



WASHINGTON COUNCIL ON
INTERNATIONAL TRADE

Farming for the Future: Capitalizing on Washington State's Agriculture and Seafood Export Opportunities

Executive Summary

Food grown by Washington state farmers is enjoyed by customers all around the world. By capitalizing on unique geographic, market, and infrastructure conditions in the state, Washington's agriculture sector has emerged as a cornerstone of the state's trade-driven economy – employing over 164,000 people and exporting tens of billions of dollars of products every year.

Thanks to the country's largest public port system and a favorable climate, Washington-grown or harvested products – including aquaculture products – occupy a prominent position in the global marketplace. Notably, Washington state is the leading U.S. producer of hops, apples, and blueberries and is second only to Alaska among U.S. states exporting seafood products.

Expansive and efficient trade infrastructure also makes Washington state a crucial trade link for farmers as far east as Minnesota. Fast, reliable rail links and roads connect farmers throughout much of the Upper Midwest with Washington's ports. As a result, ports in the state, in addition to handling Washington-grown goods, move a large share of all U.S. agriculture exports to markets around the world. In fact, ports along the Columbia and Snake Rivers are the point of origin for more than half of all U.S. wheat exports.

However, after decades of steady export growth, Washington's agriculture sector faces significant challenges. Trade tensions and tariffs between the U.S. and major trading partners, growing "behind the border" trade barriers in export markets, and pandemic-driven logistical challenges have taken a toll on Washington farmers. Meaningful policy and regulatory measures are needed to alleviate the adverse effects of these headwinds on the state's agriculture sector.

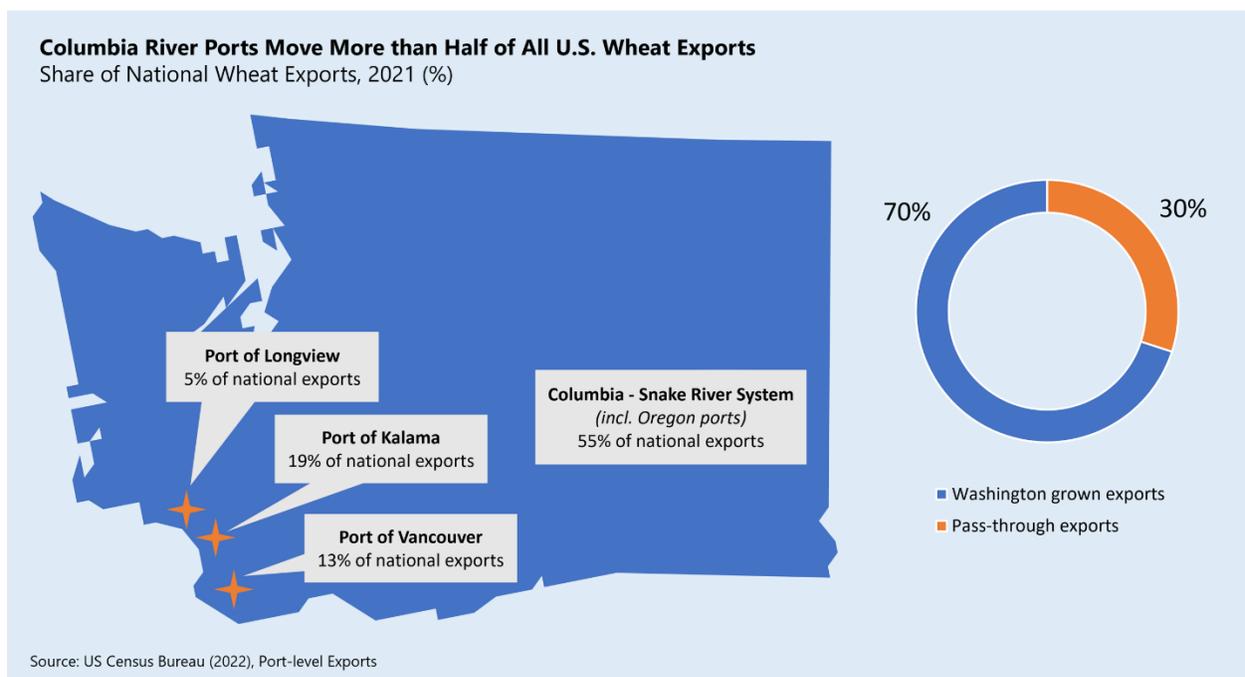
By capitalizing on new opportunities – such as new federal infrastructure investment– and advocating for meaningful policy support at the federal and state level, the state's agriculture export sector can work to regain lost ground and accelerate agriculture export growth.

