PRESIDENT TRUMP'S "AID NOT TRADE" POLICY:

Skewed Payments Choose Winners and Losers, Fail to Help Farmers Hit the Hardest

U.S. Senate Committee on Agriculture, Nutrition, and Forestry
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Table of Contents

Executive Summary.....3

USDA's Flawed Approach Picks Winners and Losers.....4

MFP Payment Rates Overcompensate Certain Regions.....4

Payments Overcompensate Certain Crops.....7

Benefitting Wealthy Farms & Foreign Companies Instead of Small Farms.....9

Destroyed Market Access: Decades of Farmer Investments Down the Drain.....10

Endnotes.....11

Executive Summary

Over the past two years, President Trump has pursued a chaotic trade agenda that has created unprecedented uncertainty for American agriculture. While farmers are in dire need of assistance, according to an analysis of U.S. Department of Agriculture (USDA) data, the Administration's Market Facilitation Program (MFP) has treated farmers unfairly by:

- **Picking Winners and Losers between Regions and Crops:**
  95% of top payment rates have gone to southern farmers, who have been harmed less than other regions
- **Helping Wealthy Farms and Foreign Companies Instead of Small Farms:**
  Payments made to billionaires and foreign-owned companies, including $90 million to JBS, a Brazilian company
- **Failing to Recover Market Access:**
  No long-term investment or plan for rebuilding markets

In the bipartisan 2018 Farm Bill, Congress provided balanced support to help farmers manage market instability across the country. The Administration's policy upends this careful compromise, replaces income from markets with government payments, creates vast inequities, and does not address the actual trade damage to farmers who have been hit the hardest. **While farmers in the Midwest and Northern Plains have been affected the most, Southern farmers have received the highest payment rates.** Looking at the first round of 2019 MFP payments per acre, the five top states are in the South.

In order to help farmers survive this unprecedented instability, the Administration must improve its trade assistance program.

In addition, it must pursue a focused, consistent trade strategy to rebuild the markets American farmers lost.

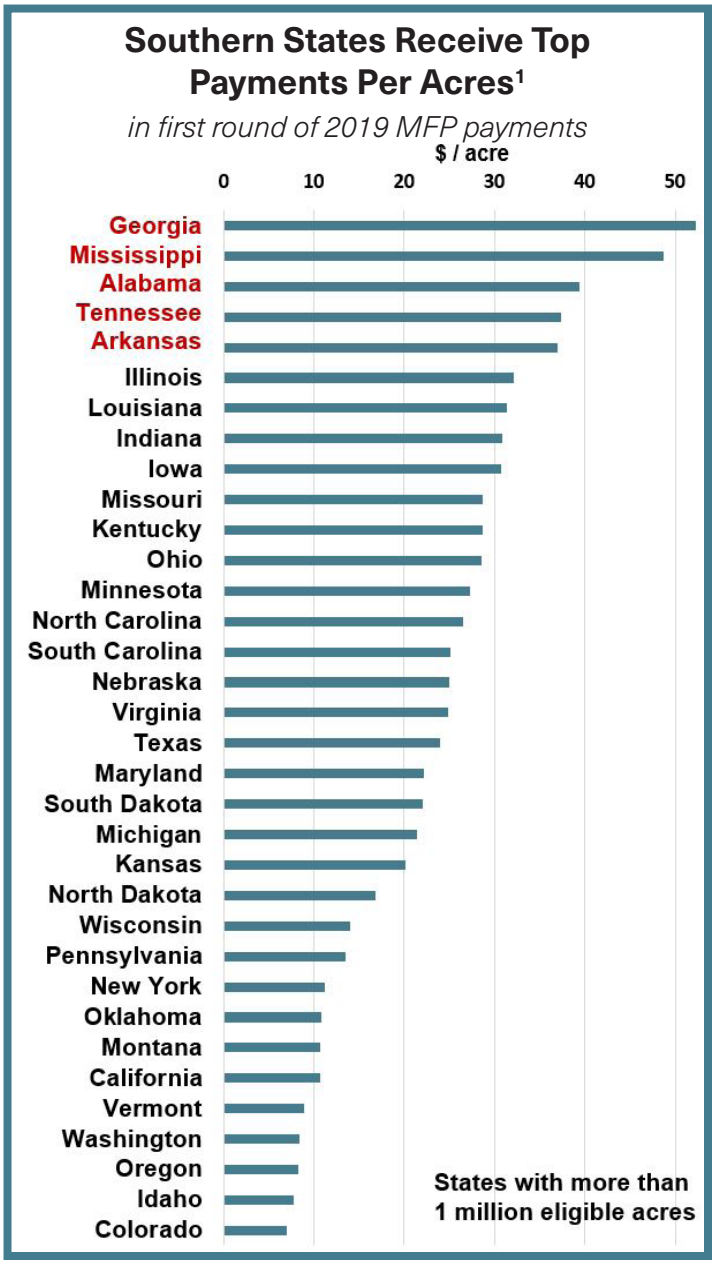
USDA's Flawed Approach Picks Winners and Losers

