Testimony of Cass Gebbers
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"The Effect of Tariffs on U.S. Agriculture and Rural Communities"
House Ways and Means Committee
Subcommittee on Trade
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Thank you Chairman Reichert and Ranking Member Pascrell for the opportunity to testify before the Subcommittee today on the effect that tariffs – in particular those that have been imposed on agricultural products like cherries, apples, and pears in retaliation for U.S. trade policies unrelated to agriculture these last few months – are having on growers such as myself. I am Cass Gebbers, President and CEO of Gebbers Farms in Brewster, Washington – next door to Chairman Reichert's district.

Gebbers Farms is a century old, multigenerational family company located in the rural community of Brewster, Washington. Three of my siblings and I are the fourth generation in the business, with fifteen of my kids, nieces and nephews from the fifth generation all being involved as well on a day-to-day basis. Only two years separate the last of the fifth generation from the first of the sixth generation.

We grow fruit on approximately 13,500 acres, with 10,000 acres of apples, 3,000 acres of cherries, and 500 acres of pears. Our sales company also represents 14,000 acres of our neighbors and local fruit co-op members as well as another 8,000 acres of independent family growers. Approximately 30 percent of all this fruit is exported to over forty different countries around the world.

Gebbers Farms also raises Black Angus cattle on approximately 120,000 acres of rangeland, including in excess of 50,000 acres of government-owned grazing lands from the National Forest Service, Washington State Department of Natural Resources, and the Washington Department of Fish and Wildlife.

We also manage our family's timberlands where we actively tree farm and log, competing head-to-head with imported timber products.

I am going to focus my testimony today on the impact tariffs are having on the tree fruit portion of our operation. The Pacific Northwest is home to many family-owned orchards like ours that jointly supply more than three quarters of the fresh apples, 88 percent of the fresh pears, and 81 percent of the sweet cherries sold in the United States. Together, these crops are valued at approximately $3.8 billion annually, and create tens of thousands of jobs in rural communities like Brewster throughout our region.

Our growers also lead the nation in exports, with approximately one-third of the apples, cherries, and pears grown in the region sold to customers outside the United States. We compete in a global environment, not only against fruit imported into the United States, but also against these same competitors in the more than 50 countries we export to around the world.

Growing, packing, and shipping tree fruit is an inherently risky business. A rain storm on the wrong day can cause me to lose an entire orchard of cherries right before harvest, or apples that went into storage looking pristine can come out in a state unfit for sale due to a previously undetectable malady.

Exporting fruit creates an additional layer of risk, with unclear or inconsistent clearance policies at foreign ports, or hostile countries rejecting fruit shipments based on unjustified phytosanitary concerns to protect domestic industries – often costing the exporters tens of thousands of dollars. Keep in mind the later in the production chain this loss occurs, the more the grower loses in the substantial input costs that have gone into growing, harvesting, packing, storing, and shipping that perishable product.

Those responsible for every step of the production chain, like me, are businessmen that understand and accept these inherent risks of growing fruit and conducting sales in various international markets. Unfortunately, in the past four months, we have faced a multitude of additional tariff barriers to trade that have been completely outside of our control. The recent round of trade actions has greatly affected the outlook of how and where we export, and has disrupted the continuity of the markets we sell in.

I will begin with China, which was our fifth largest market for apples, number nine market for pears, and surpassed Canada to become our top export market for cherries last season. Due to our most favored nation status, U.S. shippers pay a 10 percent tariff to ship tree fruit to China. Effective April 2, China imposed an additional 15 percent tariff on apples, pears, and cherries imported from the United States in retaliation for the U.S.'s Section 232 tariffs imposed on steel and aluminum.

At that time, pear shipments to China were largely complete for the season and cherry harvest had not yet begun. While apple growers continued to ship in small numbers, the market was effectively closed in May when China imposed a 100 percent inspection policy on incoming fruit shipments – causing containers to sit at the port for days-to-weeks awaiting clearance, and in some cases facing outright rejection due to illegitimate phytosanitary concerns. The risk was simply too great to continue to ship.

This change in inspection protocols was clearly in retaliation for the U.S. duties on Chinese steel and aluminum, and returned to normal following progress in trade talks between the United States and China in early June. Apple shipments resumed at that point in much smaller numbers than last year.