Introduction

Washington's agriculture sector is a cornerstone of the state's trade-oriented economy. Favorable climate conditions, a strategic geographic location, and efficient trade infrastructure give Washington farmers a competitive advantage that they have capitalized on by getting high-quality Washington and U.S. products to customers around the world – quickly. However, over recent years, global macroeconomic and policy trends have eroded the competitive advantage of export-oriented Pacific Northwest farmers. Specifically, trade tensions, tariff and non-tariff barriers to trade, and shipping container shortages – stemming from broader pandemic-driven supply chain disruptions – have adversely affected the state's agriculture export sector and its employees.

Washington's Agriculture and Seafood Export Sector is a Globally Prominent Powerhouse

Agriculture has been a cornerstone of Washington's economy throughout its history, as the state's climate supports a globally competitive and thriving agriculture sector. Washington is the top national producer and exporter of apples, cherries, and pears, accounting for 90 percent of apple and pear and 72 percent of cherry exports in the U.S., The state leads the country in the production of blueberries, hops, and other crops as well.¹ Dairy is also a crucial state product, led by farmers in Whatcom County and the Yakima Valley region. By the numbers, farmers in Washington exported \$627 million worth of dairy products in 2021 – currently the state's fifth most valuable agricultural export product.²



Supported by the nation's largest public port system – which boasts 75 ports across 33 of Washington's 39 counties – over \$14.3 billion of agriculture products were exported through Washington state in 2021.^{3,4} In fact, more than half of all U.S. wheat exports are ultimately exported through the Columbia-Snake River System.⁵ Accordingly, ensuring that Washington state's trade infrastructure can handle the needs of all its stakeholders can contribute to lower shipping costs and ensure reliable physical connections between U.S.

and global markets, not just for Washington farmers but also for a significant share of the U.S. national agriculture sector.

Strong global recognition and demand for its high-quality produce as well as an extensive public port system that connects farmers as far east as Minnesota with export opportunities has converted Washington’s natural agricultural advantage into a globally competitive export pillar. In 2021, agriculture products were the state’s highest-value export category.⁶ “Pass-through exports,” where agriculture products originating in other U.S. states are exported through the state’s infrastructure and ports, solidify Washington’s role as a critical trade hub for a large portion of the country. Jointly, Washington-produced and pass-through exports totaled \$22 billion in 2021 and were directly responsible for over 164,000 jobs — primarily on family-owned farms, which account for 96% of all farms in the state.^{7,8}

Washington-Sourced Agriculture Export Value (2021)		Washington-Sourced Agriculture Export Markets (2021)	
Top Agriculture Export Products	Total Export Value (USD)	Top Agriculture Export Markets	Total Export Value (USD)
Fish and Seafood	\$1 B	Canada	\$1.4 B
Wheat	\$962 M	Japan	\$1.2 B
Frozen French Fries	\$847 M	China	\$994 M
Apples*	\$643 M	South Korea	\$541 M
Dairy	\$627 M	Mexico	\$457 M
Hay	\$623 M	Philippines	\$391 M
Hop Cones and Extracts*	\$337 M	Taiwan	\$299 M
Beef	\$317 M	Indonesia	\$217 M
Fresh Sweet Cherries*	\$267 M	Netherlands	\$202 M
Pulses	\$137 M	Hong Kong	\$197 M

* Washington state is the number 1 U.S. producer of these agriculture products.
Source: WSDA

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Alongside Washington’s robust export-oriented agriculture sector, the state is also a leader in aquaculture and seafood exports. Over \$1 billion of Washington-harvested fish and seafood was exported in 2021 — second only to Alaska in shipments of fish and shellfish abroad.⁹ Collectively, Washington-grown and processed food and agriculture exports totaled \$7.7 billion in 2021 — a rebound from pandemic-era lows of \$6.7 billion total export value in 2020.

The Intersection of Farming and Tech: Improving Agriculture Exports with Innovation

Washington farmers realize that maintaining the state’s competitive advantage in agriculture exports requires modernizing processes and equipment with the latest technologies and utilizing opportunities to deploy emerging artificial intelligence (AI) capabilities to improve output and efficiency. Toward this goal, and building on its natural advantages and strong export infrastructure, Washington’s agriculture sector is rapidly evolving through innovation and integration: developing new technologies, integrating data flows into decision-making, and identifying new opportunities for automation.

