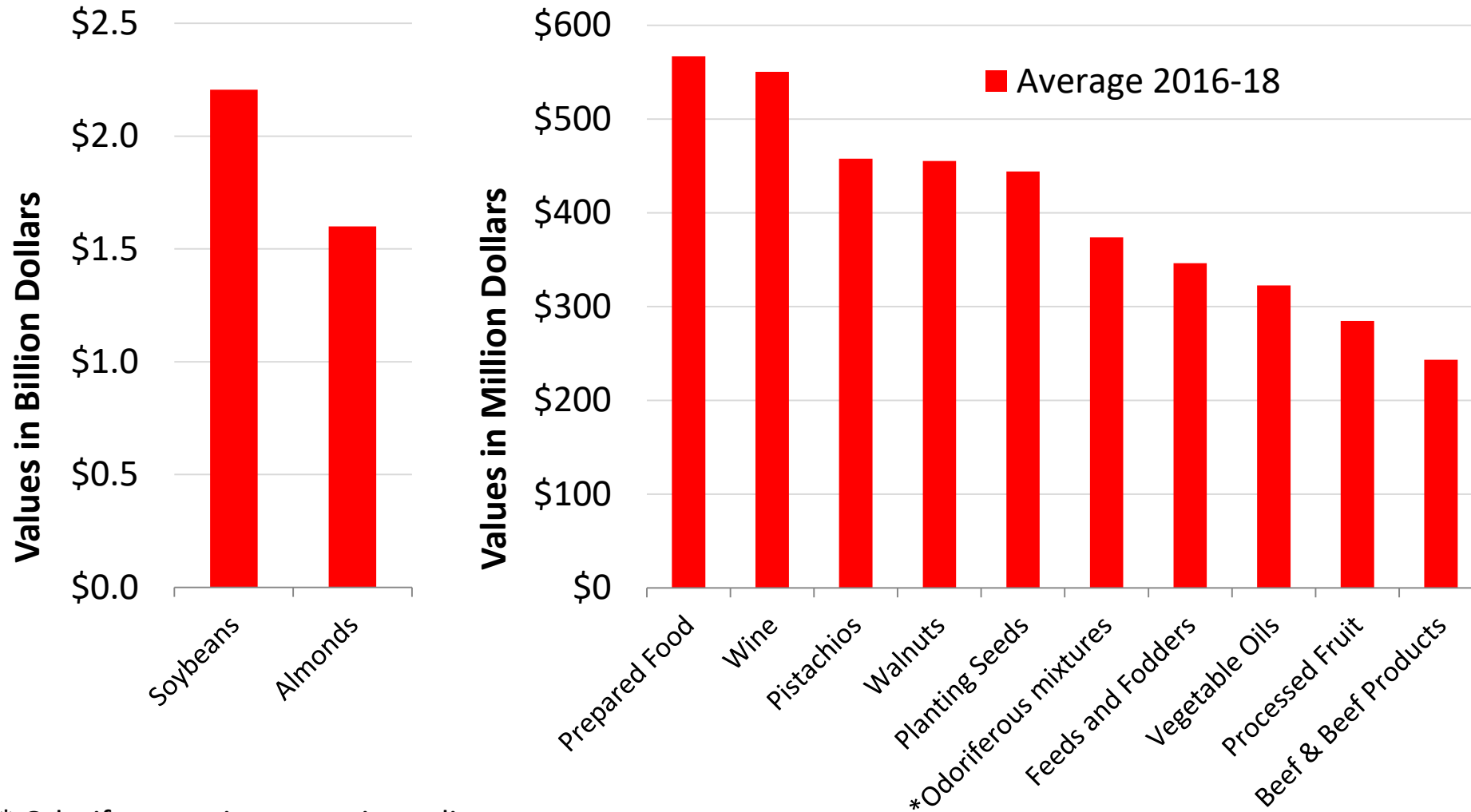
Source: USDA, FAS, Global Agricultural Trade System (GATS), FATUS

Japan Beef Tariff

Japan's Import Tariffs on Beef (%)



