

Written Testimony for the U.S.-China Economic and Security Review Commission Hearing

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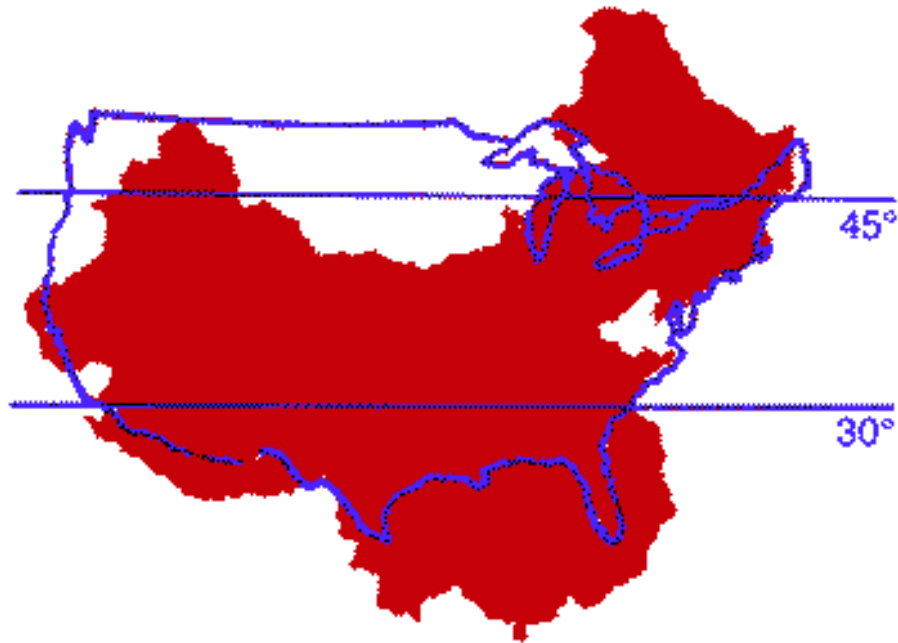
North American Meat Institute

On behalf of the North American Meat Institute (“Meat Institute”) thank you for the opportunity to testify at the U.S.-China Economic and Security Review Commission hearing on “China's Agricultural Policies: Trade, Investment, Safety, and Innovation.” I am William Westman, Senior Vice President of International Affairs at the Meat Institute. We represent meat packers and processors of beef, pork, lamb and turkey products accounting for 95 of the red meat and 70 percent of the turkey production in the United States. The Meat Institute’s focus areas in representing our 725 members includes addressing regulatory issues, public affairs and communications, legislative concerns, international trade and trade policy, scientific affairs and education. Our annual convention, the International Production and Processing Expo (IPPE) is one of the fastest growing trade shows in the United States. In some respects, we are an international meat association with members from Brazil, Canada, China, Denmark, Japan, Mexico and Italy. From the international affairs perspective, our goal is promoting trade in meat and poultry products, both imports and exports, by eliminating tariff and non-tariff barriers to trade and basing trading rules on sound science and standards and policies developed by international organizations such as World Organization for Animal Health, Codex Alimentarius, and the World Trade Organization to name a few.

The People’s Republic of China (“China”) represents a market of tremendous opportunities and challenges for U.S. agriculture producers and exporters. My testimony today focuses on how these opportunities and constraints affect the U.S. meat and poultry industry, the activities and programs the Meat Institute supports in China and our work with our Chinese partners to benefit from market opportunities and concurrently enhance food safety, food security and sustainability.

China is a world leader in agricultural production, the largest based on volume, with 20 percent of the world’s population and only 7 percent of the world’s arable land. China is similar in land area to the United States (and Brazil) but with four times the population, similar stocking levels of beef and dairy cattle and five times as many sows.

*Slightly Smaller Area than the United States
Total: 9,596,960 sq. km*



As such, China faces tremendous land use challenges and environmental pressures which constrain further increases in production. However, China in recent years has turned its attention to promoting national policies to increase production efficiencies in the farm sector, implement environmental stewardship incentive programs for national and provincial leaders, and adjust agricultural self-sufficiency goals to allow greater imports to meet domestic protein demand especially for beef and sheep meat. At the same time, the projected growth in cash crops, livestock and fisheries production is not expected to meet domestic demand over the next five to 15 years. As well, intensive land use has created additional environmental pressures as the Gobi desert continues to expand, the water table in many major urban centers and production areas continues to decline and the country is still faced with high water and air pollution levels.

The picture below is from Beijing and provides an example of intensive land use in China. During my years living in Beijing I visited farm regions where double- or triple-cropping was common: a fruit tree plantation with corn planted between the rows and vegetables growing under the trees!



Against this backdrop, China over the past 39 years has emerged as the world's second largest economy with the rapidly growing middle class, a demographic with increasing levels of disposal income. With China's domestic production constraints and increasing demand from consumers for high quality, safe food products the resulting import demand offers significant opportunities for agricultural exporters. Indeed, China is the number two market for U.S. agricultural commodities and products, behind Japan. U.S. exports of beef, pork and poultry products to China/Hong Kong exceeded \$2.5 billion in 2017, up nearly 13% compared to 2016. U.S. exports of beef and beef variety meats to China/Hong Kong in 2017 totaled \$915 million, up 34% compared to 2016. In 2017, mainland China opened its market to U.S. beef and exports for the last six months of 2017 came in at \$31 million, a relatively small start to the market opening but also encouraging given the restrictive requirements under the China protocol for U.S. beef. U.S. exports of pork and pork variety meats in 2017 dropped slightly from 2016 levels to \$1.1 billion while poultry and poultry variety products increased to \$476 million over the same period. Additionally, China is the primary export market for many byproducts of the U.S. meat industry. In 2017, The U.S. industry exported more than \$1 billion worth of cattle hides, pig skins and semi-processed leather products to China's booming leather and footwear manufacturing industries, accounting for over 50% of total U.S. production of these items. For the byproducts of the U.S. meat industry, China is not just an important market, it is an essential market. Beginning on page 33 of this document, there are a series of charts, graphs and summaries (provided by the U.S. Meat Export Federation) of the importance of the Chinese market to U.S. exporters of beef and pork products.

The United States is not the only supplier of meat and poultry products to China; competitors from the European Union, Australia, Brazil, Chile and Canada have also done very well in this expanding market. If a relatively open trading environment exists between the U.S. and China I anticipate that the market for U.S. meat and poultry products will continue to grow. The United States has an excellent reputation for high quality, safe food products. Additionally, with the growth in disposable income in China, many Chinese tourists have visited the USA and seen our supermarkets and experienced our restaurants. Similarly, Chinese consumers who have visited Europe, Canada, Australia and other markets know about the high quality/safe food available in other well-developed markets. These experiences and familiarity with other international cuisine has had a profound impact on not only demand for imported products

in China, but also the need to enhance and improve the production of safe, wholesome food products in China. Chinese government officials have been clear in their interest in transitioning away from the traditional wet market system (especially for meat and poultry products to a shelf-stable, high quality system). With the opening of the Chinese market for U.S. beef, some our packer/exporters are using the e-Commerce system in China shipping case-ready beef, labeled for the Chinese market, from the Midwest to Shanghai and the products enter e-Commerce for delivery to consumers. The system is limited only to the extent of a well-developed cold chain system.

Transitioning from the old wet market system:



To case ready product shipped through a dedicated cold chain system:



- Overview of e-commerce in China
 - Online retail business is growing dramatically and China now boasts the world's largest e-commerce market. China's online retail sales approached \$1 trillion in 2017.
 - According to the U.S. Department of Commerce, by 2019 an estimated one out of every three retail dollars in China will be spent online, the highest percentage in the world, and sales are forecasted to reach \$2.4 trillion by 2020.
 - Although China has traditionally provided the world with its manufactured goods, its e-commerce boom should offer increased opportunities for U.S. retailers and brands, with more and more Chinese consumers purchasing foreign goods.
 - Demand is strong in areas where the United States excels, such as high-quality foods and supplements, beauty products, and health care-related goods.
 - Both central and local governments have issued specific policies to support e-commerce development. The central government has set five year targets for the express delivery industry for 2016-2020, with goals of online sales (compound annual growth rate-CAGR) exceeding 20 percent through 2020. Local government support includes cash awards for opening e-businesses, achieving growth targets, attracting talent, tax reduction and office rental assistance.
 - The online market for perishables, including fruits, vegetables, meat, seafood, dairy, and eggs, is currently small at less than 2 percent of total retail sales but sales are growing fast. Annual online sales growth of perishables has been averaging over 130 percent since 2011. Alibaba, China's largest online company projects that by 2020, about 35 percent of Chinese families will purchase fresh food online.

- Market Access for U.S E-Commerce Companies
 - Although the recent liberalization of China's e-commerce sector has improved, it may be too late for foreign e-commerce companies. China's e-commerce market has become saturated, leaving little room for foreign or smaller local players to compete.
 - Alibaba dominates China's e-commerce market, accounting for 57 percent of the online B2C market with Tmall in 2016.
 - JD.com, Alibaba's main competitor, holds 25 percent market share
 - Other players—including Suning, VIPShop, Gome, Walmart-invested Yihaodian, and Amazon's China operation—have a combined 18 percent market share.

- Sales Channels for U.S. Food and Agricultural Retailers and Brands
 - Direct sales from a website hosted outside of China.
 - Direct sales from a self-owned website hosted in China.
 - Sell through a Chinese third-party platform.

- E-Commerce Challenges
 - Changing regulatory environment for cross-border e-commerce.
 - New Tax Policies - Facing pressures from traditional retailers at home and the loss of tax revenue, in April 2016 the Chinese government announced

several new tax policies targeting cross-border e-commerce. The new policies would subject goods purchased through cross-border e-commerce platforms to tariffs, value-added tax, and consumption taxes, instead of the postal parcel tax previously applied.

