

Experts generally agree China is not in a recession

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'No miracle markets'

But they add that the anxieties are amplified by the uncertainty about the true state of China's economy — as well as investments made by U.S. farmers and food companies that assumed the growth would continue unabated.

While it's still possible to make headway in the Chinese export market, people were fooling themselves if they thought the nation's demand was boundless, said Nick Kukulan, CEO of Paramount Export, an Oakland, Calif., company that ships fresh fruits and vegetables to that country.

"There are no miracle markets," he said. "It's all just global competition."

Cotton provides a harsh example of the vicissitudes of the Chinese market.

When China was a top buyer of cotton around 2011, the crop was fetching more than \$2 per pound for U.S. farmers.

Now, the country isn't even in the top five of global cotton buyers and prices are hovering around 60 cents per pound.

"It's one of the key factors keeping cotton prices low. China's policies had a large impact on the world's market," said Jody Campiche, vice president of economics and policy for the National Cotton Council.

To some extent, the reduced value of overall U.S. farm exports to China can be attributed to the global price decline for major commodities, particularly soybeans, said Michael Swanson, chief agricultural economist for Wells Fargo Bank.

Soybeans that topped \$14 a bushel in 2013 are now selling for about \$8.70 a bushel.

China's economy is also growing at a slower clip, but it must be remembered that its underlying economic base is now a lot bigger, Swanson said.

'Poor visibility'

Investors are also nervous because of the "poor visibility" into the Chinese economy offered by its government, he said.

While China's official economic growth rate was about 7 percent in 2015, some U.S.



Don Jenkins/Capital Press

Dockworkers unload containers Jan. 28 from the OOCL Rotterdam, a Hong Kong-registered vessel.

analysts believe it was actually as low as 4 percent based on factors such as steel output and coal use.

"People still doubt the data that comes out of China," said Dan Kowalski, director of industry research for CoBank, a major agricultural lender. "Are they telling us it is as bad as it is, or is it worse?"

Estimates may vary on the exact growth rate, but experts generally agree China is not in a recession and its economic expansion is still faster than that of the U.S.

Even so, the slackening in China is seen as having a destabilizing effect.

'Tesla of the world'

With an annual growth rate that once topped 15 percent, China's economy was viewed as being similar to a hot Internet company or technology startup.

"China is the Tesla of the world," Swanson said, referring to the electric luxury car company whose shares have quintupled in value in recent years despite posting net losses in the hundreds of millions of dollars.

Surging stock prices for such companies are based

on their "growth story" of future earnings, rather than current profits and dividends, he said.

If that story begins to appear too optimistic, people fear they've overpaid even if nothing catastrophic has occurred.

"Any change in that growth projection suddenly panics that investor," Swanson said.

The analogy is pertinent to agricultural sectors such as the almond industry, whose fortunes were propelled to new heights by China's explosive economic growth.

China "came out of nowhere" to become a major almond buyer, which caused the value of California almond orchards to triple in the past five years, Swanson said.

Farmers who planted or bought orchards at peak prices may face financial problems if their investment was based on unrealistic assumptions about continued rapid growth in Chinese consumption, he said.

"You could be devastated by even a softening in demand," he said.

Massive spending

Until now, China's momentous economic rise was supported by massive government investment in bridges, highways, ports and housing, which was accompanied by a mass migration of people from rural areas to the cities.

That cannot go on forever, so China must now shift from an economy that depends primarily on exporting goods and building infrastructure to one that's oriented toward domestic consumers, said Lindsey Piegza, chief economist with the Stifel investment firm.

"That's not a transition that occurs overnight," she said.

With China's extensive, and perhaps excessive, building boom winding down, there's bound to be a negative impact on the price of raw materials.

"You're talking about a decline in aggregate demand," Piegza said.

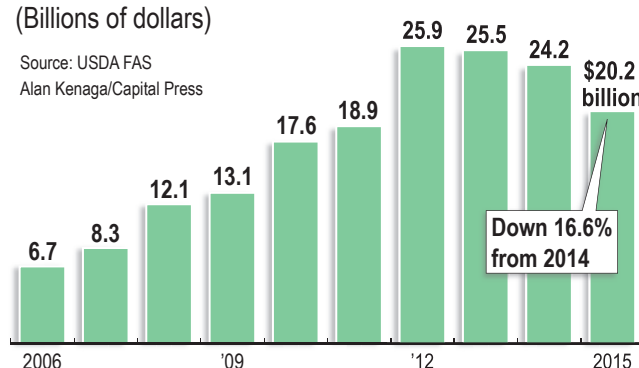
The effect is already apparent in the U.S. log market.