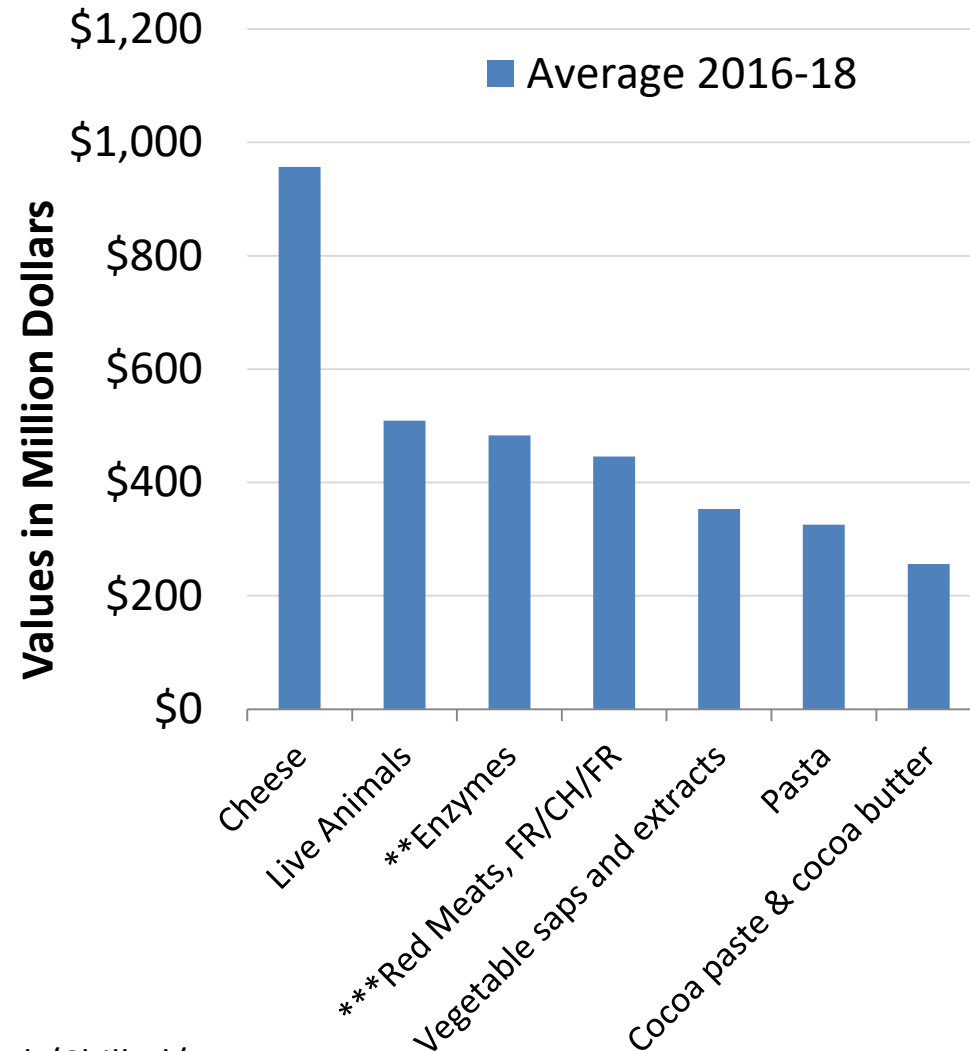
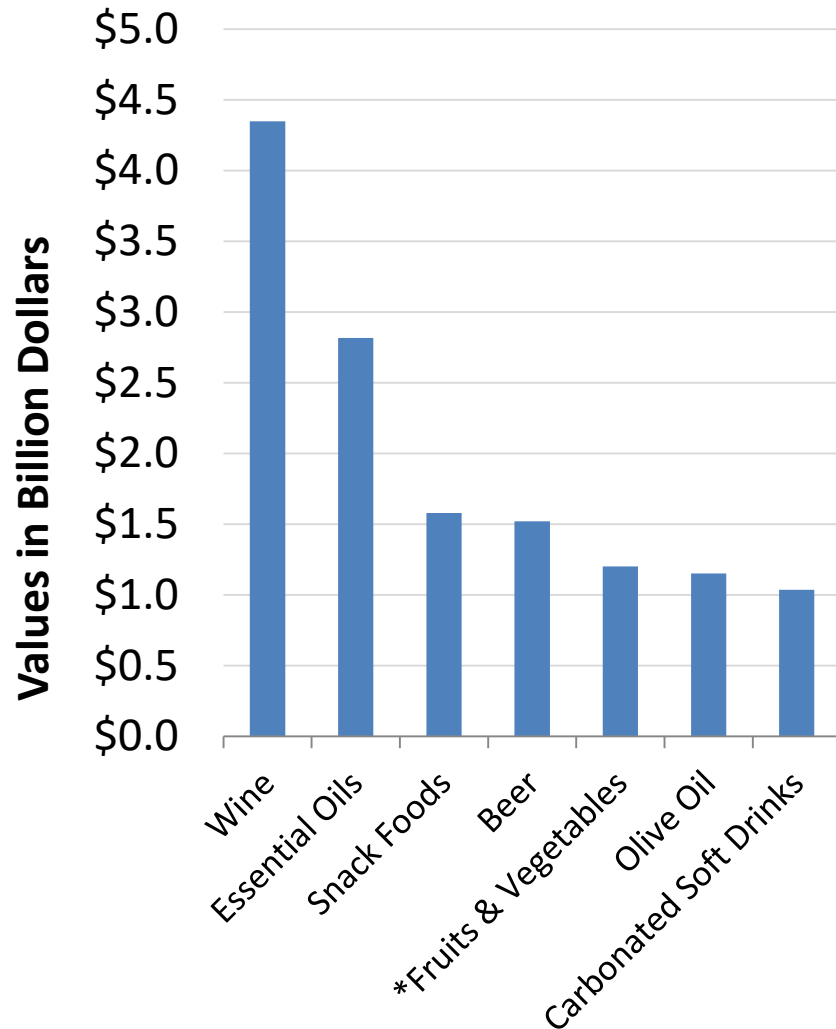
Major U.S. Agricultural Exports to the EU



