

A tariff discussion with Alberto Amador

Dana Zook: [00:00:00] Welcome back to the Extension Experience Podcast. I'm Dana Zuck. This week I'm joined by Alberto Amador, the West District area Ag Economist. Alberto is new to the role, he's been on the podcast several months ago. But we're thought we'd have a conversation this morning about. Tariffs. But before we get started, Alberto, it is June May went by so fast. Did your spring go fast?

Alberto Amador: Really fast for me.

Dana Zook: Yeah. May just, just went poof and it was gone. But I do love the summer. I love the spring and the summer. I love the warm temperatures. And some of my family's favorite things to do are summertime things.

So what? Sort of plans do you have for the summer?

Alberto Amador: I mean, I love summer too, and I have a couple of plans with my friends. I plan to go to. Tahlequah River floating and I'm really excited to to visit the Turner Falls.

Dana Zook: Turner Falls. I've been to Tahlequah in that [00:01:00] area, but I've never been to Turner Falls.

It's supposed to be really pretty.

Alberto Amador: Yeah. I mean, I saw some pictures and it looks like really fun.

Dana Zook: So you are kind of trying to do a, view of Oklahoma, I guess.

Alberto Amador: Yeah.

Dana Zook: Trying to see different places and that sort of thing.

Alberto Amador: Yes. See, that's my plan and I really want to visit the, national parks too.

Yeah, I dunno. I, I don't have like any specific national park, but I really want to visit as much as possible I can.

Dana Zook: So you're into traveling. We talked about you're into food. Like, I, I totally mimic that for sure. Yeah.

Alberto Amador: My plans are based on foods.

Depends. If, if you know, like some good restaurants, yeah, let me know and I can just adjust my plans for. Or the, the, the location that I will visit in the future.

Dana Zook: Yes. So, so you've heard it here. So email Alberto amador@okstate.edu with suggestions for travel. So when you go and you look for food when you're on your [00:02:00] trip, what's the type of food you look for?

Alberto Amador: Like the local food, that local, I always like to ask to the, the local people where they go to dinner with family. Mm-hmm. Or with their husband . But like the famous place for the locals. Okay. That's, that's for me is the best reference.

Dana Zook: Okay.

That's good. I mean, that's what we all kinda like to do. But I think the best thing is don't just get online. I think asking people like. Hey, what is the best place? 'Cause they might know someplace that's not really advertised and, and that sort of thing.

Alberto Amador: So, yes, exactly. And I just expect like the, the good flavor

Dana Zook: uhuh

Alberto Amador: and.

Maybe them like that. The good environment too.

Dana Zook: Yeah, absolutely. Yeah. Really relaxing type of environment. That's what I go for. But I, , have a kind of a chaotic, normal life. So anyway. Well that's, that's awesome. So we both have good summer plans. I hope we can

both accomplish all of that and we'll have to, hopefully you'll have to keep me up to date.

You can inform me on [00:03:00] those places because I've been here for 15 years and I really haven't. Been very many places, especially in eastern Oklahoma. So you'll have to keep me up to date, Alberto, of course.

So, as I said, Alberto's joining me to discuss the basics of tariffs and how they, at their basic level impact agriculture.

So. As we were preparing for this conversation, we mentioned several times how it's kind of hard to discuss tariffs because they can be a political topic, right? And they are constantly changing, which they've changed a lot in the last couple days when we've talked about this. But I think it's valuable to understand it and bring it down to the most basic level.

So is it correct, Alberto, to say that tariffs are not new?

Alberto Amador: Yeah. It is correct. Let me talk about like history mm-hmm. A little bit. Mm-hmm. Yeah. And before World War II, multiple countries follow protectionist policies, [00:04:00] and basically they implement tariffs and another trade barriers to protect their domestic economy.

Then in 1946, the general agreement of targets and trade was signed. Today. The institution responsible for overseeing global trade and tariffs is a world trade organization that was found in 1995. Additionally, the US signed several trades agreements. The most relevant for me is a North America free trade agreement.

Signed in in 1994. And it was update and replaced by United States, Mexico, Canada Agreement in 2020. Basically this agreement allows free trade among these countries to develop regional economic development.

Dana Zook: So it sounds like pre-World War II it was more like there wasn't much of a world [00:05:00] exchange of products, it was pretty limited. Is that kind of what you've noticed, Alberto? Yeah. Okay. Like

Alberto Amador: before, they protect a lot of their domestic production, domestic economy.

Dana Zook: Mm-hmm.

