CAUGHT IN THE CROSSFIRE: The US Sorghum Industry’s Battle with the Chinese Ministry of Foreign Commerce

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Sorghum Industry Today

PRODUCTION ACRES

Sorghum is traditionally grown throughout the Sorghum Belt, which runs from South Dakota to Southern Texas, primarily on dryland acres. Acreage increases have been seen in non-traditional areas like the Delta and Southeast regions. In 2017, sorghum was planted on 5.6 million acres and 364 million bushels were harvested. The top five sorghum-producing states in 2017 were:

1. Kansas – 2.6 million acres
2. Texas – 1.65 million acres
3. Colorado – 410,000 acres
4. Oklahoma – 315,000 acres
5. South Dakota – 217,000 acres

Farmers planted 5.6 million acres and harvested 364 million bushels of sorghum in 2017.

Farmers set a national yield record by harvesting 72.1 bushels per acre.
US Sorghum History

- Sorghum dates to at least 8000 BCE
- Approximately 100 million acres worldwide today
- Sweet sorghum (syrup from stalk) was predominate table sweetener in US prior to cane industry
- Primarily concentrated in arid areas of High Plains due to drought tolerance
- Sorghum water use is 50-67% of corn water use
- Over 90% of sorghum acres are dryland
- Conservation tillage practices are employed on 74% of sorghum acres
- Currently plant 5.8 million acres
Key Events in Sorghum History

- Greenbug
- Hybridization
- 1985 Farm Bill
Water-Sipping Crops Are not Optional
WATER STRESS BY COUNTRY

Ratio of withdrawals to supply

- Low stress (< 10%)
- Low to medium stress (10-20%)
- Medium to high stress (20-40%)
- High stress (40-80%)
- Extremely high stress (> 80%)

This map shows the average exposure of water users in each country to water stress, the ratio of total withdrawals to total renewable supply in a given area. A higher percentage means more water users are competing for limited supplies. Source: WRI Aqueduct, Gassett et al. 2013
Evolution of Sorghum Demand

Pre-China Sorghum Usage

Current Sorghum Usage

- Ethanol Market Share: 31%
- Export Market Share: 40%
- Livestock Feeding Industry Market Share: 27%
- Livestock Feeding Market Share: 12%
- Ethanol Market Share: 10%
- Food Industry Market Share: 3%
- Pet Food Industry Market Share: 2%
- Other Market Share: 2%
US Sorghum Export History

- Exports have been key for US sorghum farmers for last six decades
- NSP was founding member of US Grains Council
- Historically, primary trading partner was Mexico
US Sorghum Exports to China

- China made first significant purchases of US sorghum in April 2013
- Key markets include ducks, hogs and dairy cattle
- China soon became largest consumer, eclipsing ethanol producers in first full year in market
US Sorghum Exports
Chinese Investigation

- Early February 4, Chinese Ministry of Commerce (MOFCOM) launched two investigations into imports of US sorghum
  - Anti-dumping (AD) case alleged US sorghum was sold below normal value, or price calculated based on costs of production and shipping
  - Countervailing duty (CVD) case alleged US sorghum farmers are unfairly subsidized
- First case in history self-initiated by MOFCOM rather than domestic petitioners
- Legally, NSP had 20 days to register as cooperative
Initial Registration

- MOFCOM deeming NSP as uncooperative was not an option

- No legal recourse for future challenge if deemed uncooperative by MOFCOM
  - Tariffs would take effect immediately
  - Even if trade war ended next day, tariffs would remain in effect as political resolution would be impossible without legal recourse
  - A WTO challenge could change this, but WTO challenges often take decades to fully resolve
Initial Registration

- NSP registered 29 parties, including seven farmers, three Co-ops, five state sorghum associations, US Grains Council, NSP itself and 12 grain traders.
- Registration documents were required to be original and printed in simplified Chinese.
Questionnaire Issuance

- MOFCOM typically issues questionnaires to sample of registrants
- MOFCOM legally must wait at least 48 hours
- MOFCOM typically waits at least few days
- Responding to questionnaires and complete adjudication usually takes 12-18 months
- We were told final resolution would likely come in July 2019
Questionnaire Issuance

- Questionnaires were issued in just over 48 hours, on February 26, setting Chinese trade adjudication record.
- MOFCOM refused to pick sample respondents and issued questionnaires to all parties (including 20,000 sorghum farmers) with virtually no guidance for completing questionnaires.
- NSP made multiple appeals for guidance, but MOFCOM gave none for first time ever.
- Combined, questionnaires included almost 200 pages.
- Deadline for questionnaire completion was April 4 or 37 days from issuance.
- Perfect was not an option.
Completing Questionnaires

- AD questionnaire was to be completed by grain traders using internal information and farmer information
- CVD questionnaires were to be completed primarily by sorghum farmers and US government with short version to be completed by grain traders
- Farmer information required was significant and extremely personal, for example:
  - Monthly expenditures for 2016-2017
  - Tax returns for 2007-2017
  - Farm program payments for 2007-2017
- NSP made a formal appeal for a short extension, but MOFCOM refused for first time ever
- No way process would have been completed without farmer organizations and staff with economics, accounting and policy backgrounds working with attorneys
Submitting Questionnaires

- Early April 4, NSP met deadline with 2,000-page complete submission printed in simplified Chinese
  - Five grain traders submitted AD questionnaires
  - NSP submitted nine farmer CVD questionnaires
  - US government submitted CVD questionnaire
  - NSP submitted common defense
- MOFCOM announced 25% tariffs on sorghum and most other US agricultural commodities same day
Trade is Halted

- Due to political nature of situation, NSP expected swift action from MOFCOM.
- MOFCOM announced 178.6% preliminary AD tariffs on April 17 after no meaningful review of submission and stated reason of insufficient information from farmers.
- Approximately 60 million bushels en route to China had to be redirected.
- Tariff liabilities were over $500 million.
Price Collapses

A Hard Hit to the Bottom Line
Sorghum basis (cash price less futures price) in key locations before and after China initiated its investigations

China initiates investigations

Central Kansas
Texas Gulf
Western Kansas
On May 17, as part of ZTE Corporation settlement, sorghum investigation was terminated 102 days after initiation, a Chinese trade adjudication record
Trade is Still Effectively Halted

- Grain previously redirected was once again rerouted, this time back to China, after resolution.
- Tariffs announced April 4 (25%) took effect July 6 on sorghum and 105 other commodities.
- Trade is slow to nonexistent due to uncertainty.
Questions?