* Odoriferous mixtures as ingredients

Source: USDA Global Agricultural Trade System (GATS) – BICO-HS-10

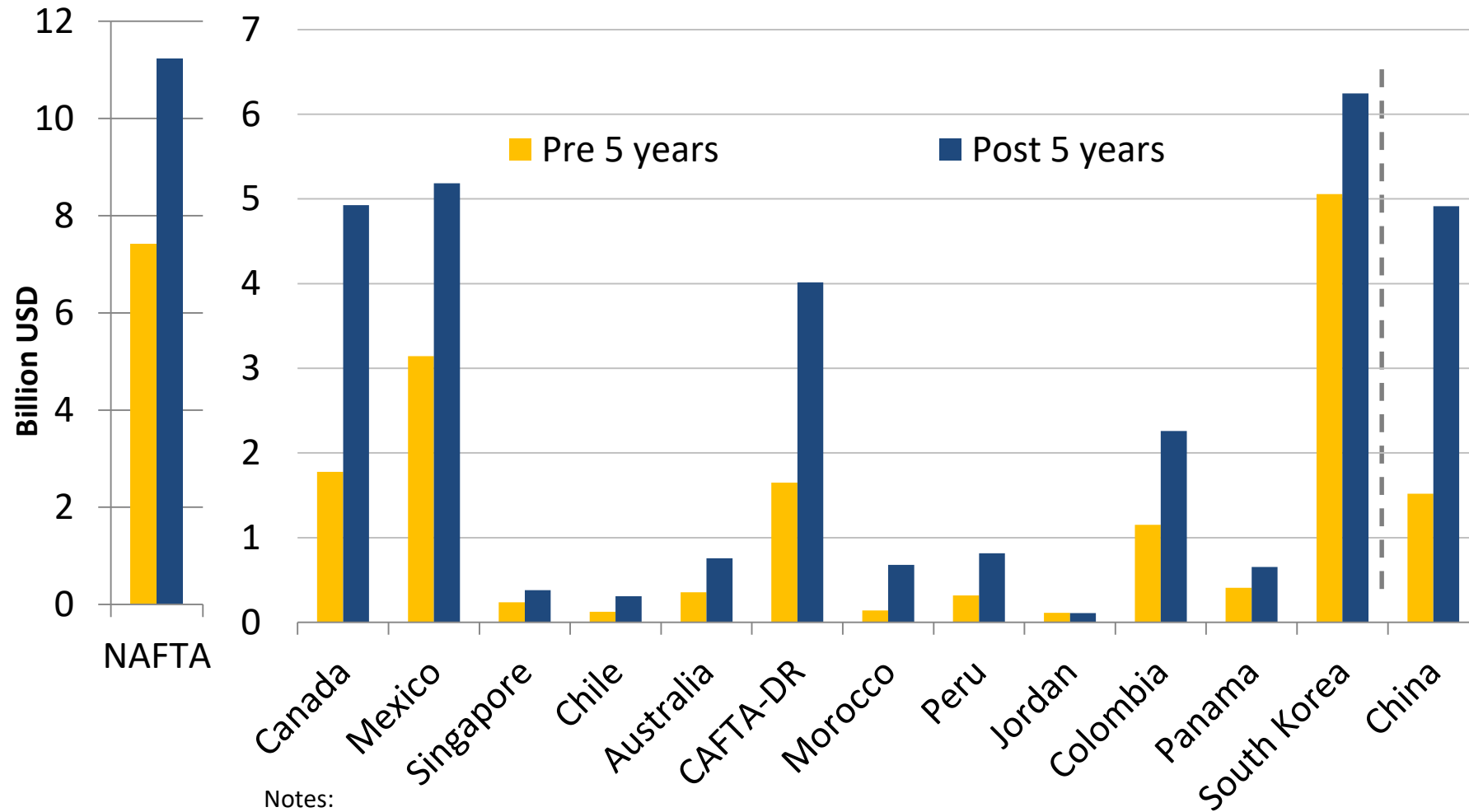
Major U.S. Agricultural Imports from the EU