Alberto Amador: And to improve the economies, they open the market. Right. The free, the free trade. And recently especially in 2018 the US imposed tariffs on several products like aluminum, steel, washing machines and solar panels targeting multiple countries with different periods and different rates and currently the situation is a little bit different. There, there are a lot of target focus on, in the ag produce products because there is a, the deficit in ag produce increase.

Dana Zook: Yeah. So tell us a little bit about that specifically, kind of the maybe [00:06:00] most recent history of imports, exports of some of these ag products.

I know in a recent article you talked about. How imports of ag products, some of those imports have really increased in the last several years.

Alberto Amador: All the countries import products that they can't produce, the, the demand of fruit or vegetable have increased in, in the US and only for the weather conditions.

It's hard and we are not competitive against other countries, so. There is one of the reasons that the ag imports have increased in the last years,

Dana Zook: right? So as, Americans, we like a broad array of things every time we go to the grocery store, right? I mean, you've, you and I've talked about this yesterday, so fruits and vegetables, lots of, lots of variety all year round.

So part of that is due to we've been importing [00:07:00] a lot of. Fruits and vegetables. We can't grow here all year round. For example, as we record this, strawberries are at peak domestic supply I think. But as we move into late summer into the fall, strawberries are not something we can grow here in North America, so they're imported.

And so that's what. Causes. That is because the demand is there to have those products all year round. Is that a little bit, yeah. Do I understand that kind of correctly, Alberto?

Alberto Amador: Yes, it is. And for example, do you know the company Driscolls?

Yes. The Driscolls model is really interesting because they, if you imagine like a chart or a graph mm-hmm.

They keep the same production, the global production at the same level because they have production, since Canada to the, to Argentina. Oh, okay. So in different seasons they, they can keep the production

Dana Zook: interesting. So Driscoll, now that I think about it, [00:08:00] it's strawberry, isn't it? A fruit production?

Alberto Amador: It's strawberry and general berries. Yeah. Okay. And they invest a lot in research and development, especially in genetics. To adapt. Each bio variety in each region.

Dana Zook: Okay. Yeah. So growing strawberries in Canada is much different than growing strawberries in Argentina, so it'd be very different.

Yeah. Yeah. Very cool. That's a great example. what you're saying as we circle back that you're around demand is what has caused some of these ag imports to go up in the last several years.

Alberto Amador: I will say that is one of the factors that Okay. That make that,

Dana Zook: So now that we've kind of given the basic history of trade, because that's what this whole tariff thing is about, let's just give, if you could give us.

The most basic definition of a tariff.

Alberto Amador: I will say that the most basic definition is that tariffs are taxed on imports,

Dana Zook: on products that are imported. Correct? Yeah.

Alberto Amador: Yeah, exactly.

Dana Zook: Okay. And it's the products [00:09:00] we're bringing into our country. We talked a little bit about this yesterday, from what I understand is that tax is imposed on the person or the entity that is

importing it. So the company that has purchased it elsewhere is, is taking on that tax, correct?

Alberto Amador: Yes, that's correct. I mean, the, the importers or the company that import the, the goods or the products mm-hmm. Pay directly in the ports or in the office borders. But for me, the real question is who really bear the costs?

And from my perspective, all the stakeholders involved with the imported goods bear the cost at some level. For example, consumers will paying higher prices, manufacturers and retailers will carry higher input costs. And also if the, the sellers or the exporters plan [00:10:00] to, to remain competitive, they made a decreasing prices.

However, I will say that in the end, consumers bear the cost due to the main goal of the companies is to make profits.

Dana Zook: Right? Well, it's for a business to say, profitable, I guess they will have to co, their products that they produce will have to cost more Right. For them to stay in business if their, if their inputs are more expensive.

Alberto Amador: Yeah. Because for example maybe there are a factory who produce ketchup.

And, there is a tariff in tomatoes from Mexico.

We can say that the, the one pound cost \$10, and if the tariff is like 20%, or if the tariff increase in 20%, the, the pound will increase to \$12.50.

So who is going to pay [00:11:00] that \$2.50? So, the ideal scenario is that all the stakeholders split. That extra cost. But as I say, the main goal of the companies is profits make profit. So I think that that consumers. We'll bear the cost at some point.

Dana Zook: So this summer when we put ketchup on our hamburger and our hot dog, that will be just a tiny bit more.

Alberto Amador: Yeah. And also the consumers react to the. Price change different, and it depends on the consumption of it and lifestyle. So many expert say that the, this reaction or consumers reaction could be. In the middle or [00:12:00] long term.

Dana Zook: Okay. What you're saying is they may not notice right away but they might adjust their buying behavior as time goes on, if it continues to stay high.

Alberto Amador: Yeah.

