

# 2019 ILLINOIS FARM ECONOMICS SUMMIT

## Trade, MFP, and Policy Directions

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# Topic Outline

- Trade Events Timeline
  - U.S. Trade Actions and Retaliation
  - Impacts
- MFP in 2018 and 2019
  - Design
  - Support Levels and Impacts
- Future Policy Implications

# Trade Events Timeline

- Section 201 (safeguard tariffs)
  - Jan 2018: Solar panel and washing machine tariffs (Sec. 201)
  - Apr 2018: China retaliation with tariffs on US sorghum
  - May 2018: China ends sorghum tariffs
  - August 2018: China files WTO dispute on solar panel tariffs

# Trade Events Timeline

- Section 232 (national security threat)
  - Mar 2018
    - Steel and aluminum tariffs announced covering \$50 billion in imports from various partners
    - EU threatens retaliation (tariffs and WTO dispute)
    - Exemptions for Mexico, Canada, EU, others announced
  - April 2018: China retaliates with tariffs on \$2.4 billion, including pork, fruit, and nuts
  - June 2018
    - Exemptions for EU, Mexico, Canada end
    - EU retaliates with tariffs on \$3.2 billion
  - July 2018
    - Canada and Turkey retaliate
    - Trade aid for farmers announced
  - May 2019: Tariffs on Canada and Mexico removed

