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**Written Testimony of Ben Scholz
President, National Association of Wheat Growers
Before Senate Committee on Agriculture, Nutrition, and Forestry
Certainty in Global Markets for the U.S. Agriculture Sector
June 13th, 2019**

Chairman Roberts, Ranking Member Stabenow and Committee members, I am Ben Scholz, a wheat farmer from Lavon, Texas and President of the National Association of Wheat Growers (NAWG). NAWG represents wheat growers across the nation and works with a team of 21 state wheat grower organizations to advocate for the wheat industry. Thank you for the opportunity to submit testimony regarding the current state of U.S. agricultural products in international markets.

Our nation's farmers are facing tough economic challenges and there seems to be no end in sight. Continued years of low commodity prices at a time when cost of production hasn't declined much has left much of farm country strapped for cash. The expectation of continued low prices has contributed to some of the lowest wheat acreage in U.S. history, with only 39.61 million acres of harvest wheat expected in the 2018/2019 marketing year, a drop from 47.32 million acres just four years prior during the 2015/2016 marketing year¹. The market year average price for wheat continues to trend downward, having fallen to a low price of just \$3.89 per bushel in 2016 and to this day, the average price over a ten-year period is trending down. Net farm cash income is the cash available to farmers to draw down debt, pay taxes, cover family living expenses, and to invest. According to USDA Economic Research Service (ERS) data, net farm cash income has been down nearly 70% since 2013 for wheat farmers. Working capital in the U.S. Farm Sector has also been on the decline, falling more than \$100 billion dollars in just 5 years. As farmers income has dropped, liquid cash capital reserves have been depleted. During times like these, it's critical that we look to expand markets and sell our U.S. wheat around the world.

Unfortunately, the challenging economic conditions have only been exacerbated by a multitude of challenges to our international markets. U.S. wheat farmers are particularly vulnerable to trade disruptions with over 50 percent of wheat being exported. Uncertainty over trade agreements has already had an impact on U.S. wheat farmers. In an October 23rd, 2017 USDA Foreign Ag Service Report, it was noted that Mexico would make its first purchase 30,000 metric tons wheat from Argentina and that the shipment was tied to "Mexico's well-publicized trade diversification efforts in the face of continued uncertainty over the future of the North American Free Trade Agreement (NAFTA)."² In fact, while Mexico had record wheat imports in the 2017/2018 market year (MY), imports of U.S. wheat fell

¹ Source: USDA, National Agricultural Statistics Service, Crop Production, Agricultural Prices, and unpublished data; and USDA, World Agricultural Outlook Board, World Agricultural Supply and Demand Estimates.

² Source:

https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Mexico%20to%20Begin%20Importing%20Argentine%20Wheat_Mexico_Mexico_10-23-2017.pdf

by 569,000 metric tons compared to the previous year, an estimated loss of \$178 million. This loss was caused by Mexico's decision to source wheat imports from alternative markets amid uncertainty of the NAFTA trade agreement and unknown repercussions from Section 232 tariffs. While we appreciate the Administration's efforts to improve the agreement and strongly support Congress approving the United States-Mexico-Canada Agreement (USMCA), this hasn't been done without economic harm to wheat farmers.

More so, U.S. farmers aren't competing on a level playing field. Major wheat producing countries like China violating WTO trade commitments in how they support their farmers and not fulfilling their tariff-rate quota (TRQ) commitments. We recently secured two big victories at the WTO on these issues, and continued engagement will be necessary as China may appeal the TRQ decisions or not comply with the decisions. However, since March of 2018, the initial threat of tariffs against China, there has been only a small private purchase of wheat. It's estimated that we have lost almost 1.6 million metric tons in annual sales or well over \$325 million. In addition to lost sales, with China's tariff rate quota, they should be importing almost 10 million metric tons with much of that coming from the United States. If we captured just a third of that market, we would have sales of about \$650 million to China, the largest wheat consuming nation and making them our largest market.

Similarly, we look forward to Brazil fulfilling their duty-free TRQ for wheat. A longstanding obligation under Brazil's WTO commitments in 1995, in March, the Brazilian government agreed to comply. This creates an opportunity for increased U.S. wheat purchases to the number one wheat importer in Latin America. However, the U.S. needs to continue to engage with Brazil to ensure that they do follow through on their commitment.

It is important to recognize that trade does not happen in a vacuum and that while we appreciate the administration working towards a deal with Japan, only so many resources can be dedicated to that given the ongoing dealings with China and USMCA. Japan is the top export market for U.S. wheat and it is critical that a deal is struck with Japan quickly. With the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) moving forward, top competitors like Australia and Canada have a growing price advantage in the Japanese market, while the U.S. is just beginning bilateral negotiations with Japan. If the U.S. loses market share because of a price disadvantage in Japan, or elsewhere, it will likely take years to regain full access and by then market share may not recover.

As it has been outlined above, U.S. wheat farmers have been negatively impacted by trade disruptions. Wheat farmers do appreciate the Administration's recognition of this through the announcement of the second trade mitigation package. Given the challenging economic environment and trade disruptions we are hopeful that this second round of Market Facilitation Program (MFP) payments will provide some needed relief to wheat farmers. There are still many questions to be answered about how the MFP program will work and wheat growers have sent a letter to Secretary Perdue outlining these questions and providing input on how best to maximize the effectiveness of these payments. At the end of the day though, these payments won't make wheat farmers whole. The long-term solution to provide relief must be to secure deals with other countries quickly.

There is no question that wheat farmers are facing an incredibly challenging economic environment and that trade disruptions have negatively impacted farmers. China is employing trade distorting policies but we have had significant victories through the WTO and see real opportunity to grow our market there. It is critical that Congress pass USMCA to provide long-term certainty with a top market, Mexico. Securing a deal with Japan is the only way for U.S. wheat farmers to compete with a growing price disadvantage compared to when Canada and Australia sell to Japan. Farmers have invested their own money in developing and building market share in countries around the world. We can't risk losing those markets that we've worked for several decades to build.

NAWG thanks the committee for holding this important hearing today. We look forward to continuing to work with Congress and the Administration towards the ultimate solution of creating long-term trade deals with critical markets to U.S. wheat.

Sincerely,

A handwritten signature in black ink, appearing to read "Ben Scholz", written in a cursive style.

Ben Scholz
President
NAWG