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MARKETS

U.S. Almond Farmers Are Reeling From Chinese Tariffs

Prices for California almonds have fallen by more than 10% over past two months



A worker sorts almonds at Capay Canyon Ranch in Esparto, Calif., in April. The U.S. is the world's largest producer and exporter of almonds, with 80% of the global supply coming from California. PHOTO: ELIJAH NOUVELAGE/REUTERS

By Lucy Craymer

July 28, 2018 12:00 p.m. ET

U.S. almond farmers are getting crunched from all sides as they head into what is likely to be a record harvest season.

Prices for California almonds have fallen by more than 10% over the past two months, reflecting expectations for a bumper crop and steep tariffs imposed this year by China, which until recently was the second-largest importer of U.S. almonds after the European Union.

In response to China's tariffs, which now add a 50% tax to almond prices, some Chinese businesses say they are trying to buy more nuts grown domestically and from other producers such as those in Australia and Africa.

And in yet another setback for U.S. farmers, China has quietly closed a trading loophole that for years allowed large volumes of American

almonds to be transported into the country via Vietnam without incurring import taxes. Beijing is also cracking down on commodities that have been illegally smuggled into the country or brought in via transshipments, where they are routed to other countries and then shipped to China.

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The moves reflect China's efforts to make its tariffs on U.S. agricultural products as effective as possible. Almonds are likely to be among the hardest hit, because the U.S. is the world's largest producer and exporter of almonds, with 80% of the global supply coming from California.

"China is very, very important," said Jim Jasper, owner and president of family-owned Stewart & Jasper Orchards in Newman, Calif., adding that demand from the country has "increased tremendously" in recent years. Now with the higher tariffs and gray shipping channels closed, many growers and exporters are worried about the coming months, when the U.S. harvest season commences and shipment volumes peak.

"No one wants to take an advance position on contract because they're afraid that there will be another tariff down the line that they didn't account for," said Zach Williams, Stewart & Jasper's senior marketing director.

After suffering through years of drought that hurt crop yields, California's almond industry recently bounced back, with the state projecting the current year's crop to be the biggest on record. Chinese demand for the popular tree nut was also up sharply in the first half of this year.

But following the introduction of tariffs, demand has softened with June 2018 exports below those seen in the prior year. Slackening demand is already starting to weigh on prices. A pound of American almonds recently sold for about \$2.46, versus up to \$2.76 a pound two months earlier, according to data firm Mintec Ltd.



Almonds in a warehouse at Capay Canyon Ranch. PHOTO: ELIJAH NOUVELAGE/REUTERS

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t half of what they were in the same month a year ago, and farmers have presold just 156 million pounds of almonds for the next season starting Aug. 1, according to data from the Almond Board of California. Around this time last year, they already had committed shipments of nearly double that.

While the bulk of U.S. almonds that end up in China are shipped to the country directly or through Hong Kong, in recent years there has been a robust trading route that some businesses used that moved significant quantities of nuts to Vietnam and into China over land.

Rules governing trade in Chinese border towns have long allowed local residents to carry up to 8,000 yuan (\$1,170) worth of goods from Vietnam per person, per day without having to pay import taxes. The exemptions were meant to allow individuals living in border regions to avoid taxes on their purchases.

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Almonds were recently removed from a list of goods exempt from tax under the border town exemptions, according to a local importer in Chongzuo City. That has in effect stopped some of the so-called transshipping—where goods are routed through a country to avoid tariffs—of U.S. tree nuts. China’s General Administration of Customs didn’t respond to requests for comment.

The value of goods that can be moved in this manner “sounds insignificant but when you see how much merchandise goes across rickshaw by rickshaw and van by van, it’s not,” said Richard Waycott, president and chief executive of the California almond board, which represents the state’s growers.

There is no official data on the volume of almonds transported across the border from Vietnam into China annually. California’s almond board estimates that most of the 43 million pounds of almonds that the U.S. shipped to Vietnam in the year through July 2017 ended up being consumed in China. The U.S. shipped 141 million pounds to China and Hong Kong in the same period.

Concerns about transshipping are part of the trade spat between the U.S. and China. Washington has argued that companies around Asia have become conduits for cut-rate Chinese metals, allowing the country’s steel producers to get around previous U.S. tariffs aimed at protecting domestic industry. “Transshipping, frankly, is a big deal,” President Trump said in March when he announced a 25% tariff on imported steel.

China’s move to stop transshipments of American nuts, however, shows the practice takes place in both directions.

“Transshipment occurs wherever there is an economic incentive to do so,” said Deborah Elms, founder and executive director of the Asian Trade Center in Singapore. She said the higher tariffs on almonds and other agricultural products that China buys large amounts of could cause more goods to flow into the country via alternative routes through other countries.



A man stacks boxes of almonds for shipping at Capay Canyon Ranch. PHOTO: ELIJAH NOUVELAGE/REUTERS

—Stella Yifan Xie and Wei Zhou contributed to this article.

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