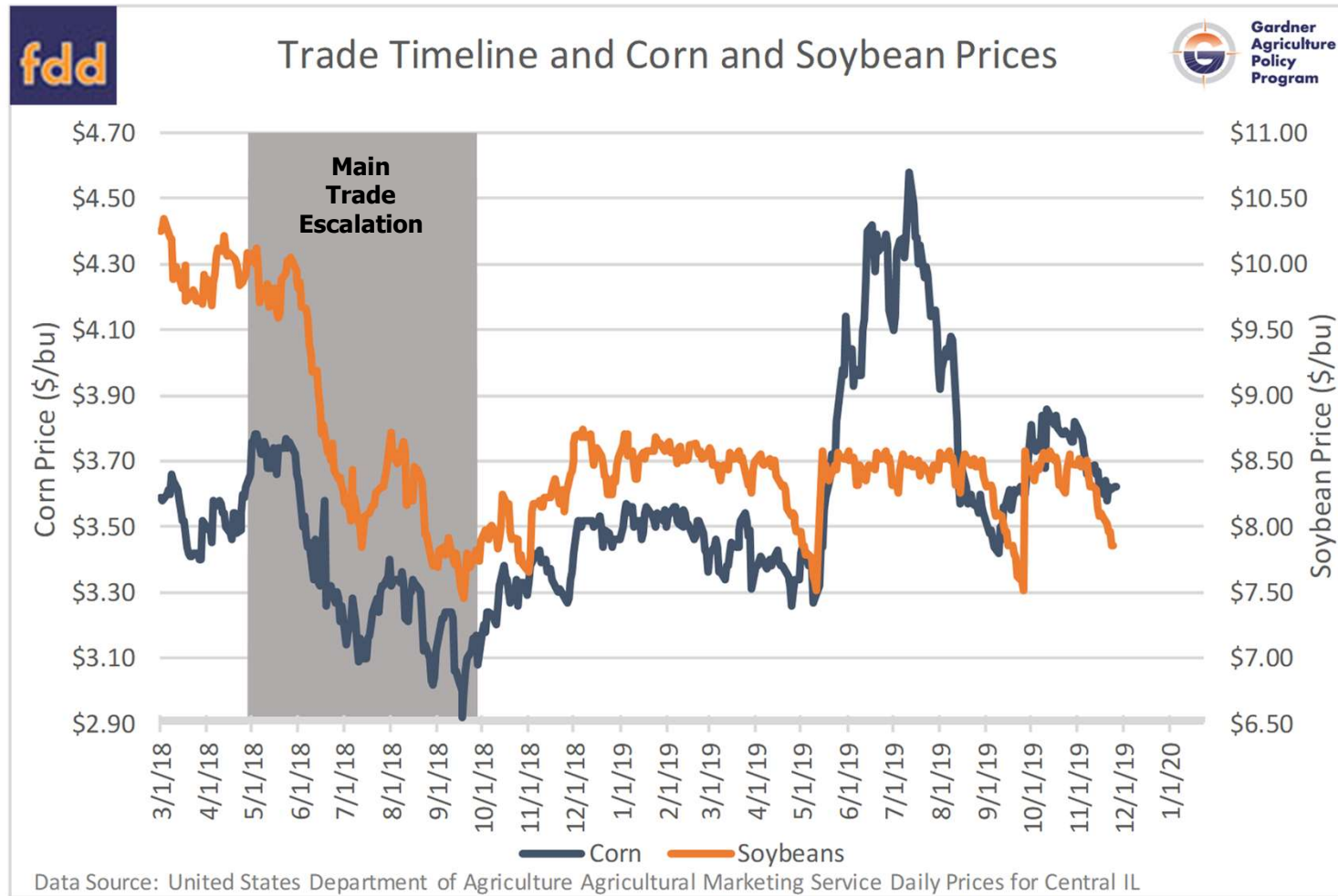
# Trade Events Timeline

- Section 301 (tech, intellectual property)
  - Apr 2018
    - US threatens tariffs on \$60 billion, then additional \$100 billion
    - China threatens retaliation with tariffs on \$50 billion (including agriculture, soybeans)
  - May/June 2018
    - Tariffs on hold
    - US and China both revise their initial \$50 billion tariff list
    - Trump requests tariffs on additional \$200 billion
  - July 2018
    - US and China impose tariffs on first lists
    - US tariffs on \$200 billion announced
    - Tariffs on all imports from China threatened
    - Trade aid for farmers announced
  - August 2018
    - Second phase of tariffs imposed by US and China

# Trade Events Timeline

- Section 301 (continued)
  - Sep 2018
    - Phase 3 of tariffs by US and China finalized and take effect
  - Dec 2018
    - Tariff truce
  - Apr/May/June 2019
    - Ongoing negotiations stall
    - Renewed tariff threats, rate increases
  - Aug 2019
    - Tariffs on all remaining imports from China announced, more retaliation
  - Sep/Oct 2019
    - China removes some tariffs, Trump cancels some tariffs
    - “Phase One” of China deal