Many of these exciting new technologies are homegrown. For example, Washington State University (WSU) is partnering with USDA to lead the AgAID Institute, where researchers are developing AI solutions to agricultural problems. From this program, WSU scientists have designed a robotic twining machine for hops as well as drones to deter fruit-eating birds.¹⁰ Local companies like FarmHQ are using data, sensors, and cloud-based software to provide remote monitoring and control, promising cost savings and efficiency.¹¹

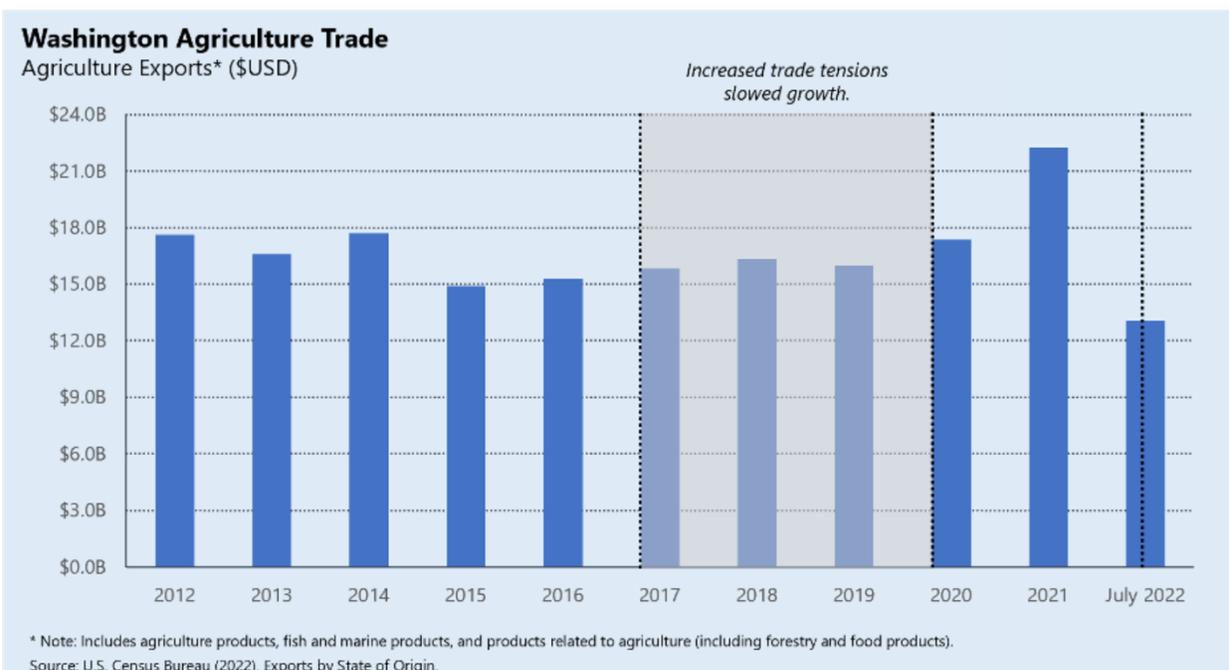
Additionally, a CARES Act-funded program using sensors to monitor agricultural conditions including soil moisture, weather, and plant health is operating two pilot projects in Snohomish County.¹² These innovations are only a preview of Washington’s agricultural future if technology is fully leveraged to discover new efficiencies and improve global competitiveness.

However, it is important to note that an increased dependence on technology also introduces new challenges and risks. In the current economic and post-pandemic environment, supply chain delays and sourcing challenges are making it difficult for farmers to get the machinery or parts they require in a timely manner. For example, delay times for farm equipment due to ongoing global semiconductor shortages range from weeks to years.¹³ Policymakers can play a vital role in supporting Washington farmers with navigating these novel obstacles. To remain globally competitive, Washington farmers and producers must stay at the forefront of this technology-oriented transformation of agricultural activity.

