U.S. Canola Association
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December 9, 2019

The Honorable Sonny Perdue
Secretary
U.S. Department of Agriculture
1400 Independence Ave., S.W.
Washington, D.C. 20250

Dear Secretary Perdue:

The U.S. Canola Association (USCA) appreciates your efforts to provide price and income support to farmers during current market disruptions caused by foreign tariffs on U.S. agricultural exports. We had the opportunity to meet with Deputy Secretary Censky last May to request that the indirect but negative impact that China's tariff on U.S. soybeans has had on prices for U.S. canola be taken into account in determining 2019 MFP payments. While the Department did not include indirect price impacts on canola and other crops in determining this year's payments, we appreciate that canola acres were used in the county payment formula.

We met again on November 20 with USDA officials to present additional information supporting our request. We provided a table showing that, in the case of Cavalier County, North Dakota, the county payment would have been $16.00 higher if canola prices were included in the formula. While no commitments were made, there was agreement that the Department would further review our information. We very much appreciate this willingness to give our producers further consideration.

U.S. canola prices have been significantly lower in the last two years as a result of two events, both involving China: First through the indirect impact of China's tariffs on imports of U.S. soybeans, and second by China's decision to suspend purchases of canola from Canada.

China's retaliation against U.S. tariffs on July 7, 2018, included a 25 percent tariff on soybeans, resulting in a drop of $3.50/cwt. in U.S. canola prices. The attached chart shows how this decline matched a similar percentage reduction in soybean prices during the same period.

In addition to the impact of China's soybean tariff on U.S. canola prices, a second price reduction followed China's decision to suspend canola imports from Canada after the Canadian government arrested an executive of the Chinese company Huawei in December 2018. As indicated by the attached chart, U.S. canola prices fell after China announced in April 2019 that it would no longer buy Canadian canola from J.R. Richardson, a major supplier of Canadian canola. The chart shows that this reduction was not matched by a similar fall in soybean prices. It is reasonable to attribute this secondary price decline primarily to China's suspension of canola imports from Canada.

The most accurate assessment of the negative impact of the Huawei situation on the U.S. canola market is based on the fall in cash canola prices in North Dakota between December 1, 2018, and July 1, 2019. During that period, canola prices fell $1.89/cwt. During the same period, canola price movement attributable to changes in soybean prices was a positive $0.38/cwt. The net result was a fall in cash canola prices of $1.51/cwt. as a result of China's decision to suspend imports of Canadian canola.

The canola market in the United States is inextricably tied to that of Canada. There are no tariffs on canola trade between our two countries. We import 60 percent of the canola and canola oil used by American consumers from Canada. Since canola was first grown in the United States in the late 1980's we have had, in effect, a North American market for the crop.

At the same time, Canada has been even more dependent on canola exports to China than the U.S. has been on soybean exports to that country. Fully 40 percent of annual Canadian canola production was sold to China before the suspension earlier this year. While Canadian companies have tried to replace these sales, their experience has been similar to that of U.S. companies trying to replace soybean exports to China. As a result, unsold supplies of Canadian canola overhang the U.S. market, further depressing our canola prices.

Regardless of the Department's decision on whether to include the indirect effect of China's soybean tariff on U.S. canola prices under MFP, we believe the unique situation facing U.S. canola producers as a result of China's suspension of Canadian canola purchases warrants special consideration. We respectfully request the Department to provide an MFP payment of $1.51/cwt. to compensate for this price impact, retroactive to the first tranche of payments under the 2019 program.

Thank you for considering our views. We would be happy to provide additional information or respond to any questions you may have.