# Trade Events Timeline

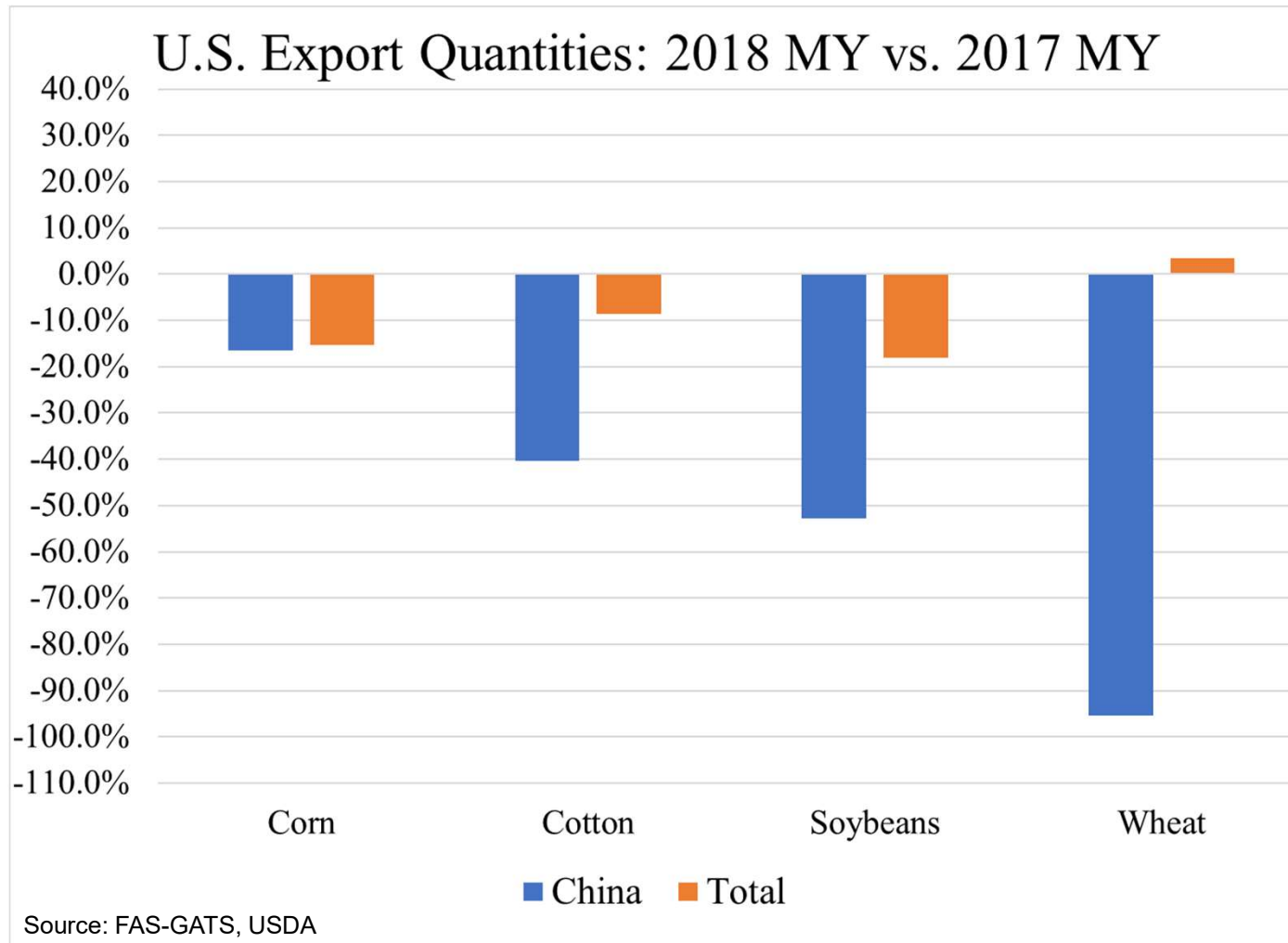


# Retaliatory Trade Action Impacts (Estimates)

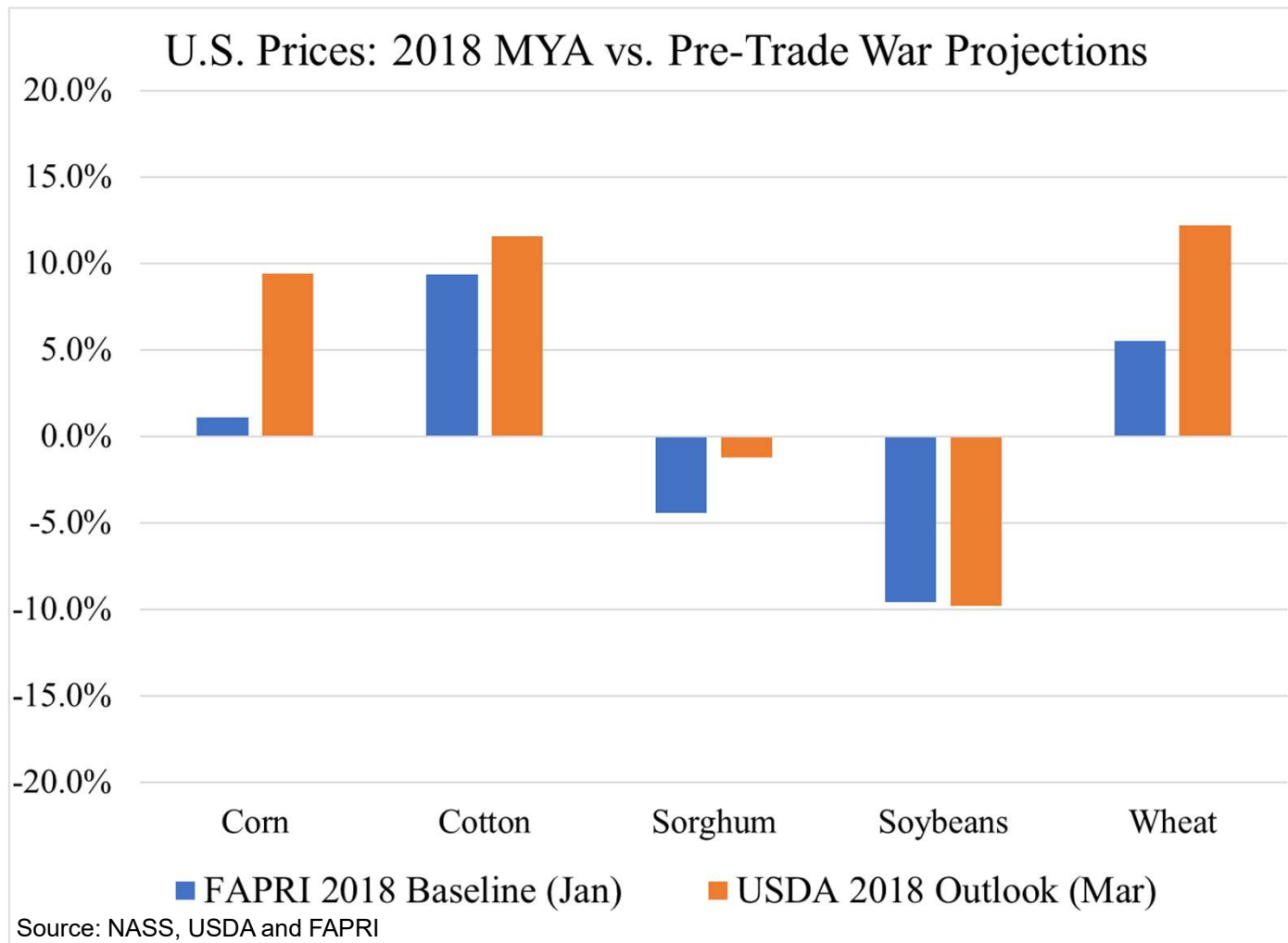
- Estimates from Economic Models
  - 4 to 12% reduction in soybean prices
  - 30 to 70% reduction in soybean exports (bushels) to China
  - 1.5 to 4% reduction in corn prices
  - 2 to 10% reduction in sorghum prices
  - 1 to 2% reduction in wheat and cotton prices
  - Key point: Estimates isolate the trade effect; in reality there are other factors, such as weather



# Retaliatory Trade Action Impacts



# Retaliatory Trade Action Impacts



# MFP to the Rescue

## 2018 (MFP 1)

- Announced July/Aug 2019
- Payments tied to actual production
  - Fixed per unit rates by commodity
- \$10.6 billion authorized
- Two tranches