- In addition, China's Ministry of Finance announced it would create a "positive list" of foreign products allowed for purchase through cross-border e-commerce and some products on the list would have to obtain import licenses.
- In response to concerns from cross-border e-commerce stakeholders, Chinese regulators suspended the policy for a one-year grace period, which has subsequently been extended to the end of 2018.
- Intellectual property rights enforcement.
 - While the Chinese government has made some improvements in enforcing intellectual property rights, intellectual property issues remain a key challenge for U.S. companies operating in China. In particular, the prevalence of counterfeit goods on Chinese e-commerce platforms continues to hurt U.S. retailers and brands.
- Data localization.
 - China's draft e-commerce law, released in December 2016, mandates the local storage of Chinese consumer data.
 - Under the draft law, both foreign platforms that allow Chinese companies to sell on them (e.g., Amazon China) and companies operating outside of China but targeting Chinese consumers would be subject to the requirement.
 - China's new cybersecurity law may also mandate data localization for companies in the e-commerce sector, depending on whether e-commerce is deemed "critical information infrastructure."
 - Data localization can increase costs for foreign companies, which would have to set up their own server or contract out to domestic suppliers to store data within China.
 - Foreign companies have reported de facto requirements to store data locally, but the cybersecurity law and pending e-commerce law are expected to formally codify these requirements.

JD.com activity from recent news:

- Pork - Smithfield, JD.com and Shuanghui signed an exclusive 3 parties (1 billion USD in value over the 3 years) deal to promote U.S. pork products exclusively on the JD.com platform.
- Beef - JD.com signed a \$200 million USD deal over three years with Montana Stockgrowers Association to purchase beef/cattle.
- Supply chain integration – JD.com is expanding cooperation with Walmart to further integrate their platforms, supply chains and customer resources in China.

The U.S. has a distinct advantage in competing for the agricultural market opportunities in China – but you need to know the market:

- Export land and resource-intensive commodities to China
 - China's trading pattern in agricultural commodities follows its comparative advantage: it tends to import land and resource-intensive commodities (soybeans, cotton, soybean oil, and increasingly corn, pork, distillers grains, dairy products and animal hides and skins)
- Technical Cooperation with China
 - China seeks to make its farmers more productive, and U.S. agencies, companies, USDA cooperators, and universities are helping China to do that.
- Follow the distinct dietary preferences of the Chinese people
 - China's imports from the United States have been concentrated in bulk commodities, a trade pattern quite different from U.S. agricultural exports to the rest of the world. But these distinct dietary preferences provide additional opportunities to U.S. producers. The United States has a surplus of exactly those parts of the animal, such as pork offal and chicken paws that Chinese consumers prefer. These products can be sold at a much higher price in China than in the United States.
- Provide safer food and focus on Chinese people's demand for quality
 - As more people move to cities and earn higher incomes, China's population is demanding safer food and a more diverse, protein-rich diet at an affordable cost. The United States is well-positioned to meet that demand. U.S. farmers enjoy a comparative advantage in resources, productivity, and quality, particularly in meat production.

The United States is also poised to compete for safer and higher quality food market in China:

- Focus on food safety - As China transforms into an urban society with a growing middle class, per capita food consumption is rising, Chinese consumers' diets are changing and, as a result, the demand for higher-protein diets and safer food—a demand that U.S. farmers are well positioned to fill.
 - Chinese consumers have concerns about food safety because of recent scandals, particularly with genetically modified foods in China, milk and meats. Moreover, China's food production industry is highly fragmented and many producers at the farming, processing, and distribution levels forgo safe practices in order to cut costs.
 - In response, Chinese citizens, with the aid of social media, are seeking more information about food safety beyond government sources. Those with more disposable income are turning to premium food products to ensure safety.
 - Interest in organic food is spreading, ranging from farmers' markets to community farming and organic food clubs.
- Worries about food safety are also boosting food imports. Reacting to the rise in consumer demand, the Chinese government has begun to allow some imports of U.S. premium consumer foods bearing the "USDA approved" logo.

- U.S. pear farmers, for example, received import licenses from Beijing in early 2013 and planned to focus on wealthy consumers concerned about the safety of domestic pears. These U.S. products often directly compete with goods produced in China.
- Ensure exposure of U.S. high quality agricultural products to Chinese people and cater to that demand.

The United States is in an excellent position to compete in the Chinese market if the U.S. can avoid unnecessary, unjustified barriers to agricultural trade. The growth in demand for U.S. food products could be hindered by excessive increases in tariff rates by both sides in an effort to force negotiation of fairer trading practices.

- China restricts market access for U.S. agricultural products through various means:
 - High tariffs, quantitative barriers, an opaque system of licenses and import permits, sanitary and phytosanitary measures, regulations and outright bans on many agricultural products.
 - Limits on the types and numbers of enterprises that had the legal right to engage in international trade. Only firms granted trading rights may import products into China and have access to China's distribution system. In addition, some products, such as grains, cotton, and vegetable oils can only be imported through state trading enterprises (STEs).
 - Requiring state trading and providing domestic support. These policies have done particular damage to U.S. exports of land-intensive crops and meat products. State trading impacts the allocation of tariff-rate quotas. Tariff-rate quotas function as a way of protecting a market from excessive imports and, at the same time, provide a means of liberalizing trade and breaking up monopolies by dividing up the quota among different traders and passing on unfilled quotas.
 - According to a report in 2013, nontariff measures (NTMs) include all government measures other than ordinary tariffs that can potentially have an enormous economic effect on U.S. trade in goods, changing quantities traded, or prices or both to China, such as the Ractopamine ban, zero tolerance of pathogens, bovine spongiform encephalopathy restrictions, biotechnology regulations and so on (see below).
- Top five main challenges faced by all types of U.S. businesses in China, according to American Chamber of Commerce in the PRC “2018 China Business Climate Survey Report” (January 2018):
 1. Inconsistent regulatory interpretation and unclear laws
 2. Labor costs
 3. Regulatory compliance risks
 4. Shortage of qualified employees
 5. Chinese protectionism

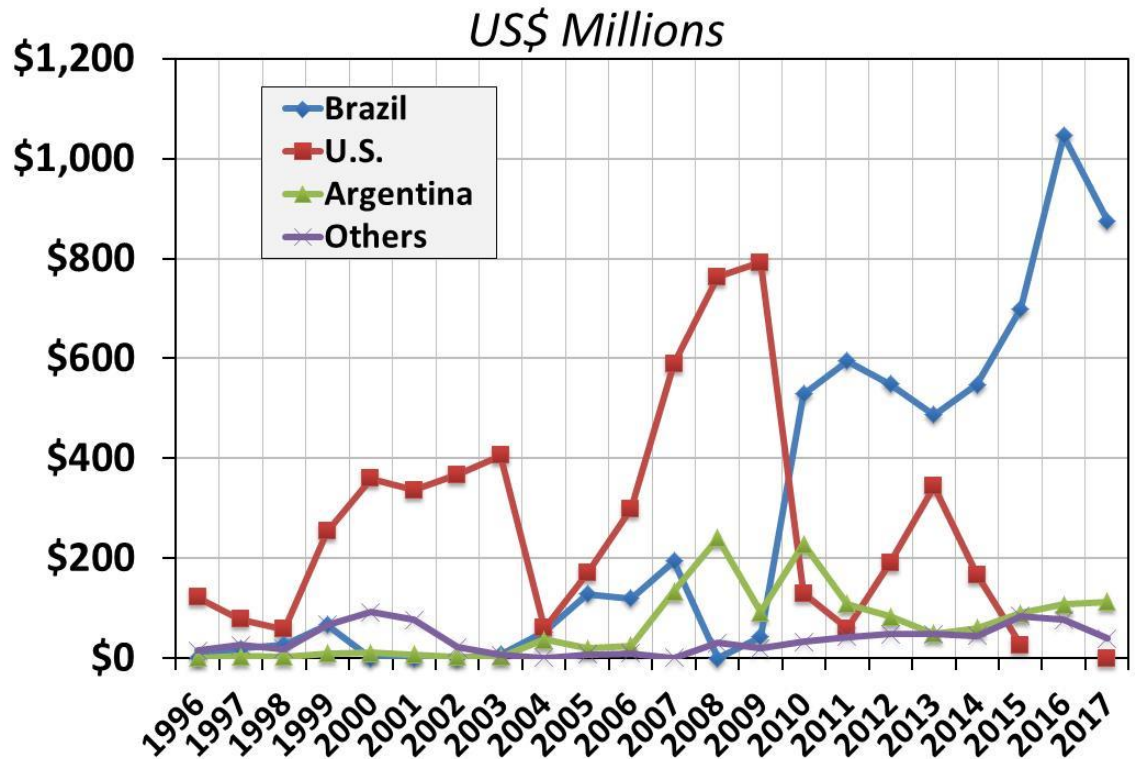
Barriers to trade with China for meat and poultry products do exist currently which dampen the outlook for further increase in U.S. exports. For beef and pork products, the market protocols stipulate that all products must be free of beta agonist residues (feed additive livestock

production technology such as Ractopamine). Additionally, China prohibits the export of the following U.S. meat/poultry products:

1. Prepared meat products—based on a detailed plant registration process and a requirement to divulge business confidential information about plant layouts/configuration and products ingredient lists, many firms are reluctant to meet these requirements to start exporting to China (as expected there are concerns about intellectual property rights violations). The additional plant registration procedure is counter to the 1999 U.S.-China agreement which states that China will accept all USDA Food Safety and Inspection Service (FSIS) approved plants as eligible to export to China (no additional certification or registration procedure should be required).
2. Pork bungs and intestines--the protocol and export certificate remain to be negotiated between China's Administration of Quality Supervision Inspection and Quarantine (AQSIQ) and the USDA Food Safety and Inspection Service (FSIS). AQSIQ proposed to conduct a pilot project for these products but only with one company. FSIS refused the proposal indicating that the pilot had to be conducted with more than one company, even though there was a commitment to share experiences and data with entire industry. AQSIQ declined the counter offer. FSIS and AQSIQ remain at this impasse.
3. Re-inspection Process Improvement—China bans the use of in lieu of or replacement certificates for shipments of meat and poultry products. The inability to use replacement certificates even due to minor typographical errors is very costly to our industry. Any discrepancy on an export certificate (not food safety related) means the load(s) must be returned to the U.S. and recertified or diverted to another market at a significant financial loss. China may need a similar replacement certificate system with their exports to the U.S.
4. Laboratory protocols—China requires duplicative certificates of analysis (COAs) for exports of pork products to China. This requirement is in addition to the USDA Agricultural Marketing Service's Processed Verified Program (AMS EV Program; see No. 7 below) certification for pork products. There is no need for this duplicative requirement; China should recognize USDA meat inspection (see No. 1 above).
5. China does not allow imports of edible and non-edible tallow and lard—there is no scientific justification for banning these products.
6. Lamb and Sheep Meat—Currently, China implements a ban on imports of U.S. lamb and sheep meat due to Transmissible Spongiform Encephalopathies (TSEs). The only known TSE which affects sheep and goats in the U.S. is Scrapie, which, due to an extremely low incidence and further eradication efforts, is extremely rare. While public health concerns related to Bovine Spongiform Encephalopathy (BSE) led to an effort to eradicate all TSEs in ruminants, no case of naturally-transmitted BSE has occurred in sheep or goats. Additionally, considerable evidence shows that Scrapie is not transmissible to humans. Therefore, TSEs in sheep and goats are not a food safety issue in the U.S. or elsewhere, and there is no justification for the ban on imports of U.S. lamb and sheep meat.
7. Maximum residue limit (MRL) tolerance for meat products or better testing methods – U.S. pork is subject to beta agonist free production (AMS EV programs). U.S. beef is subject to destination testing, also beta agonist free. If China could show some flexibility in these restrictions we could request a Codex MRL for imported meat products similar to Japan.
8. China's restrictions on U.S. poultry:

- a. Countervailing and antidumping duties - China's Ministry of Commerce imposed anti-dumping and countervailing duties on U.S. "broiler products" on Sept. 27, 2009.
 - i. Company-specific AD duties ranging from 50.3 to 105.4% ad valorem, plus CVD from 4 to 30.3% ad valorem.
 - ii. In 2013 a WTO panel found China outside of their WTO obligations regarding these duties; 5 years later (Feb 2018) China removed these duties.
- b. China's HPAI Ban - China's current ban against U.S. poultry due to highly-pathogenic avian influenza (HPAI) cases in 2015 continue today. This prolonged ban is unscientific and is far outside of the norms adopted by most countries and recommendations of the World Animal Health Organization (OIE). China's continued domestic HPAI outbreaks further minimize risk of U.S. poultry imports. This unfair trade ban has shifted a significant advantage to Brazil as a poultry exporter to China.
 - i. China banned all U.S. poultry on January 9, 2015 after high-path avian influenza (HPAI) discoveries on two farms in the U.S.
 - ii. Other countries banned only states, regions (10 km around the farm) or counties. Nearly all of those bans were lifted within 12 months.
 - iii. China's nation-wide ban is now going on 3 years.
 - iv. Significant progress in the regionalization and subsequent control of HPAI in U.S. flocks was made in recent years, and a number of countries base their imports of U.S. poultry upon these regionalization efforts. Further, since all avian influenza is caused by a virus, it is destroyed by the heat of normal cooking, therefore there is also no danger of acquiring the disease from normally and properly cooked food. Finally, in the U.S., no chickens or turkeys known or suspected to be infected with any form of avian influenza, including highly pathogenic, are processed for sale as raw meat. Consumers have virtually no chance of encountering meat from a chicken or turkey infected with avian influenza.

China Poultry Imports



9. China informed us on numerous occasions that to consider additional market access for the products/procedures listed above USDA must publish the China poultry slaughter rule in the Federal Register. China allowed the U.S. beef market access last year and contends that the U.S. must abide by the 2007 agreement to allow access to the U.S. market for Chinese-origin poultry (broiler meat). The Chinese have been steadfast that they will not allow access for any other U.S. products until the rule is published. The U.S. made this offer so it is time to honor that commitment, made 11 years ago.

China's view on using the agricultural sector as an arena for retaliation against U.S. trade action.

- Earlier this year, China indicated that soybeans could be the target for potential retaliation. However, any action by Beijing would have repercussions for China's importers, crushers and livestock farmers who rely on soy protein.
- According to USDA, soybean exports to China is a \$14 billion a year business and most of it is for soy protein to feed roughly 700 million pigs in the country or to make cooking oil. When including other farm-related products, China's total agricultural exports represent more than \$21 billion annually for U.S. farmers.
- If China concludes that the U.S. Administration has started a trade war through the imposition of protectionist measures directed at China, you can expect China to respond in-kind.

On April 10, Chinese President Xi Jinping announced market access reforms including cuts in imported vehicle tariffs and other measures as a “new phase of opening up.” These measures also included improved access to the financial sector and facilitating foreign ownership with China’s auto, aerospace and shipbuilding industries. Whether the reforms will include agricultural market access remains to be seen. The United States and China have a great opportunity, as two of the largest agricultural producers in the world, to work together to not only reduce trade barriers but to work cooperatively in the shared objectives of addressing food safety, food security and sustainability. I will address these shared goals our efforts as members of the U.S. China Agriculture and Food Partnership. But first, let’s examine briefly China’s actions in addressing food safety.

The new China Food Safety law was established in 2015 and since then the Chinese government has been working on implementing, in stages, the provisions of that law. Certainly China and all other countries take the issue of food safety seriously and have put the regulations and rules in place to continuously enhance and improve the production of safe food products for Chinese consumers. This is not only the result of the severe food safety scandals which have occurred in China and consumers’ demands for government action but also, as noted above, the food safety examples and experiences Chinese consumers have brought back from other countries as a result of rapidly expanding international travel and tourism. A good example of the effort to implement the new Food Safety Law was reported in the USDA Foreign Agricultural Service Gain Reports CH 17075 dated January 11, 2018 and CH 17069 dated December 20, 2017 entitled “State Council Publishes Key Tasks on Food Safety Work for 2017. The Executive Summary of CH 17075 states: “In 2017, the Chinese Government’s efforts to modernize its food safety regime continued with the development and revision of multiple laws, regulations, and rules with a view towards a more coordinated and authoritative system.

Most notably, in August 2017, China notified the World Trade organization (WTO) a revised draft Regulations pertaining to the Implementation of the 2015 Food Safety Law. Similarly, China notified revisions to a handful of regulations for the oversight of imported and exported food products. After the China Food and Drug Administration (CFDA) introduced registration requirements for infant formula recipes (CFDA Decree 26), and foods for special medical purposes (CFDA Decree 24) in 2016, CFDA issued technical documents and rules to implement the registration process.

According to the State Council’s 2017 Key Tasks on Food Safety Work, China aims to encourage the alignment of the Chinese food safety standards with corresponding international standards. To this end, China will develop 1,000 new Maximum Residue Limits (MRLs) standards, and 100 veterinary drug residue standards. China will also announce regulations for the establishment of pesticide/veterinary drug residue limits on imported agricultural products (import MRLs). China will initiate the development of a “uniform limit” standard based on product categories. The annual national food safety standard plan issued by the National Health and Family Planning Commission (NHFPC) reveals that a few dairy-related standards released in 2010 may also be revised within a year.

Seeking to inform the Chinese public about China’s food import situation and its efforts, in July 2017, China’s General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) released the 2016 White Paper on the Safety and Quality of Imported Foods.

According to the White Paper, the trade of imported foods in China was characterized as having slower growth rate, diversified origins, and diversified categories and varieties. The Paper also highlighted entry ports with high concentration of imports, and identified bulk imports that have become important supply sources for the Chinese domestic market. The White Paper also provided statistics on major categories of foods denied entry, their origins, and major causes for import rejections.

It is important to note that Chinese regulatory authorities continue to consider new measures to reflect the requirements provided under the 2015 Food Safety Law. For example, in June 2017, Chinese import authorities notified a proposed measure that would require official certification for all imported foods. Later, in September, China announced a two-year transitional period delaying implementation of this proposed measure to October 1, 2019.

In addition, starting January 1, 2018, the Ministry of Commerce [extended] the application of Cross Border E-Commerce policies on imports to Hefei, Chengdu, Dalian, Qingdao and Suzhou from the current ten cities: Tianjin, Shanghai, Hangzhou, Ningbo, Zhengzhou, Guangzhou, Shenzhen, Chongqing, Fuzhou and Pingtan.”

As China has announced these programs and policies, the China State Council this year announced a major reorganization of the government ministries and agencies. We are very interested in how this new government structure will function relative to implementation of the Food Safety Law and impact on trade in agricultural products, especially meat and poultry. At the end of this paper is an analysis of the “China State Council Institutional Reform” prepared by the Beijing-based staff of the U.S. China Agriculture and Food Partnership (AFP).

The following section is to address the Commission’s interest in how the United States may assist China in improving its food safety regime. Since 1979, the U.S. Department of Agriculture has worked with China under an agriculture science and technology cooperation agreement and the FAS cooperator program has been successful in expanding the Chinese markets for many U.S. products and commodities. These programs have been effective in addressing technical issues and agricultural production practices as well as exchange programs and training for Chinese scientists. Additionally, the market development component was essential for U.S. agricultural exports to benefit from the rapid expansion in the Chinese economy since market reforms in the late 1970s and surging disposable income in China during this period. However, in evaluating our programs and outreach efforts in 2009, we concluded we needed a new, private-sector led model for enhancing advocacy with our trading partners in China, especially with our meat and poultry counterparts. The result was the establishment of the U.S. China Agriculture and Food Partnership (AFP). The AFP is designed to support the bilateral agricultural relationship by creating opportunities through increased cooperation, more effective issue advocacy and development of a more positive relationship between the U.S. and Chinese food and agriculture industries. Under the AFP, one of the working groups (WG) created was the Animal and Animal Products WG, which I co-chair with the U.S. Meat Export Federation Senior Vice President for Asia based in Hong Kong. The Animal and Animal Products WG operates with our Chinese partners to establish best practices throughout livestock, meat and poultry production, distribution and marketing chains to foster the adoption of proper production methods and ensure the safe distribution and use of quality food products. The WG over the past

couple of years worked very closely with the China Meat Association to hold the “Executive Roundtable,” a meeting of top-level meat and poultry company executives to exchange views, discuss meat and food production methods and focus on food safety throughout the production and distribution chain. Additionally, the WG participated in food safety training and orientation meetings with the China Food and Drug Administration and with the China Agriculture University to design and implement livestock production technology training for students and mid-level managers.

