

China's Agriculture Policy and U.S. Access to China's Market

By

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Iowa Farm Bureau Federation

April 25, 2013

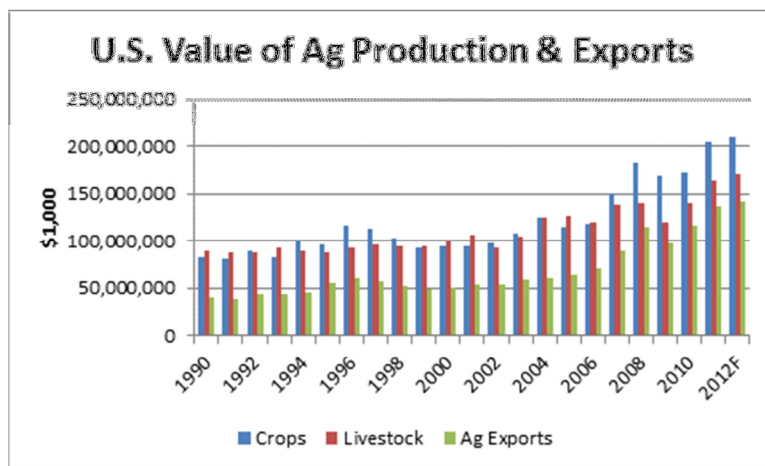
Ames, Iowa

Thank you for this opportunity to provide testimony regarding U.S. access to China's markets and various aspects of U.S.-China trade policy. My name is David Miller. I am the director of research and commodity services for the Iowa Farm Bureau Federation and the owner-operator of a 630 acre farm in southern Iowa. The Iowa Farm Bureau is the largest general farm organization in Iowa with more than 153,000 member families and a member of the American Farm Bureau Federation.

Impact of Asian Markets on Iowa's Agricultural Economy

I have been asked to address several questions regarding agricultural trade with China. The first set of questions inquires about the overall impact of Asian and Chinese markets on Iowa's agricultural economy with comparisons to the past couple of decades and to the coming ten years; to what degree exports to China have met expectations when China joined WTO in 2001; and what pathways Chinese domestic agricultural production is taking and whether they are favoring Chinese domestic production over imports.

U.S. agricultural production has been rapidly rising since 2002. The value of crop production has risen from \$83 billion in 1990 to \$210 billion in 2012, an increase of 253 percent. U.S.

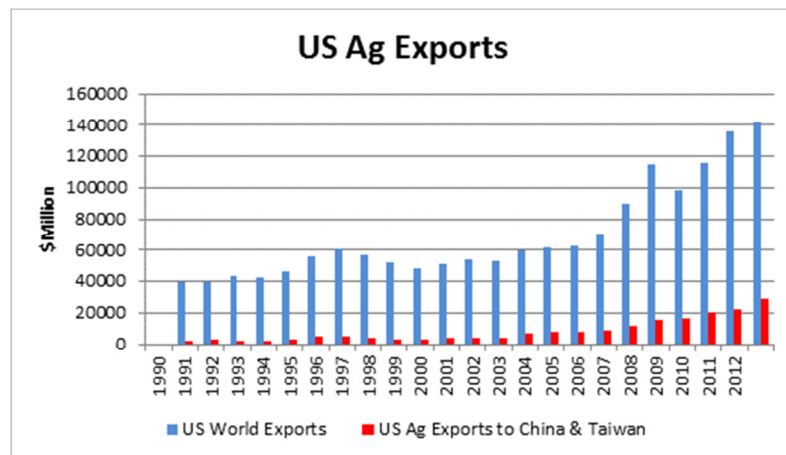


livestock production has grown from \$90 billion in 1990 to \$170 billion in 2012, an increase of 189 percent. Agricultural exports now equal 32 percent of the value of agricultural production. The value of crop production in Iowa now exceeds \$18 billion. The value of livestock production in Iowa now exceeds \$12 billion with a total value of production of the

agricultural sector exceeding \$32.8 billion. In 2012, Iowa accounted for 7.8 percent of the national value of agricultural production.

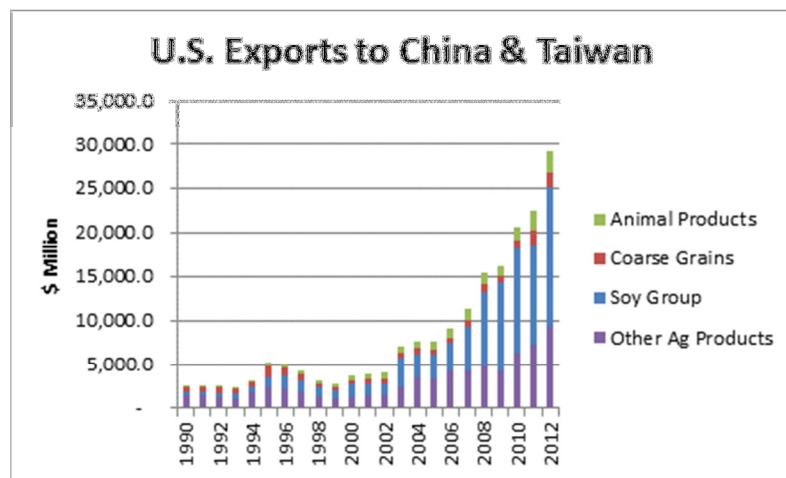
Exports have been an important part of U.S. agricultural markets for more than 40 years, but have been an increasingly important part of the market structure in the last decade. From 1990

through 2012, annual U.S. exports have grown from \$39.5 billion to more than \$141 billion, an