- \$125,000 payment limits for crops and livestock
- \$900,000 AGI limit

## 2019 (MFP 2)

- Announced May 2019, details in July
- Payments tied to planted acreage
  - Fixed per acre rates by county
- \$14.5 billion authorized
- (Up to) three tranches
- \$250,000 payment limits for crops and livestock
- \$900,000 AGI limit

# MFP Payments based on Estimated Trade Damages

Commodity	MFP 1	MFP2
<b>Cotton</b>	\$0.06/lb	\$0.26/lb
<b>Corn</b>	\$0.01/bu	\$0.14/bu
<b>Sorghum</b>	\$0.86/bu	\$1.69/bu
<b>Soybeans</b>	\$1.65/bu	\$2.05/bu
<b>Wheat</b>	\$0.14/bu	\$0.41/bu
<b>Rice</b>		\$0.63/cwt
<b>Peanuts</b>		\$0.01/lb
<b>Lentils</b>		\$3.99/cwt
<b>Peas</b>		\$0.85/cwt
<b>Alfalfa Hay</b>		\$2.18/ton
<b>Dried Beans</b>		\$8.22/cwt
<b>Chickpeas</b>		\$1.48/cwt
<b>Dairy</b>	\$0.12/cwt	\$0.20/cwt
<b>Hogs</b>	\$8.00/head	\$11.00/head