* Processed; ** Enzymes as food ingredients; *** Fresh/Chilled/Frozen
 Source: USDA Global Agricultural Trade System (GATS) – BICO-HS-10

U.S. Agricultural Exports: Before and After FTAs and WTO Accessions

(Comparison average pre and post five years)

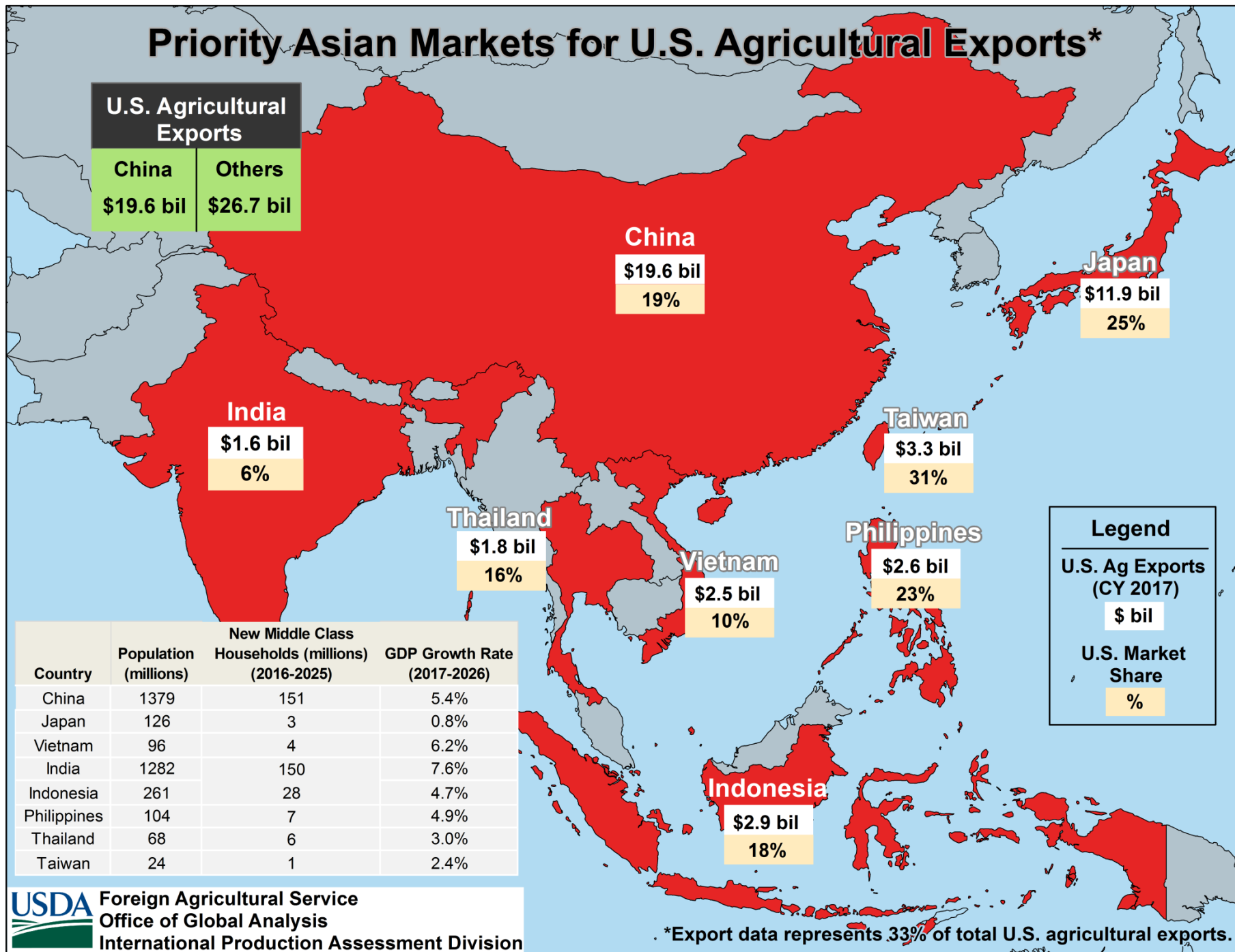


Notes:

- Canada timeline is for US-Canada FTA. Mexico timeline is for NAFTA.
- China is included for pre- and post- WTO accession comparison purposes.

