

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0515

MEMORANDUM

TO: Members, Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship
FROM: Abby Finkenauer, Chairwoman
DATE: Tuesday, April 2, 2019
RE: Full Committee hearing entitled, “The Small Business Trade Snapshot: Agriculture and Workers.” The hearing is scheduled to begin at 10:00 A.M. on Tuesday, April 2, 2019 in Room 2360 of the Rayburn House Office Building.

The Committee on Small Business Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship will meet for a hearing titled, “The Small Business Trade Snapshot: Agriculture and Workers.” The hearing is scheduled to begin at 10:00 A.M. on Tuesday, April 2, 2019 in Room 2360 of the Rayburn House Office Building.

Trade issues have been at the forefront of national conversations due to the implications for nearly every sector of our economy. Small businesses, which include farmers, make up ninety-seven percent of U.S. exporters. The hearing will examine the state of trade for small businesses, farmers, and the employees who are critical to small businesses in numerous industries. It will also offer an opportunity to ensure that small businesses in the rural economy along with the American worker are not left behind in any new trade deals.

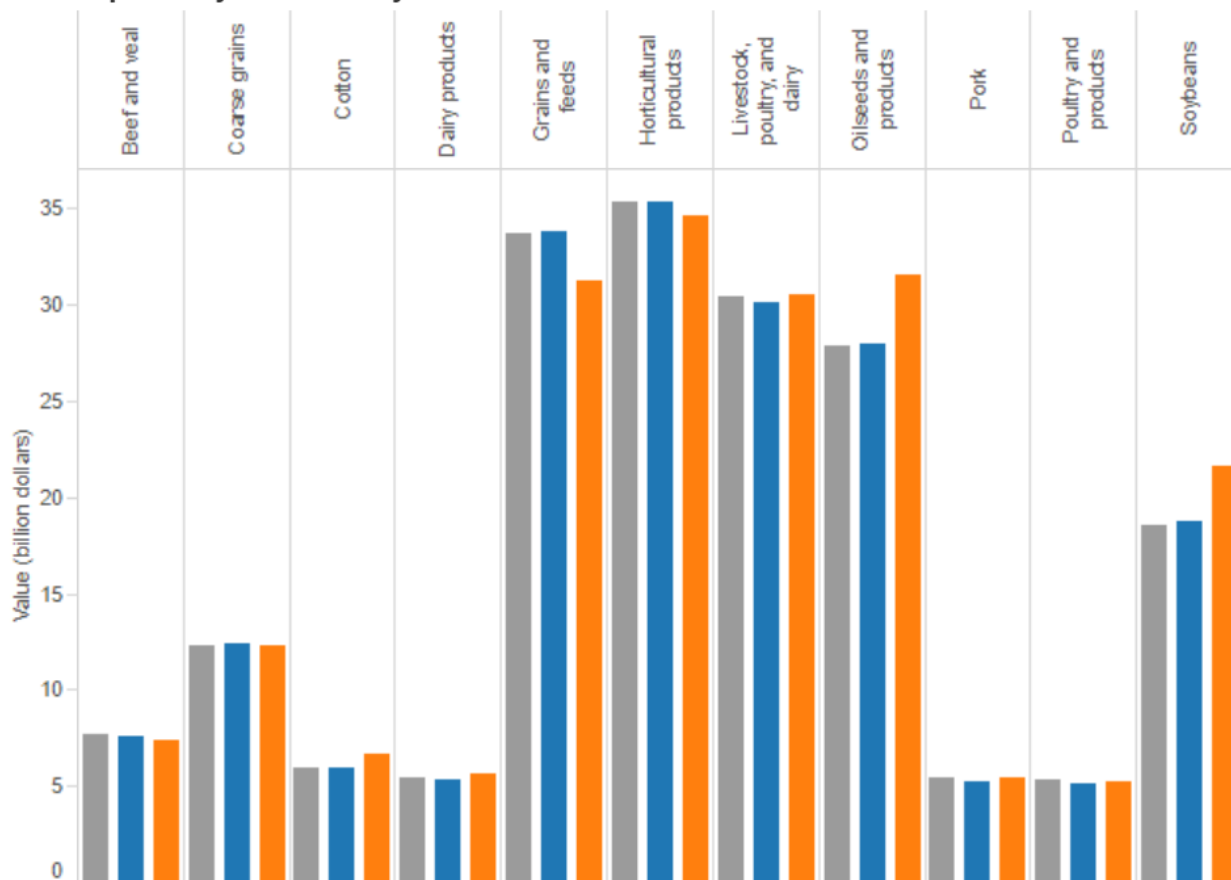
Witnesses include:

- Mr. Mark Meirick, Board Member, Iowa Pork Producers Association Protivin, IA, Testifying on behalf of the National Pork Producers Council.
- Ms. Rebecca Dostal, Iowa Farm Bureau, Traer, IA, Testifying on behalf of the Iowa Farm Bureau Federation.
- Mr. Josh Nassar, Legislative Director, International Union, United Automobile, Aerospace, and Agricultural Implement Workers of America, UAW, Washington, D.C.
- Mr. Glenn Stoltzfus, Co-owner, Pennwood Farms, District 11 State Board Director and Dairy Committee Chairman, Pennsylvania Farm Bureau, Berlin, PA.