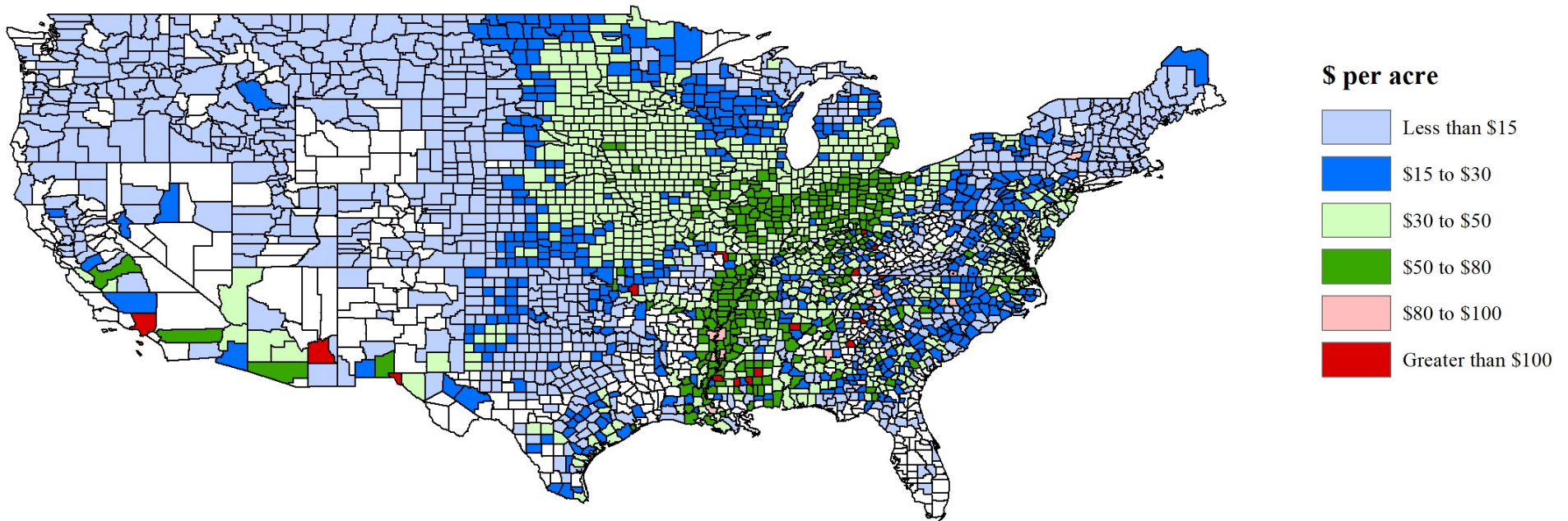
Source: FSA, USDA

## MFP 2 vs MFP 1

- Increased damage rates
  - Particularly for cotton, corn, sorghum
- Inclusion of additional crops
- Estimated damage translated to fixed, county-level per acre payment rates
  - Based on historical acreage/yields of county rather than actual production in 2019
  - Done to minimize distortionary effects