Priority Asian Markets for U.S. Agricultural Exports*

| U.S. Agricultural Exports | |
|---------------------------|------------|
| China | Others |
| \$19.6 bil | \$26.7 bil |



| Country | Population (millions) | New Middle Class | |
|-------------|-----------------------|-----------------------------------|-----------------------------|
| | | Households (millions) (2016-2025) | GDP Growth Rate (2017-2026) |
| China | 1379 | 151 | 5.4% |
| Japan | 126 | 3 | 0.8% |
| Vietnam | 96 | 4 | 6.2% |
| India | 1282 | 150 | 7.6% |
| Indonesia | 261 | 28 | 4.7% |
| Philippines | 104 | 7 | 4.9% |
| Thailand | 68 | 6 | 3.0% |
| Taiwan | 24 | 1 | 2.4% |

Legend

U.S. Ag Exports (CY 2017)
\$ bil

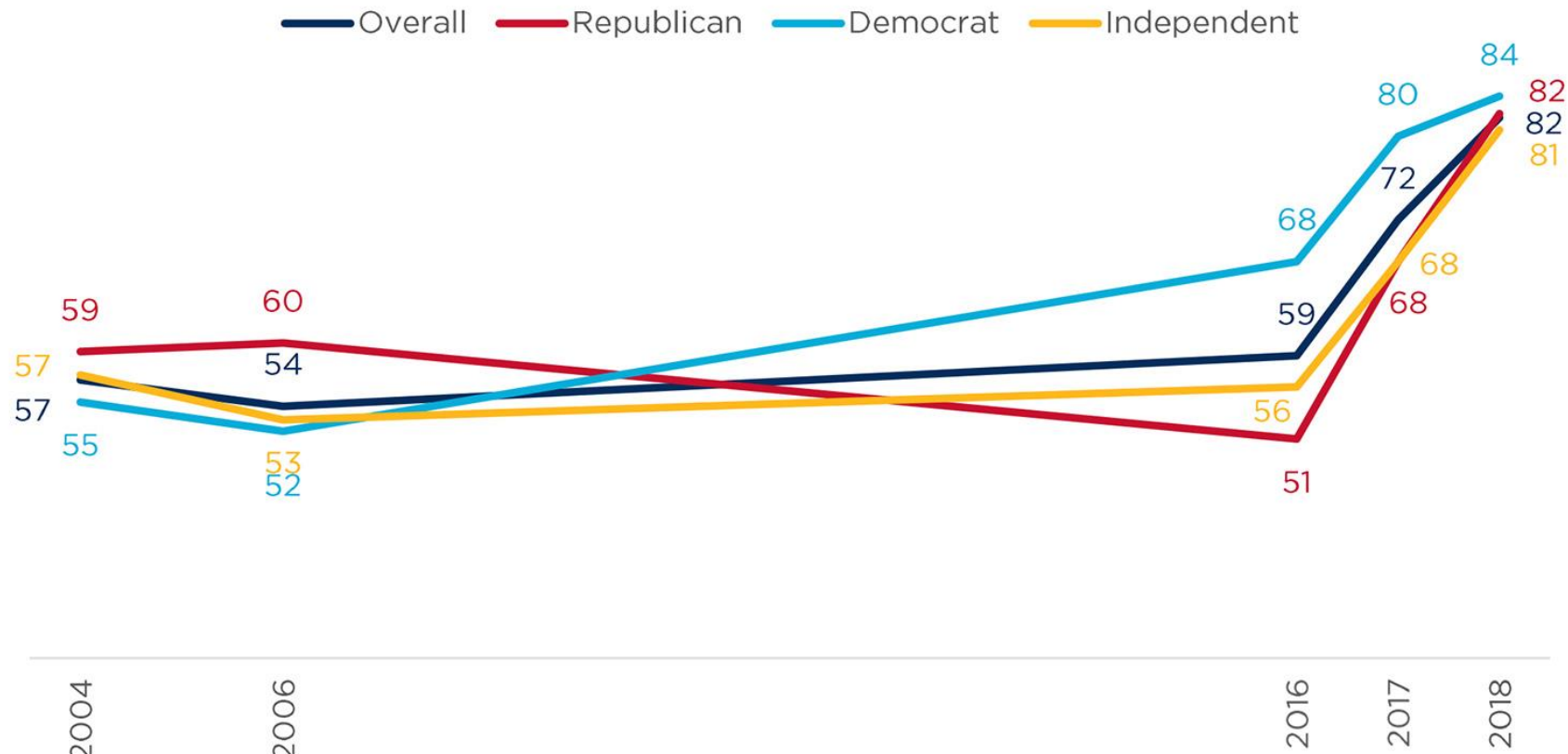
U.S. Market Share
%

*Export data represents 33% of total U.S. agricultural exports.

