Statement of the American Farm Bureau Federation

China's Agriculture Policy and U.S. Access to China's Market
Testimony before the U.S.-China Economic and Security Review Commission

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Role of China

The accession of China into the World Trade Organization (WTO) has had a significant and important impact on U.S. agriculture. Despite the fact that China has experienced strong growth in the value of its agricultural production over the past few years, it remains a net importer of U.S. food and agricultural products, with imports of US$25.9 billion and exports of US$4.5 billion in 2012. Since China's accession to the WTO, the nation has grown to be the number one export destination for U.S. agricultural exports.

In addition to this growth, China's WTO accession has led to significant changes to the country's agriculture policies. China has significantly reduced tariff rates on many products, decreased the number of goods subject to import quotas, expanded the number of Chinese enterprises with trading rights and the products they could import, and increased the transparency of its licensing procedures. At the same time, trade-distorting and non-trade distorting domestic supports have increased.

Yet despite this progress and booming trade, bilateral trade issues in agriculture between the United States and China continue to exist, as they do with virtually all of our major trading partners. In order to address these issues, the U.S. government and industry have actively engaged with China on trade issues, actions which have and will continue to contribute to success in our ability to market U.S. agricultural goods and services.

Pre-Accession

Before discussing the extent to which China has met its WTO accession commitments, we would be remiss in not highlighting the import protocols China utilized prior to accession. Prior to accession, China restricted 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 were major obstacles to U.S. agricultural exports. China's average tariff rate for agriculture was around 22 percent, but many products were protected by much higher rates. Tariffs for grains, oilseeds and tobacco for example, were as high as 100 percent ad valorem. Further complicating exporters efforts, applied tariffs were often quite different from published rates or were applied at different rates depending of geographical points of entry.

China also limited 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 could only be imported through state trading enterprises (STEs).

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Post-Accession

The largely successful nature of China's accession reforms are exemplified by the rapid growth in U.S. exports. In value terms, U.S. agricultural exports to China have increased by an average of 31 percent per year since 2001. This rate of growth is slightly faster than for imports of goods as a whole. In 2000, the U.S. exported $1.7 billion worth of agricultural products to China, our seventh-largest export destination at the time. By 2012, U.S. agricultural exports to China grew to $25.9 billion and China became our largest export destination. China has become so important that in 2012, 18 percent of all U.S. agricultural exports were to China.

The rate of growth in imports varies considerably from one product to another. China's trade 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), and it exports labor-intensive commodities (fish, fruits, vegetables, and processed agricultural goods). Not surprisingly then, China's primary 2012 imports from the United States were soybeans ($14.9 billion) and cotton ($3.4 billion). Beyond these two important crops, China imported an additional $7.5 billion of agricultural products from the U.S. in 2012. To put this amount in perspective, if our important exports of soybeans and cotton did not exist, China would still be the fifth-largest market for U.S. agricultural exports. To put it mildly, China is an important customer indeed.

Several factors, in addition to its import reforms, contribute to this important market--China's large population of 1.3 billion, rising incomes, a growing middle class that is the size of the total U.S. population--suggest that in the long term, China still has enormous expansion potential as a market for U.S. agricultural products. China has stated it envisions international trade will play an important role as it transitions from an economic model based on investment to a model based on domestic consumption. With the deepening of China's industrialization and urbanization process, this expanding domestic demand will, logically, lead to an increase in imports as well as domestic production. China hopes to become the world's largest import market.

Tariffs

All of China's tariff lines are bound at *ad valorem* rates. The applied MFN tariff rates are close to the bound rates, imparting a high degree of predictability. Bound rates varied from zero to 65 percent for agricultural products, and from zero to 50 percent for non-agricultural products in 2011. Unfortunately, China still maintains high duties on some products that compete with sensitive domestic industries. Agriculture is one of those industries and as a result the average tariff for agricultural goods is almost double that for all other products.

TRQs

As part of its WTO accession commitments, and a significant potential gain for United States agriculture, China established large tariff-rate quotas (TRQs) for imports of wheat, corn, rice, cotton, wool, sugar, rapeseed oil, palm oil, soybean oil, and fertilizer, with most in-quota duties ranging from 1 percent to 15 percent. TRQs are applied to eight categories of imported goods, six of which are agricultural products of interest to the United States: wheat, corn, rice, sugar, wool and cotton. The average applied in-quota rate was 4.8 percent, while the out-of-quota rate was around 50.4 percent. These TRQs are applied to imports from all countries.

