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## Guest view: Walnuts and 'tariff terrorism'

By John Lewin / Special to the Appeal

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Even though we live in agriculturally focused counties, most of us are not aware of the basic economic and sometimes political details involved in the creation of our agricultural products.

Many of us are starting to notice the removal of still viable walnut and almond orchards but don't know why this is happening. The answer is both expected in a capitalistic system and potentially financially devastating for those involved in nut production in California.

To illustrate: For the past three years the return on a pound of in-shell walnuts has been close to or below the grower's cost of producing that pound. It is estimated the cost of producing last year's crop cost a grower between 60-80 cents per pound – the lower number if the grower had no land payments. The money earned on each pound for 2022 is expected to be 30-40 cents depending on the quality/color of the walnut meats. Sales of the 2022 crop may extend to August of this year or even later.

A grower in one of the walnut-growing counties who has over 1,000 acres of mature walnuts is an excellent example of what has happened to many walnut growers throughout the state – and there are 4,700 growers. This grower produced 5 million pounds of nuts in 2022. The cost of production, let's say, was 70 cents or \$3.5 million. Just hulling and drying for example would be about 7 cents a pound or \$350,000. The return on the 5 million pounds at 45 cents would be \$2.25 million: a loss of \$1.25 million. And this is the grower's third year of varying losses.

So, what's a grower to do? Sustain the losses and pray 2023 will see a jump in prices? Play it safe and reduce irrigating, spraying, fertilizing, and skip harvesting? Sell off large blocks of their holdings? Renegotiate their mortgage at a lower rate, if that's possible, but with many additional years? Or bulldoze out weaker blocks of trees and leave the land fallow until better times?

Already growers have seen their personal and family wealth decline precipitously and can't help but be fearful of what their financial status will be in the next few years after a lifetime of work and worries.

How could such a dismal series of events occur in one of the world's most productive agricultural regions?

In any capitalistic system, the marketplace (the "invisible hands" of the buyers) determines supply and demand, prices, quality, the number of producers, the styles, profits and losses, the winners, the losers. So it is with both almond and walnut growers. Even weather, inflation and geopolitical events can have a bearing on costs and returns.

In 2019, almond production in California represented 82% of the world's supply and was California's leading agricultural export at \$7.4 billion. About 1.6 million acres are presently in almonds (445,000 in walnut acreage) and produces about 3 billion pounds a year. Walnuts are the state's fifth largest export.

One can argue that over-planting leading to overproduction leading to a supply-demand price-per-pound problem should have been obvious and expected by all growers. But California ag growers fought through the 2008 financial crisis, the 2000 stock market crash, the 1970s runaway inflation problem, multiple years of below average rainfall, our recent COVID pandemic and shipping issues, all of which hurt but were not calamitous as this crisis is becoming.

What, then, is the chief cause this time? The triggering factor of today's economic problem is political/governmental malfeasance involving tariffs. The Constitution gives Congress the sole power "... to lay and collect taxes, duties ..." and tariffs. Presidents have been allowed by Congress to levy tariffs for a short time only if a "national emergency" existed.

President Donald Trump's mantras of "Make America Great Again" and "America First" gave him the impetus to apply tariffs on countries that were causing America's very large trade deficit: Trump's concept of a "national emergency." China and India became the first of several individual countries (Canada and Mexico soon to follow) and then the European Union were all targeted by Trump via tariffs.

In March of 2018, a list of 1,300 Chinese imported products were hit with \$50 billion in tariffs. When the Chinese retaliated with their own tariffs on American products, Trump responded with \$200 billion and later with \$300 billion in tariffs. China's reaction to this was the halting of all American agricultural products such as almonds, walnuts, wine, soybeans, grapes, apples and more.

Later, a 50% tariff replaced the full embargo. But a trade war was now in the making.

The next targets were tariffs on India's steel and aluminum exports to America. Following China's responses, India placed tariffs on numerous American imports. In 2019, India placed a 70% tariff on our almonds, walnuts and apples. As a result of Trump's effort to mitigate this "national emergency," the trade deficit, California nut growers lost their two largest buyers. India was the largest almond buyer in 2018/19 with \$540 million representing about half of what India purchased in agricultural products. China's purchase of California almonds fell by 33% in 2018/19.

Ironically, after five years, the Chinese exports to America have never been higher: \$480 billion in 2018, \$577 billion in 2021, and estimated to be about \$612 billion in 2022, which would represent 18% of all American imports. America exported \$151 billion products to China in 2021.

So, what's the take away here?

Tariff terrorism was a colossal flop for Trump and it caused a huge amount of collateral damage to the rest of us. It will take a number of years for both the California almond and walnut commissions to rebuild the customer bases lost because of the tariffs. Already, the Australian almond growers have increased sales in Asia by 20 times. In both industries about 150,000 Californians are directly employed and jobs will be lost.

For the rest of the country, in 2018, the tariffs reduced the U.S. real income by \$1.4 billion per month, equivalent to \$1,200 a year per adult. And the tariffs on the Chinese products we bought cost the shopper \$38.4 billion more in 2018; and this situation is starting its sixth year. When these numbers were analyzed by Goldman Sachs and the Journal of Economic Perspectives in 2019, they concluded the tariffs represented "... one of the largest tax increases in decades and if continued would wipe out all of Trump's tax cuts it made in 2017 up to the 90th percentile in earnings – \$185,000.

And who is to blame for this situation?

We are. We are the ones who elect individuals to the presidency and to Congress and we are not spending the time to evaluate all of our candidates for any elective office to make sure they have all of our best interests in mind and not just political or self interests. In the meantime, keep eating a lot more almonds and walnuts.

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