Economic Impact of Retaliatory Tariffs from Mexico and China on the US Dairy Sector

I. EXECUTIVE SUMMARY

In response to the US imposition of tariffs on select Mexican and Chinese imports following the release of two US Section 232 investigations and a US Section 301 investigation, these countries retaliated against select US exports including dairy products.

- China imposed an additional 25-percent tariff on US exports in response to the US Section 301 investigation. As a result, total tariffs on selected US dairy products range from 27 percent to 45 percent.
- Mexico imposed tariffs on most US cheeses that range from 20 percent to 25 percent.

This study evaluates the impact of the above retaliatory tariffs placed by China and Mexico on the US dairy sector in terms of US exports to those countries, the resulting impact on US farm-gate prices and US dairy farm sector revenues and the overall impact on the US economy. Informa analyzed the impacts compared to its baseline forecasts for the period 2018 to 2023.

China and Mexico are vital to US dairy product exports. These two countries combined account for around 35 percent of total US dairy exports worth approximately $1.9 billion. The study finds that China's and Mexico's retaliatory tariffs significantly impact the US dairy sector.

- US dairy product exports combined could fall by $115 million in 2018 and $415 million in 2019.
- From 2018-2023, US dairy product exports combined could fall by roughly seven percent from baseline projections worth $2.7 billion.
- Farm-gate prices are expected to fall roughly $0.64 per hundredweight (cwt) to average around $16.44/cwt through 2023 compared with the baseline price forecast of $17.09/cwt through 2023.
- Lower farm-gate prices are forecast to reduce farm-gate revenues by roughly $1.5 billion in 2018 and roughly $3 billion in 2019. From 2018-2023, the lower farm-gate prices are forecast to reduce farm-gate revenues by $16.6 billion.
    - Lost exports to China account for the bulk of the impact on farmers. Of the total $16.6 billion loss in farm-gate revenue, $12.2 billion or roughly 73 percent can be attributed to Chinese tariffs. Lost exports to Mexico account for the remainder of approximately $4.4 billion or 27 percent of the total loss.
- When including impacts of reduced exports to industries that are linked to the dairy farming industry, US economic output is reduced by $8.3 billion through 2023, GDP is reduced by $3.5 billion and indirectly risks over 8,200 jobs throughout the broader economy.

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The current trade situation between the US and China and the US and Mexico is very fluid. The US tariffs placed on select Chinese and Mexican goods as well as the Chinese and Mexican retaliatory tariffs placed on select US goods can all be removed at any time. But, with the current tariffs in place, the US dairy sector is being negatively impacted and will suffer more the longer these tariffs remain in place.

II. CONCLUSION

The current trade situation between the US and China and the US and Mexico is very fluid. The US tariffs placed on select Chinese and Mexican goods as well as the Chinese and Mexican retaliatory tariffs placed on select US goods can all be removed as easily as they were put in place. However, as the tariffs stand, the US dairy sector is poised to lose significant export shares in China as well as shares in Mexico.

Under the retaliatory tariffs, price is forecast to drop $0.64 to average around $16.44/cwt through 2023 with total production forecast at 613 million MT. This decline in price directly impacts farm-gate revenue. Under the baseline, farm-gate revenue through 2023 is forecast at roughly $233.4 billion. Under the retaliatory tariffs, farm-gate revenue is forecast to total roughly $216.8 billion through 2023. This equates to a reduction in farm-gate revenue worth $16.6 billion. In 2018, lower farm-gate prices are forecast to reduce farm-gate revenues by roughly $1.5 billion and roughly $3 billion in 2019. Lost exports to China account for the bulk of the impact on farmers. Of the total $16.6 billion loss in farm-gate revenue, $12.2 billion or around 73 percent can be attributed to Chinese tariffs. Lost exports to Mexico account for the remainder of approximately $4.4 billion or 27 percent of the total loss.

US dairy exports to China and Mexico account for around 35 percent of total US dairy exports worth roughly $1.9 billion. The retaliatory tariffs directly reduce this amount by increasing the cost of US dairy exports leading to adverse impacts on the US dairy sector. US dairy product exports combined could fall by $115 million in 2018 and $415 million in 2019. The direct impact on exports resulting from the retaliatory tariffs is approximately a $2.7 billion loss through 2023. When including impacts to industries that are linked to the dairy farming industry, US economic output is reduced by $8.3 billion through 2023 and indirectly risks over 8,200 jobs throughout the broader economy.

The reduction in exports creates a surplus in the domestic market leading to a reduction in price which negatively impacts farmer revenue. As discussed in chapter four, the decreased exports to China and Mexico lead to an excess domestic supply which puts downward pressure on prices. This decline in prices paired with slow adjustments to production lead to significant loss in farm-gate revenue.

The longer US dairy exports are subject to tariffs above and beyond normal rates, the more market share the US will lose to foreign suppliers of the Chinese and Mexican markets. The future is uncertain for US dairy farmers making it difficult to plan any distance into the future with realistic expectations. What is for certain, is the US dairy sector will continue to suffer under Chinese and Mexican retaliatory tariffs for as long as they are in place.

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