Trade and Public Opinion

International Trade and the US Economy

Overall, do you think international trade is good or bad for the US economy? (% good)

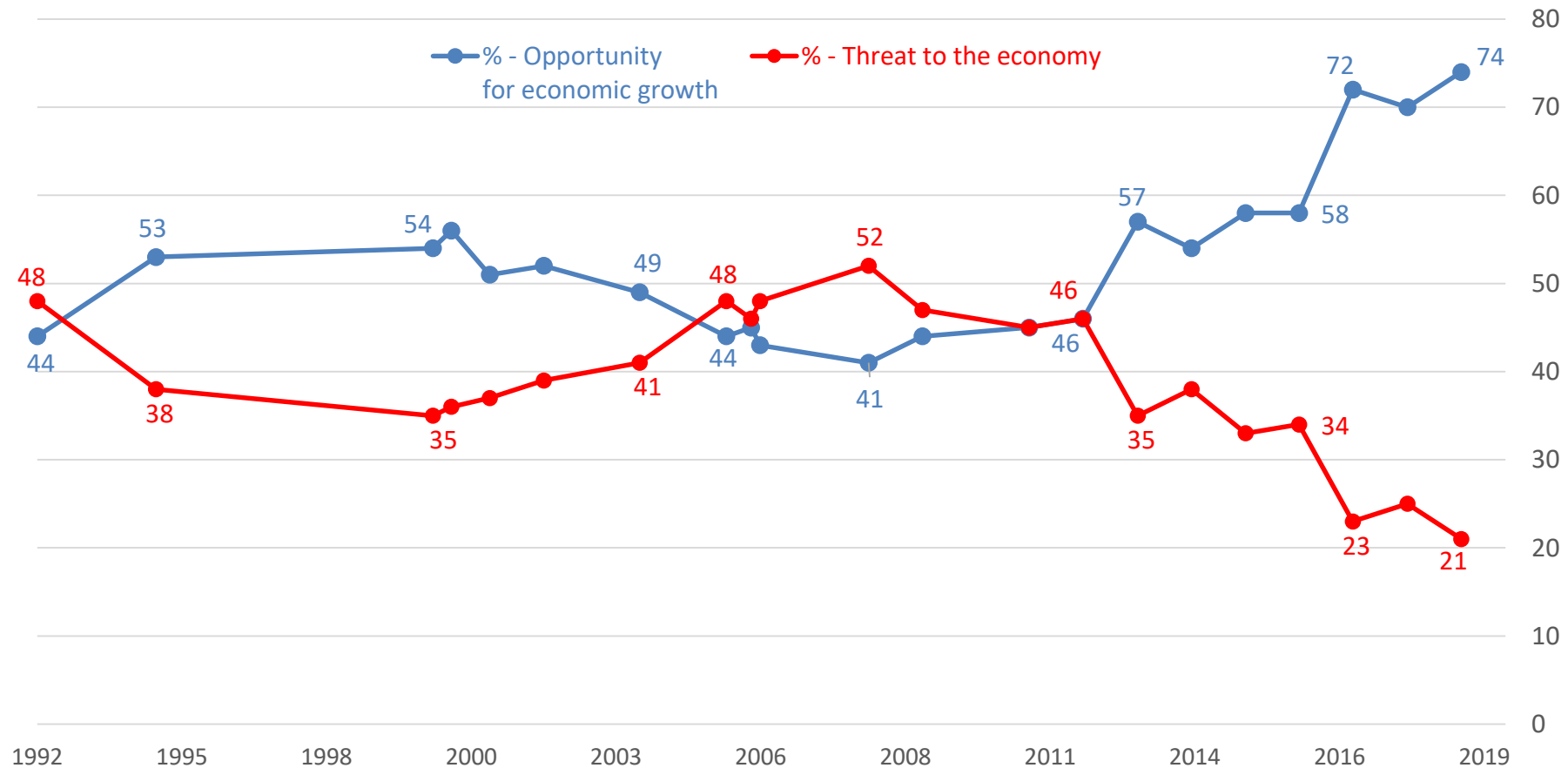


July 12-31, 2018 | n=2046
CHICAGO COUNCIL SURVEYS

Trade and Public Opinion

Record High in U.S. See Implications of Trade as Positive for U.S.

What do you think foreign trade means for America? Do you see foreign trade more as – an opportunity for economic growth through increased U.S. exports or a threat to the economy from foreign imports?