U.S. log shipments to

U.S. agricultural exports to China, 10 years

(Billions of dollars)

Source: USDA FAS
Alan Kenagal/Capital Press



China plummeted 40 percent in 2015 largely because builders have bought fewer hemlock logs, which are used for concrete formwork, said Gordon Culbertson, international business director for the Forest2Market consulting firm.

"Their housing construction is down a great deal. It has reduced the competition for forest products," Culbertson said.

Meanwhile, U.S. goods are more expensive in China because the dollar has gained in value against the yuan by more than 8 percent in two years, from roughly 6 yuan in 2014 to 6.5 yuan today.

As the U.S. dollar has strengthened against the Chinese currency, it has prompted China to buy logs from other countries such as New Zealand, he said. "It's magnified by the exchange rate."

The overall decline in China's imports of U.S. farm products isn't due to dropping demand, but rather the huge inventories of agricultural commodities that it has built up, said Kowalski of CoBank.

"They have outpaced demand, even though demand has continued to increase," Kowalski said.

What seemed like soaring demand for some U.S. commodities was actually caused by inflated purchasing, as China simultaneously tried to prop up domestic farmers and the processors who use their crops.

For example, China's government bought large reserves of grain and cotton to support domestic prices while allowing significant imports of the crops to meet demand from its feed-milling and textile industries, said Fred Gale, an econo-

mist with USDA who studies China.

Import quotas shrink

Now, the government is shrinking import quotas so its domestic processors can reduce the stockpiles of grain and cotton, he said. Chinese officials similarly overestimated the nation's demand for dairy products.

"They accumulated too much inventory and demand slowed down," Gale said.

At the same time, sales of specialty crops such as U.S. berries and nuts, which are often considered luxury items in China, have also been hindered by anti-corruption efforts, he said. Amid the weakening economy, the central government has pressured Chinese officials to be less ostentatious with banquets and gifts of imported food, Gale said.

"That's cut into demand for these high-end things," he said.

Protectionism also plays a role in the trade dynamics between China and the U.S.

Between 2012 and 2014, for example, China claimed that a crabapple variety used in Washington to pollinate commercial apple orchards transmitted a bacteria that threatened its domestic industry, said Desmond O'Rourke, founder of the Belrose Inc. market analysis firm.

Because trade agreements prevent China from creating "ad hoc" hurdles to imported goods, the government uses food and plant safety as an excuse to insulate its domestic producers from competition, he said.

"They keep finding new reasons for blocking imports for a while," O'Rourke said. "I suspect it will happen even more as their economy slows further."

Harney County has lost 99 percent of its wood products jobs since 1978

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"I'm concerned the attention we've gotten on the issue could get lost, because people in urban areas and voters are so far removed from the issues of Eastern Oregon," Fast said. "They never really understood what people were protesting in Harney County. They don't recognize we raise cattle on public land."

Meanwhile, Rep. Walden said he'll continue working to bring "meaningful changes" to federal forest and land management policies. "We need to foster a more cooperative spirit between the federal agencies and the people who call areas like Harney County home," Walden said in a prepared statement.

Andrew Malcolm, Walden's spokesman, said that means increasing logging and thinning of forests to provide jobs and to reduce wildfire risk, allowing local input on land-use decisions, ensuring public access to public land and eliminating "burdensome" regulation from agencies such as the EPA.

Other opportunities are percolating.

In early March, the Western Governors' Association is holding its third workshop on species conservation in general and the federal Endangered Species Act in particular. Led by Wyoming Gov. Matt Mead, the workshops are intended for states to share ideas on best conservation practices and to "operate as authentic partners" in implementing the ESA.

That's a slow grind but potentially a big deal. From Northern spotted owl, to greater sage grouse, to various frogs, butterflies and fish, ESA listings and lawsuits — or the threat of them — have tied nat-



Les Zaitz/The Oregonian via AP

A sign of the National Wildlife Refuge System is seen at an entry of the wildlife refuge about 30 miles southeast of Burns, Ore., Sunday, Jan. 3, 2016. The refuge was the site of a 41-day armed protest over federal land management. notforsale

ural resource industries, agencies and rural communities in knots. Many in the West believe the BLM, Forest Service and U.S. Fish and Wildlife Service, which between them manage 529 million acres, are entangled to the point of paralysis.

The degree to which public land agencies are hamstrung by conflicting legislation, litigation, lack of budget and sometimes by failure of leadership would surprise the general public, said Ann Forest Burns, vice president of the pro-industry American Forest Resource Council in Portland.

"All those well-meaning Americans who don't belong to the extreme of either political persuasion would be shocked, appalled and calling for reform in how lands are managed," she said.

