Supplementation – July 2018

The U.S. Re-Imposes Sanctions on Iran

President Trump kept his promise by signing an executive order on August 6th that re-imposes U.S. nuclear-related sanctions lifted by the signing of the Joint Comprehensive Plan of Action (JCPOA), popularly known as the Iran Deal. Beginning on August 7th, there are sanctions on Iran's purchase of U.S. dollars, its trade in precious metals, trade in semi-finished metals for integrating industrial processes, certain financial assistance, and its automotive sector. This order also revokes all general licenses that allowed the importation of Iranian-origin foodstuffs, such as pistachios, into the U.S. The second wave of sanctions previously lifted pursuant to the JCPOA will be re-imposed on November 5th. These sanctions are on associated services related to Iran's port operators, its shipping and shipbuilding sectors, Iranian oil, and its energy and petrochemical industries. This Administration is applying as much economic pressure on Iran as possible to force changes in its military posture in the region and end its support for U.S. deemed terrorist groups.

U.S. Pistachio Exports to China and Hong Kong*

Year	2016	2017	2018
January	539	1,906	1,438
February	425	4,896	1,874
March	239	4,813	5,183
April	137	3,510	3,961
May	832	3,102	3,196
June	1,754	2,906	2,697
July	4,798	5,429	-
August	2,998	7,534	-
September	10,650	10,697	-
October	22,769	16,211	-
November	24,975	19,917	-
December	3,995	15,656	-
Total	74,111	96,577	18,349

**Includes in shell, shelled, and roasted, in Metric Tons*

Iranian Foreign Minister Mohammad Javad Zarif attended the summit of Southeast Asian nations and urged countries to continue doing business with Iran even after the resumption of U.S. sanctions. Many countries and businesses are wary to accept this invitation out of fear of being targeted by secondary U.S. sanctions. Due to these high costs, some foreign businesses that took advantage of the opened Iranian market under the JCPOA are now winding down their operations in Iran.

The recent moves by the U.S. has placed a vast amount of pressure on Iran's economy. The nation moves to contain an economic crisis that began slashing the buying power of Iranians even before new U.S. sanctions. Since the start of this year, the unofficial value of Iranian rial has practically halved to 95,000 to the dollar. Sales at Iranian shops are down significantly and many Iranians are concerned about how they will provide for their families. On July 25th, Iran's President Hassan Rouhani replaced the head of the country's central bank for his failure to stem a steep drop in Iran's currency. Additionally, 90 members of parliament signed a petition this week to impeach the Economy Minister. Over the past few months, there have been hundreds of protests over rising prices, corruption and environmental damage and pressure on the government will only get worse when the U.S sanctions are enacted.

China's Retaliatory Tariff Actions on Pistachios	
Date Effective	Tariff Action
April 2, 2018	Tariff Rate Increase: 15% on raw in-shell pistachios HTS 0802.51.00 and on raw shelled pistachios HTS 0802.52.00
July 6, 2018	Tariff Rate Increase: 25% on raw in-shell pistachios HTS 0802.51.00 and on raw shelled pistachios HTS 0802.52.00
August 23, 2018	Tariff Rate Increase: 25% but no pistachio products were included
September 6, 2018*	Tariff Rate Increase: 25% on roasted pistachio HTS 2008.19.99
*This date is the earliest these tariffs can be imposed	

Trade War with China Continues to Escalate

On August 3rd, China's Ministry of Commerce announced it would be imposing tariffs on 5,207 items originating in the U.S. that are worth approximately $60 billion. The duty rate ranges from 5 to 25 percent. Although specialty crop items are largely excluded from this list, processed nuts and olive oil are included. The final measure and effective time will be announced separately, but the tariffs will not be imposed before September 5th. This move is in retaliation to the United States' proposed section 301 25 percent tariff on $200 billion worth of Chinese goods.

The tariff war was caused by two decisions by the Trump Administration. The first U.S. tariff increase was under Section 232 of the Trade Expansion Act of 1962, used to determine the effects on the national security of steel and aluminum imports. The second tariff increase was caused by violation of Section 301 of the Trade Act of 1974 in particular U.S. intellectual property rights.

These retaliatory tariffs would apply on top of existing duties on $34 billion worth of U.S. products and an additional $16 billion that is expected to go into force on August 23rd. In early July, the President also stated he was prepared to impose tariffs on all $500 billion worth of goods that the U.S. imports annually from China which could welcome increased tariff rates on U.S. agricultural goods. In a move that could have long-term damage on U.S trade, the Chinese government continues to urge importers to shift their purchases away from the United States.

There appear to be two likely outcomes in the trade war between China and the U.S. A stalemate is the most likely result, with new American and Chinese tariffs staying in place for months or even years. The second possible conclusion would be a negotiated truce. While China has expressed a willingness to change parts of its industrial policy in violation of global trade rules, it has refused to commit to all the changes the Trump Administration desires. The best possible result from the trade war is both presidents favoring zero tariffs which would benefit U.S. exports to China.

China Cracking Down on Transshipments of U.S. Almonds

Now that U.S. almonds are subject to a 50 percent ad valorem tariff when entering China, some Chinese businesses are trying to buy more nuts grown domestically or from other producers such as those in Australia and Africa. To make matters worse for U.S. farmers, China has quietly closed a trading loophole that for years allowed large volumes of American almonds to be transported into the country via Vietnam without incurring import taxes. China is also cracking down on commodities being illegally smuggled into the country or brought in through transshipments as reported by the Wall Street Journal._This is all in an effort to make tariffs on U.S. agricultural products as effective as possible.