USDA's decision to provide unprecedented assistance – totaling over $25 billion – to farmers due to the Trump Administration's self-inflicted trade crisis has increased confusion and uncertainty for farmers. While farmers need help in this time of instability, USDA has created a flawed formula that picks winners and losers between regions and crops. And while the impacts of the retaliatory tariffs are widespread, the payment rates have not aligned to help the regions and crops harmed the most.

MFP Payment Rates Overcompensate Certain Regions

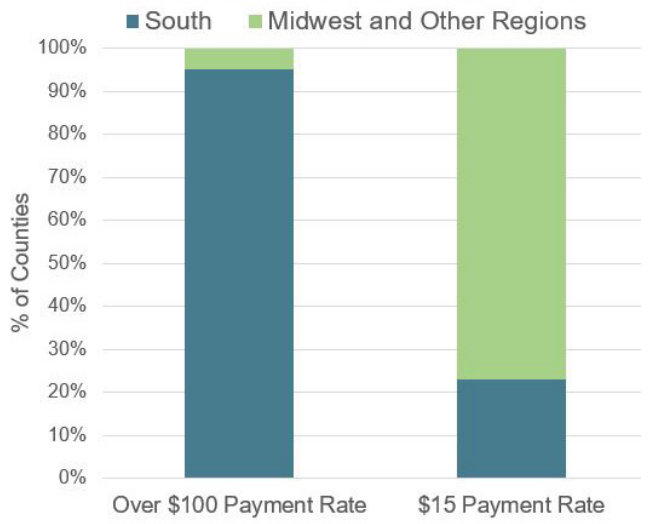
In designing the 2019 MFP payments, USDA's formula to address trade damages generated individual payment rates for each county. These payment rates, however, have not been distributed equitably between regions, counties, and even next-door neighbors, and have failed to benefit the farmers who have been hit the hardest.

Clear Regional Disparities: Looking at the first round of 2019 MFP crop payments per acre by state, **the five top states are in the South.** The relative disparity will only grow since counties with the minimum payment rate will get nothing from the remaining 2019 MFP payments, while the top counties will continue to receive payments. Farmers in Georgia have already received over $50 per acre in the first round of 2019 payments, while farmers in 34 other states received $25 or less, including 14 states that received $10 or less.[1]



High Payment Rates are Heavily Concentrated in the South: USDA's approach with the 2019 MFP payments has created extreme disparities. County payment rates for 2019 MFP equaled or exceeded $100 per acre in only 193 counties. 184 of these counties, or 95%, were in southern states.[2] Conversely, there were 402 counties with the minimum payment rate of $15 per acre. 308, or 77%, of these counties are in states in the Midwest and other regions in the country. All of the counties in Wyoming and the majority of counties in states including Montana and Colorado got the minimum payment rate. Farmers in these counties will get no payments from the second or third installments of 2019 MFP.[3]