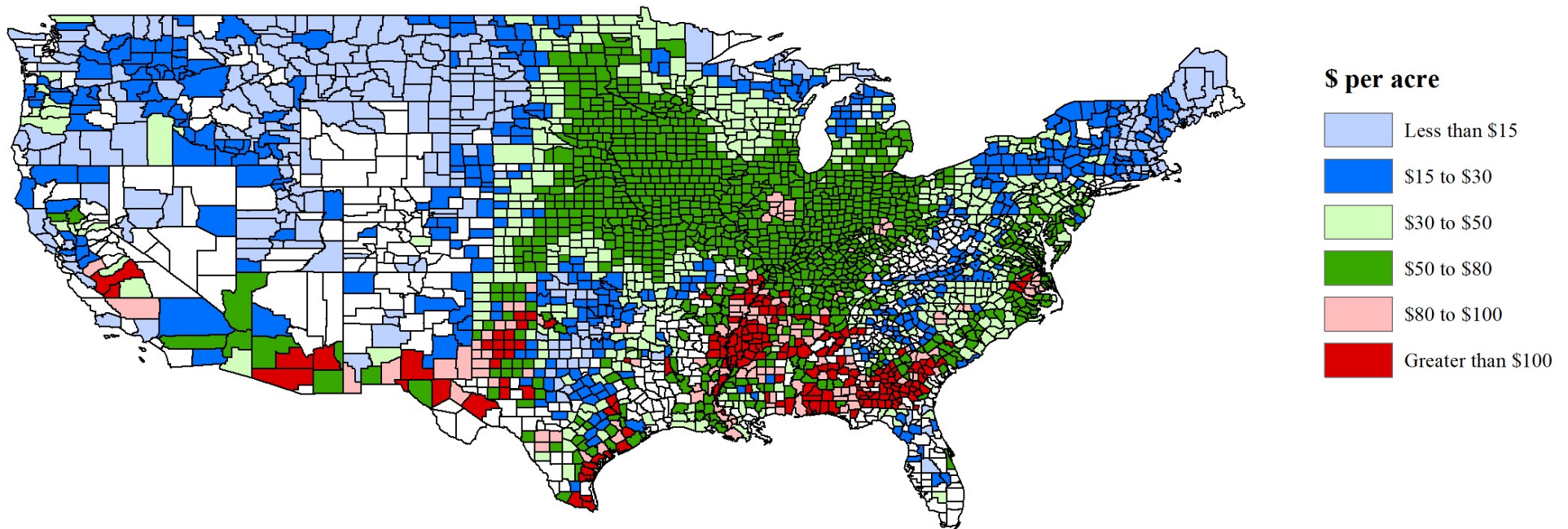
# National MFP Payments

2018 MFP Payments Per Acre



# National MFP Payments

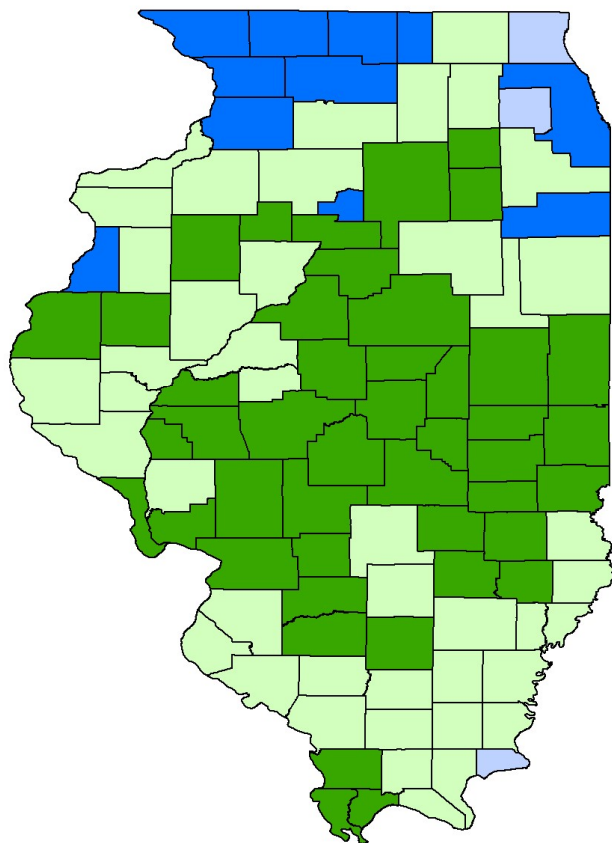
2019 MFP Payments Per Acre



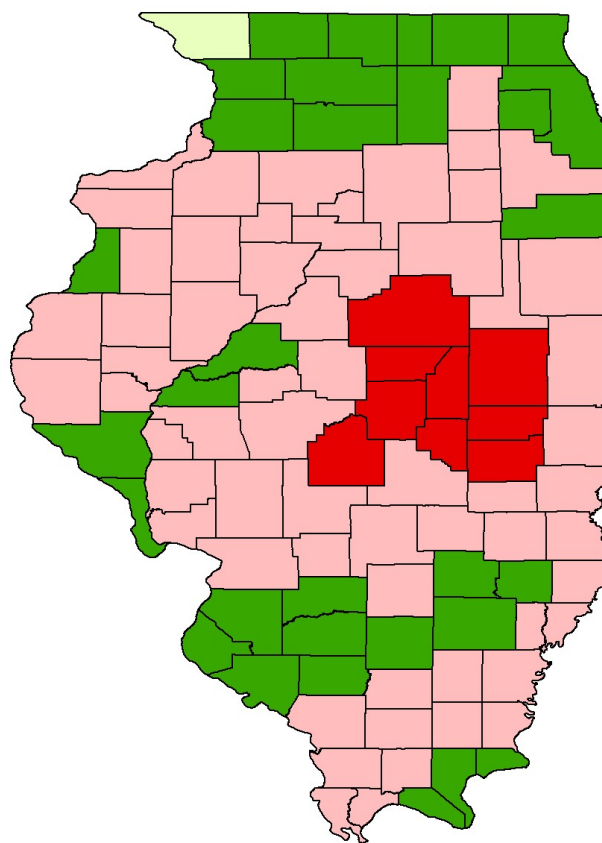


# Illinois MFP Payments

2018 MFP Payments Per Acre



2019 MFP Payments Per Acre

