



**FAR WEST SPEARMINT OIL**  
**ADMINISTRATIVE COMMITTEE**

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Committee

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**Hearing on the Impact of U.S.-China Trade and Investment on Pacific  
Northwest Industries**

Good afternoon. My name is Rod Christensen. I am manager of the Far West Spearmint Oil Administrative Committee, a federal marketing order regulating spearmint oil production in the far western United States. I would like to thank the Commission for inviting me here to testify on behalf of our spearmint producers concerning the impact that China is having on our industry.

The far western states of Washington, Idaho, Oregon, Utah and Nevada produce the vast majority of spearmint oil in the United States and are considered by most in the mint industry to be the premier producing areas in the world. We have been a world leader in the production of mint oils, both spearmint and peppermint, for well over 50 years. We produce the highest quality and most consistent supply of oil in the world.

For most of that time, we have had a vibrant mint industry. However, “globalization” has hit our industry very hard. In particular, spearmint oil production in China has had a devastating effect on the U.S. spearmint oil industry. There has been a mint industry in China since the mid 60’s. For many years it was very small and very specialized in it’s application, supplying small local businesses and “home remedy” type pharmaceutical needs.

In the late 1980’s and early 1990’s, production began to expand rapidly and exports from China to the U.S. began to increase. There are several factors that lead to these increases. First, the Chinese government policy emphasis to create capital through favorable trade balances on

agricultural products. Mint oil lends itself very well to this policy because it is not a basic food necessity, can be produced by a relatively small number of producers who can be “cheaply” subsidized to stay in business, but the end product can be sold on world markets at a fairly high per unit value. Second, the decision by some U.S. mint dealers to look for inexpensive foreign oil that could be blended with U.S. oil to produce a more competitive product. This led to significant improvements in the Chinese mint industry which aided them in efforts to increase production and improve quality. Third, the increasing availability of technical and research information via the Internet. This information was, and is, a very significant factor in helping the Chinese industry improve the consistency and quality of its production. Most of this information was developed at the expense of the U.S. mint industry, largely through research conducted in our land grant university system and made available at no cost to the world.

These factors have become increasingly prominent each year up to the present time. Although accurate figures are difficult to get on China’s domestic mint production, estimates indicate that production there increased from less than 500,000 lbs. per year in the late 80’s, to a current annual average in excess of 2,500,000 lbs.

The abundant supply of oil within China is very problematic for the U.S. industry. Domestic demand in China for mint flavored products, almost exclusively gum and toothpaste, although increasing, is not keeping pace with their increased production. There continues to be ample excess production available for export. Additionally, the need for capital coming into the country has not diminished significantly during the past decade. Government policy seems to encourage exports across the board.

The results of these developments are predictable and, in the case of spearmint oil, a matter of record. Imports of Chinese spearmint oil to the U.S. as reported by the Department of Commerce have grown from an average of 184,000 lbs. of oil per year for the three year period of 1988 – 1990, to an average of 490,000 lbs. during the period of 2001 – 2003, a 166% increase. The 490,000 lb. average is continuing to grow each year. It represents over 28% of the total annual demand for far western U.S. spearmint oil.

Since 1996, we have made four trips to China to promote our spearmint oil there and to learn more about their industry. We have visited dealers, growers and end users of the product. What we have learned causes great concern to us.

As with most Chinese agriculture, the production of mint oil in China is conducted on a basis that is, by our standards, outdated and inefficient. It works well for them because of their low standard of living and their need to keep most of their population on the farm and working there. Centered in the Henan province in central China, spearmint oil is produced on plots averaging less than one acre per producer. Virtually all processes, planting, cultivating, pest control, and harvesting are done by hand labor. In this area, visited by us in July of 2004, we discovered that over 10,000 producers farm about 4,000 acres of spearmint, or less than ½ acre per producer. Other crops bring the total acreage per farmer to between 2 and 5 acres. They sell their oil to a collector who sells to a dealer who sells to an import/export company or a domestic end user. Returns to growers are minimal, but most growers continue to produce mint oil because it is a minor part of their operation and it provides cash for them. Hence, our conclusion is that the abundant supply of Chinese mint oil will continue with no foreseeable decrease.

Of greatest concern to us is the low production costs incurred through this system. Since the growers use little, if any, powered equipment, regenerate their own mint roots for planting each year, till, weed, and even often control insect pests by hand, their main input cost is labor. Labor is abundant and therefore very cheap. Current reports show that approximately 70% of the Chinese population are peasants, most of them living and working on farms. Competing with peasant labor is a difficult thing to do.