Historically Strong Agriculture Exports Face Serious Headwinds

Washington state’s farmers have built a thriving agriculture export presence by getting high-quality products to global markets quickly. After agriculture exports peaked in 2014, the competitive advantage enjoyed by Pacific Northwest farmers has been eroded in recent years. And while agriculture exports are accelerating again as the economy emerges from the COVID-19 pandemic, farmers are still feeling the impact of recent losses. Challenges persist in three key areas:

- (1) **Trade tensions and tariffs** resulted in decreased access to markets, including China and India
- (2) **Behind-the-border barriers** continue in key markets such as China and Mexico
- (3) **Supply chain issues** persist due to port and infrastructure challenges



Trade Tensions and Tariffs

Washington state agriculture exporters generally depend on several key markets. Canada and Mexico are crucial export markets for tree fruit and other crops, facilitated by proximity, resiliency of land-based transportation, and the U.S.-Mexico-Canada Agreement (USMCA). Meanwhile, the China, India, Vietnam, and the broader Asia-Pacific region present many opportunities for export growth. However, in recent years, increased bilateral tensions and retaliation by China and India for U.S. Section 232 and 301 tariffs significantly decreased exports and have made Washington agriculture exports less accessible and competitive in these markets. In addition, the 2017 withdrawal from the Trans-Pacific Partnership (TPP) signaled a broader shift away from trade agreements and towards a tariff-first trade policy approach that persists. While a Phase One Agreement with China for tariff relief was forged to help bolster U.S. agriculture exports, the commitments outlined in the agreement for the most part do not apply to Washington state produce exports and China's purchase agreements have not been fulfilled and significant retaliatory tariff barriers remain in place.

As a result of a distortionary, tariff-driven trade policy, Washington farmers have suffered a significant toll. From mid-2018 to the end of 2019, due to retaliatory measures with China, the USDA estimates that tariffs caused a \$140 million decrease in U.S. agriculture exports – driven by losses of \$102 million in processed and fresh fruit and \$25 million in wheat. A steep decline in U.S. soybean exports, which comprised over 70% of total U.S. export losses from trade disputes, caused a steep drop in pass-through exports that use the state's trade infrastructure to get their product to market.¹⁴ In a Washington trade context, annual Washington apple exports to India fell from \$120 million pre-Section 232 tariffs to just over \$3 million in the 2021/2022 season.¹⁵ For China, cherry exports from the Pacific Northwest were valued at \$141 million before trade disputes, eventually declining to \$53 million in 2021.¹⁶ On a volume basis the decline in cherry exports is over 500 percent since the 2017 crop.

As U.S. producers have lost sales and hard-earned market share, producers in competing countries have benefitted greatly from the U.S. tariff policy decisions. Even if tariffs are resolved in the future, these retaliatory measures could prove a long-term detriment to Washington's export competitiveness. Without speedy action to address these trade tensions, Washington farmers will continue to suffer extreme losses and cede footing in key international markets.

