



**STATEMENT OF NANCY E. FOSTER
PRESIDENT AND CEO
U.S. APPLE ASSOCIATION**

BEFORE THE

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

**FEBRUARY 4, 2005
WASHINGTON, D.C.**

The U.S. Apple Association (USApple) is the national trade association representing all segments of the apple industry. Our members include 40 state apple associations representing 7,500 apple growers throughout the country, as well as over 400 individual firms involved in the apple business.

Thank you for this opportunity to testify on U.S.-China trade issues, legal U.S. trade remedies to address import concerns, and the implications of Chinese production of apples and apple products for the U.S. apple industry.

China's Unprecedented Expansion in Apple Production

The U.S. apple industry produced 3.9 million metric tons of apples in 2003, and was the second leading country in world production after China's tremendous production of 21 million metric tons. With total world apple production reaching 44.7 million metric tons in 2003, Chinese production accounted for 47 percent of total world production.

While China is now the world's largest apple-producing nation, its emergence as the world leader is a recent phenomenon. In 1990, the United States was the leading apple producing country in the world. At that time China produced 4.3 million metric tons, nearly as many apples as the United States. However, massive planting of apples in China during the 1990s resulted in tremendous growth in the Chinese apple industry. Between 1990 and 2003, Chinese apple production increased 388 percent.

China Expands U.S. Apple Juice Concentrate Market Share

In the mid- to late-1990s China invested heavily in its apple juice concentrate industry. With the help of provincial governments and foreign equipment manufacturing interests, China began a campaign to increase its share of the world apple juice concentrate trade. However, when China entered the market there were already adequate supplies of apple juice concentrate to satisfy demand. China increased its market share by offering substantially lower prices than its South American and European competitors, especially in the United States, which is one of the world's largest apple juice concentrate markets.

703 442-8850

800 781-4443

fax 703 790-0845

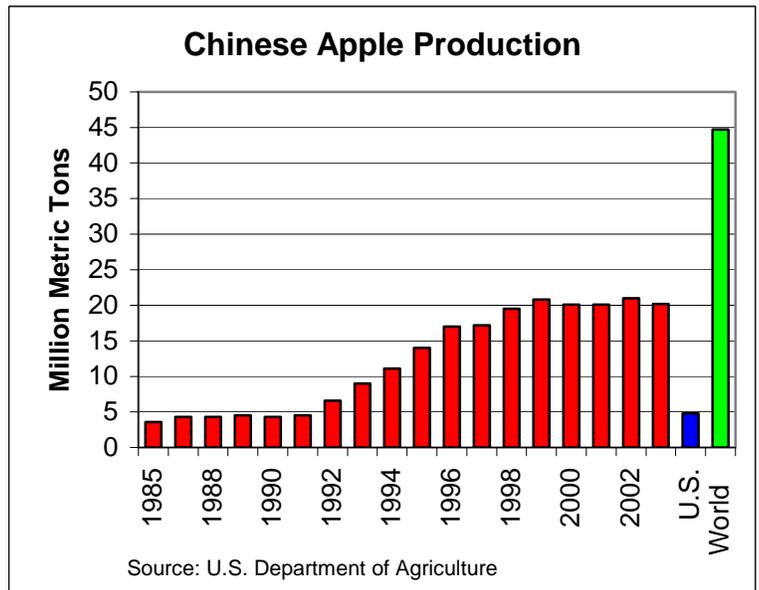
Web site www.usapple.org

8233 Old Courthouse Road, Suite 200 ★ Vienna, VA 22182-3816 USA

In this entry phase, USApple believes that Chinese apple juice concentrate exporters demonstrated classic dumping behavior by offering prices significantly lower than market competitors with the hope of gaining market share at the expense of short term profitability, and the strategy worked.

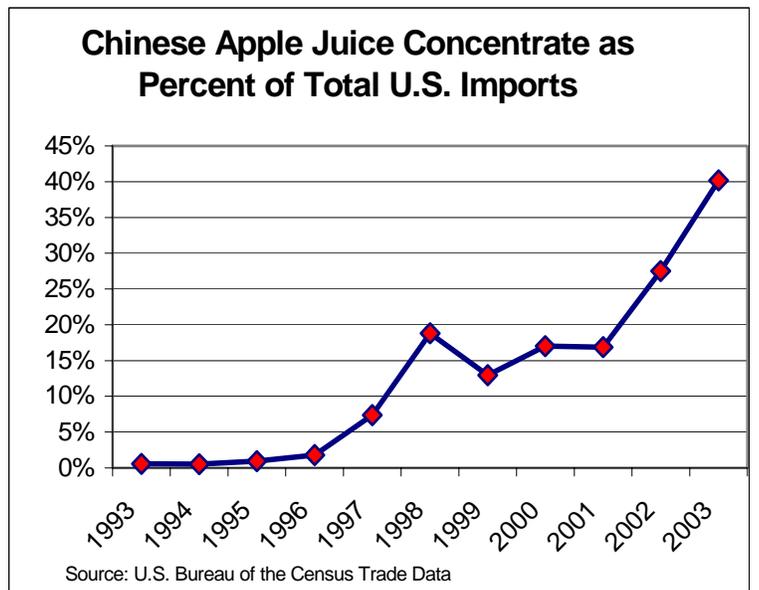
Chinese apple juice concentrate imports increased by more than 1200 percent between 1995 and 1998. During that same period, the average price of Chinese concentrate imports declined by 53 percent, from \$7.65 per gallon in 1995 to \$3.57 per gallon in 1998.