Regional Breakdown of Payment Rates

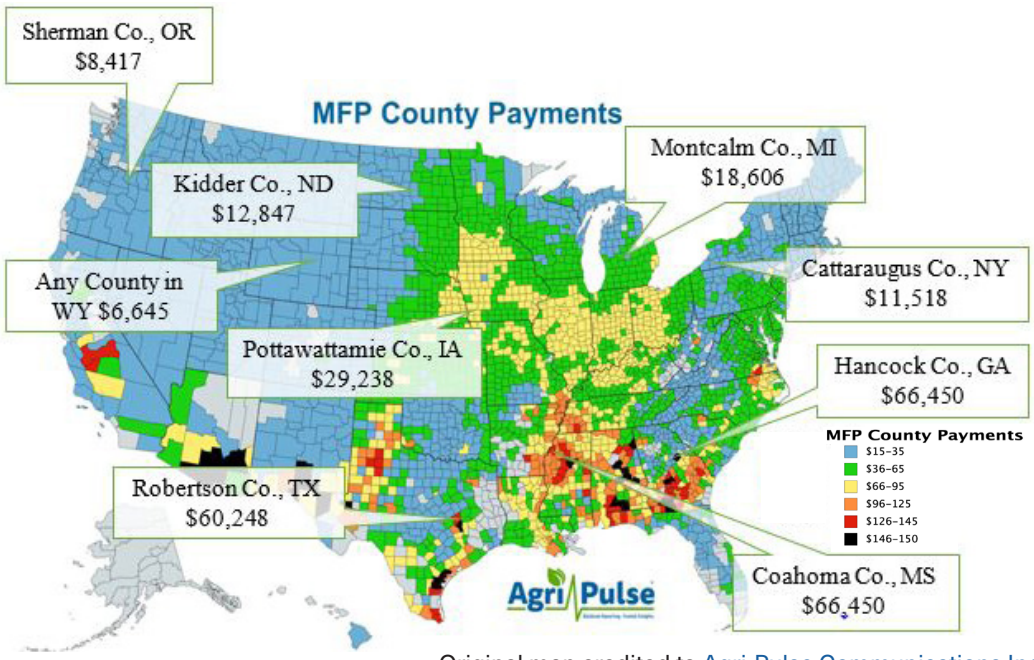


95% of counties receiving a payment of $100 or more are in the South

Payments for Similar Farms Vary Wildly: While the map of 2019 MFP county payment rates clearly illustrates the concentration of payments in the South, even similar-sized farms producing similar crops could have significantly different payments. Such big differences in payments could make the difference between a farmer being made whole or going out of business.[4]

According to USDA, the average size of U.S. farms is 443 acres.[5] Assuming that all 443 acres have eligible crops planted, the payment for this farm could vary between $66,450 if the payment rate of the county was $150, or $6,645 if the payment rate

Payments for an Average-Sized Farm in Different Counties[7]



Original map credited to Agri-Pulse Communications Inc.

was $15.[6] The map on page 5 shows some example payments for an average-sized farm in different counties and regions.[7]

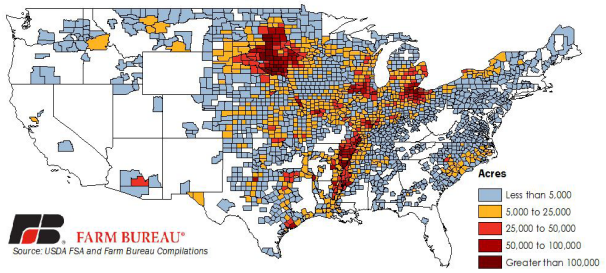
Between Counties: In addition to the wide regional disparities in payment rates, there are significant differences across nearby county lines as well. These differences are the most extreme where MFP payments are high, but even in states where the maximum payment rate is less than $100 per acre, there often are adjacent counties with rates that vary by two or three times for no discernible reason. For counties with relatively small amounts of eligible agricultural production, a few acres could trigger a high payment rate (e.g. Braxton County, WV).