Background

International trade remains the primary manner in which Americans are able to obtain many of the goods and services they need in the modern era. Whether it is obtaining raw materials to manufacture or selling services abroad, most consumers and small businesses have interacted in some form with global trade flows. In fact, small businesses accounted for 98 percent of all

Figure 1
U.S. exports by commodity



Source: USDA and U.S. Department of Commerce.
 Note: Orange indicates total exports for FY18, Blue indicates previous FY19 forecast, Grey indicates current FY19 forecast.

exporting firms but only account for a third of goods exported.¹ This also rings true for our agricultural sector, which has provided many countries across the globe with the necessary livestock, grain, and other products to sustain life. Perhaps no other issue is more important to the nation’s future, and relevant to our national economy than global trade.

Agricultural Trade

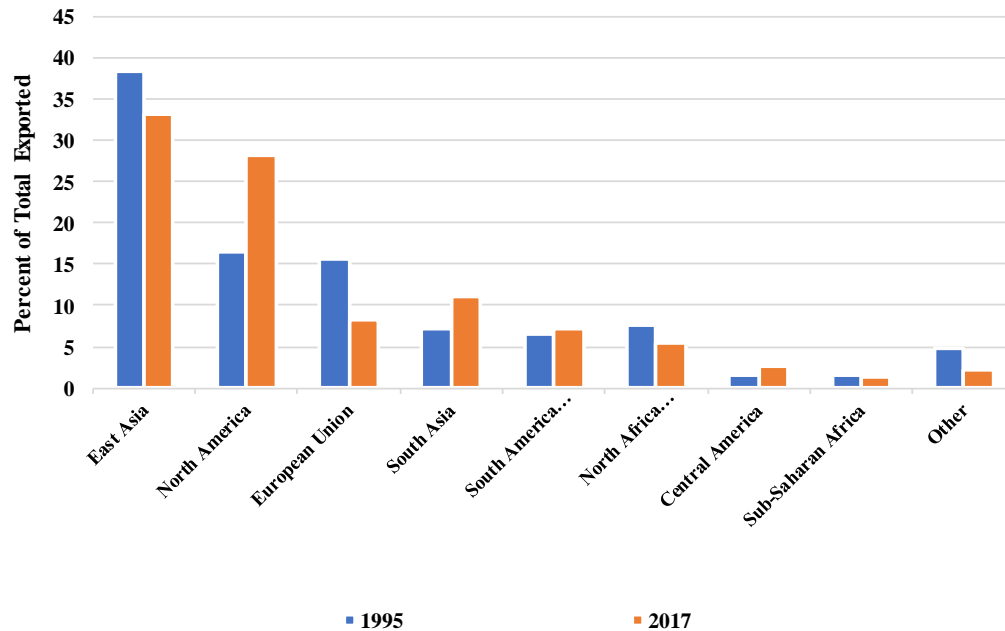
The might of America’s agriculture sector is second to none. As a nation, we are a global leader in agricultural production, supplying the world with many goods and products. In FY2019 alone, it is projected that our agricultural exports will reach \$141.5 billion, with most of our exports going to Canada and Mexico.² Over the last decades, U.S. agricultural exports have grown steadily,

¹ ENHANCING EXPORT OPPORTUNITIES FOR SMALL AND MEDIUM-SIZED ENTERPRISES PIIIE, <https://piie.com/publications/policy-briefs/enhancing-export-opportunities-small-and-medium-sized-enterprises> (last visited Mar 26, 2019).

² U.S. AGRICULTURAL TRADE AT A GLANCE USDA ERS - U.S. AGRICULTURAL TRADE AT A GLANCE, <https://www.ers.usda.gov/topics/international-markets-us-trade/us-agricultural-trade/us-agricultural-trade-at-a-glance/> (last visited Mar 24, 2019).