According to the Protocol on China's Accession to the WTO, the process of quota allocation and re-allocation is managed by the National Development and Reform Commission and the Ministry of Commerce. Under these processes applicants have to meet basic criteria including registration with the Administration of Industry and Commerce, and pass an annual review of the enterprise by the Administration of Industry and Commerce and the inspection and quarantine authorities. The registration process can be quite onerous, which effectively excludes some market participants. Quotas are allocated based on the volumes requested, previous imports, production capacity, or on a first-come, first-served basis. Of concern to exporters is that state-trading enterprises continue to dominate access to tariff quotas, being allocated 90 percent of the wheat quota, 60 percent of the maize quota, 50 percent of the rice quota, 70 percent of the sugar quota, and 33 percent of the cotton quota.

China is behind in its tariff quota administration notifications to the WTO, with its most recent notification to the Committee on Agriculture being made over a decade ago in 2003. China has attributed its delay in notification by asserting there has been no change in tariff quota administration policy since then. The country has been somewhat timelier in other notifications, such as its report for in-quota imports as recently as calendar year 2009. Along with earlier notifications, this shows that in-quota imports for rice, wheat, and corn have been low compared to the quota quantity. In response to questions from the WTO Committee on Agriculture, China indicated it did not intend to review its methods for allocating quotas, and the low level of imports relative to the size of the tariff quota was due to high levels of domestic production coupled with high international prices. This remains a concern for exporters.

This situation serves to highlight the systemic problems with the administration of China’s TRQ system since its WTO accession, particularly with regard to insufficient transparency and the lack of administrative guidance affecting how the allocated quota is used. Although the United States has repeatedly engaged China bilaterally to discuss these concerns, as well as multilaterally through the WTO, concerns about inadequate transparency remain. For example, U.S. fertilizer exports to China have steadily declined throughout the post-WTO accession period, due in part to Chinese government policies that impose export duties and discriminatory internal taxes to promote the use of domestic fertilizer. It should also be noted that China's internal fertilizer production has increased markedly during this same period of time.

Indirect Taxes Affecting Imports

China realizes a significant amount of annual tax revenue from Value-Added Taxes (VAT) imposed on nearly all enterprises and individuals engaged in the sale of goods, provision of processing, repairs and replacement services, and import of goods within China. VAT and excise taxes, where applicable, are also collected at the border on imports. The rates for imports and domestically produced goods are generally the same. However, uneven application of the VAT continues within China. Importers from a wide range of sectors report that because taxes on imported goods are reliably collected at the border, they are subject to the application of a VAT that domestic competitors often fail or are not required to pay. The lack of consistent VAT application can significantly impact competitiveness with current VAT rates at 13 percent or 17 percent for most goods.

An additional issue related to China's application of VAT is that the nation actively adjusts its VAT rebate program for exports. Currently, China does not rebate the full VAT, resulting in an export tax, which discourages exports. The effect of many of China's VAT rebate adjustments is to make larger quantities of primary and intermediate products in a particular sector available domestically at lower prices than the rest of the world, giving China's downstream producers of finished products using these inputs a competitive advantage over foreign downstream producers.

Agricultural Support

China's Protocol on Accession to the WTO with regards to agricultural domestic support was unlike any other country. The first way in which China's WTO protocol was unique is that it did not include a commitment on Aggregate Measure of Support, which is the sum of expenditures on non-exempted ("amber box") domestic support, aggregated across all commodities and policies. Since no total AMS commitment exists in the protocol, China can only provide support to agricultural producers up to the relevant de minimis level.

The *de minimis* exemptions allow any support for a particular product to be excluded from the reduction commitment if that support is not greater than a specific percent of the total value of production of the agricultural product in question. In addition, non-product-specific support which is less than a specific percent of the value of total agricultural production is also exempt from reduction. China's de minimis exemption is uniquely set at 8.5 percent of China's value of production (VOP), either on a product-wise for product-specific

(PS) support or in total for non-product-specific (NPS) support. By comparison, the AMS de minimis level for "developing" countries is generally set at 10 percent and 5 percent for a "developed" country member. China's 8.5 percent threshold was a significant compromise, to their advantage as many would consider them to be a 'developed' country.