The AFP concept truly came together following the 2012 meeting between Xi Jinping and then Iowa Governor Terry Branstad to discuss how we may cooperate on the common goals of fostering food safety, food security and sustainability. With these three “pillars” the AFP and the Animal and Animal Products Working Group continues to expand its activities and cooperation programs with the China Meat Association and the newly formed National Health Commission. The AFP founding members and current participants include the following:

- AGCO
- Am Cham China
- American Feed Industry Association
- American Seed Trade Association
- American Soybean Association
- Archer Daniels Midland
- Bayer
- Beijing Alltech Biological Products Ltd.
- Cargill Investment (China) Ltd.
- CNH
- Cotton Council International
- Ecolab
- Elanco Animal Health
- John Deere
- Johnsonville Sausage LLC
- Kay Dee Feed Co LLC
- McDermott, Will and Emery
- McLarty Associates
- Monsanto
- Nebraska Department of Agriculture
- North American Meat Institute
- Northwest Horticultural Council
- OSI Group
- Dow Dupont
- Smithfield Foods
- Tyson Foods
- USA Poultry & Egg Export Council
- US-China Business Council
- US Dairy Export Council
- US Department of Agriculture
- US Grains Council

- US Meat Export Federation
- US Trade Development Agency
- US Wheat Associates
- Walmart Stores Inc.

Other comments which may be of interest to the Commissioners:

U.S. technology could improve China's food safety and agriculture productivity

The Chinese government understands that big data technology could be used to improve food safety standards in the supply chain. For example, The Beijing Municipal Commission of Commerce (BMCC) has revealed its plans to take advantage of big data and cloud computing technology innovations, incorporating them into the food industry in order to improve safety standards. At end of 2017, the BMCC recorded 1,778 traceability points in the pork supply chain, which will increase to 1,900 this year. Similarly, the vegetable supply chain had 2,383 traceability points last year, set to increase to 2,600 this year.

- For Chinese leaders, agricultural modernization and improving agriculture productivity are priorities. Achieving these goals requires advanced farming technology, but China lacks the capacity to develop this technology domestically. China has pursued an aggressive investment strategy abroad, spending nearly \$100 billion in the last decade to purchase foreign intellectual agricultural production technologies.

China's Overseas Agricultural investment

- The objectives of the firms that invest overseas is the acquisition of production capability and technology. Access to capital (loans) and foreign exchange is regulated by the Chinese government. The investment appears driven by product, technology and profitability, not guided or facilitated by the government. China has a complicated but not insurmountable regulatory system. Similar to any good lobbyist in the U.S., those that understand and work with the system accomplish their goals. The landscape is replete with winners and losers; Chinese firms may be better at working within the system, but do not seem to get preferential market access.
- From Alibaba to Shuanghui, China's global brand development and China's outbound mergers and acquisitions have increased significantly over the last decade. Expansion into the agriculture sector is a natural outgrowth of China's need to modernize its agriculture, improve agricultural productivity, profitability, and maintain food security.
- China and Hong Kong reported a value decrease of 32.8 percent in outbound merger and acquisitions deal making in 2017, with a total value of \$137.1 billion, versus a historical high of \$204.2 billion in 2016. Technology companies, however, remained active buyers globally, led by Tencent and Alibaba.
- China's National Development and Reform Commission reported they will encourage overseas investments to boost China's technological development and manufacturing competency.
- With more than 20 percent of the world's population, China has less than 7 percent of the world's arable land. Land available for agriculture is declining due to industrialization and urbanization. The Chinese government has encouraged companies to extend their upstream agribusiness value chain overseas.

- China's overseas investment in agriculture has been growing rapidly, being driven by several factors, including a need to bypass non-tariff measures on exports in destination countries, the rising demand for high-quality food from the domestic middle class, and the food–security concerns tied to higher dependency on food imports.
- Some examples include:
 - In 2014, China National Cereal, Oils, and Food stuff Corporation (COFCO) established a joint venture with the Dutch commodity trader Nidera and Hong Kong based Noble Agri Limited with a combined investment of \$2.8 billion.
 - In June, 2017, Chinese state–owned chemical giant ChemChina announced the completion of deal to acquire Swiss agribusiness giant Syngenta for \$43 billion. Acquiring Syngenta provides a platform for China to advance its technology and become a competitive global presence in biotech seed development.
- According to China's Ministry of Commerce, accumulated Overseas Foreign Direct Investment (OFDI) in agriculture reached \$14.4 billion in 2016, but the data only includes investments financed by domestic resources. The actual size of China's agricultural presence abroad is probably much larger than suggested by official OFDI figures.
- Population pressures:
 - Based on low, median, and high scenarios developed by the United Nations, growth in the Chinese population is expected to reach 75 to 230 million between 2010 and 2030.
 - In 1995, Lester Brown published *Who Will Feed China? Wake-Up Call for a Small Planet*, in which he concluded that China will need to make use of international markets in order to respond to the demands of a wealthier population.
- To engage in vertical integration of the global food supply chain.
 - Increasingly, Chinese agricultural overseas foreign direct investment is focused not on overseas farming and related land purchases, but on investment across the industry supply chain in an effort to control both supply and pricing.
- To meet the needs of the new rising China's middle class, who demand food safety and product varieties and consume large quantities of meat and dairy products.
- To resolve the issue of food safety and build those countries' capacities for developing their agriculture. E.g. Africa.
 - Chinese foreign agriculture investments have a spillover effect into the domestic sector and catalyze relationships with existing small stakeholder production systems and other value chain actors such as input suppliers.
- Capital inflows, technology transfer leading to innovation and productivity increase, upgrading domestic production within recipient countries.

Can U.S. commercial technologies improve Chinese food safety and agricultural productivity?
 The United States has played an important role in the process of agricultural innovation.

- Important categories of commercial advancements in agriculture that emerged largely from the United States include farm machinery, pesticides, hybrid seed, genetic modification and cloning, and precision agriculture, among others.
- Need for modern agriculture innovation - China is adopting and integrating modern agricultural innovations but struggling to make full and efficient use of them; the United States is better at pulling significant efficiency from technologies, as well as developing follow-on innovations.
 - China needs to deploy innovations more effectively, and further develop its own agricultural innovations.
- Invest in early stage agricultural technology - Much of U.S. innovation in agricultural technology arises from early-stage businesses and there is need to identify models of U.S.-China innovation collaboration and sponsor early-stage agricultural technology.
 - The Midwest is a catalyst of U.S. agricultural innovation, knowledge transfer, and entrepreneurship development. And yet it has much untapped and undeveloped potential for further investment-related activity.
 - Investing in early-stage agricultural technology businesses provides a pathway for Chinese investors to access promising technologies and the human capital behind them.
 - Agricultural technology innovation will be particularly important to China in animal protein supply chains.
 - Improvement and development of technologies can increase the efficiency and sustainability of such supply chains which is critical in agriculture development.

To what extent is their investment guided or facilitated by the Chinese government?

Agriculture investments are largely guided by the Chinese government, but many large private companies have also independently pursued trade and investment opportunities to upgrade innovation and pursue vertical integration of their global supply chain.

China has carried out a series of policies encouraging well-established Chinese enterprises and private companies to undertake agricultural investment and development projects abroad.

- There are laws, policies and stakeholders that govern the foreign direct investment in agriculture development. Under the 10th Five –Year Plan for National Economic and Social Development (2001-2005), China Adopted a Strategy of International Cooperation to strengthen its outward economic development referred to as its ‘going out’ (走出去 zou chu qu) strategy.
- The agricultural sector is an important composition of its ‘going out’ state policy and its goal to ensure domestic food security in China.
- Chinese overseas farming has enhanced partnership programs through bilateral investment treaties (BITs). By the end of 2005 China ranked second worldwide in terms of the number of BITs concluded, with 117 agreements in total, including 28 with African countries.
- Recent responses from Chinese gov't officials:
 - http://news.ifeng.com/a/20180321/56932272_0.shtml
 - <http://money.163.com/18/0324/14/DDLUSDTE002581PP.html>

Below are some of the Chinese stakeholders that oversee Agriculture Investments worldwide. Currently being re-organized as a result of the March 2018 State Council Reforms.

China's Ministry of Agriculture and Rural Affairs and Ministry of Commerce

The Ministry of Agriculture and Rural Affairs has signed agreements with the two major domestic policy banks: Export-Import Bank of China and China Development Bank, to grant concessional loans to firms engaged in relevant ODI. Small and medium-sized companies can obtain additional subsidies from a special fund set up by the central government. In the 13th five-year plan (2016-20), the government stressed that imports will play a bigger role in meeting China's food demands, and China will also set up overseas bases for producing, processing and storing farm commodities.

- Provincial municipalities and autonomous regions.
- Academics in universities or research institutes, and agro-industries at national or regional levels; relevant co-operative platforms such as China–Africa co-operative forums and China–Africa development funds e.g. Chinese Academy of Social Sciences, the China–Africa Research Centre of Zhejiang Normal (Shi Fan) University.
- State-owned agricultural corporations and enterprises, such as the China National Agricultural Development Group Corporation, China State Farms Agribusiness Corporation, China Oils and Foodstuffs Corporation, and private entrepreneurs.
- State-owned banks, such as the Export–Import Bank of China (China Exim Bank) and China Development Bank (CDB).
- China's State Council Publishes New Guidance on Regulation of Outbound Investment (2017)
 - Sets forth “guiding opinions” from the National Development and Reform Commission (NDRC), Ministry of Commerce (MOFCOM), People's Bank of China (PBOC) and the Ministry of Foreign Affairs (MFA) to relevant government authorities throughout China.
 - Re: agriculture - it encourages expansion of agricultural cooperation with foreign partners, develop win-win investment cooperation in agriculture, forestry, animal husbandry, fisheries and other fields.



China State Council Institutional Reform
Dear AFP Members and Friends,

As many of you have read in the news, the Chinese government has recently gone through a major restructuring of its ministries and agencies.

We have been monitoring the situation closely and have gathered information from various sources to provide you the below informal analysis as reference.

We believe that the AFP's mission to advance mutual food security, safety, and sustainability between U.S. and China remains a long-term and mutually shared goal. Perhaps now, more than ever, the programs that have been facilitated and the relationships that have been built over the years will provide continuity and a way forward during the transition. We have been working with U.S. Government and Chinese government and industry partners to find opportunities and adjust strategies accordingly with these changing market conditions.

We will continue to keep you informed of our activities and programs and appreciate your support. Since this is a changing environment, we welcome information or feedback you have about this topic.

Background

Date of Event: March 13-17, 2018, The Fourth Plenary Session of the First Session of the 13th National People's Congress

Summary of Event: At this plenary session, the 19th Communist Party of China (CPC) unveiled a restructuring plan of the State Council (China's cabinet). This is another major institutional reform plan of the State Council following the institutional reforms in 2013. In addition to the General Office of the State Council, the State Council will consist of 26 departments and several new agencies subject to the approval of the newly approved State Council.