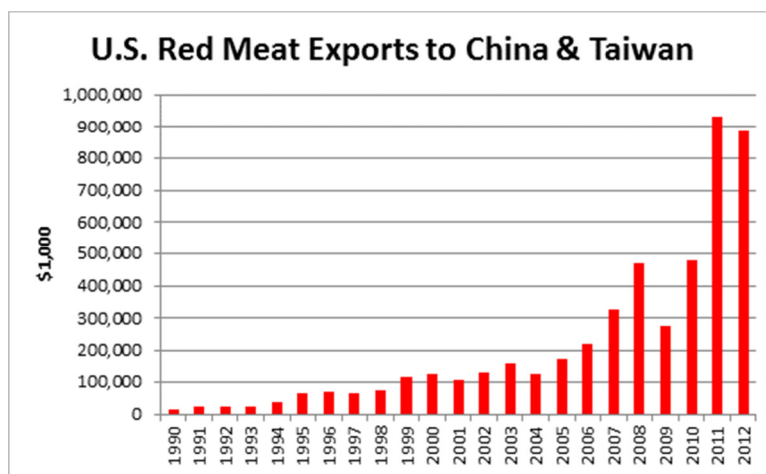
increase of 357 percent. Much of this growth has been spurred by exports of agricultural goods to China and Taiwan. In 1990, exports to China and Taiwan accounted for 6 percent of U.S. agricultural exports. In 2012, China and Taiwan accounted for more than 20 percent of U.S. agricultural exports.

Trade with China is very important to U.S. grain and livestock farmers. Since 1990, U.S. exports



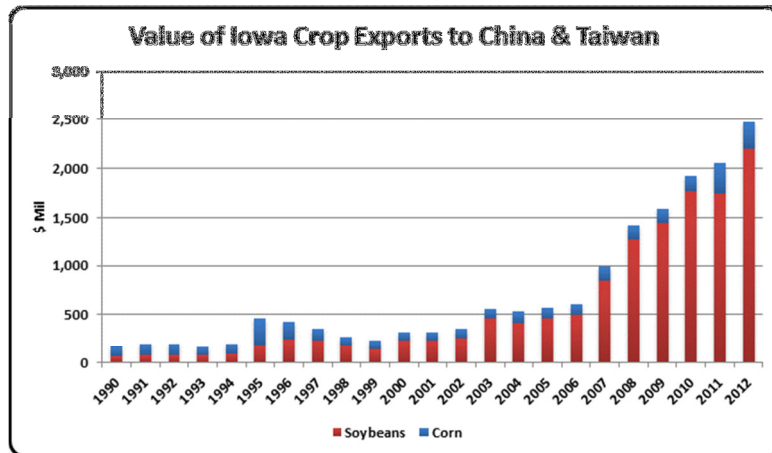
of all agricultural products have risen from \$2.4 billion to more than \$29 billion annually, a 1,200% increase. A significant portion of the increase in agricultural trade with China has been a \$15.5 billion increase in soybean and soybean products trade. Whole soybean exports to all destinations currently account for 42 percent of U.S. soybean production with another 13

percent of production being exported as soybean oil and meal products.



During that same timeframe, U.S. red meat exports to China and Taiwan have increased from \$15 million to nearly \$900 million. A very significant portion of the red meat exported to China and Taiwan is pork, with about one-third of that originating from Iowa farms.

While export sales have been important to U.S. agriculture, they are even more important to

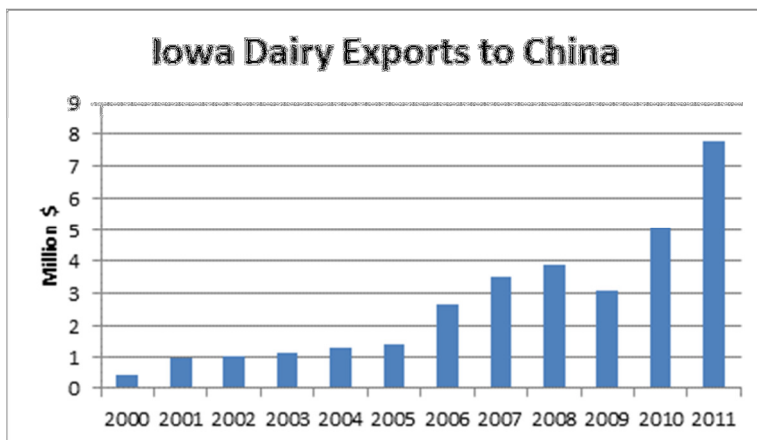


Iowa farmers. The value of production of Iowa crops exceeded \$17 billion in 2011. The two most important crops to Iowa farmers are corn and soybeans. Iowa farmers typically produce 18.6 percent of the U.S. corn crop and about 15 percent of the U.S. soybean crop. During the past twenty years, annual sales of Iowa corn and soybeans to China and Taiwan have

grown from \$110 million to nearly \$2.5 billion, a 2,270% increase.