When cherry harvest began last month, volume continued to move to China but pricing was impacted. This means that growers are getting less money for their cherries due to these tariffs. Let me be clear, China is a unique market for our cherries. There is strong demand for the largest and highest quality, and it is difficult to get anywhere close to the same price for these elite cherries in other markets. China is also unique in terms of volume. Last season, more than 11 percent of the total cherry crop worth roughly $130 million – 32 percent of the exports – were shipped to this market. This means that trade barriers to China are going to have a serious price depressive effect across the board for cherries sold domestically and throughout the export arena.

Another worry beyond just the actual tariffs is the looming threat of increased inspections and/or phytosanitary actions, which, vindictively, can hold fruit on arrival long enough for it to simply rot before it can be sold. While some shipments are clearing as normal, within the last few weeks, other shipments have faced delays ranging from hours-to-days in product clearing customs.

Potentially even more damaging, rumors have been running rampant among importers of a resumption of the 100 percent inspection protocol we saw in May that could lead to clearance delays of a week or more – causing some importers to reduce their purchases due to the risk of cherries spoiling while awaiting inspection at the port. Fortunately, that has not occurred – yet. There is little question that this is related to the escalating trade tensions between our two countries.

On July 6, an additional 25 percent tariff was imposed on cherries, apples, and pears in retaliation for the U.S. Section 301 tariffs imposed on Chinese products due to concerns regarding intellectual property. This increases the total tariff rate to 50 percent.

Let me provide an example of how this tariff actually plays out. If a box of fruit is sold to a Chinese buyer for $10, the 50 percent tariff would enhance the cost of that box to $15. China imposes a value added tax based on the cost of product coming into the country, which would equate to $1.50 – increasing the total cost of that box of fruit to $16.50, or a 65 percent increase. This is impacting the volume of fruit that can be sold to Chinese customers and reducing even more the returns growers will receive for the cherries we have produced – to near zero in some cases.

The China market plays a very significant role in the Gebbers Farms and Chelan Fresh cherry marketing plan. We seasonally market 4.5 to 5 million boxes of cherries per season, of which up to 1.5 million boxes are earmarked for China. Because my farm is located so far north, we tend to harvest most of our cherries toward the end of the season – meaning we will be disproportionately impacted by the increase in the tariff from 25 percent to 50 percent. Ours is the largest cherry export program in the United States. Cherries are highly perishable and the season is extremely short as cherries cannot be stored until later. With the recent tariff actions our customers have cancelled orders and re-directed our program downwards by approximately one million boxes, thus forcing all of this orphaned fruit into the U.S. domestic market or potentially elsewhere in the world, pushing down prices with the extra volume. These customers and accounts have been developed through years of hard work and relationship-building, and will be difficult to simply start up again if or when the tariff situation is ever resolved. In the meantime, the grower will suffer, being on the "short end of the stick."

The only losers here are the grower and the end user who was hoping to gain access to our beautiful Washington cherries. Where we went for years with a win-win scenario, we are now facing a "lose-lose" option. It just doesn't make sense.

If the tariffs remain in place for the 2019 crop, buyers in China will look to secure supply from other origins such as the European Union or Turkey. Now we will be opening the door to all of our competitors who also grow cherries elsewhere in the world, who will snatch up these markets as soon as we stumble!

It also must be noted that while the impact of this tariff on apple and pear growers is minimal right now because we are nearing the end of the shipping season, should these tariffs still be in place when harvest begins in August, the 50 percent tariff will have a deeply chilling effect on our ability to continue to ship to China – a roughly $50 million market for apples and $1.5 million market for pears – at anywhere close to the volume of previous years and most certainly for a lower rate of return to the grower.

Unfortunately, the impact to my farm and those of my tree fruit neighbors in the Pacific Northwest does not end with China. India – which jumped from the fourth largest market last year to the second largest market so far this season for apples – has announced its plan to impose an additional 25 percent tariff on apples, effective August 4, in retaliation for U.S. Section 232 tariffs on steel and aluminum. This is on top of the already high tariff of 50 percent, raising the total tariff to a staggering 75 percent to ship to this important market that was valued at almost $64 million last season – a number that has nearly doubled to $123.5 million so far this season.

On June 5, Mexico, the top export market for our apples valued at more than $215 million last season, imposed a 20 percent tariff on this product in retaliation for U.S. Section 232 tariffs on steel and aluminum. When apples last faced a 20 percent tariff going into Mexico due to the cross-border trucking dispute in 2010, the impact was estimated to be $44 million per season. It is important to note that Mexico is one of very few export markets that remain strong this late in the shipping season, so the impact on growers like myself is immediate.

