Implications of a Potential Additional 25% Duty on US Soybean Imports into China

Winning and Losing Regions Beyond the US and China

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Facts and timing

1. 22 March: US imposes duties on Chinese products, including 25% on steel.
2. 23 March: China threatens to impose up to 25% duty on 128 US products, including pork.
3. 3 April: US threatens to impose 25% duties on approximately 1,300 Chinese products, worth USD 50bn in imports.
4. 4 April: China threatens to impose an additional 25% duty on 106 US products worth USD 50bn. Soybeans are included, alongside cotton, sorghum, wheat, beef, and corn. China said it seeks a truce but would retaliate if the US followed through on its proposal and that the timing will depend on the US decision, which is expected in six to eight weeks, because:
   a. The US 30-day public comment period will end on 4 May
   b. Followed by a US public hearing on 15 May, with final comments due on 22 May
   c. The US Administration might take up to three weeks before announcing the implementation.

The current trade imbalance is considerably in China's favour: exports to the US are valued at USD 505bn/yr, nearly 4 times the USD 130bn in US exports to China. If all proposed duties took effect, 40% of the US exports to China would be affected, but only 10% of China's exports to the US.

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Soybean trade is crucial for China, which imports 90% of its requirements, including 34% from the US, an indispensable supplier. Still, the US also has an interest in avoiding duties as soybean exports to China represent a massive USD 14bn market to US farmers who currently face farm incomes at ten-year lows. However, the value of US G&O exports to China have fallen about 15% since 2014, and last year's soybean shipments to China were the second-lowest since 2012.

Yet, supplying China solely with soybeans from countries other than the US won't be easy. In 2018, Brazil has limited room to increase soybean exports significantly, while Argentina's crop is drought-reduced and Argentina typically exports soy meal rather than soybeans.

China

- An additional 25% duty on US soybeans will increase domestic soybean prices and thus also the prices of soy oil and soymeal;
- Chinese crushers cannot fully pass on the inflated costs downstream, and unless the government provides cash subsidies or VAT reductions to crushers, their margins are set to decline;
- Soybean imports potentially decline year-on-year and imports of substitutes like canola would rise;
- Soy crush capacity utilisation falls;

- Higher soymeal prices will lift the production costs of livestock farming, further squeezing margins, which again incentivises changes to feed formulas to somewhat lower soymeal usage.

The US

- US soybean prices likely to fall, to compensate for an additional 25% in duties to enter the world's number one importer;
- US soybean exports to China to decline, but partly offset by larger exports to e.g. EU and SEA;
- US soymeal exports to increase due to stronger meal demand from the rest of the world (ROW), which reduces buying from South America. However, growth limited by US export and crush capacity, which currently runs near capacity;
- Strong overseas meal demand and low soybean prices indicate strong crushing margins, however Chinese duties on US pork might cut US domestic soymeal demand;
- US soybean acreage to decline in the coming years, while corn rises.

South America

- South American soybean exports to China to rise considerably, boosting prices;
- Soymeal prices to rise to ensure continued crush and meal exports to the EU, SEA, and others, but this will weaken the price-competitive advantages of South America as the leading soymeal exporter;
- South American pork and poultry margins to suffer from higher feed costs, but pork exports might benefit from Chinese duties on US pork;
- Farmers to expand soybean acreage in the years ahead if the duty remains.

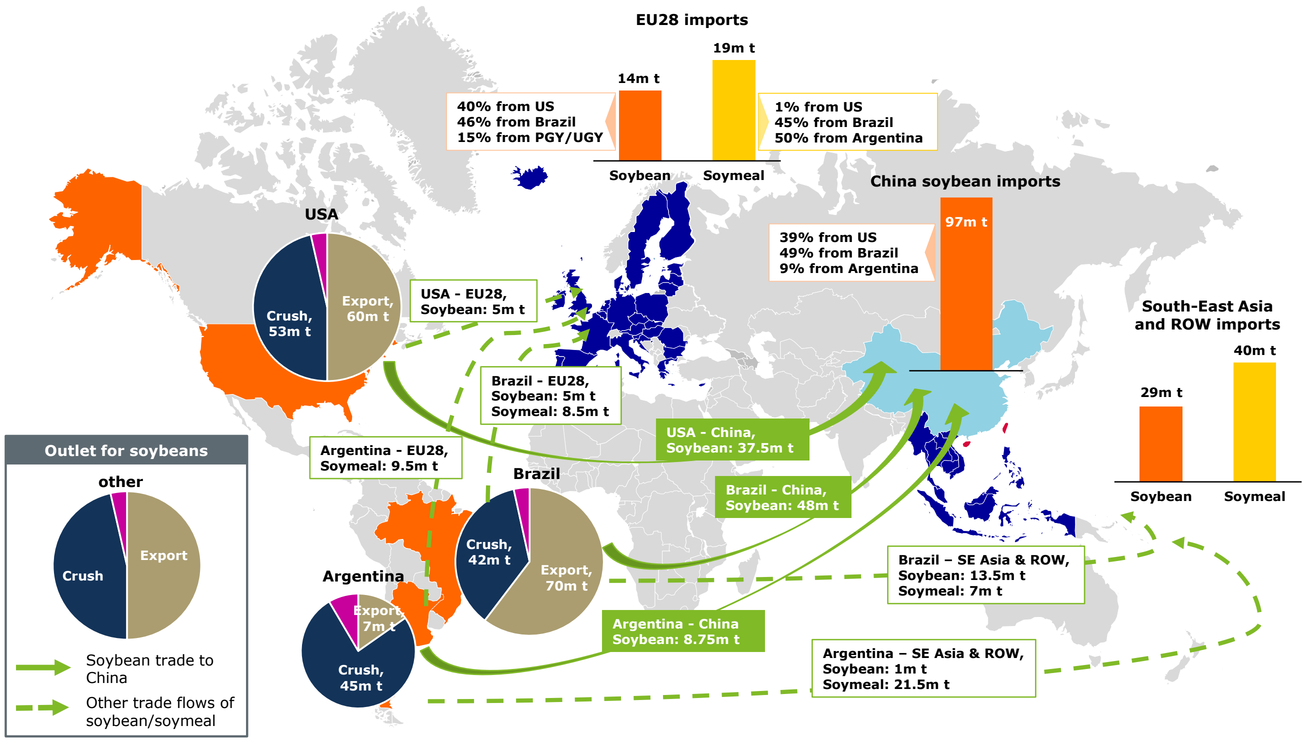
EU and South-East Asia

- Increased South American soymeal prices to result in substitution by higher imports of US soymeal and even more by higher imports of 'cheaper' US soybeans (as far as local crush capacity allows), while imports of South American soybeans will be cut as they move to China;
- Higher soymeal prices will cut livestock margins in SEA and the EU, although EU pork exports will benefit from replacing US exports to China as duties on US pork are implemented.

Long-term implications (if Chinese duties remain in place for multiple years)

- Soybean acreage/production: Reduction in US, expansion in South America, China, EU;
- Soybean crush capacity: Expansion in the US, EU, and SEA, limited growth in South America, and cuts in China;
- Alternatives: Rising Canadian and Australian canola production and exports.

Figure 1: China imports 60% of global soybeans; EU28 and SEA import 60% of soymeal; Argentina and Brazil export 60% of soy complex



Source: USDA, UN Comtrade, Rabobank 2018

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