Iowa produces nearly one-third of U.S. pork and about 5 percent of U.S. beef. Pork production in Iowa contributes more than \$6 billion to the state agricultural economy and beef production contributes nearly \$3.5 billion. More than 39,000 jobs are directly related to pork production in Iowa and another 25,000 jobs are indirectly related to pork production. More than 30,000 farms in Iowa are involved in beef production. Livestock production is a major source of employment in Iowa and the expansion of exports to China are enabling meat production in Iowa to expand. The growth in red meat exports translates to Iowa farmers sending nearly \$236 million worth of pork and beef to China and Taiwan.

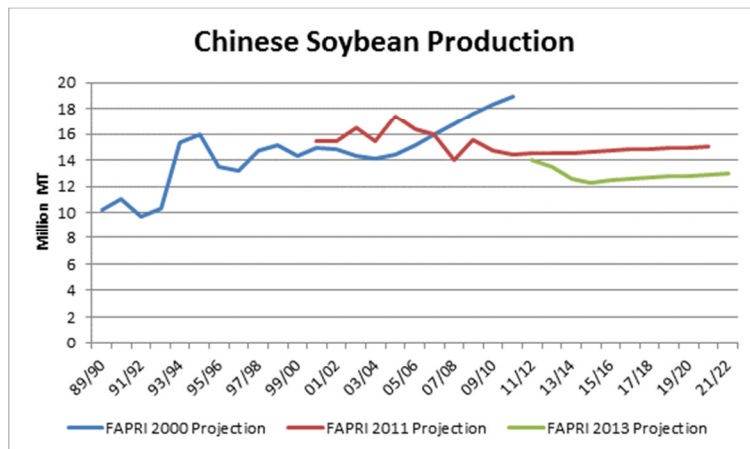
Iowa has slightly more than 200,000 dairy cows, representing 2.2 percent of the U.S. dairy herd.



Dairy product exports, such as cheese, nonfat dried milk, and whey, to China have been increasing in recent years, with dairy exports from Iowa approaching \$8 million. Dairy production contributes more than \$888 million to producer income in Iowa, an increase of 61 percent in the past decade.

Chinese paths on domestic production

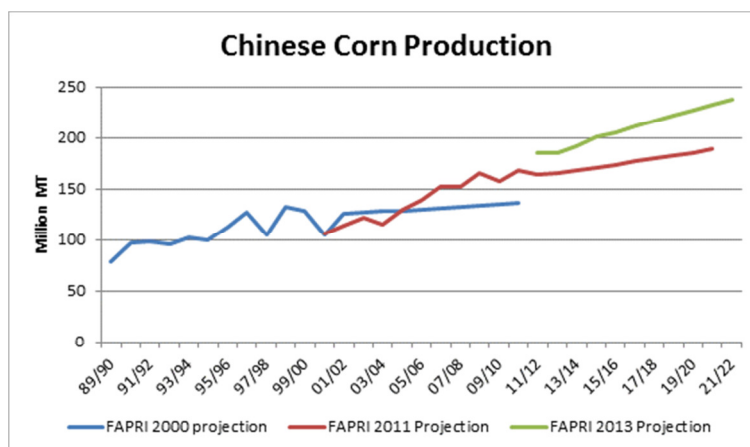
In 2001, it was expected that domestic Chinese corn production would grow slowly for the next



decade. Those expectations were met for the first part of the decade, but domestic production increased more rapidly than expected in the last half of the past decade. With continued higher global grain prices, expectations for domestic Chinese corn production have increased even more in the latest projections.

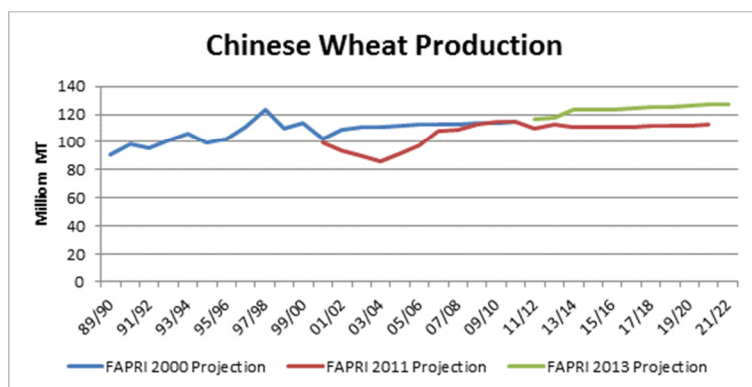
Whether implicitly or explicitly stated, China has clearly prioritized

corn production relative to soybean production.



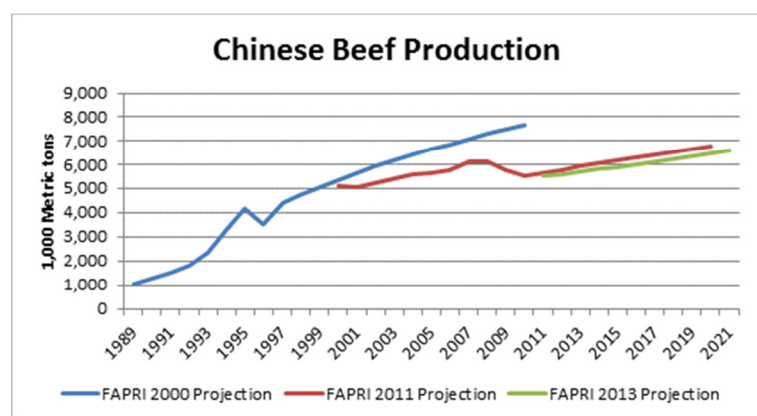
Chinese soybean production has declined relative to expectations in 2001. The decline in soybean production relative to corn production accelerated as global grain prices increased. This change in production priorities makes sense since the freight charge to ship a ton of corn from the western hemisphere is essentially the same as it is for a ton of soybeans. Thus, as a

percentage of the cost of the delivered product, shipping soybeans adds less per ton to the cost of the product than does shipping corn. The Chinese buyers also have more competitive options for sourcing soybeans and soy products in world markets than they do for corn.