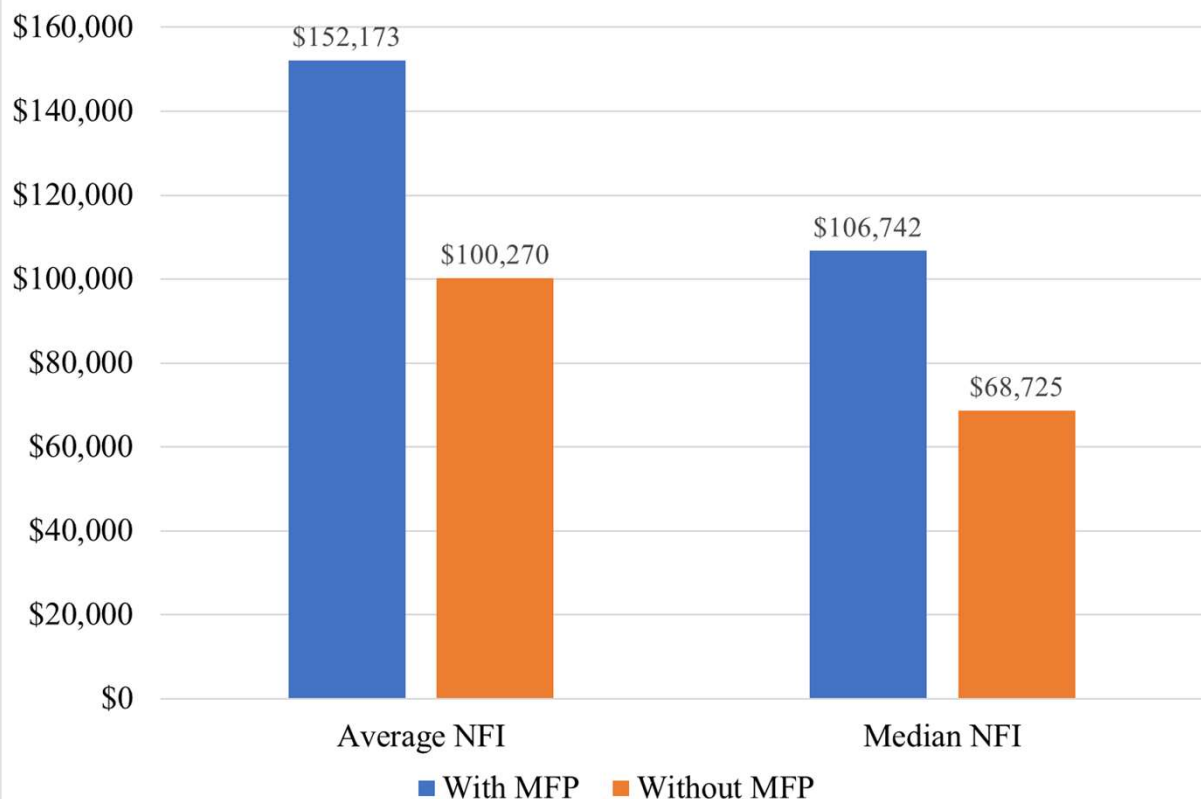


**\$ per acre**



# Income Effects

Net Farm Income for IL FBFM Farms in 2018



	With MFP	Without MFP
NFI < FLW	40.7%	55.9%
NFI < \$50k	27.8%	43.2%
NFI < 0	10.6%	19.7%

- Average MFP payment in IL for 2019 expected to be around \$70,000
- MFP will help to avoid negative net farm income (average) in IL in 2019