Figure 2

**Share of U.S. Agricultural Exports,
1995 and 2017**



Source: USDA calculation based on data from the Foreign Agricultural Trade of the United States.

reaching \$140.47 billion in 2017.³ Over the same period, however, the makeup and consumers of our agricultural exports has significantly changed. While bulk commodities, such as wheat and rice, have historically made up most of agricultural exports, they have declined in recent years, giving rise to consumer-oriented products such as meat and dairy exports. The growth in demand is strongly driven by an increase in population and income worldwide, and greater diversification of diets.

As shown in figure 2 above, the flow and end location of these agricultural exports has significantly shifted over the last two decades as well. Among the shift, is a growing percentage of exports going towards North America, South Asia, and East Asia. While the elimination of some trade barriers with trade partners has accounted for the significant boosting of exports, rising household incomes in China and other emerging markets has also been a driving force. In fact, agricultural exports to China have tripled over the same period reaching \$9.2 billion in 2018.⁴

Our small farmers and producers not only help feed the world, they also support local economies and employ millions of people. Small businesses represent about 60 percent of goods exports within the agriculture sector.⁵ In fact, agriculture exports employed over 1.1 million full-time jobs

³ U.S. AGRICULTURAL TRADE AT A GLANCE USDA ERS - U.S. AGRICULTURAL TRADE AT A GLANCE, <https://www.ers.usda.gov/topics/international-markets-us-trade/us-agricultural-trade/us-agricultural-trade-at-a-glance/> (last visited Mar 24, 2019).

⁴ CHINA USDA FOREIGN AGRICULTURAL SERVICE, <https://www.fas.usda.gov/regions/china> (last visited Mar 25, 2019).

⁵ SECTION 502 SMALL BUSINESS REPORT ON THE MODERNIZATION OF THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA), <https://advocacy.sba.gov/2018/12/21/advocacy-releases-trade-report/> (last visited Mar 24, 2019).

in 2017, adding \$307 billion to the U.S. economy.⁶ States like California and Iowa are among the states with the highest employment levels for agriculture workers, with Louisiana and Alabama closely following.⁷ While jobs on the farm might first come to mind, a significant portion of the jobs in agriculture exports are associated with activities that are nonfarm related, such as transportation and shipment.

Current Trade Negotiations: Status Update and Changes from Prior Agreements

While the U.S. has a number of trade agreements with 20 countries around the world, trade with the North American Free Trade Agreement (NAFTA) partners and China has taken centerstage by this administration. Below is an abridged list of policy changes proposed by the NAFTA 2.0 agreement and what is currently being considered at the negotiation table with China.

NAFTA 2.0/U.S.-Mexico-Canada Agreement (USMCA) Key Outcomes

On March 8, 2018, President Trump formally announced tariffs on imported steel and aluminum, preliminarily excluding Mexico and Canada.⁸ As part of the announcement, domestic firms are allowed to file exclusionary petitions with the Department of Commerce that would except specific products from these tariffs. Eventually, both Mexico and Canada became subject to the tariffs, causing Mexico to impose tariffs on approximately \$3 billion worth of American pork, steel, and cheese, among other American goods.⁹

On November 30, 2018, President Trump, along with leaders from Mexico and Canada came together to sign USMCA, effectively signaling a stop to the retaliatory tariffs. Yet, tariffs are still in effect. While the final deal needs to be ratified by Congress, the following table highlights the provisions related to agriculture and workers, among others. Still outstanding is President Trump’s decision to agree or disagree on Commerce Secretary Ross’ national security investigation on imported autos and parts.¹⁰

Agriculture

NAFTA 1.0	All tariffs eliminated, except for some between U.S. and Canada (dairy, eggs, poultry)
May 10 Agreement	N/A
TPP	Increased U.S. access to Canada, beyond NAFTA 1.0 baseline
NAFTA 2.0	Increase U.S. access to Canada to approximate TPP ¹¹ level of access; and attempt to dismantle Class 7 milk pricing scheme (introduced in Canada after TPP concluded)

⁶ U.S. AGRICULTURAL TRADE AT A GLANCE USDA ERS - U.S. AGRICULTURAL TRADE AT A GLANCE, <https://www.ers.usda.gov/topics/international-markets-us-trade/us-agricultural-trade/us-agricultural-trade-at-a-glance/> (last visited Mar 24, 2019).

⁷ 45-2099 AGRICULTURAL WORKERS, ALL OTHER U.S. BUREAU OF LABOR STATISTICS, <https://www.bls.gov/oes/2017/may/oes452099.htm> (last visited Mar 24, 2019).

⁸ TRUMP’S TRADE WAR TIMELINE: AN UP-TO-DATE GUIDE PIIIE, <https://piie.com/blogs/trade-investment-policy-watch/trump-trade-war-china-date-guide> (last visited Mar 29, 2019).