Because de minimis exemptions are based on a percentage of a country's VOP, the actual level of support provided grows as the value of production grows. According to a 2008 IFPRI report, "Thus there appears to be substantial room for China to extend its amber box subsidy measures through heavy use of the de minimis provision. To date neither the PS de minimis nor the NPS de minimis has imposed real constraints on domestic support measures in China because of the large value of agricultural production." With total value of production growth averaging 12 percent each year, it does not appear this condition will change any time soon.

After a long delay at the end of 2011, China finally submitted notifications on its domestic support policies (for 2005 to 2008) to the WTO. China reported that the value of its agricultural subsidies was below the WTO-compliant de minimis level of 8.5 percent of the value of agriculture production. Along with earlier notifications, this notification shows that support has increased significantly over the past ten years in both the Green and Amber Box with Green Box support at $85.3 billion USD (¥593 billion) in 2008, and Amber Box support at $12.8 billion USD (¥89 billion).

Most Green Box support notified is provided for general services, where infrastructure and other general services together represent nearly half of the total. Compensation for losses due to natural disasters and for direct payments to farmers is also a significant portion of Green Box support. Amber Box support, which count against de minimus as notified to the WTO includes: insurance programs, input subsidies and internal price supports. However, despite this fairly large and growing level of Amber Box support, China notified support for this category of $12.8 billion USD (¥89 billion) is only 1.5 percent of its reported total value of production of $831.3 billion USD (¥5,777 billion), well within its 8.5 percent de minimis threshold.

For China, a number of critical issues related to domestic support are worthy of further investigation and analysis. First, through the WTO Trade Policy Review process, several countries have publicly questioned whether several of the Chinese programs that are notified as Green Box are actually Amber Box instead. These programs include, but are not limited to, direct payments that are not decoupled from production and programs that focus on specific commodities. For example, the U.S. government pointed out that China's stated intention of increasing grain production by increasing payments to grain producing areas, increasing minimum purchase prices for key grains, and improving temporary purchase and storage of bulk agricultural commodities all generally appear to be Amber Box measures, just as they are in the United States.

Secondly, the U.S. government has noted that China's methodology used to calculate certain measures of its support, particularly with its price support policies and direct payments, present potential concerns. Perhaps the largest concern among WTO members however has been that China only notifies central government level agricultural support programs, with *"no information made available on subsidies and other government assistance provided at the provincial level, which are believed to be considerable."* China has noted that "*substantial progress has been made in fulfilling the transparency obligation of the subsidies at the central level, China will work towards incorporating local subsidies in its future notifications. Although at this stage it is still difficult to propose a timetable, China will accelerate its efforts in this regard."*

SPS and TBT Measures

Sanitary and Phytosanitary measures (SPS) and Technical Barriers to Trade (TBT) are increasingly important in the trade of agricultural products, both generally in global trade and specifically in the case of bilateral trade with China. There are a number of outstanding SPS and TBT issues between the United States and China, but also a large number of instances where bilateral engagement has allowed our two nations to resolve outstanding issues.

As is common among many nations, policy surrounding SPS and TBT measures in China is quite complex. Overlapping authority and legislation can make understanding China's SPS standards difficult for exporters and governments alike. An effort to simplify and streamline both responsibility and legislation would go a long way towards mitigating trade disruptions.

Responsibility for policy, legislation, regulations and their implementation on sanitary and phytosanitary issues in China is divided among a number of government agencies: the State Food and Drug, the Ministry of Health, the Ministry of Agriculture, the Ministry of Commerce, the State Administration for Industry and Commerce and the General Administration of Quality Supervision, Inspection and Quarantine. The current statutes applicable to SPS issues in China are found in more than eight different laws.

Issues related to government standards can often lead to TBT issues. There are many standards in China at numerous levels (i.e. central government, sub-central, industry etc.) yet there does not seem to be one central portal to which industries can consult that contains all the varying levels of standards, nor efforts to bring uniformity to these standards. Several countries have expressed concerns that this practice makes it difficult for exporters to know which standards must be followed. Further, many standards are available only in hard copy, while some are not available at all. Increased transparency could be provided and trade disruptions minimized by creating one electronic portal that provides access to lists of all standards that industries and companies must adhere to, and we would encourage governmental efforts to bring uniformity to these standards at all levels.

