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Before the U.S.-China Economic and Security Review Commission

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

Mr. Chairman and Members of the Commission:

INTRODUCTION

I am pleased to have been invited to address the U.S.-China Economic and Security Review Commission today on issues involving the deciduous tree fruit industry of this region of our country and the People's Republic of China.

I have served as the president of the Northwest Horticultural Council since 1980. The NHC is a trade association representing the national and international policy interests of growers and shippers of apples, pears, sweet cherries and other such fruits raised in Idaho, Oregon and Washington. In terms of international involvement, I am a member of the USDA-USTR Agricultural Policy Advisory Committee (APAC), past chairman of the U.S. Agricultural Export Development Council, and on the board of directors of the Washington State China Relations Council. The Northwest Horticultural Council is located in Yakima, Washington and its website is www.nwhort.org.

The Northwest Horticultural Council supported the accession of the People's Republic of China into the World Trade Organization in December of 2001.

BACKGROUND

The tree fruit industry of the Pacific Northwest has a keen interest in the markets of Taiwan, Hong Kong and the People's Republic of China. Each of these three distinct markets is important to our yearly export effort. But of the three, the People's Republic of China is the only one that is a competitive force in its own right in the production of tree fruits, especially apples and pears. In fact, the PRC is by far the world's leading producer of both apples and pears.

The majority of apples, pears and sweet cherries grown in America originate from the Pacific Northwest. As apples and pears are our most important crops in the U.S.-China trade relationship, I will focus on them while using production and trade figures from the federal government for all U.S. apples and pears.

- Apples

Over the last nine years, Chinese apple production rose from 14 million metric tons to 18 million MT, while exports went from 149,324 MT to 600,000 MT. In the same period, U.S. apple production dropped from 4.8 million MT to 4.2 MT and exports fell from 564,329 MT to 560,000 MT. To underscore the point, China now grows well over four times the amount of apples as does the United States. As recently as 1990, China grew fewer apples than the United States.

- Apple Juice

In 1998/99, China accounted for 15% of global apple juice production while the U.S. had a 24% share period. In 2003/04, China accounted for 43% while the U.S. dropped to 8%.

- Pears

Over the last seven years, Chinese worldwide pear exports have risen from 97,000 metric tons to 350,000 MT and its processed pears have ballooned from 320,800 MT to 500,000 MT. In the same period, U.S. pear exports have dropped from 164,871 MT to 160,000 MT and processed pears from 426,033 MT to 370,000 MT.

In terms of direct impacts, U.S. imports of low cost Chinese pears increased from 148,515 cases in 2001 to 517,436 cases (approx. 20 kgs. per case) in 2003.

INDUSTRY CONCERNS

- Lack of confidence in the PRC's ability to effectively implement phytosanitary controls on fruit exported to the United States. Examples are when Canada in 2003 stopped importing apples from a Chinese province after inspectors found quarantine pests - exotic mites - on apples being imported to Vancouver, B.C. A similar problem arose in late 2003 when pears imported into the United States were found to have the exotic *Alternaria* fungus not known to occur in the United States. Shipments were stopped but not before the product reached grocery stores within a key production area of the state of Washington. USDA is now conducting tests to reopen our market for Chinese Ya pears.
- That scientific issues in the bilateral relationship be set according to the standards of the Sanitary and Phytosanitary Measures (SPS) section of the WTO and not be politicized. We fear negotiators--in either country--deciding access issues for apples and pears based on factors other than the merits of the dispute at hand, such as bargaining to a decision based on unrelated technical or political issues involving other agricultural commodities.
- Enormous disparity in costs of production due to wage levels and mandated worker protection requirements. For example, the minimum hourly wage in Washington state for all labor, including field workers, is \$7.35 an hour effective January 1, 2005. The estimated wage for field labor in the PRC is less than 70 cents per hour.

- Yuan pegged to U.S. dollar. The PRC's currency should be exposed to market forces thus allowing exports to be sold in line with the true strength of that country's strong economy.
- Inadequate intellectual property rights enforcement. The logo of the Washington Apple Commission is consistently being appropriated without permission in the PRC for use by sellers of domestic apples.
- Difficulty for specialty crop producers in using U. S. trade remedy laws, such as anti-dumping. Unlike major manufacturing companies, small growers scattered throughout the country need to band together, raise significant money for legal fees, and then take on a long court battle which often leads to an unsatisfactory result.
- Retaining now open markets in Taiwan and Hong Kong in light of the People's Republic of China's territorial interests.
- Poor food safety and sanitation systems in China that might result in negative health effects associated with the consumption of local fruit, in turn, resulting in a loss of consumer confidence in all similar fruit on the international market.
- An unequal duty structure. Duties of 10% with an added VAT of 13%, for an effective rate of 24.3%, face U.S. apple and pear exports to China. At the same time, fresh apples and pears entering the United States are assessed no duty.
- State aid and central planning. It is unclear what specific economic transfers actually take place in support of Chinese fruit producers, given the opaque political structures of the Middle Kingdom. However, the latest five-year plan from Beijing on apple competitiveness calls for 900,000 MT apple exports by 2007, a 50% increase over the current rate.
- Food processors in our region, especially pear canneries and apple juice manufacturers, are under intense pricing pressure due to recent surges of PRC products.
- The Doha Round. The PRC should not be allowed any new Special and Differential Treatment or other trade advantages afforded poor and developing countries as a result of current WTO negotiations. In sectors such as agriculture, China is already world competitive.

CONCLUSION

Thank you for this opportunity to participate in this important public hearing. I look forward to answering any questions members of the commission may have as a result of this testimony.