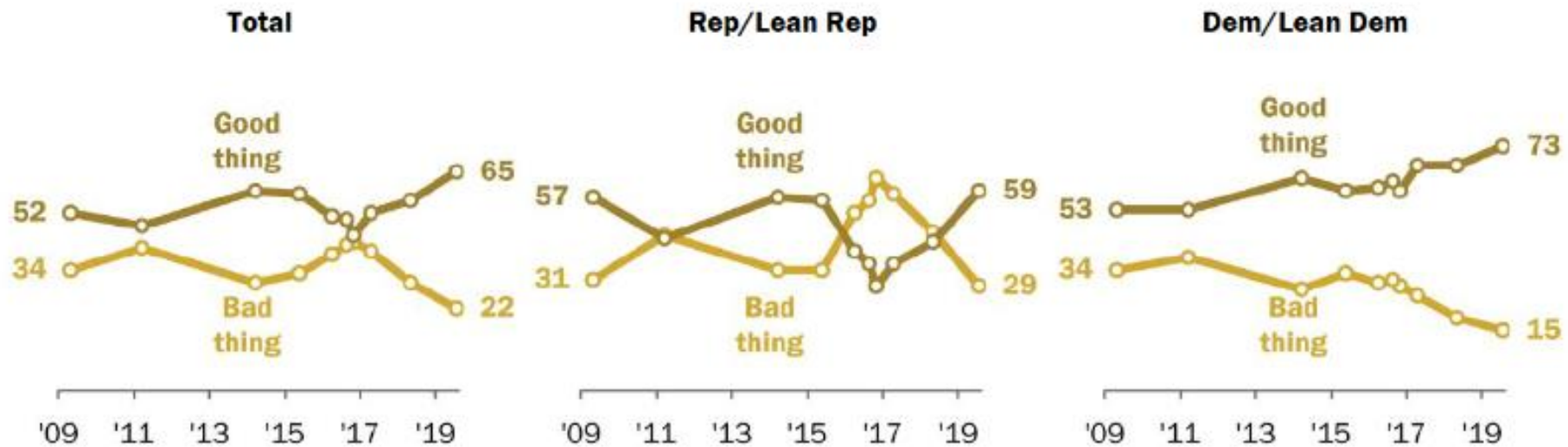


Source: Gallup - "Slim Majority in U.S. See Trade as Benefiting American Workers"
3/21/2019

Public Generally Positive about FTAs, More Critical of Tariff Increases

Republicans move in a more positive direction on free trade agreements

% who say free trade agreements between the U.S. and other countries have been a ____ for the United States



Note: Don't know responses not seen.

Source: Survey of U.S. adults conducted July 10-15, 2019.