Although the majority of U.S. almonds in the Chinese market are shipped to the country directly or through Hong Kong, in recent years, significant quantities of nuts have been shipped to Vietnam and then moved into China over land. Rules governing trade in Chinese border towns have long allowed local residents to carry up to 8,000 yuan ($1,170) worth of goods from Vietnam per person, per day without having to pay import taxes. The exemptions were meant to allow individuals living in border regions to avoid taxes on their purchases.

Almonds were recently removed from a list of goods exempt from tax under the border town exemptions. That has in effect stopped some of the transshipping. The value of goods that can be moved by this manners seems insignificant at first but in reality, a massive amount of merchandise goes across rickshaw by rickshaw and van by van. Although there is no official data on the volume of almonds transported across the border from Vietnam into China, California's almond board estimates that most of the 43 million pounds of almonds that the U.S. shipped to Vietnam in 2017 from January to July were later consumed in China.

Potential U.S.-EU Trade Arrangement

After a July 25th meeting at the White House, President Donald Trump and European Commission President Jean-Claude Junker agreed to work toward zero tariffs, the elimination of all nontariff trade barriers and doing away with subsidies in "non-auto" industrial goods. European agricultural subsidies will not be eliminated. As a part of the agreed-upon terms, President Trump will suspend its current tariffs on steel and aluminum and hold off on imposing duties on auto imports from the EU. In exchange, the EU will withhold its retaliatory tariffs. However, a fixed timetable for lifting these tariffs has not yet been announced. The U.S. President claims that the EU committed to buy more agricultural goods, particularly soybeans, as well as more liquefied natural gas from the U.S. assuming the price is favorable. Both sides will work toward reforming World Trade Organization (WTO) rules and will try to oppose China's unfair trade practices through that organization. Furthermore, the presidents will start negotiations to improve bilateral relations. These commitments appear to avert what was an escalating trade war between the U.S. and the EU, as President Trump had threatened tariffs on auto imports.

President Trump's Chief Economic advisor, Larry Kudlow, said that the US will immediately start negotiating with the EU to make trade agreements on farm products. This comes after President Trump told a crowd in Iowa that "we just opened up Europe for your farmers." Kudlow even went on to promise that an "actual transaction" will happen right away for soybeans and beef. Additionally, Agriculture Secretary Sonny Perdue, U.S. Trade Representative Robert Lighthizer, and Treasury Secretary Steve Mnuchin have maintained a strict position that agriculture will be a part of further talks. However, senior officials from the EU said they are already engaged in talks over beef and soybean imports, but besides those two areas, they will not include any broader discussion of agriculture. Agriculture was excluded because it is likely to be opposed by the President of France Emmanuel Macron. The next few days will likely determine whether agriculture becomes a topic of negotiation.

Trump aids believe these discussions will further pressure Japan to come to the negotiating table and avoid the president's threats of auto tariffs.

Increased Tariffs on Turkey

On August 10th, President Trump announced tariffs on Turkish steel and aluminum imports would be doubled to 50 percent and 20 percent respectively. These increased duties began being collected on August 13th. Turkey's agricultural trade is not restricted by this action. It does however place significant economic pressure on Turkey which is already on the brink of a financial crisis. Turkish President Recep Tayyip Erdogan has not announced any tariffs in retaliation and instead urged his citizens to exchange their foreign currency for Turkish lira in an effort to combat deepening currency devaluation.

Progress on NAFTA

Trump's trade officials and staff are scrambling to strike a deal in August with Canada and Mexico to amend the North American Free Trade Agreement (NAFTA). Mexico's Economy Secretary Ildefonso Guajardo and other chief negotiators arrived in Washington on July 26th to meet with U.S. Trade Representative Robert Lighthizer with hopes of accelerating these discussions.

Mexico and Canada both denied the proposal by President Trump to split NAFTA into two bilateral trade agreements with the U.S. Mexico's Secretary Guarjardo said, "the essence of this deal is trilateral, and it will remain trilateral" after meeting with Canadian Foreign Minister Chrystia Freeland in Mexico City. Foreign Minister Freeland reiterated the same sentiment.

Previous high-level talks stalled in May after negotiators from the three NAFTA nations were unable to make headway on key issues of discussion, such as automotive rules of origin, investor-state dispute settlement mechanism, and the sunset clause. Mexico and Canada have repeatedly states they cannot make major changes to their auto industries but have indicated they are open for the trade deal to be terminated after five years. No information about agricultural provisions has been released.

USDA Creates Two Programs to Assist Specialty Crop Farmers

U.S. Secretary of Agriculture Sonny Purdue and senior officials from the U.S. Department of Agriculture (USDA) held a briefing on the USDA's plan to assist farmers in response to trade disruptions that occurred from foreign tariff retaliations. The proposed plan will extend roughly $12 billion through three different programs administered by the USDA, and it will cover the estimated $11 billion cost of disruption by foreign retaliatory tariffs on U.S. agricultural goods. This is a short-term solution based on current trade conditions to address immediate stress and intends to cover damage from current tariffs in retaliation to U.S. Section 232 and 301 actions. Coverage is not expected to last longer than a year. Secretary Purdue and his staff intend for these programs to kick-in by

Labor Day, September 3rd; the final rule is scheduled to be released between August 23rd and September 5th. This rule will provide details for how growers can become vendors and other necessary information.

Specialty crops are not eligible for the Market Facilitation Program (direct payments) which is expected to receive $7-8 billion dollars. Funds for export promotion programs and USDA purchase programs will be made available for specialty crops.

Farm Bill Conference 2018

The House and Senate have both announced the Farm Bill conference committee members so the committee is now set to reconcile the differences between the House Farm bill which passed on June 21st and the Senate Farm bill which passed on June 28th. There appears to be little disagreement between the two farm bills with reference to the trade related programs. These trade programs are: Market Access Program, Foreign Market Development Program, Technical Assistance for Specialty Crops, and Emerging Markets. The current farm bill will expire on September 30rd.