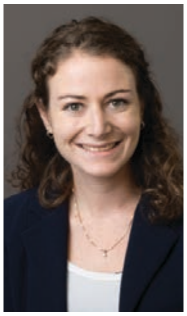
Four Steps to Minimize Trade Risks



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THE INCREASINGLY PROTECTIONIST trade environment threatens the seed industry. Governments are imposing tariffs on seed and seed equipment. Planted acreage is declining as export demand plummets. Non-tariff trade barriers cause costly delays for breeding programs and farmers. Companies must prepare, plan and vigilantly implement new strategies to adapt to this rapidly evolving situation.

This year, the United States renegotiated free trade agreements and enacted tariffs. The first tariffs were on washing machines and solar panels, then steel and aluminum, and now cars. These tariffs impact America's largest trading partners, who have responded in kind, with tariffs on U.S. exports.

For the United States, these tariffs have two goals: protect America's national security and change Chinese business practices. The net result is an international trading landscape that is more protectionist than the world has seen in generations. Already, businesses and consumers are seeing both the short- and long-term implications of these policies.

The first and most obvious effect is higher production and sale costs caused by tariffs and counter-tariffs imposed on seed equipment and planting seed. In the spring, the U.S. government enacted tariffs on seed planters and seed cleaning equipment from China. Then in the summer, they announced a 25 percent tariff on planting seed imported from China. The U.S. imports more than $100 million of vegetable and flower seeds from China. Therefore, importers must pay an additional $25 million at the port of entry.

Seed companies also must confront declining domestic markets because of reduced international demand for livestock, grain and produce grown within the United States. The U.S. Department of Agriculture's (USDA) Foreign Agricultural Service states that the Top 5 markets for U.S. agricultural goods in 2017 were Canada ($20.5 billion), China ($19.6 billion), Mexico ($18.6 billion), Japan ($11.9 billion) and the European Union ($11.5 billion). Each of these countries has placed counter-tariffs on U.S. goods, including agricultural products. With exports declining, U.S. producers will plant fewer acres and require less seed. Removing the tariffs will not fully restore U.S. production, as trading partners will have found other suppliers.

Finally, non-tariff trade barriers are increasing while opportunities to resolve these issues diplomatically are becoming more limited. Compared to other commodities, the seed industry has long and complicated supply chains, making these issues more pronounced. Seed moves globally for research and development, multiplication and testing and commercial sales. At each production stage, seed companies face short shipping and planting windows, which are missed when customs officials conduct additional tests, have processing delays or reject shipments at the port of entry. Precommercial seed delays ripple through research programs, slowing release of new varieties. Delays in seed production or commercial shipping means farmers cannot plant on time. These situations are devastating for seed companies and the farmers that depend on the seed.

When tariffs are enacted, companies immediately start paying them, promptly altering their profitability. As the economics change, supply chains shift and rarely revert back to their original form. In this case, companies will avoid paying the 25 percent tariff to bring seed from China to the U.S. by sending seed to comparable, non-U.S. facilities to be cleaned, treated and packaged. Idle facilities here will close and may not reopen even if the tariffs are removed.

To date, only seed shipped from China to the United States faces a tariff. However, the potential economic damage to the seed industry is greater than a single tariff because of declining domestic markets and new non-tariff trade barriers that limit sales and profitability. Additionally, new tariffs placed on U.S. exports are likely, which could adversely impact the $1.8 billion in U.S. seed exports.

To prevail in this environment, I recommend a four-step preparedness schedule. First, model your company's global imports and exports to determine the impact of tariffs. Second, strategize company specific opportunities to mitigate or avoid the impact of tariffs. Third, implement short- and long-term strategies. Fourth, collect data on tactical changes, monitor tariffs and continuously update the model with new information. By implementing these four easy steps, you can increase your agility while minimizing risk in the current trade environment. **SW**