# Financial Effects

## Central Illinois (excellent yields in 2018)

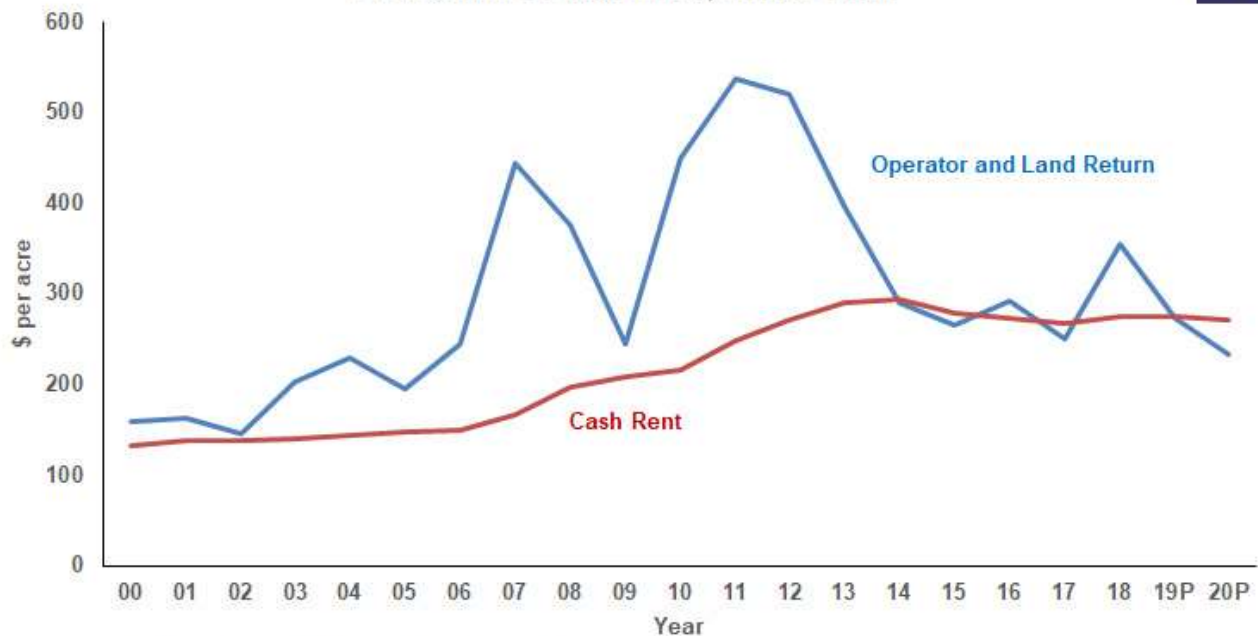
- *Average* liquidity, solvency, and debt coverage positions remain healthy, but projected to trend down in 2020 and beyond

## Northern Illinois (poorer yields in 2018)

- *Average* liquidity, solvency, and debt coverage positions remain healthy, but projected to trend down in 2019 and beyond

# Financial Effects

Figure 1. Operator and Land Returns and Cash Rents on High-Productivity Farmland in Central Illinois, 2000 to 2020P



Source: Illinois Farm Business Farm Management

- MFP in 2018 pushed operator and land returns above cash rent levels
- MFP in 2019 allowed operator and land returns to just cover cash rent levels
- For 2020, trend yields and expected prices result in operator and land returns well below cash rents
- Anecdotally, MFP has made it difficult to negotiate cash rents down

# Future Policy Implications

- MFP payments in 2018 and 2019 exceed Farm Bill programs
  - Farm Bill is debated and authorized by Congress via open process
  - MFP payments made available using existing authorities of the Commodity Credit Corporation
    - Designed, under constraints, by USDA through a truncated rulemaking process
- Continued support in 2020 and beyond?
- WTO implications
- Re-coupling to production/planting decisions

# Summary Points

- Trade actions by the Trump Administration have led to retaliatory actions and agricultural trade damages
- MFP payments have (more than?) offset trade damages and improved financial position in the short-term
- Long-term effects of trade policy remain a concern
  - Lost markets
  - Missed opportunities
- MFP 3 in 2020?
- MFP style programs more likely to be used in the future?