U.S. concentrate producers consequently were forced to slash their prices, and to drastically reduce the price they paid for U.S. juice apples. The average price received by U.S. growers for juice apples fell from \$153 per ton in 1995 to \$55 per ton in 1998. U.S. apple growers lost more than \$135 million in revenue from the decline in juice apple prices during those three years, according to U.S. Department of Agriculture data.



In 1999, the U.S. apple industry initiated an antidumping case against Chinese apple juice concentrate exporters for offering apple juice concentrate in the United States below its cost of production. At that time the apple industry felt it had a strong case against Chinese concentrate exporters and despite the overwhelming cost of filing an antidumping case, the U.S. apple industry decided to avail itself of the protection it was intended to provide.

When the Commerce Department initially assessed dumping duties ranging from zero to 52 percent, several Chinese firms appealed the decision. In 2003, the Commerce Department determined that several large exporters were not dumping. Meanwhile, U.S. imports of Chinese apple juice concentrate have grown to 40 percent of total U.S. apple juice concentrate imports, and U.S. apple growers continue to receive lower prices for juice apples, which means lost revenue for American growers.



While the U.S. apple industry's anti-dumping case provided some temporary relief to domestic apple juice concentrate producers and apple growers, the U.S. apple industry presently derives little or no relief from current trade remedies.

In addition, the extraordinary cost of participating in such a case and a lengthy legal process are also serious constraints to small growers and other industry members spread across the nation. These factors also discourage realistic access to available trade remedies.

U.S. Apple Industry Challenged by Chinese Processed Product Imports

Another challenge now looms on the horizon for the U.S. apple industry. Chinese apple processors have recently entered the U.S. applesauce, canned, sliced and dried apple markets, and Chinese exports of these products are starting to gain market share in the United States. U.S. growers and apple processors are monitoring U.S. imports, which demonstrate a pattern similar to the Chinese apple juice concentrate statistics just before Chinese apple juice concentrate flooded the U.S. market in the late 1990s.

According to U.S. Department of Agriculture statistics, domestic fresh apple production represents 62 percent of total apple production. Conversely, apples grown for processing utilization in the United States represent approximately 38 percent of total U.S. apple production. The total farm gate value of processing apples was \$206 million in 2003. However, some apple producing states are more heavily dependant on processing apple markets. In 2003, Pennsylvania processing apple production accounted for 79 percent of total apple production; Michigan's processing production represented 65 percent of total production and New York's processing production was 49 percent of total production. These states represent a substantial portion of total U.S. apple production. The apple industries in these states and others would be threatened with significant economic dislocation if imports of low price Chinese processed apple products are allowed to increase. Despite our industry's awareness that China is ramping up exports to the U.S. market, antidumping law requires our industry wait for the Chinese, or other competitors, to cause significant harm to our industry before any action may be taken to remove the threat.

U.S. Imports of Processed Apple Products by Country (Applesauce and Sliced Apples)

	1999	2000	2001	2002	2003
	----- Metric Tons -----				
Canada	12,477	16,018	16,599	18,240	21,728
% of total	91%	94%	90%	82%	72%
China	936	834	1,736	2,352	8,077
% of total	7%	5%	9%	11%	27%
South Africa	0	0	0	1,205	257
% of total	0%	0%	0%	5%	1%
Mexico	0	3	73	152	95
% of total	0%	0%	0%	1%	0%
Other	225	111	105	149	89
%of total	2%	1%	1%	1%	0%
Total U.S. Imports	13,638	16,966	18,513	22,098	30,246

Source: U.S. Bureau of the Census Trade Data

U.S. Facing Possible Fresh Apple Imports from China

The U.S. apple industry is deeply concerned about the potential negative impact of fresh apple imports from China. China has requested access to the U.S. market for Chinese fresh apples. Chinese government officials are now working directly with the U.S. Department of Agriculture's (USDA) Animal and Plant Health Inspection Service to secure permission to export Chinese fresh apples to the United States. The U.S. apple industry's future economic well-being may be challenged by Chinese fresh apple imports.