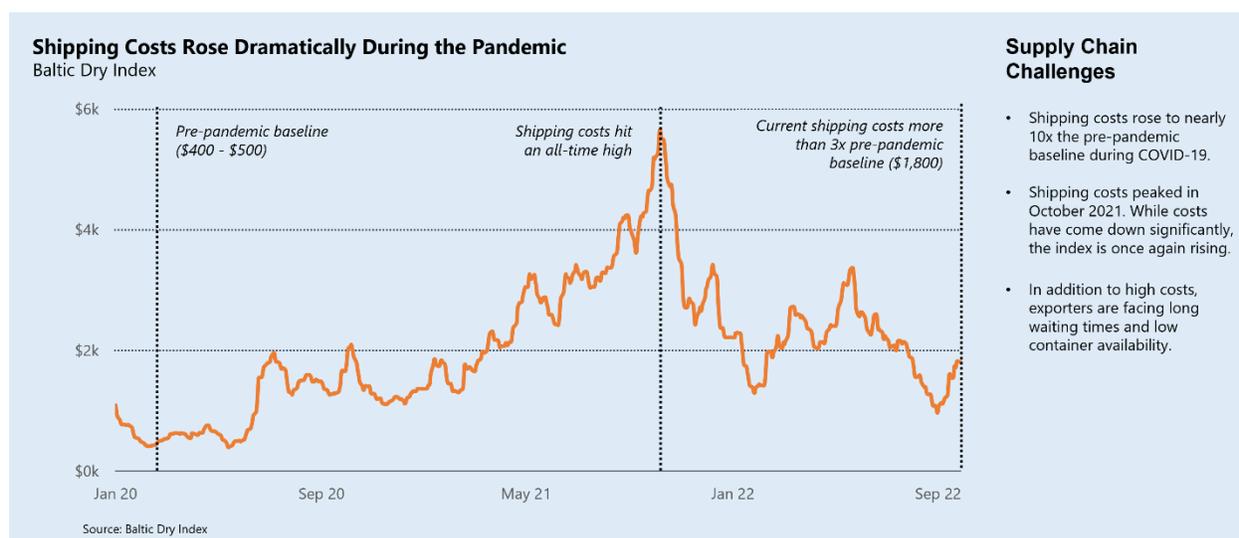
Behind-the-Border Trade Barriers

Alongside tariff regimes, Washington farmers are also feeling the cost of non-tariff barriers, also known as behind-the-border barriers. The Office of the U.S. Trade Representative has identified several key areas of regulatory concern that could hamper agriculture exports. These include burdensome facility registration requirements, non-science-based sanitary and phytosanitary (SPS) barriers, and burdensome import licensing requirements.¹⁷ For example, the Chinese government requires facility registration — a non-tariff barrier that appears to be used as a tool to control the origin and volume of food imports, rather than reduce the risk of food-borne illness. Furthermore, Indonesia's trade-restrictive licensing requirement for all horticultural and animal product imports, despite a successful WTO challenge, limits free access to a potential top export destination for Washington dairy farmers and apple growers.

Port and Infrastructure Challenges

Washington state's extensive port system and intricate infrastructure of rail, roads, and rivers are a vital link in the global supply chain, enabling on-time and low-cost exports of agricultural goods. However, since the onset of the pandemic, supply chain issues have plagued producers and exporters alike, making it more difficult and more expensive to ship out goods. The Baltic Dry Index, a measure used to track the cost of shipping, rose 10-fold compared to pre-pandemic levels and remains over 3 times higher than pre-pandemic baseline levels.¹⁸

Alongside higher prices, simply getting exports in containers has become a challenge. Many ships have been leaving ports with empty containers due to backlogs, overloaded warehouses, and driver shortages. The Northwest Seaport Alliance (NWSA) reports that the export volume of empty containers rose 53.5% year-over-year (YoY) in 2021 and 15.6% YoY in 2022. By July 2022, almost 60% of international export capacity was unused.¹⁹ This has largely contributed to a 30% decline in agriculture exports coming from the NWSA in the latter half of 2021.²⁰



Supply Chain Challenges

- Shipping costs rose to nearly 10x the pre-pandemic baseline during COVID-19.
- Shipping costs peaked in October 2021. While costs have come down significantly, the index is once again rising.
- In addition to high costs, exporters are facing long waiting times and low container availability.

Emerging Opportunities: Multifaceted Trade Policy and Infrastructure Investments

Reorienting Washington state's agriculture trade to capitalize on future opportunities requires a shift to a multifaceted trade policy environment through a combination of private sector actions, local measures, and shifts in trade policy from a market-oriented posture again. As a first step, removing tariffs has proven an effective means of increasing trade. After the Phase One agreement with China, agriculture exports increased significantly – although below pre-pandemic levels. Progress is also possible with concerted negotiations to avoid and reduce tariffs, as shown in Vietnam, where tariffs have been significantly lowered following trade discussions.²¹ Seeking new and expanded Free Trade Agreements (FTAs) is another effective pathway to increase Washington's agriculture exports. FTA partners simply buy more Washington goods. In fact, in 2018, FTA partners purchased 6.4 times more Washington exports per capita than non-FTA countries.²² As evidence, the US-Mexico-Canada Agreement (USMCA), put into place in 2020, has been critical to expanding access to the Mexican dairy market, resulting in a 65% increase in U.S. dairy exports compared to pre-2020 numbers.²³

Reducing non-tariff barriers is another key step to improving Washington state's export competitiveness. Onerous and burdensome regulatory requirements, found in many important markets, pose significant barriers to trade. Active federal engagements and negotiations will be necessary to resolving outstanding trade restrictions. Removing these requirements and ensuring fair application of international trade standards will lower costs and boost exports for the Washington agriculture sector.

Finally, addressing supply chain issues requires short- and long-term solutions that can enable Washington's port system to respond more quickly to emerging challenges. As an example of short-term efforts to address logistical challenges, NWSA is partnering with USDA to provide "pop-up" sites in Seattle and Tacoma for prepositioning containers of dry or refrigerated agriculture goods.²⁴ This is expected to provide operational and cost relief to farmers and increase export shipments. Additionally, the Ocean Shipping Reform Act, passed into law in June of 2022, could help to ease the high volume of empty containers by placing restrictions on unused capacity on cargo ships.²⁵

In the longer term, infrastructure investments will be necessary to maintain our competitive advantage. Funding shortfalls are significant: ports require an estimated \$5.7 billion in upgrades, while airports require an estimated \$13.6 billion in upgrades.²⁶ While costly, these investments drive significant returns.²⁷ Investing in infrastructure *now* will benefit rural communities and Washington farmers for years to come and reclaim lost ground ceded by the state's agriculture exporters.