Extreme Neighbors:

Hancock County, GA	$150/acre
Baldwin County, GA	$15/acre
Robertson County, TX	$136/acre
Falls County, TX	$23/ acre

Disparities Within Counties: The record number of farmers prevented from planting due to flooding and wet weather this spring meant that some farms were not planted. Unplanted acres did not receive any payments under MFP. In places where farmers were able to plant cover crops, these acres were eligible for $15 per acre MFP payments. This meant that weather could dramatically change a farm's payment rate. For example, an average-sized farm (443 acres) in Pottawattamie County, Iowa, would have a payment of $29,238 if planted to eligible commodities, $6,645 if planted to cover crops, or $0 if it was too wet to plant even cover crops.[9]

2019 Prevented Plant Acres [8]



Map credited to Farm Bureau

Damage Concentrated in the North, Midwest, and West: While the impacts of the retaliatory tariffs are widespread, the payments rates have not aligned to help the regions harmed the most. In the North, Midwest, and West, farmers who previously exported their products to China are further away from alternative markets. This extra distance to the new markets creates additional transportation costs on top of lower prices. These differences in price related to location are not new and are tracked by the "basis" for a particular area.

For example, after the retaliatory tariffs were announced, the local soybean price dropped by 60 cents per bushel in North Dakota and 30 cents per bushel in Iowa relative to the national price.[10] With a significant portion of soybeans that are grown in northern and western states no longer being exported through the Pacific

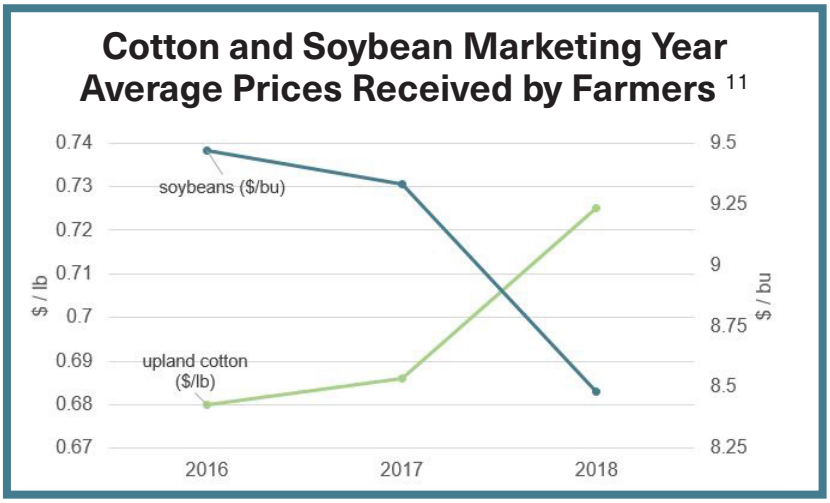
Northwest ports to China, the likely alternative markets would be accessed through the Gulf of Mexico instead. Southern soybean farmers would already be closer to these alternative markets, and while they would still feel the broader impacts of losing the Chinese market, the relative impact would be less than the northern, midwestern, and western growers who have the impact from increased transportation costs as well.

Payments Overcompensate Certain Crops

Another concern is that USDA's formula for MFP payments provides large payments to crops that show no decline in price and disturbs longstanding market relationships.

Changes in crop prices should correspond with the degree of damage caused by retaliatory tariffs, so a higher MFP payment should correspond with a decline in price for the crop. Instead, the MFP payments fail to line up with the actual harm being felt, overcompensating certain crops over others. A review of 2018 MFP payments for several different crops provides examples of the program's failure to make payments reflective of trade damage.

Case Study: Soybeans vs. Cotton: When USDA's estimated trade damages (expressed as payment rates by crop) are compared to actual prices, soybeans follow the expected pattern, with the average price dropping for the 2018 marketing year by 85 cents to $8.48 per bushel. Upland cotton, on the other hand, actually saw a 3.9 cent increase in price to $0.725 per pound for the 2018 crop. Despite this increase in price, upland cotton received a large MFP payment.[11]



Case Study: Corn vs. Sorghum: The market prices of many crops, especially feed grains that can be used interchangeably, are highly correlated and interdependent. However, USDA's MFP model treats sorghum and corn markets as separate and unrelated, which creates payment rates that have no relationship with actual harm. The MFP model predicted the most severe 2018 trade damage was to sorghum, but the price for sorghum actually went up. The results from

this artificially inflated payment rate can go beyond overpaying some farmers, especially since MFP payments are linked to planting of crops. Farmers regularly change planting decisions based on which crops are most profitable. The combination of the market price and MFP payments reverses the typical price relationship between corn and sorghum. If MFP payments become a regular occurrence, these disparities in government payments will artificially shift planting from corn and other feed grains to sorghum.