Unlike processed agricultural imports, USDA fresh produce imports must be cleared through a scientific technical process to ensure that imports do not inadvertently introduce an exotic insect or plant disease into U.S. growing regions. Introduction of damaging pests could wreak havoc on the U.S. apple industry, as evidenced by several quarantine pests that have invaded U.S. agriculture from China. For example, USDA has spent millions of dollars in attempts to control and eradicate the emerald ash borer and the Asian longhorn beetle.

The U.S.–China bilateral trade relationship must conform to the scientific standards and principles set forth in the Sanitary and Phytosanitary Measures (SPS) in the WTO. The U.S. apple industry believes that this process should not be politicized, nor should negotiators accelerate or exchange market access for certain U.S. goods into China for access to the U.S. market for Chinese apples.

A substantial difference in labor cost between the U.S. and China may well translate into a substantial price difference between U.S. apples and Chinese apples in the U.S. market. Apple production is extremely labor-intensive because thinning, pruning, tree training and harvesting are performed by hand almost year-round. According to a recent study on global apple production competitiveness, China's labor rate is approximately \$472 per acre as compared to \$2,052 per acre in the United States. (In China the labor rate is only \$0.28/hour, or about \$2.00/day.) At a minimum, the U.S. apple industry expects Chinese fresh apple imports to add significant downward pressure on fresh apple prices. Should Chinese producers gain access to the U.S. market, major segments of the apple industry could be forced out of business by low apple prices.

Costs of Production for Major Apple Producing Countries

Country	Labor (\$/acre)	Materials (\$/acre)	Total Dir. Costs (\$/acre)	Overhead & Invest. (\$/acre)	Total COP (\$/acre)	Yield (bins/acre)
Italy	2,753	736	3,489	4,298	7,787	55.0
France	2,288	492	2,780	2,615	5,395	42.0
Germany	1,760	568	2,328	2,773	5,101	36.0
USA	2,052	450	2,502	2,502	5,004	42.0
Chile	1,045	406	1,450	1,179	2,629	50.0
Brazil	586	506	1,092	760	1,853	35.0
Poland	325	348	672	1,169	1,842	34.0
China	374	587	1,369	584	1,953	16.0
China-30	477	587	1,472	584	2,056	30.0

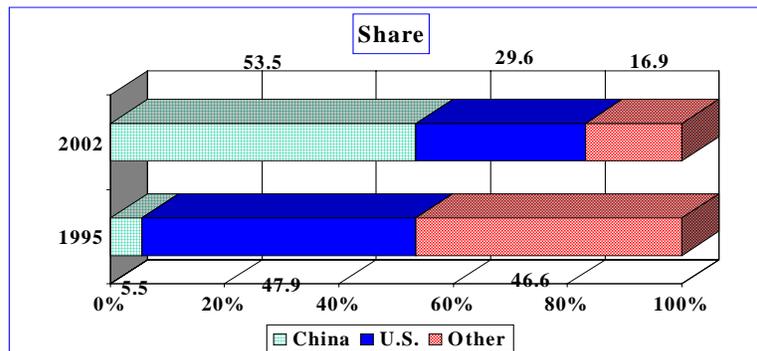
China 30 = Yield target to be achieved in the near future in China
Source: Global Apple Study, Jim Du Bruille, Wenatchee Valley College, 2004.

Chinese Fresh Apple Exports Displace U.S. Exports in Third Country Markets

As the Chinese apple industry expanded in the 1990s, fresh apple exports remained relatively constant at approximately 180,000 metric tons. However, as the Chinese industry improved its fresh apple quality and invested in improved infrastructure, exports grew at an impressive rate. Chinese fresh apple exports are expected to more than have tripled from 2004 to 2004 forecast levels, growing from 281,851 to 850,000 metric tons. This is equal to the combined total apple production in states of Michigan and New York.

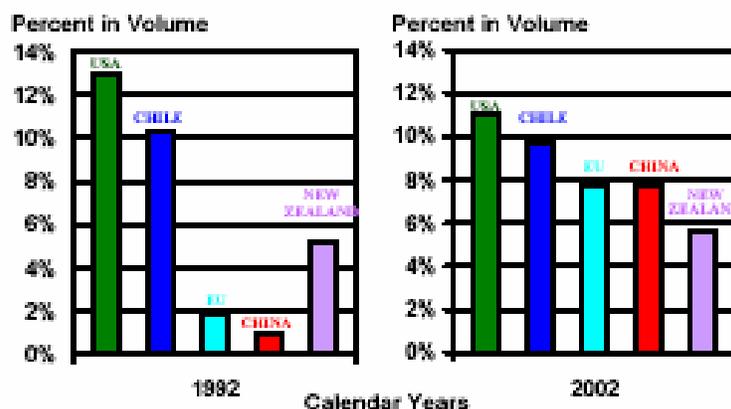
China has increased its export capability and is now a major competitor with the United States in many South East Asian markets. Additionally, China has gained access to the Canadian and EU markets where Chinese apples are competing successfully with domestic fresh apples in those countries.