The value of this cheaply produced mint oil coming into the U.S. from China has averaged \$5.23 per lb. over the past three-year period. The U.S. cost of production as published by Washington State University is over \$12.00 per lb. Even though Chinese oil suffers from inconsistency in supply of a good quality product, this price differential is enough incentive for our dealers and end users to find ways to blend and use the oil in their products. Our own technology allows for the “dismantling” of oil into components that can be used in a variety of blends. Every such use displaces demand for U.S. mint oil.

The result to the U.S. industry is that demand for our oil has declined dramatically from an average of 948,000 lbs. for the three-year period of 1988 – 2000, to 626,575 lbs. for the three-year period of 2001 – 2003. This decrease of 321,426 lbs. represents a 34% decrease in our demand. Naturally, the number of producers has also decreased during the same period from 142 in 1988 to 60 in 2004, a decline of 58%. While it's true that competition from Canada and India and the universal trend of consolidation in the agricultural sector are contributing factors to these

declines, all indicators are that the influx of Chinese mint oil is the major reason for our decline.

Like most agricultural producers in this country, we are willing to compete with this imported oil and take our lumps if we get beat. We do ask, however, that we be allowed to compete fairly. As I mentioned above, one of the reasons that we have traveled to China over the past several years is to promote our oil in China. The potential there is immense. We have been encouraged by industry trends there that show a growing middle class that is rapidly becoming consumers of “luxury” products. Among these products are gum and, and more importantly - toothpaste, a major user of spearmint oil. Current estimates by the Chinese industry put the projected growth rate for the toothpaste sector in excess of 10% annually over the next several years. This is incredible growth by any measure, especially for a consumer base the size of China’s.

We want to be a part of that growth and are working to get our product into these new blends and flavors. Obviously, our work is challenging because our cost of production is significantly higher than theirs. But we are willing, and we believe, able to meet this challenge. Our superior quality and consistent supply support us in this effort.

What we cannot overcome is import duties on our oil going into China. Those duties are currently 17%. This has the effect of taking us out of the running for most business. And, it is unfair to us because Chinese oil coming into the U.S. comes in duty free. The playing field is not level. While we take our lumps as an industry here, the Chinese mint industry enjoys the protection of these duties. Further, Chinese government policy appears to be to provide economic incentives to keep peasant growers on the farm, as peasant growers, for as long as possible. The availability of cheap labor for the production of low cost mint oil seems to be sound for the foreseeable future. Under the current conditions, it is inevitable that the Chinese spearmint industry will survive and even prosper while the U.S. spearmint industry will continue to shrink and soon virtually disappear.

We have been working with the USTR office for over ten years to insure that spearmint oil is included in international trade negotiations at every juncture. Although there has been some progress made in the reduction by China of their import duties, it has been slow. We have little hope that the situation will improve significantly very soon. Our industry is small and we, along with much of agriculture, often fill the role of pawn in trade negotiations. By that I mean that the U.S. tends to lose less by giving in on agricultural issues than they do on most other issues and

China tends to gain much by protecting their agricultural sector. We're less than 2% of the U.S. population and within that group spearmint growers are a minor commodity. Our voice is often drowned out. I hope it will not be drowned out on this Commission.

We make the following recommendations.

First, our government must take a stand to bring about a timely resolution to the flagrant inequity in spearmint oil trade policies between the two countries. Either the 17% Chinese import duty on spearmint oil needs to be removed, or an equal duty needs to be imposed on Chinese oil coming into the U.S. Either would be fair and, in our view, are supportable by the facts. China's accession into the WTO was accompanied by much rhetoric that they are a world player. They need to be held accountable for that rhetoric and play fair - to ALL concerned.

Second, beyond the surface problem of import duties, is the problem of what appears to be considerable subsidization at various levels of the mint industry in China. It is difficult to know the extent and effect of these actions because there is a palpable lack of transparency in Chinese government agencies at every level. Included in trade negotiations must be an insistence that such policies are made know and open for discussion. It appears to us that efforts in this area are minimal if they exist at all.

I want to thank you Mr. Chairman and all the members of the Committee for coming to Seattle and giving us the opportunity to provide our input on this crucial aspect of our U.S. spearmint industry. I am hopeful that progress can be made. We stand ready to help you with additional information, discussion and hard work in any way needed.

Thank you.