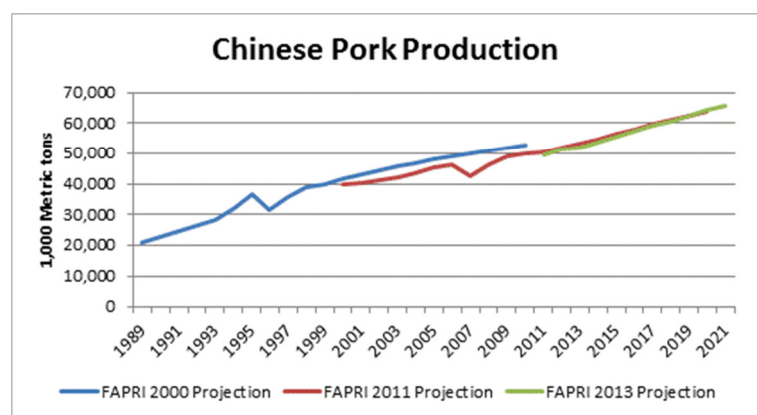


Chinese wheat production has followed expectations better than either corn or soybeans. What variation has been observed appears to be more weather induced than specific changes to planned plantings. The Chinese have multiple, competitive options for wheat imports including the United

States, Australia, Europe, the Black Sea Region and South America, and it is likely that changes in trade policy have had the least impact on Chinese domestic production decisions for wheat acreage.

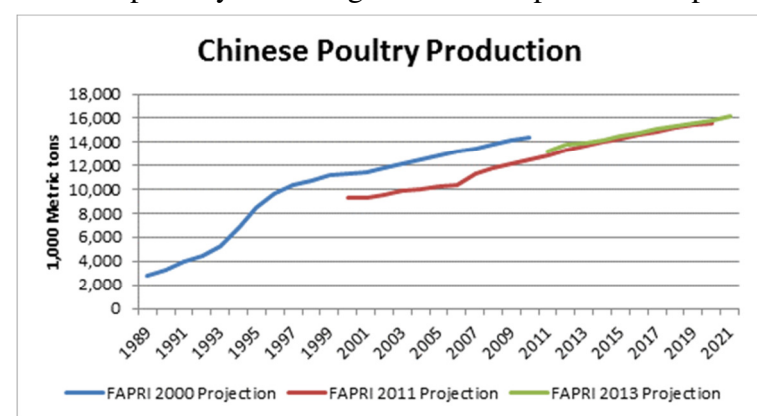


Chinese domestic beef production has declined from expectations of 2001, and lowered expectations for the next decade are manifest in the most recent projections. Given higher feed costs and the potential for increased imports from countries such as Australia and Brazil, it is unlikely that Chinese domestic beef production will displace imports.



According to official Chinese government data, Chinese pork production has performed nearly as expected for the past decade. Production continues to grow at approximately 2.5 percent annually. This rate of growth reflects little change in hog inventory numbers and mostly reflects productivity increases being realized in Chinese

pork production as they move from primitive and backyard production to more modern, commercial production facilities. Growth in Chinese domestic pork production does not appear to be the primary inhibiting factor for importation of pork products. During this period, pork



exports from the U.S. to China and Taiwan have increased substantially. Non-tariff trade barriers are likely to be more trade inhibiting than domestic Chinese production.

Domestic Chinese poultry production during the time period of 2001-2010 underperformed relative to 2001 projections. The growth

trend that was expected a decade ago was not wrong, it was just starting from a higher level than was actually occurring. Chinese poultry production is growing about 3.5 percent annually and that trend is expected to continue for the next decade.

Chinese Market Access Barriers to Agricultural Trade

The second set of questions that I was asked to address concerns the most serious market access barriers in China for agricultural exporters in Iowa. For Iowa producers, the most serious barriers to exports of agricultural goods from Iowa are nontariff measures. Nontariff measures (NTMs) include all “government measures other than ordinary tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.” Many laws and regulations have the potential to restrict international trade. Those that affect trade are considered to be barriers if there is a protectionist intent. Without seeking to identify that intent, this segment focuses on measures identified by the U.S. International Trade Commissions (USITC) as having had an economic effect on existing or potential U.S. agricultural exports to China.

Economic simulations indicate that China’s NTMs may have a greater impact on U.S. agricultural exports than do China’s applied tariffs. In the absence of Chinese NTMs, it is estimated that total U.S. agricultural exports to China would have been \$2.6–\$3.1 billion higher in 2009. Economic simulations were conducted on 12 U.S. agricultural product sectors for which (1) Chinese import prices were higher than world prices and (2) USITC research indicated that specific NTMs were impeding U.S. agricultural exports.