Expansion of China's Fresh Apple Exports in Southeast Asia



Source: Belrose, Inc., 2004.

U.S. Share of World Apple Exports Declines Share of China and EU-Extra Trade Increasing Dramatically



Source: Food and Agriculture Organization (FAO) of the United Nations
Excludes EU Intra-Trade

China's Phytosanitary Compliance is Unreliable

In 2004, shipments of Ya pears to the U.S. and Canadian markets were suspended because of interceptions of an exotic species of *Alternaria*, which is not present in the United States or Canada. Additionally, exports of Chinese apples from Shaanxi Province were suspended in 2004 because of multiple interceptions of mites and a lepidoptera pupa. These examples indicate that China does not have the capability to reliably prevent export of exotic pests and diseases that can threaten the U.S. apple industry.

Chinese Intellectual Property Infringement

U.S. apple exporters report examples of pirating of intellectual property through the unauthorized use of trademarked brands and logos by Chinese apple exporters. This practice intentionally misleads customers, places U.S. apple exporters at a disadvantage in important markets and must be stopped. Several examples are attached which compare the trademarked Washington Apple logo to several trademark infringements, and a U.S. "Top Red" boxed logo (trademarked 35 years ago) to a pirated "Top Red/Whole Word" label. Intellectual property rights must be enforced to halt this practice. Additional examples are available if the Commission would like to examine them.

Currency Exchange

The Chinese yuan is pegged to the U.S. dollar and currently valued at 8.28 yuan per dollar. If allowed to float, it is reasonable to expect the U.S. dollar to weaken compared to the yuan, given the substantial U.S. trade imbalance with China and the robust strength of the Chinese economy. Exports from the U.S. would be more competitive with Chinese products in China and other markets, and U.S. imports of Chinese apple juice concentrate and processed apple products would be relatively more expensive. Consequently, Chinese exports enjoy a de facto export subsidy into overseas markets. A freer-moving yuan should be instituted that reflects market forces and China's robust economy.

U.S. Apple Exports to China

The U.S. apple industry also exports fresh apples to China. In 2002, U.S. apple exports were 21,655 metric tons, and in 2003, 18,517 metric tons, according to USDA.

An unequal duty structure between the U.S. and China is of concern to the U.S. apple industry. China is in the last year of its scheduled tariff reductions that began with the nation's 2001 WTO accession. Under 2004 tariff rates, China imposes an effective 24.3 percent duty on imported apples resulting from a 10 percent duty and an added 13 percent value added tax (VAT). Fresh apples entering the U.S. from all foreign countries are assessed no duty.

Enhancing U.S. Industry Competitiveness

The U.S. apple industry recognizes the threat China poses to apple growers, apple processors and apple packers. In response to this competitive threat, the apple industry is working with the U.S. Department of Agriculture to develop and implement a national research initiative to improve the competitiveness of the domestic industry by decreasing costs and improving fruit quality. This effort seeks to identify new technologies to automate orchards and fruit handling operations, optimize fruit quality, nutritional value and safety.

The industry has identified investment in automation of fruit handling and harvesting systems, and plant breeding, genomics and genetics programs as its highest priorities for this initiative. USApple suggests that the apple industry could improve its competitiveness if the federal government provided greater investment in apple technology research.

China's "Invisible Hand"

The U.S. apple industry would be better prepared to compete with China if more were known about the structure and function of China's apple industry. However, attempts to find this information in China have not been fruitful. Likewise, U.S. policy makers would be in a better position to evaluate China's impact on the U.S. economy if China's economic policies and institutions were more transparent.

USApple has heard anecdotal evidence that China's apple industry benefits heavily from indirect subsidies, such as access to 1 percent interest, and favorable government policies. These allegations are difficult to prove, but equally difficult to dispel, given the general lack of transparency in China.

USApple believes the Commission could play an important role in helping define, qualify and quantify the involvement of China's government in the Chinese apple industry or how its apple industry benefits from China's unreformed banking system or currency policies.

More information about these issues will lead to a greater understanding of how well China lives up to its World Trade Organization responsibilities and where the playing field is tipped steeply in favor of Chinese industries.

USApple appreciates this opportunity to share our experiences about trade with China and looks forward to working with the Commission in the future.

Images of Chinese Intellectual Property Infringement

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Chinese Version



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