<u>Lost Sales</u>

China

According to USDA data, U.S. wheat export sales to China averaged 1.59 MMT between marketing year 2012/13 and marketing year 2016/17, making China the fifth largest purchaser of U.S. wheat during that time.

As a direct result of the Chinese government's retaliatory tariffs on U.S. milling wheat, China stopped purchasing US wheat after March 2018. Consequently, U.S. wheat exports to China fell 46 percent year over year in 2017/18 (year ending May 31, 2018) to just 902,000 MT. For 2017/18, U.S. Wheat Associates (USW) estimates the loss for the Chinese market at 688,000 MT, worth an estimated $174 million.

For the 2018/19 marketing year (beginning on June 1, 2018), China only purchased 42,000 MT of U.S. wheat. That single-ship purchase was an anomaly rather than a sign of rebounding exports. Prior to the tariffs, China had purchased U.S. wheat in line with the 10-year average. In 2018/19, USW estimates the loss for the Chinese wheat market at $216 million, assuming regular exports would have been at the 10-year average.

It should also be noted that China does not comply with its WTO commitments on administration of its wheat TRQ, as argued by the United States in DS517. The panel report agreed with the US findings, and China has decided not to appeal that ruling. Should China bring its TRQ administration into compliance it could import 3.4 MMT of wheat from the United States in line with long-term market share. This would amount to a loss of over $800 million.

Mexico

Mexico is one of the largest purchasers of U.S. wheat, averaging 2.90 million metric tons (MMT) each year. These routine sales make Mexico, on average, the second largest importer of U.S. wheat in the world according to USDA data. However, market uncertainty followed repeated threats from the U.S. government to pull out of NAFTA and the unknown repercussions of Section 232 tariffs, which were officially announced in March 2018 though were widely anticipated as early as January 2018. U.S. wheat exports to Mexico began to fall behind the prior year's pace and remained there for the remainder of the 2017/18 marketing year.

In marketing year 2017/18 (June 1 to May 31), total Mexican wheat imports from all origins grew to a record 5.1 MMT, according to Global Trade Atlas data, up more than 110,000 MT. However, U.S. wheat exports fell by 569,000 MT compared to the previous year. At the same time, Mexican wheat imports from Russia and Ukraine more than doubled from the prior year, with Russian wheat exports to Mexico hitting a record high of 762,000 MT. Mexico also bought its first commercial shipment of Argentine wheat, following changes to the Mexican sanitary and phyto-sanitary regulations that were put into place to provide Mexican millers an alternative to U.S. wheat supplies.

Based on historic U.S. wheat market share in Mexico and average free-on-board (FOB) prices recorded during the marketing year for each class, USW estimates the loss for the Mexican market at 700,000 MMT, worth an estimated $178 million for 2017/18.

For the 2018/19 marketing year, with more certainty provided by a negotiated USMCA and the end of Section 232 tariffs, U.S. wheat exports to Mexico recovered and were in line with the historic average.

Decreased Prices

The lost sales described above not only robbed U.S. farmers of the value of those sales described but also capped U.S. wheat upward price mobility due to the resulting decrease in U.S. wheat demand. This is a situation that continues today.

At the beginning of the 2017/18 marketing year, USDA forecast U.S. wheat exports at 27.2 MMT with the preliminary U.S. stocks to use ratio forecast at 44 percent. Despite 2017/18 U.S. wheat production falling 2.3 MMT short of the initial June projection, U.S. wheat ending stocks swelled to 29.9 MMT due to a 2.7 MMT decrease in U.S. wheat exports. This pushed the U.S. stocks to use ratio to 54 percent. Regression analysis of monthly U.S. stocks to use ratios from the USDA World Agricultural Supply and Demand Estimate and average monthly wheat futures shows that every percentage point increase in the U.S. stocks to use ratio results in an average $0.11 per bushel decrease in U.S. futures prices across all three wheat futures, all other things being equal. Consequently, the 10-percentage point increase in the 2017/18 stocks to use ratio resulted in $1.10 per bushel reduction in the average U.S. wheat futures price. These depressed prices caused an estimated $1.88 billion of damage to U.S. farmers in 2017/18.

For 2018/19, USDA initially forecasted U.S. exports at 27.9 MMT, which would put the 2018/19 U.S. stocks to use ratio at 43 percent. However, USDA needed to lower U.S. wheat export estimates and raise the U.S. stocks to use ratio to match the market situation because of lower exports. When this happened, wheat futures came under pressure again, hurting U.S. wheat farmers who are already unable to recover the cost of production. At the end of market year 2018/19, USDA estimated exports at 25.8 MMT and the stocks to use ratio at 56 percent. Based on the same regression analysis of stocks to use ratios, this resulted in a $1.43 per bushel reduction in the average U.S. wheat futures price in 2018/19. These depressed prices caused an estimated $2.7 billion of damage to U.S. farmers in 2018/19.

Total Loss:

Due to lost sales from retaliatory measures in 2017/18 and 2018/19 from China and Mexico, USW estimates lost sales in 2017/18 and 2018/19 from trade retaliation at 2.26 MMT, worth an estimated $565 million. USW estimates the total impact of decreased wheat exports on U.S. wheat prices in 2017/18 and 2018/19 at $4.58 billion. Combined, the total impact of decreased wheat exports on U.S. wheat farmers in the past two years is **$5.145 billion**. However, it is important to note that these estimates are only through May 31, 2019. Each day that goes by with the Chinese market effectively closed to U.S. wheat hurts U.S. wheat farmers even more.