Unlike the tariff simulation, this simulation estimates the impacts of the removal of all known and unknown NTMs specific to these products, not the elimination of a specific policy or set of policies. The sectors included in this simulation were wheat, several horticultural products (potatoes, apples, and stone fruits), cotton, and meat products (beef, pork, and poultry). The products for which the model indicated the greatest change in trade flows (and therefore considered to be most affected by Chinese NTMs) were wheat, cotton, and pork. Some of China’s NTMs keep certain U.S. products out of the Chinese market completely. Others increase costs for traders, or increase uncertainty and therefore risk. Some of China’s NTMs affect virtually all agricultural products, and can make U.S. products uncompetitive or dissuade U.S. exporters from entering the Chinese market. The value-added tax (VAT) exemption for Chinese primary agricultural producers, for instance, impacts all agricultural products by conferring a substantial cost advantage on domestically produced product. Other NTMs are specific to a particular product. The following list summarizes the principal NTMs faced by U.S. agricultural products entering the Chinese market.

Reported Chinese NTMs affecting imports of U.S. agricultural products

H1N1 influenza restriction: U.S. pork has been denied access due to fears related to “swine flu.” The World Organisation for Animal Health (OIE) has reported that there is no risk of influenza infection from consuming pork. While U.S. pork exports are flowing to China and Taiwan, there are intermittent disruptions to those flows that negatively affect the ability of U.S. exports to reach their full potential.

Ractopamine ban: China has a zero tolerance for ractopamine, a commonly used feed additive, in pork that has been widely accepted in the domestic U.S. market. The Chinese ban limits opportunities for farmers producing pork for other markets that could otherwise profitably export some cuts to China. This ban is particularly negative to U.S. pork exports to China since

China often imports pork products and cuts that have significantly more value in the China than they do in the U.S. market due to differing tastes and preferences.

Zero tolerance for pathogens: Zero tolerance is unsupported by a scientific risk assessment. This policy can serve to limit imports of meat and poultry.

Bovine spongiform encephalopathy (BSE) restrictions: China stopped imports of U.S. beef following the discovery of BSE in the U.S. cattle herd in December 2003. This is contrary to OIE guidelines and fails to recognize the safety and surveillance protocols that are in place for U.S. beef production. Also related to BSE, China prohibits use of protein-free tallow ingredients derived from ruminants and imported ingredients in U.S. pet food exported to China, including ingredients that are themselves approved for import in China.

Low pathogenic avian influenza (LPAI) restrictions: China bans imports of poultry products from certain U.S. states in which LPAI has been detected. This is contrary to OIE guidelines. Restrictions on poultry imports not only affect the U.S. poultry markets, but also have negative effects on the other U.S. meat markets, such as beef and pork.

Biotechnology regulations: All products containing genetically modified organisms (GMOs) must be labeled, the registration process cannot begin in China until registration is completed in the exporting country, and registrations must be renewed every three years. This process results in needless delays in the adoption of new technologies by U.S. farmers and reduces the full set of production that could be eligible for export to China.

VAT policies: VAT policies provide a cost advantage to Chinese domestic agricultural producers and processors that purchase domestic agricultural products rather than imports.

Labeling requirements: Some products reportedly must be labeled entirely in Chinese or must have non-Chinese characters on their labels covered with a sticker.

Customs measures: Some imports are subject to reference pricing, classification is not consistent, and clearance may be delayed.

Multiplicity and duplication: Multiple ministries and agencies are involved in licensing, certification, and inspection and do not share information among themselves.

Provincial and local variation: Regulations, standards, and enforcement can vary by location. Tariff-rate quota (TRQ) administration: Large allocations are reserved for state trading enterprises; only small allocations are available for private traders, and there is little reallocation.

Lack of transparency: Many Chinese ministries and regulatory agencies fail to follow agreed-upon comment and notification procedures. TRQ allocations and the identity of import license holders are not made public.

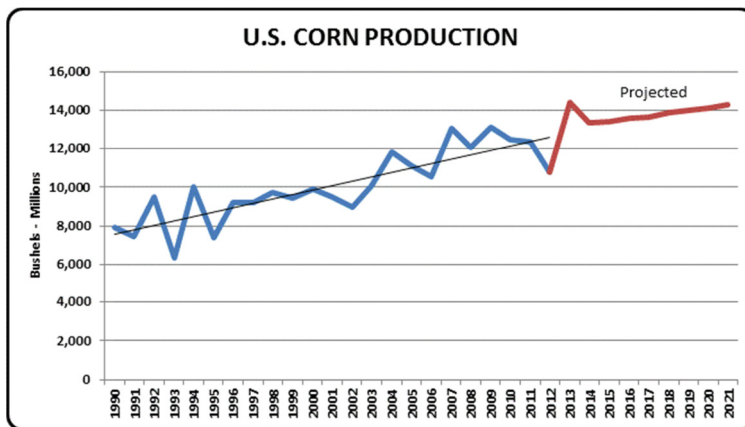
Source: Compiled by U.S. International Trade Commission staff.

While all non-tariff barriers to trade are problematic, the ones that affect Iowa farmers the most are the ones being used to restrict imports of pork, beef, and poultry and their biotechnology regulations that hinder corn imports and delay technology adoption by U.S. farmers.