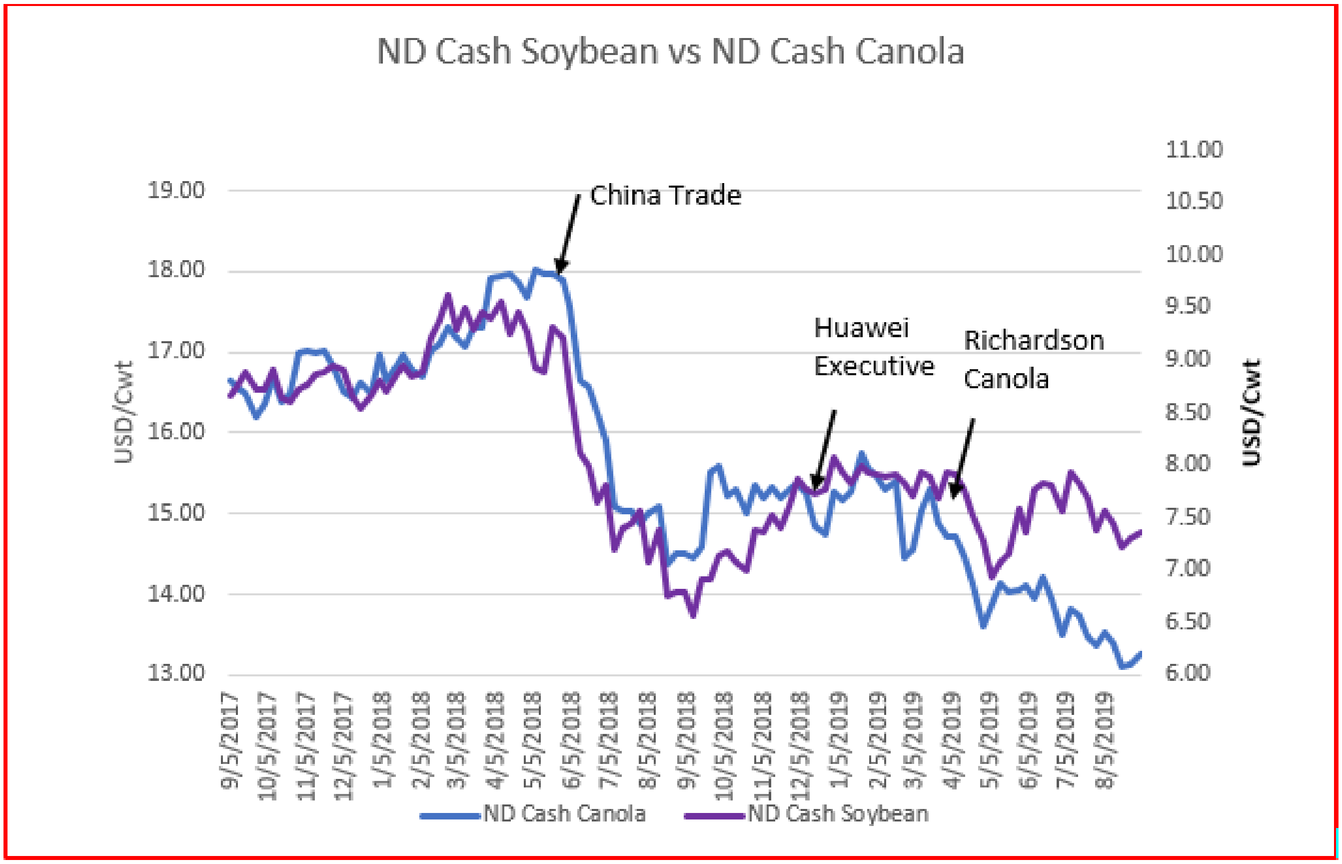
Sincerely,

Pat Murphy

Pat Murphy, President
U.S. Canola Association

cc. The Honorable Stephen Censky, Deputy Secretary, USDA
The Honorable Bill Northey, Under Secretary for Farm Production and Conservation, USDA
Richard Fordyce, Administrator, Farm Service Agency

Attachment



ND Cash Soybean vs ND Cash Canola
China Trade
Huawei
Executive
Richardson
Canola
USD/Cwt
19.00
18.00
17.00
16.00
15.00
14.00
13.00
11.00
10.50
10.00
9.50
9.00
8.50
8.00
7.50
7.00
6.50
6.00
USD/Cwt
9/5/2017
10/5/2017
11/5/2017
12/5/2017
1/5/2018
2/5/2018
3/5/2018
4/5/2018
5/5/2018
6/5/2018
7/5/2018
8/5/2018
9/5/2018
10/5/2018
11/5/2018
12/5/2018
1/5/2019
2/5/2019
3/5/2019
4/5/2019
5/5/2019
6/5/2019
7/5/2019
8/5/2019
ND Cash Canola
ND Cash Soybean