Changes Related to Food-Related Regulatory Authorities:

- A new State **Market Supervision and Administration Bureau** will be established •
Leaders:
- Bi Jingquan – Party Secretary (former Secretary of the State Food and Drug Administration) o
- Zhang Mao – Director (former director of the State Administration of Industry and Commerce)
 - ✦ Li Li – Party Secretary of the State Drug Administration (former vice governor of Jiangxi Province)
 - ✦ Jiao Hong – Director of State Drug Administration (former deputy director of the State Food and Drug Administration)
- Main duties:
 - o Comprehensive market supervision and management
 - o Unified registration of market entities and establishment of information disclosure and sharing mechanisms
 - o Implementation of anti-monopoly law enforcement, standardization and maintenance of market order
 - o Organization and implementation of national strategy for the quality and safety of industrial products, food safety, safety supervision of special equipment, unified management of measurement standards, inspection and testing, certification and accreditation.
- Agencies that will no longer exist: o State Administration for Industry and Commerce (**SAIC**), General Administration of Quality Supervision, Inspection and Quarantine (**AQSIQ**), China Food and Drug Administration (**CFDA**), Certification and Accreditation Administration (**CNCA**) and the National Standardization Administration Committee (**SAC**)
 - ✦ Inspection and quarantine duties and teams of AQSIQ will be folded into the General Administration of Customs.
 - ✦ NDRC's price supervision and inspection and anti-monopoly law enforcement duties, the Ministry of Commerce's operators focused on antitrust enforcement, and the State Council's Antitrust enforcement duties will come under the new State Market Supervision Administration
 - ✦ The State **Drug Administration** will be established and *remain independent* under the supervision of the new State Market Supervision Administration

- National Health and Family Planning Commission (**NHFPC**) will be replaced by the National Health Committee
 - ✦ Responsible for formulating national health policies, coordinating and advancing medical and healthcare reform, establishing a national basic medicine system, supervising and administering public health, Medicare and health emergencies, as well as family planning services
 - ✦ Will also draw up policies and measures to cope with an aging population and incorporating Medicare with old-age care

Rationale

- The changes are being made in order to better cope with the coordination and comprehensiveness of food safety supervision, the specialty and professionalism of drug supervision.
- The changes integrate not only the functions of the traditional Bureau of Industry and Commerce, Quality Supervision, and Food and Drug Supervision, but also integrate antitrust and standardization functions.

Changes Related to Ministry Of Agriculture:

- A new Ministry of Agriculture and Rural Affairs will be established as a department of the State Council and it will absorb all management responsibilities for agricultural investment projects including the following:
 - Ministry of Agriculture
 - National Development and Reform Commission
 - Ministry of Finance
 - Ministry of Land and Resources
 - Ministry of Water Resources
- The main responsibilities of the Ministry of Agriculture and Rural Affairs include:
 - Coordinating the research and organization of the "three rural" work strategy, plans and policies
 - Supervise and manage planting, animal husbandry, fisheries, farming, agricultural mechanization, agricultural product quality and safety
 - Agricultural investment management

Rationale

- The reforms reflect the principles of simplification, unification, and efficiency • The reforms are intended to:
 - Promote the modernization of the management system for the three rural issues - "agriculture, rural areas, and farmers"
 - Integrate resources for agricultural and rural development
 - Facilitate the deepening of rural reforms, solve the "three rural issues" problems, and accelerate progress, using agricultural modernization to achieve rural renewal

Sustainable Agriculture:

- The Ministry of Natural Resources and the Ministry of Ecological Environment were established to replace the Ministry of Land and Resources and the Ministry of Environmental Protection

The Ministry of Natural Resources manages the front end of the ecological chain and the Ministry of Ecological Environment the back end

Note: *The text below represents some informal analysis and information from various sources (internal sources and what is available in the public domain) regarding the above reforms. These are provided only as reference to AFP members, and are subject to change given a very fluid situation.*

Reform Timeline:

- Working towards having **central and state agencies** put in place **before the end of 2018**
 - Provincial party and government structure reform plans to be submitted to the Party Central Committee for approval before the end of September 2018 in order for institutional adjustments to be in place by end of 2018
 - All **local institutional reform tasks** to be completed by the end of **March 2019**.

Background to Reform:

- At present, nearly 70% of the county-level governments have already chosen comprehensive law enforcement and reforms to integrate food and pharmaceuticals, industry and commerce, and quality supervision into a unified market supervision bureau.
- Therefore, many have said the Chinese government has been leaning towards establishing the market supervision bureau model for some time now, which has also been described as "Local Influence, Central Government".
- However, the main challenge is how to guarantee the professionalism of food and drug safety supervision and successful implementation.
- The last institutional reform of the State Council in 2013 integrated the functions of food safety supervision in the areas of production, distribution, and catering, and established the China Food and Drug Administration (CFDA).
- The advantage of the most recent reform lies in the fact that market supervision will become more uniform and coordinated in the future, and the administrative licenses for market supervision will be more closely coordinated with the post-event supervision and the cost of regulatory enforcement further reduced.
- The National Drug Regulatory Agency is now under the newly established Market Supervision and Administration Bureau.

- While the General Administration of Food and Drug Administration is subsumed into the Market Supervision and Administration Bureau, the Drug Administration Bureau remains independent, which shows the specialty and professionalism of drug supervision.
- The "big market-specific drug" model captures two key issues in the current governance of food and drug safety: the coordination and comprehensiveness of food safety supervision, and the specialty and professionalism of drug supervision. This model supports uniformity in the regulatory environment.
- Comprehensive law enforcement can prevent endless shirking of responsibilities.
 - Taking food as an example, the departments are often passing the buck to each other in the areas of production, distribution and catering; in particular, distribution and catering are often unclear.
 - Companies and ordinary citizens often don't understand which responsibilities belong to which government departments. In general, departments react to some cases and not others, according to whether or not they receive benefits for stepping out.
 - Integration of the law enforcement and supervision departments can perhaps improve the problem of excessive supervision of law enforcement, and unclear duties and responsibilities. With the merger of departments, it is even possible to increase the labor force at the grassroots market supervision level.

Some Concerns and Issues:

- The "three-in-one" responsibility of the State Administration for Industry and Commerce, the General Administration of Quality Supervision, Inspection and Quarantine, and the State Food and Drug Administration will be very difficult to integrate. Some concerns raised among the public:
 - **Efficiency** – How will the internal organization be set up and will it be possible to set it up efficiently?
 - **Transition period** - An adjustment process is inevitable. Will it be possible to get through the transition period as quickly as possible and make the organization function properly?
 - **Managing high-risk** - This round of reform has placed food into the supervision of the big market, and the industry has also discussed issues such as how to manage high-risk foods and health products. Food and pharmaceuticals are still relatively high-risk areas for market surveillance.

- **Professionalism** - The Market Supervision Administration lacks professionalism in certain aspects of food and drug supervision. At present, it is mainly due to the lack of professionals. Supervisors are mostly transferred by other departments.

Concerns include:

- ✦ Aging personnel
- ✦ Lack of professional knowledge
- ✦ Loss of professionals

Profiles of Some Newly Confirmed Ministers:

- Party Secretary of the State Market Supervision and Administration Bureau – Bi Jingquan
 - Over twenty years' experience in price control. In 2001, he worked on resolution of problems produced by China's entry into the World Trade Organization. In 2004, he compiled the planning outline for the development of China's logistic industry. He also wrote and released many articles on topics such as trade, circulation, economic reforms and price administration.
 - Previously served as a Deputy Secretary General of the State Council and Vice-President of the China Consumer Association
 - Became Director of the China Food and Drug Administration in 2015
 - Background in Economics
- Director of the State Market Supervision and Administration Bureau – Zhang Mao
 - Began his career at the Beijing Glass Factory, where he held leading Party positions. Subsequently held Party posts in the Haidian district of Beijing.
 - Elected vice-mayor of Beijing in 1998, responsible for restructuring the economy of the city, foreign trade, foreign affairs, personnel, cultural issues, and health care issues.
 - In 2006, became vice-chairman of the State Development and Reform Commission. In 2009, became Secretary of the CPC Leading Party Group of the Ministry of Health.
 - Became Director of State Administration of Industry and Commerce in 2013
 - Background in Economics
- Minister of Foreign Affairs – Wang Yi
 - Has been with the Ministry of Foreign Affairs for most of his career
 - A distinguished diplomat who has served in Japan and worked for many years in the Asian Department of the Ministry of Foreign Affairs. Promoted to vice minister in 2001 and became ambassador to Japan in 2004.
 - Director of the Taiwan Affairs Office of the State Council from 2008 to 2013
 - Became Minister of the Ministry of Foreign Affairs in 2013
 - Background in Japanese and Economics

- Minister of Natural Resources – Lu Hao
 - Graduated with a degree in economics from Peking University and was Beijing’s youngest vice mayor in 2003 at the age of 35, overseeing the city's Industry Work Commission and Economic Commission, having broad portfolios of state assets supervision, industry, and information technology.
 - Became the youngest provincial governor in the country as governor of Heilongjiang in the industrial and corn belt northeast, in 2013
 - Background in Management
- Minister of Agriculture and Rural Affairs – Han Changfu
 - Worked in the Central Green Ministry of the Communist Youth League (1979-1990)
 - Became Minister of the Ministry of Agriculture in 2009 (re-elected in 2013)
 - Has long been devoted to the research and practical work of the country’s macroeconomic operations and rural development. He has written about "The Problems of Agriculture, Countryside and Farmers” which covers the macroeconomic operation of the national economy, the regional distribution of advantageous agricultural products, the land system, the problems of migrant workers, and the construction of small towns.
 - Background in Law
- Director of National Health Committee – Ma Xiaowei
 - Vice President of the Chinese Red Cross Society
 - Appointed vice-minister of the Ministry of Public Health in 2001
 - Became Deputy Director of the National Health and Family Planning Commission in 2013
 - Background in Medical Research
- Minister of Industry and Information Technology – Miao Wei
 - Former Communist Party Chief of Wuhan, capital of Hubei province
 - Prior to that, was President of Dongfeng Motor, China's then second biggest carmaker. Credited with rescuing Dongfeng from near bankruptcy and turning it into a profitable company by 2003 through radical reforms including adopting Western management methodology and establishing alliances with foreign carmakers Nissan and PSA Peugeot Citroen.
 - Background in Engineering