The effects of these retaliatory trade tariffs are directly hitting the growers who produce this fruit. With little to no ability to simply "pass on" the increased costs of tariffs, there is less revenue to operate the farm, which is already in a razor thin margin environment, so we are looking at how else to lower costs, and that will be done by getting rid of some employees where possible, cancelling some scheduled capital expenditures such as construction and equipment updates in the packing and storage facilities, as well as stopping any future new planting of orchards. This tariff disruption is having a drastic effect on the parts of agriculture that we are directly involved with, which leads to negative effects within our communities as well when we can't keep employing as many people or move the operations forward into the future.

To summarize, unless these retaliatory tariffs are removed immediately, I and my fellow sweet cherry growers will have faced a 25 or 50 percent tariff in our top export market for the entire 2018 cherry marketing season which began in June and will end in August. For the apples that I grow, we will be facing an additional 20, 25, or 40 percent tariff in our number one, two, and five export markets respectively going into the next harvest – the destinations of nearly half of our industry's exports this past season.

It is important to note that growers of Red Delicious apples will be disproportionately impacted by these tariffs. Nearly 90 percent of apples exported to India are Red Delicious, making it the top export destination for this variety. Mexico is the second biggest market for

Washington state Red Delicious apples – combined, more than 60 percent of Red Delicious exports go to one of these two countries.

Gebbers Farms and Chelan Fresh Marketing export a significant number of boxes of Red Delicious to countries such as Mexico, India, and China. It is the stalwart apple variety that can effectively and economically be shipped to these countries and arrive in excellent condition after the long trip. The customers of these countries have a long history of demand for Washington apples, especially the Red Delicious. With new tariffs we have experienced a huge decrease in demand and a huge decrease in pricing, thus putting the new pricing at or below the cost of production, while backing up the inventories that were previously scheduled to be packed and shipped. A crushing blow to the grower again!

I am not here today to comment on steel or aluminum policy or intellectual property law. My hope is that the U.S. government will prioritize negotiations with each of these important trading partners to negotiate a solution that addresses our country's concerns with these policies in a way that leads to the removal of the retaliatory tariffs imposed on cherries, apples, and pears.

If the U.S. determines that it will exclude some products from the Section 232 tariffs, I would strongly encourage our government to insist that the host country commit to reducing its retaliatory tariffs by an amount equal to the value of the products included in the exclusion discussions. This would require coordination among multiple federal agencies – including the U.S. Trade Representative, U.S. Department of Commerce, and U.S. Department of Agriculture. The Northwest Horticultural Council, which represents the Pacific Northwest apple, pear, and cherry industry on federal policy and international trade issues, has made this request of these agencies, and I would ask members of this Committee to consider supporting the institution of such a process immediately. Selfishly, I hope that apples, cherries, and/or pears would be first on the list for removal of the retaliatory tariff!

If removal of these tariffs does not happen in the short term, then I would encourage the U.S. government to leave on the table any and all mitigation options to assist the growers, packers, and shippers – as well as the people whose jobs they support – that are being impacted by these retaliatory tariffs. This includes more traditional routes such as USDA Section 32 bonus purchases, but must also involve thinking outside of the box because the benefits of bonus purchases are limited for high value, perishable products like ours. The mitigation development process should also be open ended, as some tariff impacts may be immediate while others may take more time to develop and be calculated. While many of these activities may ultimately fall outside of the jurisdiction of the Ways and Means Committee, engagement by members of this Subcommittee in ensuring a robust and thoughtful process in considering mitigation options would be appreciated.

Our priority is to open new markets or reduce barriers to export in current markets through action by USDA or USTR. These technical efforts move at a glacial pace and as an example, have prevented growers from selling apples and pears to Australia and South Korea, and have effectively limited apple shipments to Japan. Removal of tariff barriers in Taiwan and Egypt are another example of what we believe could be rapid measures that would result in immediate commercial opportunities for growers – thereby providing much-needed assistance to mitigate retaliatory actions without requiring taxpayer-funded assistance or the creation of new government programs.

Lastly, while I have focused my testimony today on the tariffs that have already been imposed or that we know are coming, I also want to note that we are watching the actions of Canada (the second largest export market for apples, pears, and cherries) and Japan (an important cherry market) closely to ensure that they do not take retaliatory action against our products should these trade disputes continue.

Once again, I would like to thank the Subcommittee for giving me the opportunity to testify before you today on the impact these retaliatory tariffs are having on my family business and fellow tree fruit growers. I am happy to answer any questions the Subcommittee may have.

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