2018 Sorghum and Corn Farm Income Per Bushel[12]

Commodity	2018/19 Average Price	2018 MFP Payment Rate	Farm Income (Price + MFP)
Sorghum	$ 3.26	$ 0.86	$ 4.12
Corn	$ 3.61	$ 0.01	$ 3.62

Non-Tariff Trade Damages: There are a variety of examples of non-tariff trade barriers and other unfair practices that are costing U.S. farmers billions, but the affected farmers are not eligible for trade assistance. These damages affect all sectors of agriculture and include row crops, specialty crops, and livestock. However, only the damage caused by the retaliatory tariffs that were in reaction to President Trump's chaotic trade actions are eligible for trade assistance.

Specialty Crops: While row crops were almost entirely eligible for direct MFP payments, only a small number of specialty crops (tree nuts, fresh sweet cherries, fresh grapes, cranberries and ginseng) were eligible for payments to farmers. The other specialty crops either had trickle-down benefits from the purchase of commodities or were shut out.

Livestock: Even when both commodities received direct payments, USDA calculated payments to hog producers and dairy producers differently. Hog producers were paid on a snapshot of recent production, while dairy farmers were paid based on production history that is between 6 and 8 years old and may not reflect current circumstances.

Forestry: Despite significant harm both from the retaliatory tariffs and other non-tariff damage such as unfairly subsidized Canadian softwood lumber imports, USDA excluded forest products from any form of MFP assistance. Ongoing trade uncertainty has been devastating for many in the forest products industry. The domestic hardwood lumber industry, which is just one segment of the broader forest products industry, previously exported roughly a quarter of its overall harvest to China. Since the retaliatory tariffs began, **hardwood exports to China are down 43%** and the value of those exports has fallen $615 million. [13]

Benefitting Wealthy Farms & Foreign Companies Instead of Small Farms

The economic trends related to farm viability continue to decline due to the one-two punch of a prolonged downturn in the farm economy and the chaotic trade situation. There is a combination of record-high debt and a 24% increase in farm bankruptcy filings, which threatens to drive consolidation.[14]

> **"In America, the big get bigger and the small go out."**
> *- U.S. Agriculture Secretary Sonny Perdue, Oct. 2019*[17]

Despite small, medium, and beginning farms being more vulnerable during tumultuous times, USDA has done nothing to target assistance to these farmers. With the average age of farmers in the U.S. close to 60, we cannot afford to let the chaos created by the lack of a trade strategy drive the next generation of farmers out of business.

Money Flowing to Wealthy Farms: Instead of taking steps to support small and beginning operations, USDA doubled the payment limit for row crops payments from $125,000 to $250,000. This change will concentrate payments even more in the large complicated farming conglomerates, especially in southern states that have the higher payment rates. This also was a significant departure from the $125,000 payment limit and prohibition on millionaires from collecting payments agreed to in the bipartisan 2018 Farm Bill. **The family-owned farms of the billionaire governor of West Virginia even earned the maximum payment under the 2018 MFP.**[15]

Commodity Purchases from Foreign-owned Companies: Under certain commodity purchases, the aid intended for U.S. farmers has flowed to foreign-owned corporations. In other cases, initial bids were withdrawn after questions were raised about a subsidiary of a Chinese-owned company profiting from the aid intended for U.S. hog farmers. It is unacceptable that American taxpayers have subsidized foreign competitors through trade assistance. USDA should make changes to prevent foreign companies and their subsidiaries from benefitting from these programs and consider more flexible terms to maximize the number of potential U.S. bidders.

Trade Aid for China and Brazil?

USDA has awarded trade mitigation commodity purchase contracts to Smithfield Foods, a subsidiary of the Chinese-owned WH Group, and JBS USA, a subsidiary of Brazilian-owned JBS SA.[16]

Smithfield Foods (withdrawn)	
Nov. 2018	**$240,000**
JBS USA	
Jan. 2019	$22.3m
Feb. 2019	$14.5m
May 2019	$25.6m
Aug. 2019	$27.6m
JBS Total	**$90m**

Destroyed Market Access: Decades of Farmer Investments Down the Drain

For decades, farmers have taken money out of their own pockets to build foreign markets so they can export their products. The president's chaotic trade agenda has thrown that all away, destroying markets and giving farmers "replacement money" instead of working to recover markets. The foreign market development efforts through MFP have been exclusively short-term, with no long-term investments to help rebuild markets, which could be gone forever.