There are a number of ongoing trade disruptions related to SPS and TBT that are the focus of the U.S. government and industry alike. An exhaustive list of all of the issues is beyond the practical scope of this testimony. But a few high profile cases include:

- China continues to maintain market access barriers to U.S. beef and beef product exports that are inconsistent with international standards of the World Animal Health Organization (OIE). Work is need to move towards full consistency with the OIE guidelines on BSE with regards to the import of live U.S. cattle, beef, and beef products;
- Asynchronous approval of biotechnology products developed in foreign countries;
- China’s ban on imports of pork containing any residue of Ractopamine;
- China’s imposition of a zero tolerance limit for the presence of Salmonella, Listeria, and other pathogens in imported raw meat and poultry;
- restrictions on the number of varieties of U.S.-origin apple; and
- China’s ban on imports of U.S.-origin table stock potatoes based on concerns over various plant pests and diseases.

Both China and the U.S. are members of the Codex Alimentarius, World Organization for Animal Health and the International Plant Protection Convention, which we hope proves instrumental in resolving these and future SPS and TBT issues in the future. We take their membership as a clear indication of commitment to the scientific principles in its SPS decision framework. Through reliance on the standards that these organizations set and continued good faith negotiations the United States and China should be able to resolve SPS and TBT issues. And there is evidence of progress - in September 2012, after nearly 20 years of discussions, a reciprocal agreement was reached that allows market access for pears.

Antidumping, Countervailing Duty and Safeguard Measures

Antidumping, countervailing duties and safeguard measures are used by a number of countries to protect home industry from foreign competition that is (or perceived to be) unfair. Since acceding to the WTO, China has become a significant user of antidumping measures, though we would point out that U.S. agricultural imports have not generally been the focus. A notable exception was the 2010 measures against U.S. Distiller’s Dried Grains (with or without solubles). In that case, a positive outcome of no duties being applied was reached as a result of intense U.S. government and industry interaction with the Chinese government.

While U.S. agricultural products have not been the focus of antidumping actions, three of the four countervailing investigations China has initiated are against the United States. In September 2009, China initiated an investigation into chicken broiler products from the United States. Provisional measures were first applied in April 2010 and final measures implemented four months later in August 2010. The United States government and several industry groups have expressed concerns about how China adheres to the transparency and procedural fairness requirements and substantive standards embodied in WTO rules. As a result, the United States initiated the chicken broiler products WTO dispute in September 2011. Hearings before a WTO panel took place in September and December 2012, and the panel is scheduled to issue its report sometime this year (2013).

Summary

China has grown to be one of U.S. agriculture's most important trade partners. As our trade relationship has grown and matured, we have solved a number of difficult issues, though a number of challenges remain. However, American Farm Bureau Federation remains convinced that as our relationship continues to deepen, our ability to resolve trade issues quickly and fairly will also continue to progress. We thank you for the opportunity to provide testimony on this important trade relationship.

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Questions and Answers:

1. Since joining the WTO, to what extent has China met its commitments to reduce tariffs, quotas, cap and subsidies? Has China sought to circumvent its commitments through other means, such as lengthy inspections on imports or bans on certain products based on specious health claims?

Please see sections with the following headings: Tariffs, TRQs, Agricultural Support, SPS and TBT Measures, and Antidumping, Countervailing Duty and Safeguard Measures.

2. Do China's direct payments to farmers, crop price supports, and value-added tax (VAT) practices discriminate against foreign products?

Please see sections with the following headings: Indirect Taxes Affecting Imports and Agricultural Support.

3. Is China transparent about its agriculture and trade regulations and policies? Has China notified the WTO in a timely manner about its domestic subsidies, as the WTO requires?

Please see sections with the following headings: TRQs, Agricultural Support, SPS and TBT Measures, and Antidumping, Countervailing Duty and Safeguard Measures

4. What are the key motivations behind China's use of domestic subsidies and its filing of anti-dumping and countervailing duty cases against the United States? What changes in policy or legislation would you recommend to Congress or the Administration?

Please see sections with the following headings: SPS and TBT Measures, and Antidumping, Countervailing Duty and Safeguard Measures