⁹ MEXICO, HITTING BACK, IMPOSES TARIFFS ON \$3 BILLION WORTH OF U.S. GOODS THE NEW YORK TIMES, <https://www.nytimes.com/2018/06/05/us/politics/trump-trade-canada-mexico-nafta.html> (last visited Mar 29, 2019).

¹⁰ TRUMP’S TRADE WAR TIMELINE: AN UP-TO-DATE GUIDE PIIIE, <https://piie.com/blogs/trade-investment-policy-watch/trump-trade-war-china-date-guide> (last visited Mar 29, 2019).

¹¹ Note: TPP stands for the Trans-Pacific Partnership, which the U.S. pulled out of in 2017. TPP was a trade agreement among twelve countries that bordered the Pacific Ocean, representing approximately 40 percent of the

Labor

	Provisions	Enforceability/Enforcement
NAFTA 1.0	NAALC Side Agreement	Not subject to same enforcement mechanism; No consequential enforcement pursued
May 10 Agreement	Adopt, maintain, implement core international labor standards	Subject to same enforcement mechanism; No consequential enforcement pursued
TPP	Some May 10 plus provisions; Some country-specific labor implementation plans, but not for Mexico	Subject to same enforcement mechanism
NAFTA 2.0	Some May 10 and TPP plus provisions; Mexico-specific labor annex requiring labor reform legislation, currently pending in Mexican Congress	Subject to same enforcement mechanism (NAFTA 1.0 enforcement mechanism, which has not been used since 2000)

U.S.-China Negotiation Background

On August 18, 2017, the U.S. Trade Representative, Robert Lighthizer, formally initiated an investigation of China under Section 301 of the Trade Act of 1974.¹² The investigation sought to determine whether acts, policies, and practices of the Government of China related to technology transfer, intellectual property, and innovation are unreasonable or discriminatory and burden or restrict U.S. commerce.

The Section 301 investigation found that China has engaged in unfair trade practices. In response to the Section 301 investigation, administration announced a series of tariffs on Chinese imports that were quickly answered with retaliatory tariffs from the Chinese government. This led to reprisals from each corresponding government that has been felt by small farms and workers. Below is a list of the actions that followed.

Tranche 1

Amount	\$34B
Date Announced	April 3; list finalized on June 15.
US proposed Tariff	25 percent on 818 tariff lines, including: communication satellites, microscopes, lasers, motor vehicles, helicopters, among others.
China Response	25 percent on 545 tariff lines, including: soybeans, sports utility vehicles and electric vehicles.

world's economic output. The pact sought to deepen economic ties between these nations by fostering trade and eliminate tariffs to boost growth. Also, note that the NAFTA 2.0 outcome is only on par with TPP outcome as between the U.S., Mexico, and Canada. Most agree TPP would have provided U.S. agricultural producers with increased access to additional markets (e.g., Southeast Asia).

¹² USTR ANNOUNCES INITIATION OF SECTION 301 INVESTIGATION OF CHINA UNITED STATES TRADE REPRESENTATIVE, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/august/ustr-announces-initiation-section> (last visited Mar 27, 2019).

Tranche 2

Amount	\$16B
Date Announced	June 15; list finalized on August 7.
US proposed Tariff	25 percent on 279 tariff lines, including chemicals, machinery, iron and steel products and motorcycles.
China Response	25 percent on 333 tariff lines, including chemicals, medical equipment, energy and among others.

Tranche 3 (U.S. Tariffs after China Imposed July 6 Retaliation)

Amount	\$200B
Date Announced	June 18; list finalized September 17.
US Proposed Tariff	10 percent; Will raise to 25 percent on Mar 1, 2019 on 5745 tariff lines, including agriculture products, among others.
China Response	5-10 percent on approximately 5,200 tariff lines including many dairy products honey, fish, among others.

On December 1, 2018 at a G-20 meeting, President Trump and Xi announced an agreement to halt the escalation of tariffs with the expectation that a future agreement can be met. Currently, tariffs that were expected to go into effect have now been delayed, as negotiations with Chinese and American officials are ongoing.

Conclusion

Despite the many existing challenges, fair trade agreements can offer potential opportunities for U.S. agricultural and nonagricultural exports, while at the same time protecting American workers. Consumers can enjoy greater access to higher-quality, cheaper, and more diverse set of goods and services. Increasing access to markets for small businesses has the potential of creating higher-paying jobs and economic growth for our rural economy. While small business, particularly those in the agriculture sector, have benefited from reduced barriers, it does not mean that some sectors of our economy have not been negatively impacted. This hearing will discuss how our trade policy must strike the right balance by providing opportunities for small businesses, strengthen our rural economy and protect American workers.