PEW RESEARCH CENTER

China's Perspective of Trade: Globalization

Cynthia Xing

December 10, 2019

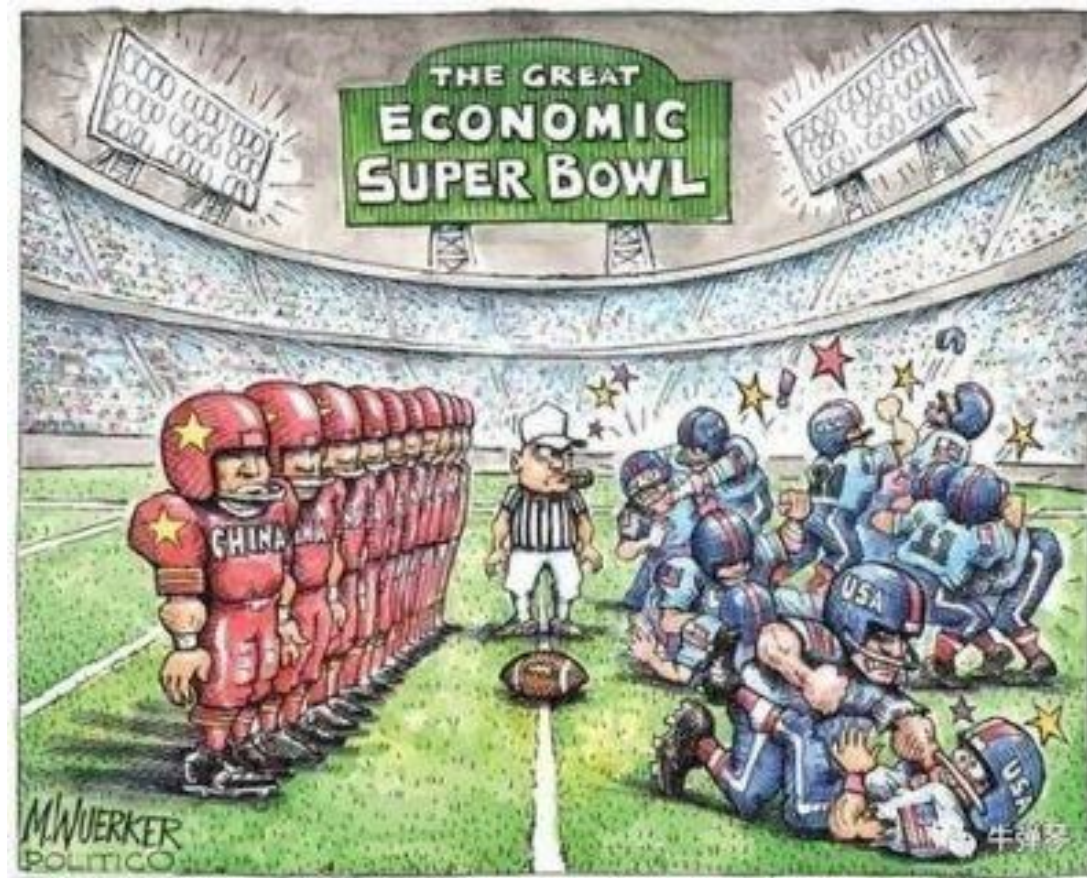


Why Are US-China Trade Talks So Difficult?

- The US government's focuses of trade negotiation kept shifting
- China was over-optimistic for the bilateral relationships at the beginning, unprepared for evolved bilateral relationship in a new era
- More disagreements than consensus: long-lasting issues cannot be solved in months: IPR, National treatment, SOE reform
- Politicized negotiation vs. rising nationalism on both sides

China's Positioning and Strategy

- Positioning:
 - Globalization: collaborative and mutuality
 - US-China: problem-solving + protection
- Strategy:
 - Internal stabilization
 - Sustainability and Predictability
 - Diversification (products and countries)
 - US-China: Tariffs + Qualitative countermeasures



China's Stance and Efforts

| | Shifting Focus | China's Stance |
|---|--|---|
| 1 | Trade Balance | <p>China promotes import:</p> <ul style="list-style-type: none"> • Reduced value-added tax (VAT) for imported commodities Almond: 2018: 11%-10%; 2019: 10%-9% • China International Import Expo • Streamlined import inspection procedure |
| 2 | Policy and structure issues behind the trade unbalance | China has made concessions to the US, but in fact these actions are needed for China's own economic development: market access, IPR, industry policies, SOE reform, RMB exchange, agriculture and supervision mechanisms |
| 3 | Competition at global level | Global supply chain and a competition for market share: "Made in China" to "Made by China" |
| 4 | Enforcement Mechanisms: Mutual Trust | <ul style="list-style-type: none"> • US: removal of additional tariffs is the leverage for trade talk and subject to China's enforcement progress Almond: 60% on kernel /inshell (2019.9.1); 20% on preserved nuts in cans and 40% on processed or preserved (2019.12.15) • China: both sides should honor the principle agreement to roll back tariffs on each other's goods in the same proportion and simultaneously in phases |

China's Attitude Towards Trade Talks

Trigger: US imposed additional tariffs on Chinese products (subject to 232 and 301).

- ◆ China issued **1st White Paper**, emphasizing US and China are deeply complementary in terms of trade, hoping US to change course to resolve trade issues

Trigger: US increased from 10% to 25% on \$200 billion of Chinese products

- ◆ China issued **2nd White Paper**, reiterating a) US should bear the sole and entire responsibility for setbacks, b) China will not give ground on issues of principle.

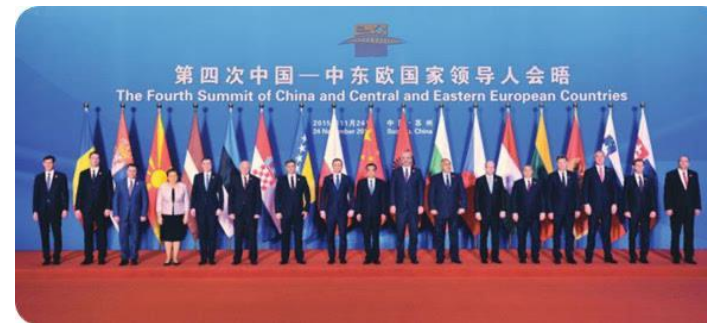


China Perspective – A Single flower does not make Spring

Protectionism



Globalization



What's Next?

Conclusion

- New normal: piecemeal agreements in the context of ongoing and inevitable frictions
- China's efforts to end the war – a more open attitude
- It is always about “win-win” partnership to grow trade: mutuality
- ABC's continued market promotion to pave way for smooth trade in a global level, China included.

Recommendation

- Short-term:
 - Tariff exemption in China
 - China's USD \$ 40-50 billion purchase
- Medium to long-term:
 - Elevate partnership with industry associations
 - Strengthen industry reputation from new perspectives: sustainability
 - Diversify business mode and supply chains exporting to China: Cross-Border E-Commerce (CBEC) , Processing in the FTZs