Dana Zook: Okay.

Alberto Amador: And also as as I said, it is depend on their habits.

Dana Zook: Right,

Alberto Amador: right. You know, maybe if you are like really strawberry lover

you don't care if you have to pay more.

And you can't, consume less another product to keep your strawberry consumptions at the same level.

Dana Zook: Right?

There's, I don't know, is there a substitute for strawberries? If you really love strawberries, they're not gonna go to something else. If strawberries are too expensive, are they?

Alberto Amador: Yeah.

Dana Zook: The likelihood, I don't know about the statistics of that, but

Alberto Amador: no, maybe not like a direct substitute, but there are a lot of, berries or another. Mm-hmm. Another fruit that can be feel that need. Yes. That you are

Dana Zook: Yes.

Alberto Amador: Looking in the strawberry. The

Dana Zook: strawberry

Alberto Amador: need. [00:13:00] Yeah.

Dana Zook: Yes. For my kids it's a very high need. So, yeah. I totally understand that. In general, Alberto, what are tariffs used for? What are, what are some things tariffs are used for?

Alberto Amador: Well, tariffs can serve several other purposes. They can use to protect domestic industry and for many countries, that's really important.

Another use is to, to raise government revenue. So if the government earn more money with the taxes, they can invest in another fields or like security health education or among others. They are also used as retaliatory measures. Other country, and I have a really strong example of this one. Okay.

Dana Zook: All right.

Alberto Amador: Previous years we saw the loss of soybeans market share [00:14:00] pure the 2018 the guard trade with China. US was the China's largest soybean supplier. However, as I mentioned before, in 2018 us imposed some tariffs and in response, China imposed tariffs to to American soybean.

So this price disadvantage allow Brazil to gain larger share of the Chinese market. And the current global context suggest a similar scenario for multiple factors. Brazil has increased the production and the predictions suggest the same for this year.

And the US China agreement situation remains uncertain.

So these [00:15:00] factors and according to the past can impact the supplier and the, or and demand of the crops.

Dana Zook: Right. So Brazil has, obtained a little bit more market share because of what happened several years ago in the soybean market specifically? Yeah. Yeah. I mean they, the crops, they,

Alberto Amador: they develop like varieties to, to increase production.

They developed or invest in infrastructure.

Like ports, roads, everything. And their production is really good now. Okay. And additionally, tariffs are a. Sometimes used as leverage to bring people to the table for other discussion. Basically as a negotiation tool.

Dana Zook: Yeah. And I think probably some of that, what's going on is part of that too.

Yes. I mean, my assumption, yeah,

Alberto Amador: it seems

Dana Zook: like that. Yeah, it seems like that. Okay, so let's just look at the big picture. Let's, let's start with the positives of some tariffs that we could see from an ag perspective.

Yeah, of

Alberto Amador: [00:16:00] course. I found like two positive things and two negative things. Okay. For the positives that with tariffs all the global trade change. . There is an opportunity to open new markets. And another advantage is that tariffs, tariffs can help to increase domestic demand for locally product and just support the, the domestic production.

For example if the government applied a tariff on tequila.

Maybe the bourbon demand will increase,

Dana Zook: so people are gonna switch from margaritas to, whiskey on the rock and older fashioned. Yeah. A whiskey. And, but I mean, I don't know. Do you think, do you think that that's an exchange?

Would you make that exchange Alberto?

Alberto Amador: Absolutely. I will exchange that. You would? Yeah. It depends on habits and. In my case, if the Tequila for Margaritas [00:17:00] increase a lot. I, and I have like local cheaper options. Okay. I will take the shipper local option.

Dana Zook: Well, that's a strong opinion coming from where you grew up. So that's, that's an interesting switch. I don't know if I would switch that.

There's some people who would do that, but personally.

So we don't wanna just focus on the negatives, but there are some negatives Yeah. With, with some of these tariffs.

Alberto Amador: Like, and we've talked a little bit about it as everything all have like good and bad things. Mm-hmm.

And for the negatives, well, all the changes can be good for some people and bad for some people. So the tariffs can shift global demand. Because if the prices of a product increase, buyers will seek alternatives for another countries. So the, the global trade will change,

Dana Zook: kind of like what it did with China in Brazil, in the, the United States.

That, that's, that's

Alberto Amador: a really good example of [00:18:00] that. And, and. Talking about again, of the retail authority actions if, if the US applied tariffs and the other country responds with retaliatory actions there is the chance that the, we can lose the supply. Of many of our products.

And again, the, the example of the soybean fit with this. Because basically tariff's leading potential loss in market share.