Capacity of U.S. and Iowa Agriculture to Satisfy Future Chinese Demand

The third set of questions concern the capability of the United States to increase corn, soybean and meat production in order to meet future Chinese demand. Taking the questions a step further, does China's demand for grains to feed its livestock creates conflicts with the interests of meat producers in Iowa.

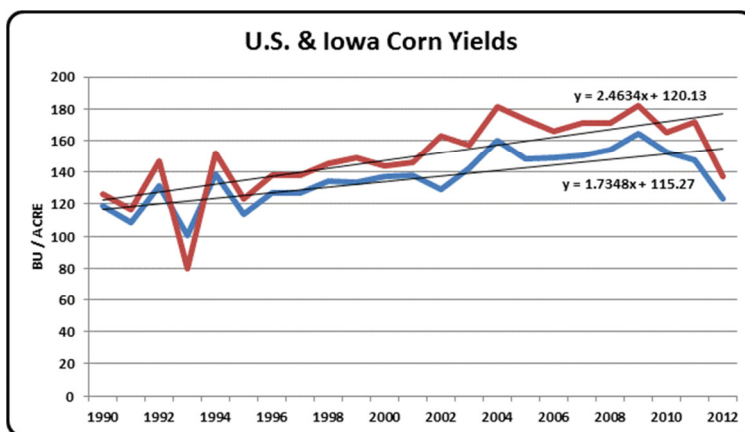
U.S. corn production is increasing at the rate of approximately 225 million bushels per year. Production in 2012 was diminished due to wide-spread drought across the major corn growing



areas of the U.S., but early expectations for the 2013 corn crop indicate the potential for record corn production as planted acreage is expected to be greater than 97 million acres and national trendline yields are now approaching 163 bushels per acre. There are two primary factors contributing to the increasing trend in corn production. One is an increase in planted acreage as farmers return land that has

expired its enrollment in the Conservation Reserve Program (CRP) to crop production. Much of the expired CRP land is being used for corn and soybean production. Additionally, in several southern U.S. states, there has been a shift in crop acreage from cotton and pasture to corn production. With a return to more normal weather and yield expectations, the U.S. corn crop could exceed 14 billion bushels in 2013 and is quite likely to exceed 14 billion bushels on a regular basis in the coming years.

A second factor contributing to increased corn production is increasing yields. The 20-year

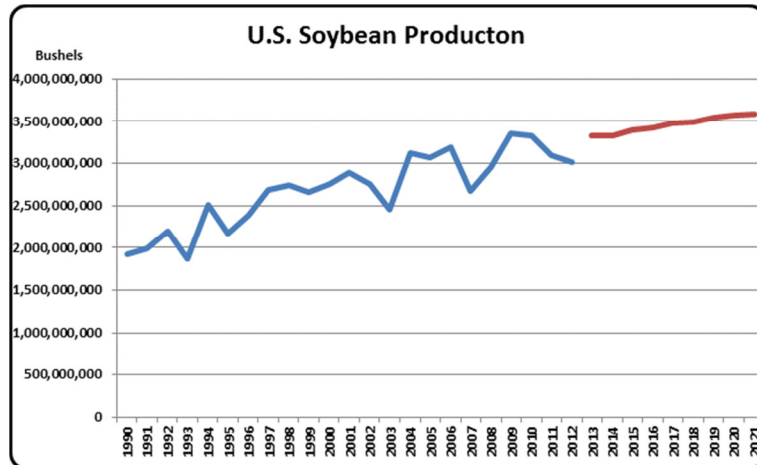


national corn yield trend is increasing at 1.74 bushels per acre per year. The 20-year corn yield trend in Iowa is increasing at 2.46 bushels per acre per year. Multiple factors are contributing to these increased yields, not the least of which is improvement in genetics, both through traditional breeding and selection and the incorporation of new traits through biotechnology. Additional factors contributing to

increased corn yields are: improved control of weeds, insects and diseases; improved fertility

management protocols; and adoption of precision agriculture mechanical and sensory technologies that allow for more precise timing and placement of nutrients, chemicals and biologics.

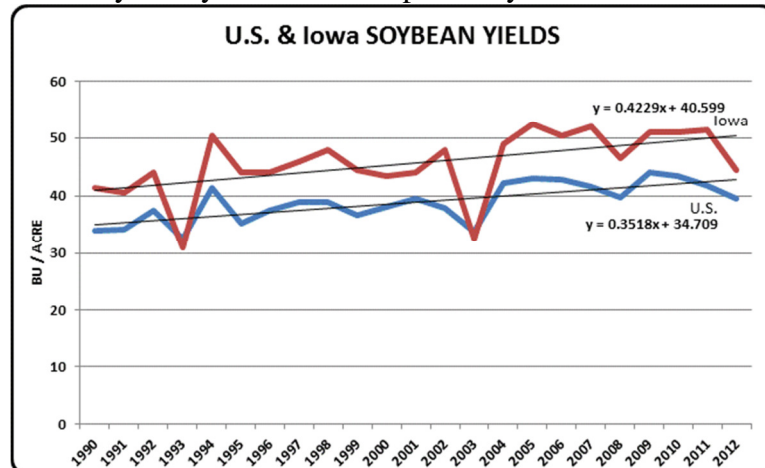
U.S. soybean production is expanding, exceeding 3 billion bushels in six of the past eight years.