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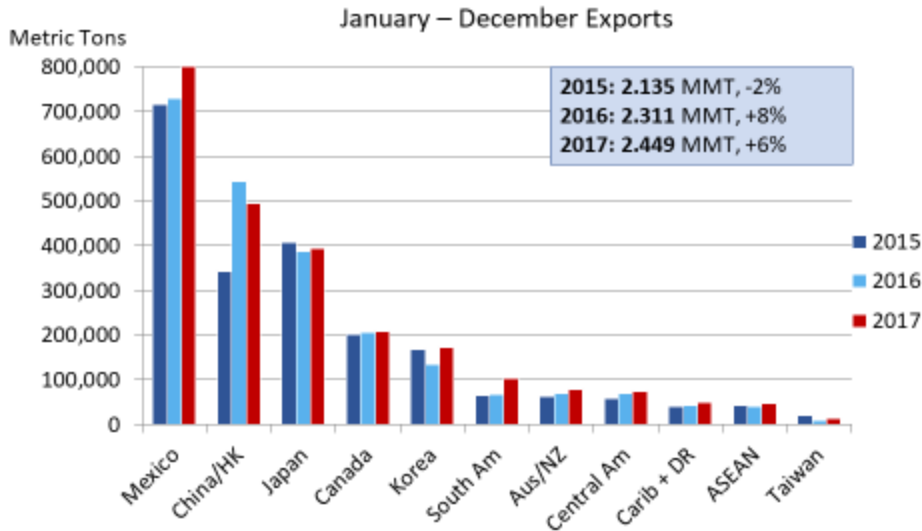
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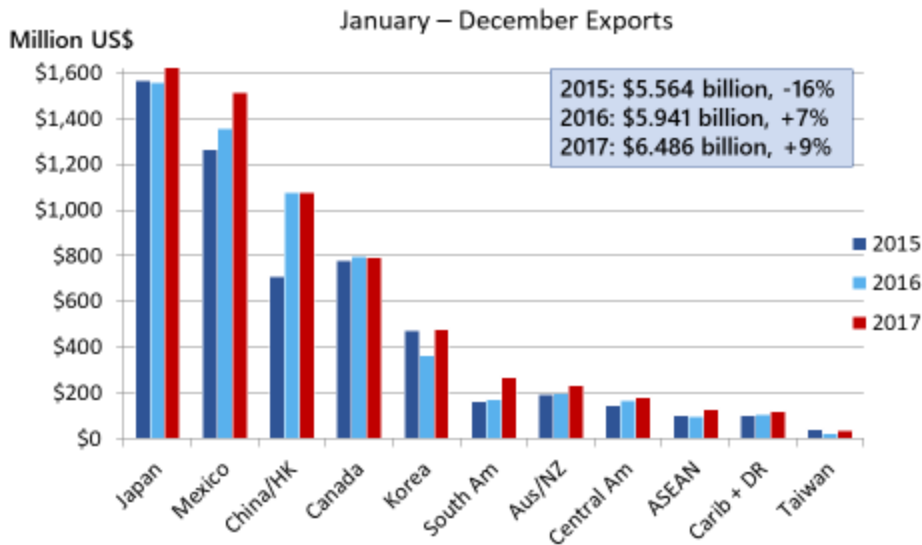
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U.S. Pork & Variety Meat Exports to Top Markets; CHINA/HK: 496,000 mt or 1/5th



Source: USDA/FAS & USMEF

U.S. Pork & Variety Meat Exports to Top Markets; CHINA/HK: \$1.08 Billion

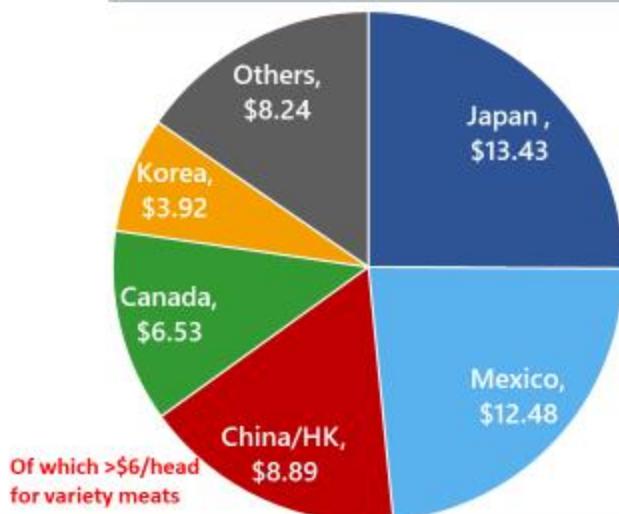


Source: USDA/FAS & USMEF

Pork Export Value Per Head by Market



2017 value per market hog slaughtered = \$53.47



Source: USDA/USMEF, commercial slaughter

2017 U.S. pork exports to China & HK



To China

- U.S. pork exports \$238 mil / 127,933 mt / \$1.96 per head / 1.5% of production (#5 market)
- U.S. pork variety meats \$425 mil / 181,351 mt / \$3.50 per head / 27% of production (#1 market)
- U.S. pork & variety meats \$663 mil / 309,284 mt / \$5.47 per head / 3.4% of production (#3 market)
 - Sausage casings/stomachs \$174 mil (33,735 mt) (HS0504- not included on tariff list)
 - Feet \$150 million (74,000 mt)
 - Head meat \$46 mil (43,330 mt)
 - Other variety meats \$31 mil (14,570 mt)
 - Hearts \$8.6 mil (6,060 mt)
 - Skins \$7.4 mil (6,860 mt)
 - Tongues \$7.3 mil (2,680 mt)

To Hong Kong

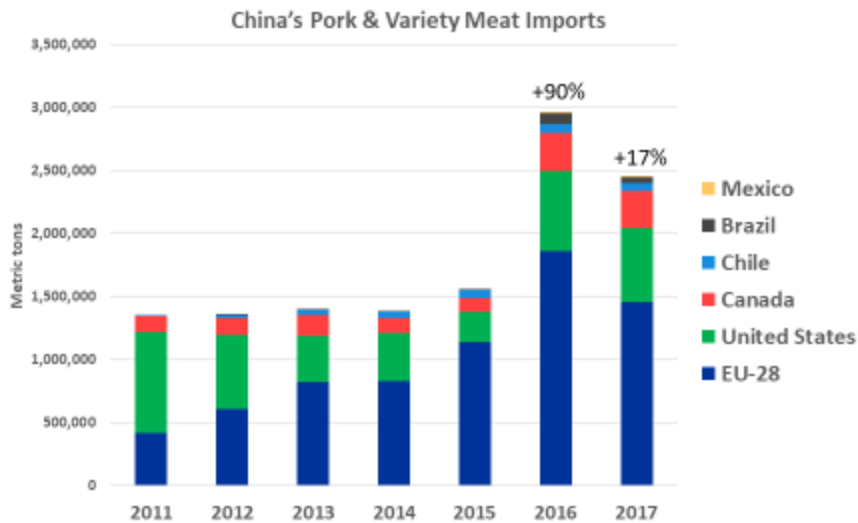
- U.S. pork exports \$98.4 mil / 46,588 mt / \$0.81/head / 0.5% production
- U.S. pork variety meats \$316.65 mil / 139,765 mt / \$2.61/head / 21% production
- U.S. pork & variety meats \$415 mil / 186,353 mt / \$3.42/head / 2% production

Combined U.S. pork/pvm to China/HK: 495,640 mt/\$1.078 Billion / \$8.89/head / 5.4% production (#2 volume market and #3 value market, behind Mexico; and Japan and Mexico respectively)

- Top exporter total pork/pvm to China/HK in 2017: 2.84 mmt / U.S. market share was 16% / EU 63% / Canada 11% / Brazil 7% / Chile 2%
- Imports account for less than 4% of China's consumption; imports from the U.S. account for less than 1% of consumption
- For pork cuts, China is #5 market after Mexico, Japan, Canada & Korea; adding HK it is #4

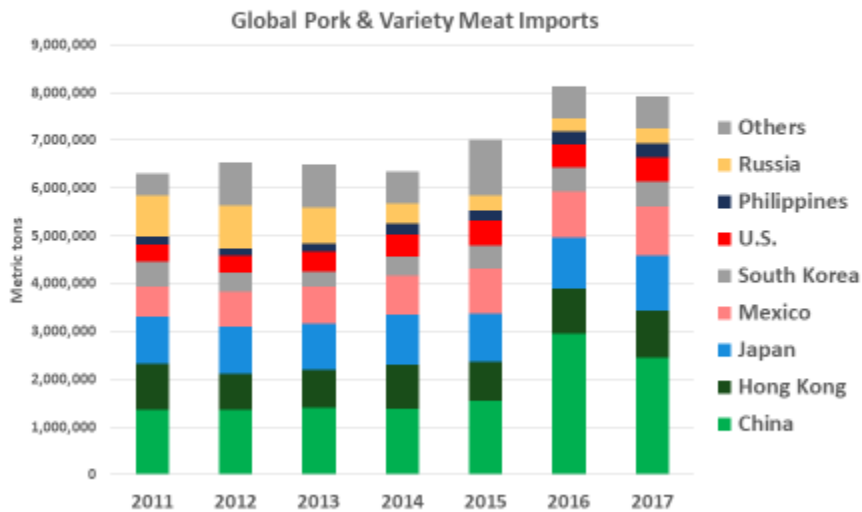
Source: USDA, GTA, USMEF estimates

Europe dominating China's pork imports, accounting for ~60%



Source: Global Trade Atlas, USMEF

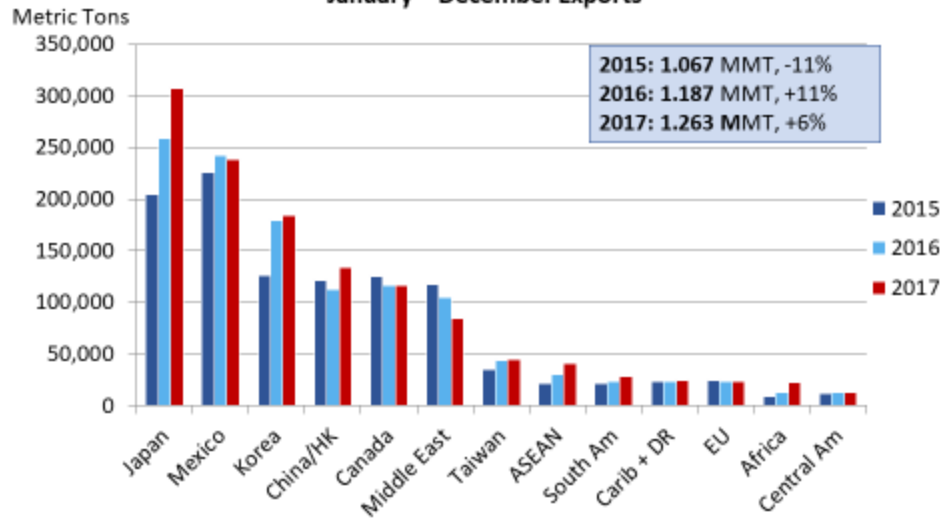
China as the leading volume buyer for pork & variety meats