Policy Can Help Revitalize Washington State's Agriculture Export Sector

Reauthorization of the US Farm Bill in 2023 Provides an Opportunity to Improve Prospects for Washington's Trade-Reliant Agriculture Sector

The Farm Bill is a recurring bill, reauthorized and restructured every 5 years, that governs agricultural and food issues – and provides funds for several essential programs for Washington farmers. The current version of the bill is set to expire in 2023, and its upcoming reauthorization provides an opportunity to invest in provisions that will open new markets for Washington exports.

The Farm Bill will tackle important issues including funding climate resilience efforts, combatting supply chain issues, and supporting small farms. However, perhaps the most crucial provisions for Washington agriculture exporters are market-opening provisions such as the Market Access Program (MAP) and Technical Assistance for Specialty Crops (TASC) program. The MAP, which provides cost-sharing for marketing and promotional activities, has remained at a stagnant funding level of \$200 million since 2006. Sequestration, inflation, and rising program participation mean there is less money for more participants, threatening the effectiveness of the program. The TASC program directly addresses SPS and technical barriers that threaten exports of specialty crops such as apples, cherries, and pulses.²⁸ These programs, along with other export provisions, are uniquely important to Washington farmers and require full and increased funding levels in the 2023 Farm Bill.

Policy Recommendations

As Washington state's agriculture sector evolves, it continues to confront global challenges to market access and transportation. To support our agriculture sector and rural communities, Washington state and federal elected officials, representatives, and community leaders should push for specific policies and programs that will enable our farmers to remain globally competitive. These include:

- **Clearing barriers to trade through bilateral and multilateral negotiations.** This includes Congressional approval of Trade Promotion Authority for the Biden administration to provide greater latitude to pursue market-opening agreements.
- **Eliminating or significantly reducing retaliatory tariffs.** The implications of tariffs on our farmers need to be addressed through changes to trade policy. This includes providing the tools through federal legislation and executive action to renew an aggressive export-oriented approach that reduces or eliminates barriers to Washington state and U.S. exports more broadly. This also includes the aggressive enforcement of current provisions in existing trade agreements, such as the dairy provisions in the USMCA. U.S. leaders should also advocate for the removal of U.S. Section 232 (steel and aluminum) and U.S. Section 301 retaliatory tariffs.
- **Assertively pursuing market-opening agreements** and resuming productive talks with trading partners to modernize current agreements and explore new markets to increase clarity and predictability for our farmers and their overseas customers. This includes market access provisions in broader economic frameworks, removing tariff barriers in negotiations for new agreements (e.g., Japan, U.K.), and resuming trade talks with China with a focus on reducing tariffs and other impediments to agriculture trade.
- **Continuing efforts to address technical standards** so countries follow sound science and international protocols – including monitoring and providing input on evolving international food safety standards.
- **Investing in technology and infrastructure** to ensure that our farmers can evolve, transform, and thrive in the digital age. Infrastructure reform and leveraging investment opportunities in rural areas will benefit Washington state farmers in the decades to come.
- **Providing farmers access to capital** through congressional support for export programs that benefit the agriculture sector – such as the MAP and the TASC program – and through expansion of current export trade assistance programs.
- **Addressing supply chain issues** with an effort to restore more stability to the flow of goods, more availability of containers, and more reliability in transportation. Consider new pilot projects like pop-up ports to address short-term traffic issues.
- **Planning and launching state trade missions** with a focus on agriculture products and potential markets.

Conclusion

Washington state’s agriculture sector will continue to be the pride of our state and a vital element in a continually evolving and diversified global trade economy. Rural communities throughout the state rely on a thriving and growing agriculture sector. While Washington farmers have faced significant challenges over recent years, driven by trade tensions and the pandemic, high-quality products and robust trade infrastructure have positioned Washington for a strong recovery and continued growth. Key policy actions can help ensure that our farmers remain competitive in overseas markets and spur increased trade opportunities that will help our rural communities thrive and grow into the next decade.

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