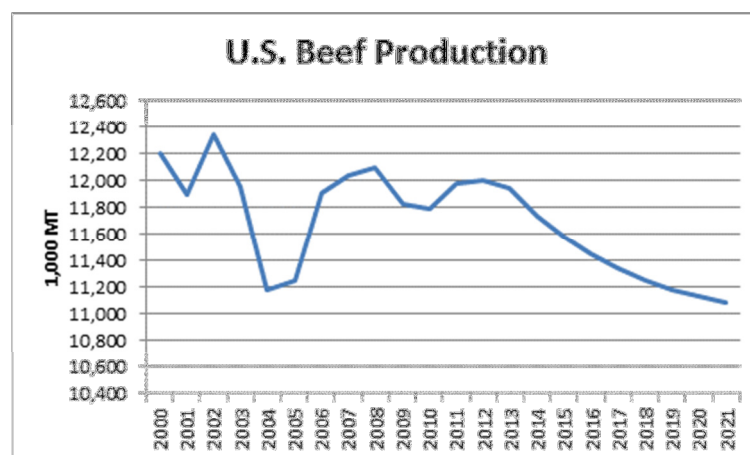
Over the past 20 years, the trendline increase for soybeans production is 57 million bushels per year. National planted acreage has grown to more than 77 million acres. Significant expansion has occurred in the western and northern portions of the traditional soybean growing areas. Looking forward, U.S. soybean production is expected to expand to more than 3.5 billion bushels on an annual basis. This expanded production should be

sufficient to meet exports demands for soybeans and soybean products to China without impairing the availability of soybean products for U.S. consumers and livestock producers.

U.S. soybean yields over the past 20 years have increased at the annual rate of 0.35 bushels per



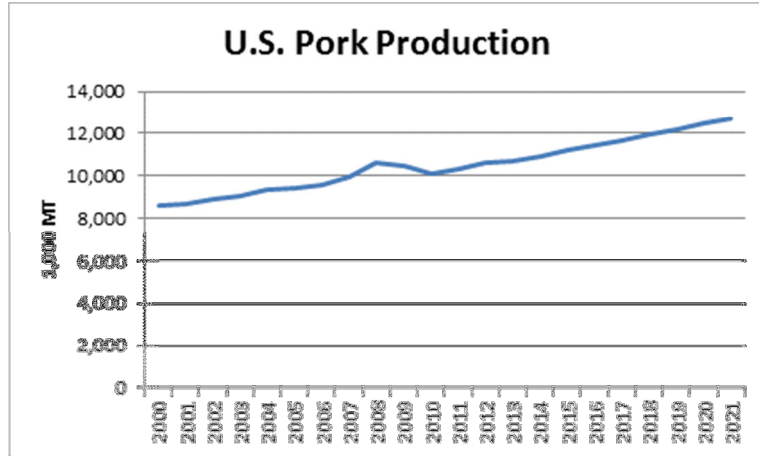
acre. Soybean yields in Iowa are increasing a bit faster at 0.42 bushels per acre per year. The combination of expanded acreage and increasing yields is likely to continue into the future, assuming the price of soybeans remains at levels that will support production in the new areas of expansion, which are often associated with higher production expenses.



U.S. beef production is expected to decline for most of the next decade. There are two major factors affecting beef production in the U.S. First, is the lingering effects of the drought that started in 2010 and 2011 in Texas and Oklahoma and then intensified in 2012 in the Plains and Midwestern states. This drought has resulted in a substantial

reduction in the U.S. cow herd. The second factor impacting beef production has been persistently high grain prices for most of the past 6 years. Higher grain prices have significantly increased the costs to finish cattle on grain and has resulted in huge losses for cattle feeders. In response to these huge losses, cattle feeders have reduced their bid prices for feeder cattle, which has diminished the incentives for U.S. cow-calf producers to rebuild the cow herd.

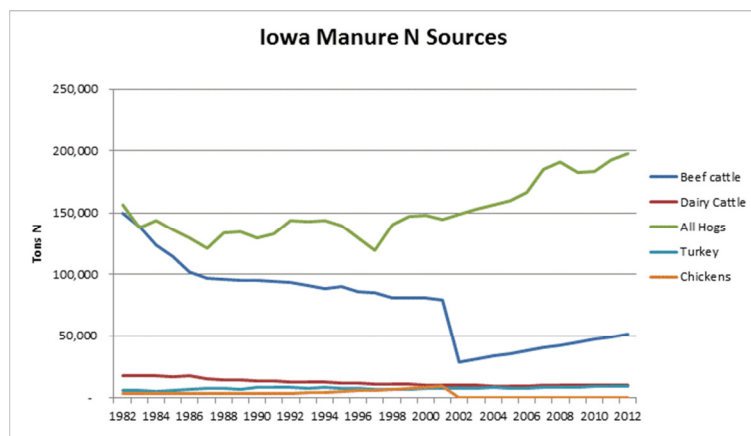
U.S. pork production has been increasing at an annual rate of two to three percent for much of the past decade. A similar uptrend in pork production is expected to continue for the next



decade. Due in part to a shorter production cycle, pork producers have adjusted to higher grain prices more rapidly than have beef producers, although the strong increases in grain prices in 2008 did result in a two year contraction in the industry. U.S. pork producers continue to see productivity gains from their production inputs, with pork-per sow-per-year continuing to

