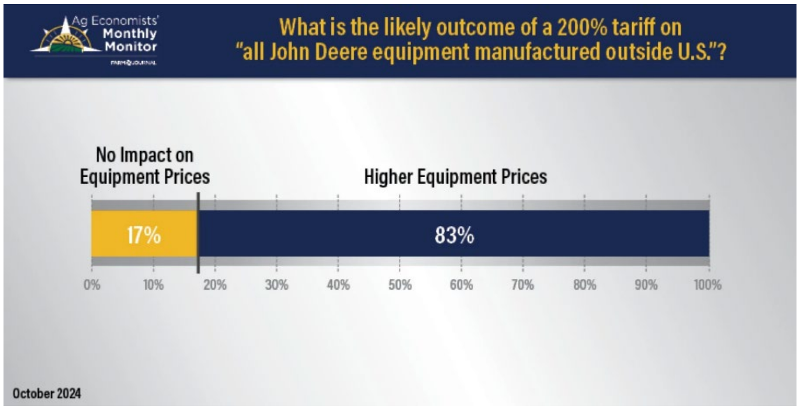
Area Crop Report 11/18 – 11/22

What Do We Really Know About Tariffs?

The age-old agronomic answer: it depends. President Trump made it clear his tariff stance throughout his campaign trail by increasing tariffs on foreign goods, particularly those from China. He has reinforced his plan to impose a 10% tariff on all imported goods, a 60% tariff on goods from China, and now a possible 25% tariff on Mexican imports. In fact, if John Deere relocates some of its manufacturing plants to Mexico, Trump has threatened to impose a 200% tariff on John Deere products entering the U.S.

If Robert Lighthizer continues his title of U.S. Trade Representative (USTR), tariffs will likely be a tool used by the Trump administration once again. Tariffs are seen to provide short-term gains, but potential long-term repercussions resulting from trade flow changes. It can also be difficult to understand who pays the tariff. The correct economic answer? It depends. Tariffs drive a wedge between prices in the exporting country and in the importing country. It depends on the circumstances of particular markets and how much is reflected in higher prices in the importing county and reduced prices in the exporting county. For instance, when the U.S. imposes tariffs on imports, importers in the U.S. pay taxes to the U.S. government on their purchases from abroad. When another nation imposes tariffs, importers in that nation pay import taxes to their government on their purchases from abroad. However, if an importing country places a tariff on the exporting country, producers in the exporting country and consumers in the importing country both lose (receive lower and higher prices). On the other hand, producers in the importing country and consumers in the exporting county win (receive higher and lower prices).



Economists outlook on the potential outcome if Trump follows through with his threats towards John Deere production in Mexico.

Generic vs. Trade Name? Large Chemical Company Taking a Hit

Shallow grain markets and slumped income has seen farmers transition from trade name chemicals, such as Roundup, to generic herbicides, pesticides, and fungicides over the years. Signs of these financial impacts are already emerging as Bayer shares fell sharply to a 20-year low on November 12th, after the chemical company warned that weak global agricultural markets and a lowly U.S. farm economy are likely to pressure profits further. However, there are drawbacks to switching. Generic chemical manufacturers typically do not cover the cost of respraying if the product efficacy is not met, whereas large companies, such as Bayer, have programs in place. The buying decision between branded vs. generic products lies initially in trait-specific seed. If Roundup-Ready corn seed is purchased, and there is a generic option to Roundup, there is financial feasibility in selecting the cheaper, generic product vs. a higher priced brand name. So how did we get to a generic flooded market? More than two dozen active ingredient patents have expired in the past five years, creating a large increase in off-patent use products. Generics now account for roughly 80% of the agrichemical market share.

Let me be clear, I am not promoting one product over another, generic over trade named, or one chemical company over another. Best agronomic/management practices are most important, such as overlapping residuals, correct application timings, correct rates, and following label requirements no matter the product.

"Despite all our accomplishments, we owe our existence to a six-inch layer of topsoil and the fact it rains"

Paul Harvey