

# Statesman

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## Texas pecans in crosshairs of trade war as harvest gets underway

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Posted Sep 28, 2018 at 11:33 AM

Updated Sep 28, 2018 at 11:34 AM

Texas pecan growers are about to find out what the front line of an international trade war is like.

The 2018 harvest is gearing up amid widespread anxiety over the price of the official Texas state nut. China -- the top buyer of U.S. pecans -- slapped a 47 percent tariff on them this summer as part of its broad effort to fight back against what it views as the Trump administration's hardball "America First" trade policies.

Federal assistance available for pecan growers and other farmers hurt by China's various retaliatory tariffs, despite being limited, could mitigate the blow, as could an unrelated two-year-old effort by the U.S. pecan industry to better market the nut's health attributes and to increase pecan consumption overall.

But with demand from the industry's top buyer likely reduced because of the Chinese tariffs, pecan prices are poised to fall nonetheless as growers start bringing in what's widely expected to be a big harvest in 2018.

The price earned by growers for a pound of cultivated U.S. pecans sold in the shell has fluctuated over the years but averaged \$2.40 in 2017, according to the U.S. Department of Agriculture. That compares to \$1.23 a pound a decade earlier, when China was beginning to purchase large quantities of the crop. Texas growers harvested \$85 million worth of pecans in 2017, making it the No. 3 state for pecan production behind only Georgia and New Mexico.

“I support (President Trump), but it’s tough we’re taking such a big hit” in the form of the retaliatory tariffs, said Mark Walls, who owns 38 Pecans in Austin, a wholesaler and retailer of pecans harvested from his family’s orchards near Seguin. “There’s nothing (the industry) can do about it. Quickly find new buyers? That’s not going to happen -- and it’s going to be years until we realize what the benefit (of the trade war) is going to be.”

### **‘A nonviable option’**

China’s appetite for U.S. pecans has soared because the nuts -- served roasted in the shell and often flavored -- have become popular across the country as a delicacy during festivities surrounding Chinese New Year. Nearly 30 percent of the U.S. pecan crop was exported to China last year, compared to about 1 percent in 2005, according to Daniel Zedan, an industry expert and an executive at Navarro Pecan Co. in Corsicana and Nature’s Finest Foods in Illinois.

The likelihood now is that Chinese buyers will shift purchases to the U.S. industry’s main international competitors -- Mexico and South Africa, both of which have been ratcheting up harvests in recent years -- because of the steep increase in China’s U.S. import tariff. Last fall, China had a 10 percent import tariff on U.S. pecans, but it lowered the figure to 7 percent at the beginning of 2018 before cranking it up over the summer as part of its retaliatory arsenal.

“Unless the tariff changes, I don’t see how a Chinese buyer could source from the U.S.,” said Drew Haas, director of international business at San Saba Pecan. “It seems like a nonviable option from a price standpoint.”

The demand from China has predominantly been for whole pecans, so prices for this year’s U.S. crop aren’t expected to become clear for a few weeks as the harvest progresses.

But Haas noted that the price of pecan “kernels” -- meaning halves and pieces from previous crops, which are popular in the U.S. as snacks and recipe ingredients -- already has dipped by about 12 percent since earlier in the year, a trend he attributed partly to concerns about the downward pull of the Chinese tariffs and the potential for a pecan glut overall.

“It’s in anticipation of there being a lower price for the new crop, and also just (lower) demand and a lot of product,” said Haas, whose company shells and processes pecans for a variety of wholesale and retail purposes and also sells some in the shell.



In an indication of the degree to which the issue has rattled Texas growers, pecans briefly became a topic during the initial U.S. Senate debate on Sept. 21 between Republican incumbent Ted Cruz and Democratic challenger Beto O'Rourke.

O'Rourke -- who is from El Paso, one of the state's top pecan-growing regions -- cited the increase in China's pecan tariffs while criticizing the Trump administration's trade policies. He said he'd been speaking to a West Texas pecan grower who told him "no one is buying his pecans around the world right now," and that he fears international buyers "will find other countries from whom to buy (and) his farm will no longer be sustainable anymore."

Cruz, in his response, didn't mention China's measures to retaliate against the Trump administration's trade policies, but he said he supports free trade overall and noted that he has worked to try to lower a longstanding, 36 percent import tariff that India has on U.S. pecans.

### **'Have to re-strategize'**

Many U.S. growers may view such political wrangling as cold comfort as they begin their 2018 harvests while facing a probable drop in what has been voracious demand from China.

But Zedan, of Navarro Pecan, is taking a long-range view of the issue, saying he considers it an opportunity for the industry to seek out new markets. Navarro is a pecan sheller, meaning it buys whole nuts from growers and processes them, mostly to sell as food ingredients.

"Is there going to be hurt this year (for growers)? There is no doubt," Zedan said. But "all the tariffs did was focus our industry on how we do business -- too much of our (industry) was focused on one customer."

Even before the retaliatory tariffs, he said, Mexico and South Africa were capturing increasing shares of the Chinese market. The American Pecan Council -- a cooperative effort among growers and shellers created in 2016 to establish a unified marketing message -- can play a key role in developing new demand for U.S. pecans, both domestically and internationally, he said.

"U.S. growers will have to re-strategize how they market crops, and we'll all have to take a closer look at where to expand consumption, even here in the U.S.," Zedan said.

Dan Berdoll, a pecan grower near Bastrop, agreed that the pecan council's effort eventually will be good for the industry, but said he expects it to be several years before it gains traction and moves the needle on sales significantly.

For the time being, he's bracing for a possible financial hit from China's retaliatory tariffs. But he said Trump is doing what needs to be done to defend U.S. economic interests, so he isn't complaining.

"Even if it is costing me money now," Berdoll said, "in the long run I support it."