It depends on the, the reaction of the other countries.

Dana Zook: Okay. All right. So it kind of goes hand in hand.

Alberto Amador: I forget another one. Oh, okay. That it's really important.

tariffs increase market uncertainty and its affect also the investment decision and long-term planning.

Dana Zook: So it's a little bit harder to anticipate what's going to happen in the market and that makes people [00:19:00] hesitant to invest.

I see. Exactly. Okay, so you and I work directly with producers who operate ag related businesses. I mean, every day is, is ag for us, so. Tariffs will not be felt exactly the same, by all businesses and entities. So we've talked a little bit about this, so just as we kind of wrap up. Our discussion yesterday, focused a little bit on the retailers versus an ag producer.

So. Let's talk a little bit about the relationship between those two and how tariffs may affect those differently.

Alberto Amador: Yes. I mean, it will be different for everyone because not everyone, everyone plays the same role in the market,

Dana Zook: right? Every ag producer is totally different.

Alberto Amador: Exactly. So let me start with the retailers.

There are people or, or businesses, yeah, businesses that just buy or import products.

Storage for a while and then sell the product. They don't add value or transform the product. [00:20:00] They just deal with the product.

Dana Zook: And so then how are they affected by the tariff?

Alberto Amador: I think that they will feel the impact sooner than the Ag producers.

Mm-hmm. Because. Their profit margins are directly affected. So I think that since a couple of months ago when the, the tariffs were announced, they fill their inventories With a, at a reasonable storage cost just to prevent that increase in the cost.

Dana Zook: Okay. So it was like a short term kind of activity that they did to kind of what would we say?

Like soften the blow.

Alberto Amador: Yeah. They, they trying to avoid the, the tariffs.

But on the other hand, there is like a, the storage cost too.

Dana Zook: Right. [00:21:00] Okay.

Alberto Amador: So I'm, I'm just suggesting that

Dana Zook: Oh, absolutely. I'm assuming too, I mean, that makes a lot of sense,

Alberto Amador: but probably they do that and. For that reason, the ag producers will feel that impact later.

Some experts, some economists argue that this will happen in the middle term, I will say four six months. Okay? Not now because the inventories probably are full.

So. When they buy again the product for the inventories, we will see the, the change in the prices.

The, the, the ag producers will fill it when they need to use the, that product, that input.

Dana Zook: Mm-hmm.

Alberto Amador: And also there are like multiple ag products that they're involved with tariffs. [00:22:00] For example machinery.

Okay. I, I think that machinery cost, like the, the, the cash cost and depreciation cost, it's a big deal now. Machinery pieces, fertilizers, seeds,

and medicine or vaccine. Mm-hmm. There, there are like, like products that can. Or might hit the, the ag producers in the next months. But not everything is bad,

but because probably crops and livestock prices will follow the, the trend. And the ag producers or the, the ag market will pass the cost to the final consumer.

Dana Zook: Right. So it all trickles down.

Alberto Amador: Yeah. And talking about consumer, we are consumers.

[00:23:00] Everybody is a consumer. We will feel the impact in the medium or, or long term because as I said, it depend on the habits and this reaction to the price are gradual.

Dana Zook: That's a great summary of that, Alberto.

As we close out this discussion, what advice simply would you give to Ag producers as they navigate this uncertainty for the products that they produce?

Alberto Amador: And to be honest, I'm not really worried for them because I think the ag producer face challenge and uncertainty almost every year.

Dana Zook: Yeah, that's true. So

Alberto Amador: I will say that it's part of the job.

However, given the current market fluctuations I think that. Effective management is crucial to achieve good results.

Dana Zook: Okay.

Alberto Amador: We don't have to focus just like in in forecast and predictions because they are never [00:24:00] fully accurate and always carry risks. I will say that now we should focus on the factors that we can control like the production OR management, and strive for maximum efficiency.

Dana Zook: Okay. That's really good advice, alberto, thanks so much for joining us to do this, taking some time. This is kind of a tough topic to cover.

Alberto Amador: Yeah, it is a lot. Yeah,

Dana Zook: I, I, listeners probably, I, I kind of posed this to Alberto and so it, I'm glad we did. It gives some basic baseline of some of these tariffs and what is going on.

We'll, probably in the future talk more about some more specific on industries such as beef or, or our grain crops and that sort of thing. But if you have any questions on this topic. Definitely reach out to your extension educator and they could reach out to us. Alberto and I are always around. I'm less of a good resource, but I could do my best to help you out.

There's also many [00:25:00] state specialists that are working on this topic right now and very informed, so let us know if you have any questions. Thank you for joining us, and have a great week.