U.S. Beef and Variety Meat Exports to Top Markets; to China/HK: 134,000 mt



January – December Exports

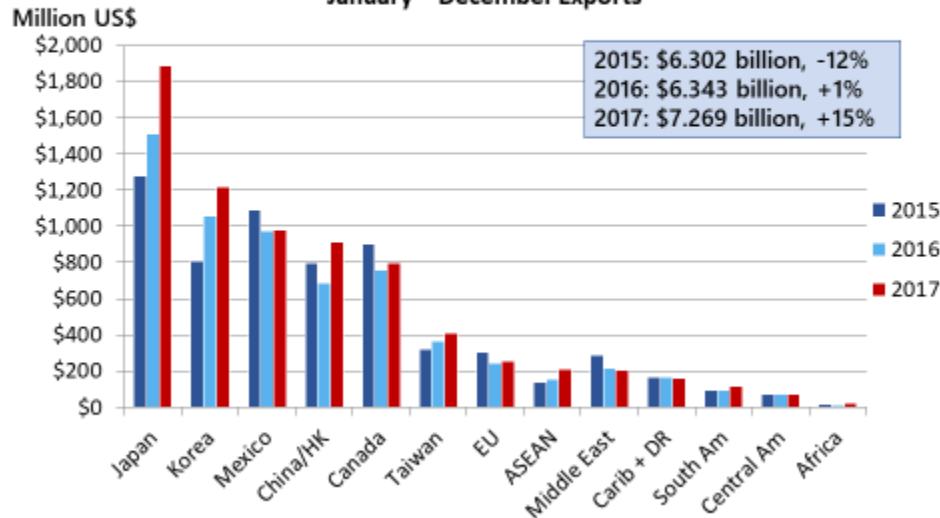


Source: USDA/FAS & USMEF

U.S. Beef and Variety Meat Exports to Top Markets; to China/HK: \$915 mil

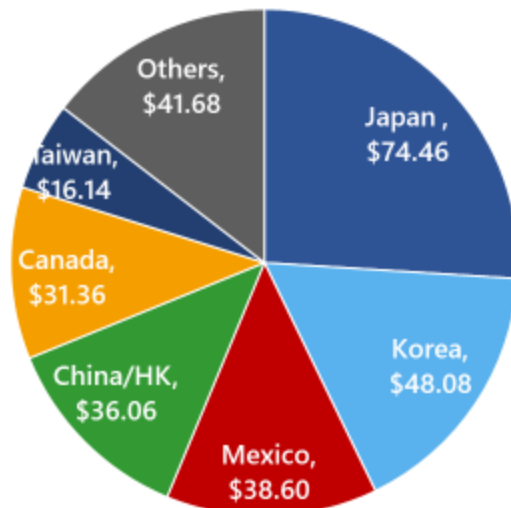


January – December Exports



Source: USDA/FAS & USMEF

Beef Export Value Per Head by Market



2017 value per head of fed cattle slaughtered = \$286.38, +9% or +\$25 from 2016

Source: USDA/USMEF, fed slaughter

2017 U.S. beef exports to China & HK



To China

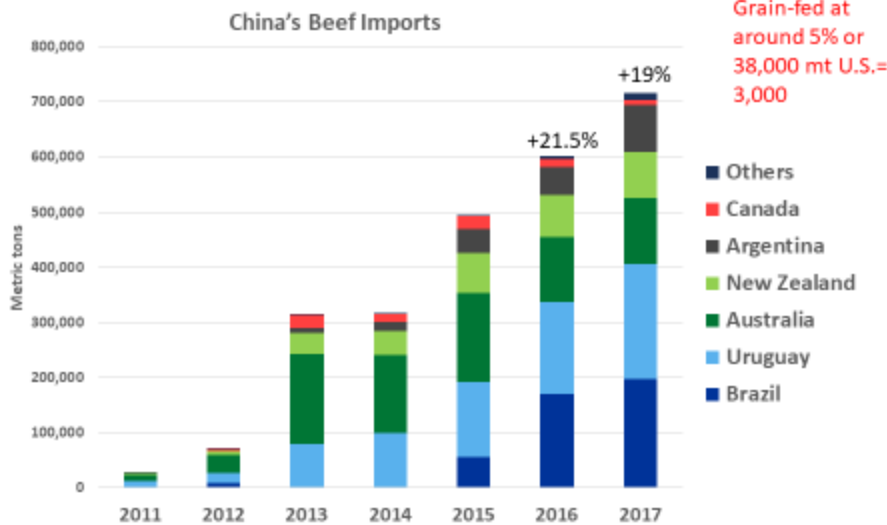
- June market opening- Dec 2017: 3,020 mt valued at \$31 million
- Given the dedicated production chain, beef exports to China are high-value and the market continues to develop
- USMEF continues to educate the chain, from traders to retailers and chefs, about the attributes of U.S. beef as China is essentially a new market and the Chinese customers need to understand the U.S. production system, U.S. quality attributes, etc., and how to profitably feature U.S. beef
- In Jan-Feb 2018, U.S. beef surpassed China's imports from Canada, ranking U.S. as the 6th largest supplier to China with 1% volume market share (China's imports of U.S. beef in Jan-Feb: \$14.66 million; 1,500 mt)
- U.S. beef accounted for roughly 1/5th of China's grain-fed beef imports in Jan-Feb 2018

To Hong Kong

- #4 market for U.S. beef in 2017, with 130,726 mt valued at \$884 million
- The U.S. is the #2 supplier to HK (following Brazil), with 18% market share for 2017 and over 20% market share in Jan-Feb 2018
- The U.S. is by far the largest supplier of grain-fed beef to Hong Kong

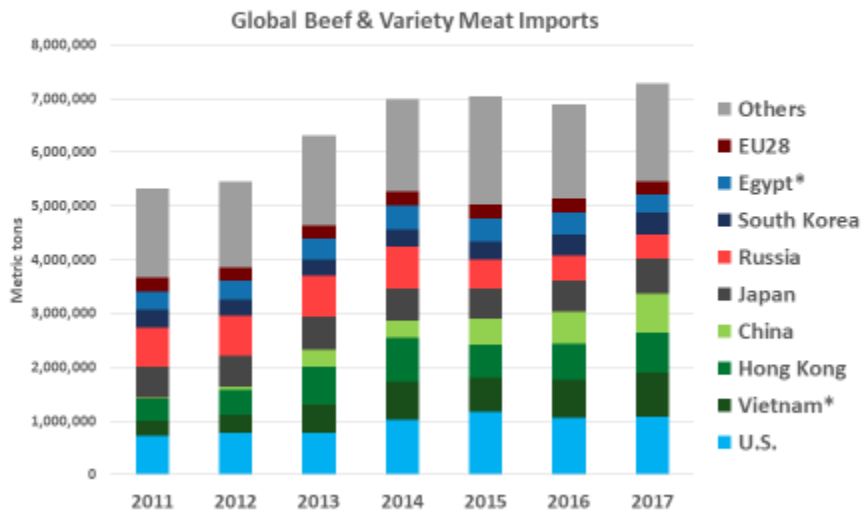
Source: USDA, GTA, USMEF estimates; includes variety meats

South America dominating China's beef imports, accounting for ~70%



Source: Global Trade Atlas, USMEF

China as a top global beef buyer

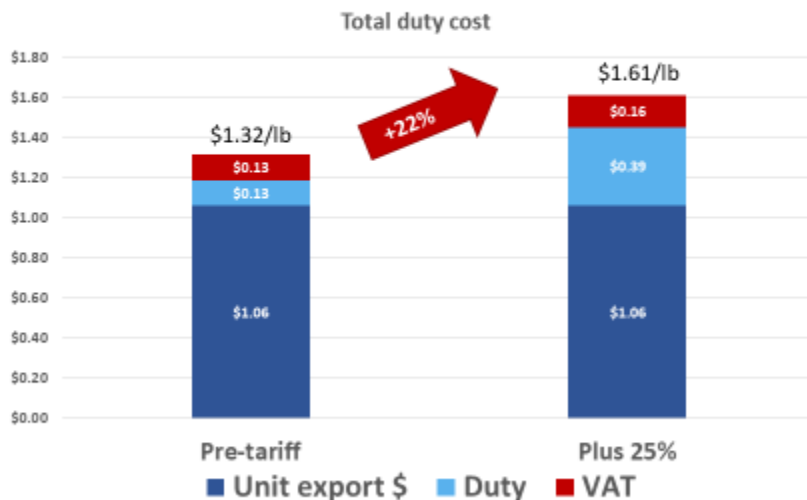


China's additional 25% tariff impact on U.S. pork



- China duty on frozen pork & variety meats: 12% + VAT 11%
 - Note VAT drops to 10% on May 1
- U.S. unit export values to China last year
 - were \$0.84/lb for muscle cuts and
 - \$1.06/lb for variety meats
- Using the above, the taxes on variety meats would be roughly 26 cents/lb, on average before the added tariff;
- Under additive 25% duty, the taxes are 55 cents/lb (including VAT)
- Duties paid total cost before added tax: \$1.32/lb
- Duties paid total with added 25%: \$1.61/lb or a **22% increase in "price"**
- If we discount U.S. exports by the total duty difference $\$0.55 - \$0.26 = \$0.29/\text{lb}$ or -27%, and assume the volume stays the same as last year, the lost value would be \$116 million or a drop of roughly \$1 per head (for just variety meats)
- China's demand had already slowed so this will add to the bearishness
- Uncertainty in the market is already translating to lower prices; the world is watching