Investments Thrown Away: Over the past few decades, farmers have invested $971 million of their own money in developing trade with China.[18] The market development portion of the USDA trade assistance package is by far the smallest. It is clear that more significant investments will be needed over multiple years if not decades, but there seems to be no plan or proposal from the Trump Administration to do so. The 2020 budget proposal supported only flat funding for the existing market development efforts and actually proposed to cut staff from the Foreign Agricultural Service.

Potential for Permanent Damage: There is growing concern that some of the damage to export markets will either be permanent or take decades of investment to recover.[19] During the Nixon Administration, the U.S. imposed a ban on soybean exports to counter inflation. This was a shock to our largest export partner, Japan, who had up to then relied on the U.S. for more than 90% of its soybeans. Despite the export ban being less than a year, Japan saw us as a potentially unreliable trading partner and began a long-term investment in the development of South American production and export facilities. The U.S. has never recovered the lost market share.[20]

Another example is specific to China. After a 13 year ban on imports of U.S. beef, some imports have resumed. In the meantime, China has diversified its sources for beef and the U.S. has not come close to regaining its former market share.[21]

Endnotes

1 https://www.fsa.usda.gov/news-room/efoia/electronic-reading-room/frequently-requested-information/crop-acreage-data/index

2 Southern States: AL, AR, DE, GA, FL, KY, LA, MD, MS, NC, OK, SC, TN, TX, VA, WV

3 County payment rates published by USDA https://www.farmers.gov/sites/default/files/documents/PaymentRates.pdf

4 https://www.fsa.usda.gov/news-room/efoia/electronic-reading-room/frequently-requested-information/crop-acreage-data/index

5 NASS Farms and Land in Farms, 2018 Summary https://www.nass.usda.gov/Publications/Todays_Reports/reports/fnlo0419.pdf

6 County payment rates published by USDA. Example payments arecalculated by multiplying 443 acres by the payment rate https://www.farmers.gov/sites/default/files/documents/PaymentRates.pdf

7 Underlying map credited to Agri-Pulse Communications Inc. https://www.agri-pulse.com/ext/resources/Graphics/MFP_County_rates_HP_CF_72519.jpg County payment rates published by USDA https://www.farmers.gov/sites/default/files/documents/PaymentRates.pdf

8 Map credited to Farm Bureau https://www.fb.org/market-intel/prevent-plantings-set-record-in-2019-at-20-million-acres

9 County payment rates published by USDA https://www.farmers.gov/sites/default/files/documents/PaymentRates.pdf

10 https://www.cnbc.com/2018/10/08/refugee-soybeans-in-dakotas-look-for-home-after-china-stops-buying.html and https://www.iowaagriculture.gov/agMarketing/historic/2018GrainPrices.asp

11 Marketing Year Average prices received by farmers was retrieved from NASS Quick Stats https://quickstats.nass.usda.gov/

12 https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/arc-plc/2019/pdf/2019_MYA.pdf

13 https://www.fb.org/market-intel/trade-and-tariffs-cut-deep-into-the-hardwood-industry

14 https://www.bloomberg.com/news/articles/2019-10-30/u-s-farm-bankruptcies-surge-24-on-strain-from-trump-trade-war

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16 https://www.ams.usda.gov/selling-food/solicitations

17 https://apnews.com/5045af6cf4a24626aad0e406a965f86e

18 USDA Questions for the Record Submitted to the Senate Agriculture Committee, September 2018
19 https://www.bloomberg.com/news/articles/2019-10-09/u-s-farms-face-long-term-losses-from-trump-trade-war-bcg-warns
20 https://farmdocdaily.illinois.edu/2019/05/a-brief-review-of-the-consequential-seventies.html
21 https://www.bcg.com/publications/2019/prolonged-trade-wars-hurt-united-states-agribusiness-good.aspx

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