Like many others, Burns believes the sage grouse collaboration between ranchers and regulatory agencies might be a model for the future. Ranchers, beginning in Harney County, signed voluntary habitat conservation agreements on private land that ultimately were credited with keeping the bird off the endangered species

list in 2015.

The sage grouse agreements were a "hidden benefit of the spotted owl debacle" Burns said. The spotted owl listing as threatened in 1990 is widely blamed for decimating the timber industry in the Pacific Northwest, as federal forests dramatically reduced harvests. The potential sage grouse listing was often referred to as "the spotted owl on steroids" because it would have involved millions of acres in 11 states.

Everyone involved "came to the table because they saw what happened to rural communities," Burns said. "If you don't want to look like that, we have to find another way."

The economic and social damage in rural communities is real, she said.

"If you're an 18-year-old man living in John Day, or Burns, or Baker, if you're smart but not ready to go to college, what do you do that will give you self respect?" Burns asked.

In a generation past, they could work the greenchain line down at the mill, or work in the machine shop. "There was real work," Burns said. "Re-

spectable work. It made you feel like a responsible person until you moved on to do the next thing. That's gone now."

Harney County, scene of the militia takeover, has lost 99 percent of its wood products jobs since 1978, according to a state analysis. While the number of Oregon jobs increased 74 percent since then, the number of total Harney County jobs decreased 10 percent. The county has lost 1,200 people since 1980. Today, 65 percent of the county's schoolchildren are eligible for free or reduced-price lunches.

"How would you feel if you were a parent and couldn't provide basic nutrition for your children, particularly if you had conservative values that are prevalent in rural communities?" Burns asked. "You don't believe government is the answer, but the government is feeding your children? If that doesn't break your heart, nothing will."

Bruce Andrews, retired director of the Oregon Department of Agriculture, said most government land managers live in the communities where they work, go to the same churches and eat at the same pubs as other rural residents. In some cases they are implementing national policies that slowly moved the community out of the decision-making process.

"I don't want to cast it as an us versus them issue," Andrews said. "Clearly there will be a heightened sense that if we want to avoid either-or conflicts in the future, we need to talk."

When he was ag department director, from 1989-98, ODA's focus was to work within the community. "It always works best when you try to work in partnership, even

when you're trying to regulate somebody," he said.

"The fear is, let's not have more militia takeovers, that's clearly outside how most people view how the Constitution works," Andrews said. An overwhelming majority of rural residents did not support the Malheur takeover, but there is angst in the communities, he said. "They don't want to gloss over the fact that the land is not necessarily working as it should."

The Oregon Cattlemen's Association, whose members were at the heart of much of the debate that accompanied the takeover, believes the situation at the refuge south of Burns helped illuminate the issue of government overreach. In a prepared statement, the OCA said it will continue "sincere and constructive conversations" with government agencies. OCA President John O'Keefe said approaching issues in a productive and peaceful way can help mend the urban-rural divide.

"We are glad that the standoff was concluded without further bloodshed," O'Keefe said in the statement. "We are hopeful the community of Burns will be able to start to heal."

Executive Director Jerome Rosa said the OCA is working with legislators and legal counsel to address one of issues that ignited the occupation by Ammon Bundy and his followers: the federal re-sentencing of Harney County ranchers Dwight and Steven Hammond. They were convicted of arson for burning BLM land, served time in prison, then were sentenced to additional time because the federal judge who oversaw the original case didn't follow minimum sentencing guidelines. The occu-

pation took place as they were reporting to prison.

By coincidence, the Bureau of Land Management announced a "Planning 2.0 initiative" about the time the last occupier was surrendering to the FBI Feb. 11. The agency said it is trying to increase public involvement and make its planning process "more collaborative, transparent and effective."

The changes will improve the BLM's ability to respond to environmental, economic and social realities, including the need for strong science and "early and regular public input," the agency said in a news release. "The revisions will enable us to be more agile in addressing challenges like proliferating invasive species and wildfire, helping to meet the Nation's need for energy, and conserving important wildlife habitat. At the same time, these proposals are carefully crafted to bolster our commitment to working early and often at the local level with our partners."

While it might have seemed a response tailored to the Malheur takeover, a BLM planner in Washington, D.C. said the revisions have been in the works for five years. "There's no relationship between the two," planner Mitch Snow said. "You can't draw a line from here to there."

U.S. Fish and Wildlife Service, which operates the Malheur refuge, said it welcomes a "new beginning" now that the takeover is resolved.

"Above all," said Jason Holm, USFWS assistant regional director for external affairs, "we will begin to revitalize our deep connections in the local community and resume the dialog that has made Malheur a model of collaborative conservation."