China tariffs increase cost of U.S. pork by 22%



China is the dominant market for key export products



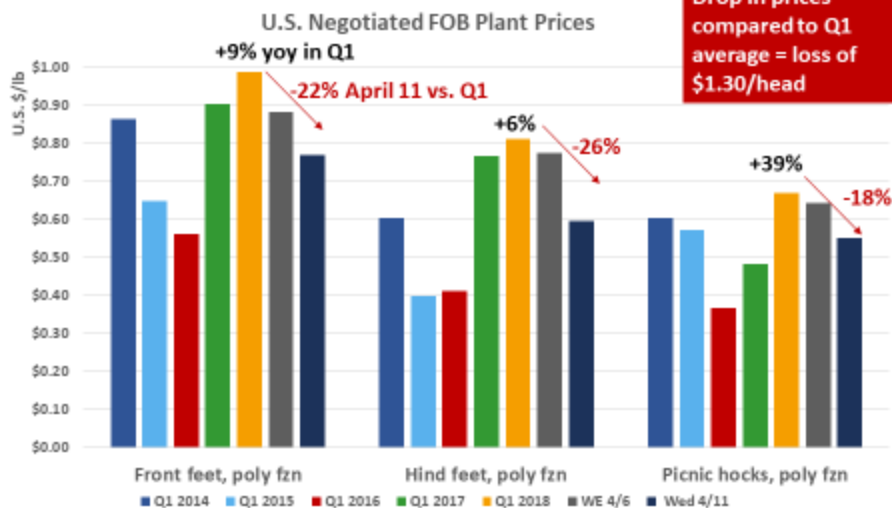
- As far as a share of U.S. exports, China/HK is the dominant market for:
 - feet (91%), heads (96%), hearts (76%), and tongues (51%)
- It is also a top market for frozen bone-in cuts (46%)
 - although the share drops to 8% when combining chilled/frozen bone-in with Mexico as the dominant market
- China/HK also takes roughly a third of exports of skins (34%) and other variety meats in 0206 (30%)

China tariffs impact cont.



- Exports of pork/pvm to China/HK last year averaged 9 pounds for every hog slaughtered (\$8.89/head).
- Of this, HS 0206 variety meats were 5.2 pounds or \$4.67/head.
- Feet were the big products, averaging 3.18 pounds per head and \$2.96.
- HS 0206 variety meat exports to the rest of the world totaled 2.55 pounds per head and value averaged \$1.96/head.
- If we assume exports could be shifted to other markets (Mexico, Korea, Philippines, C/S America, Taiwan), and maintained to China at a discount,
- the impact on per head export values could be a loss of \$2.33 per head (prices drop by 50% but volumes are maintained)
- to a maximum loss of closer to \$4.50 per head depending on whether values drop to rendering levels (and thus export volumes drop).
- The next chart shows what has happened to key item prices already, with the drop in prices for front and hind feet plus picnic hocks translating to losses of \$1.30/head...

Strong prices for U.S. pork feet and picnic hocks in Q1, but...



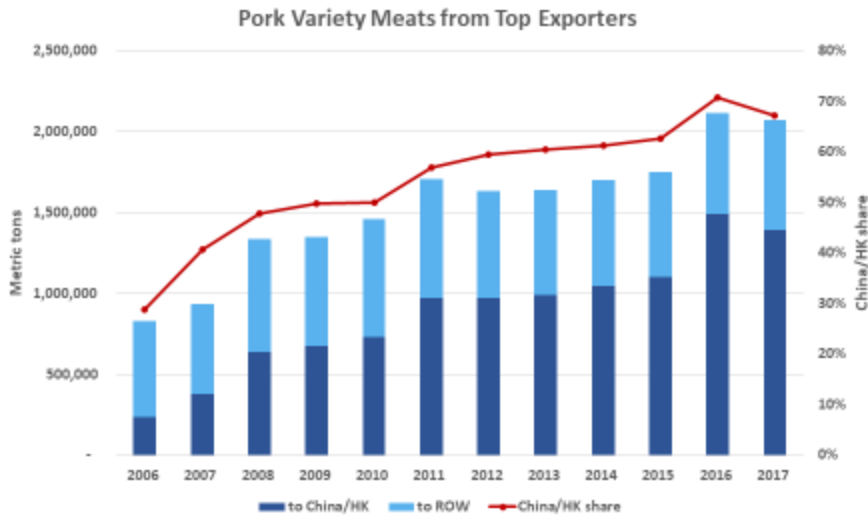
Source: USDA/AMS

China is the world's top buyer of pork variety meats



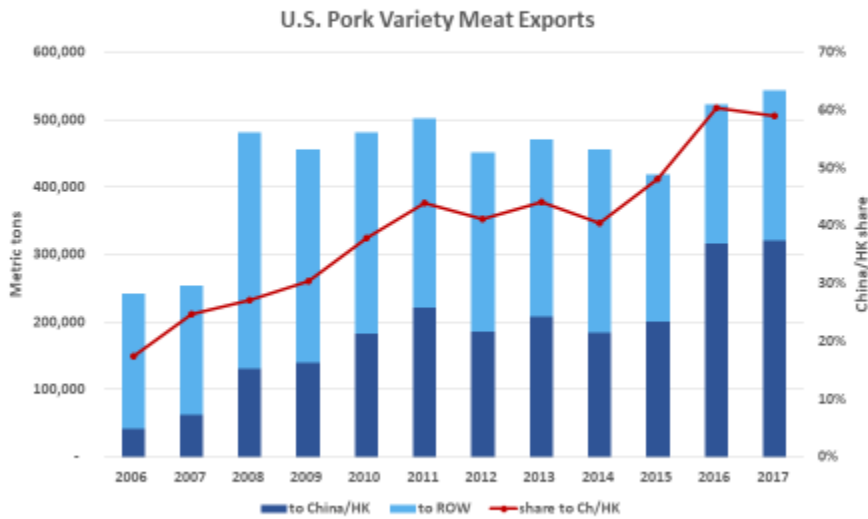
- **China/HK** accounted for 67% of global variety meat exports last year, up from 16% in 2006
 - top exporter total: 2.07 mmt of which 1.39 mmt went to CH/HK in 2017
- **U.S. 59% to China/HK**, of 544,000 mt total (and 63% of U.S. pork variety meat export value)
 - China and Mexico's demand in 2017 drove U.S. variety meat exports to >\$1 billion for first time
 - Mexico accounted for 20% of U.S. pvm export \$ so China/HK/Mexico = 83% or \$974 mil out of \$1.17 billion total
 - Likely alternative markets: Mexico and other Western Hemisphere; ASEAN; Africa
- **EU over 70%** of the 1.3 mmt total variety meat exports in 2017 went to China/HK
 - followed by Philippines, Korea, Japan
- **Canada 55%** of 168k mt total went to China and only 1.4% to HK,
 - other top markets are Mexico, U.S., Philippines, Japan, Korea, Taiwan, and Colombia
- **Brazil 68%** of 75k mt total went to HK (very limited access for variety meats to China today)
 - Other top markets- Angola, Russia (no longer), Haiti, Congo DR, Thailand and Ivory Coast
- **Chile 60%** of 44k mt total was to China
 - then Mexico, Russia, Colombia and Ecuador

China/HK accounts for 67% of global pork variety meat exports



Source: GTA, USMEF, reported exports from EU, US, Canada, Brazil, Chile

China/HK accounts for 59% of U.S. pork variety meat exports

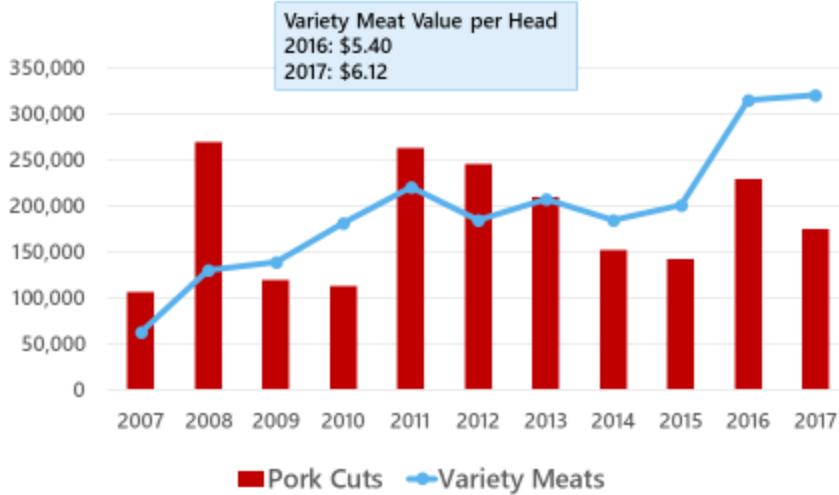


Source: USDA/FAS and USMEF (includes HS 0504)

Slower muscle cut exports to China/HK, but strength for variety meats

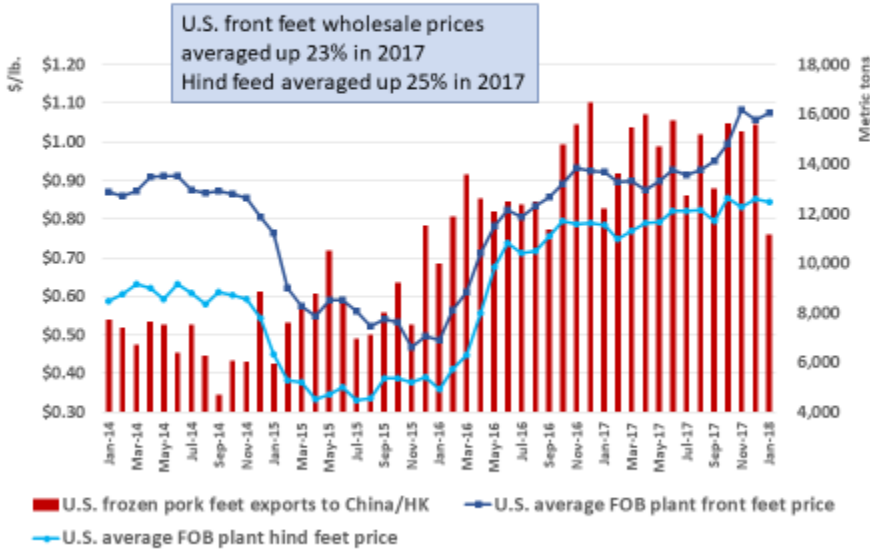


U.S. Pork and Variety Meat Exports to China/HK



Source: USDA/FAS

U.S. Wholesale Pork Feet Prices & Exports to China/HK



Source: USDA/AMS, Global Trade Atlas