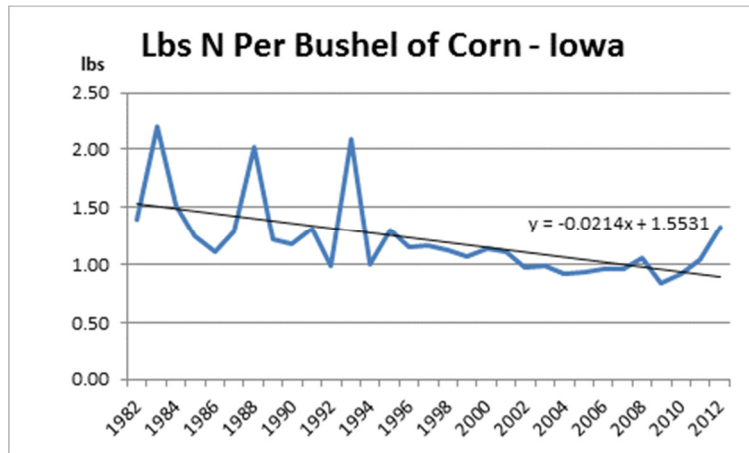
increase at a rate of nearly 2 percent annually. Also, the adoption of feed technologies such as ractopamine has improved the production of lean meat from the consumed feed, and has allowed pork producers to improve the feed efficiency ratio which serves to counteract some of the effects of increased grain prices. If the current Chinese ban on such feed additives continues, it could negatively impact the ability of U.S. producers to continue on the pathway of higher production trends unless feed costs subside.

From an environmental perspective, there is significant room for Iowa to increase pork production. Currently, Iowa farmers are applying about 1 million tons of nitrogen from



commercial fertilizers on Iowa farm land and 250,000 tons of nitrogen from manure. About 70 percent of the manure-based nitrogen is from hog production. If all of the commercial nitrogen for corn production were to be replaced by nitrogen from hog manure, the Iowa hog herd would need to be nearly 5 times as large as it currently is.

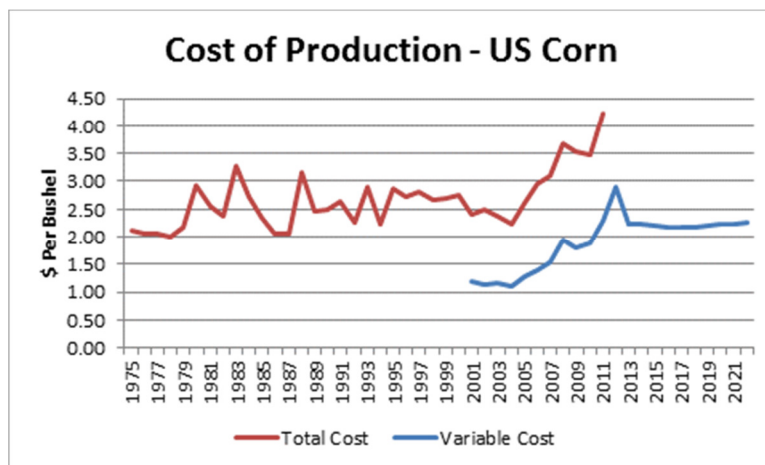
Corn production in Iowa uses nitrogen fertilizer more efficiently than it did in past decades. Thirty years ago, farmers applied about 1.55 pounds of nitrogen for each bushel of corn



production; by 2009, that figure had dropped to 0.84 pound per bushel. The 30-year trend has nitrogen per bushel of corn dropping by 0.02 pound per bushel per year. Four times in the past 30 years there has been a weather event severe enough to cause a temporary deviation from the trend for improved nitrogen efficiency.

In 2012, as a severe drought reduced corn production in Iowa, the amount of nitrogen applied per bushel increased to 1.35 pounds of nitrogen per bushel. But under similar disruptive weather conditions 20 and 30 years ago, the nitrogen per bushel of corn produced spiked to more than 2 pounds per bushel when yield was severely reduced. This gives further evidence that Iowa corn production continues to see progress in its utilization of nutrients and can be produced in more environmentally sustainable ways even under adverse conditions.

The cost of producing corn in the U.S. is rising. Increased energy costs are being reflected in



higher costs for fuel and fertilizer.

Other costs, including seed, maintenance costs and other items of production are also rising.

Likewise, fixed costs for producing corn are rising with land costs reaching an all-time high in 2012.

It is anticipated that the total cost of producing corn will plateau between \$3.50 and \$4.50 per bushel if weather improves and

yields return to trendline levels. The variable cost of producing corn is expected to stabilize near \$2.25 per bushel. This should keep U.S. corn very competitive in world markets.

In conclusion, China is a major buyer of agricultural goods produced in Iowa. While use of non-tariff barriers to trade continues to present problems for particular products, the overall trend of agricultural exports from the U.S. to China is very positive. For most of the commodities of greatest importance to Iowa farmers, access to the Chinese market has met or exceeded the 2001

expectations when China became a member of the WTO. Prospects for continued trade with China are good and Iowa farmers look forward to fulfilling China's future needs by building upon the base of trade we currently have.

Thank you very much for the opportunity to present this information at this hearing.