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

Panel IV: Intellectual Property and Value-Added Production

Mr. Chairman and members of the Commission: Thank you for the opportunity to participate in this very timely discussion on the partnership between China and the U.S. agricultural sector.

I have the privilege today of representing the U.S. Grains Council. The Council is comprised of producer organizations and over 100 other farm organizations and agribusinesses concerned with the international sales and marketing of corn, sorghum, and barley and their coproducts. Our mission is to "Develop Markets, Enable Trade, and Improve Lives." We currently have offices in nine countries and maintain programs in more than 50 countries around the world.

From the Council's perspective, today's discussion is familiar ground. This year we began our fourth decade of engagement in China. Since opening our China office in 1982, we have worked hard to build partnerships with China's livestock and grain processing industries, and to become a trusted bridge between them and U.S. farmers and agribusinesses. Our goal has been -- and remains -- to facilitate the growth and modernization of China's agricultural sector.

We are advocates for food security through trade, and for increased food safety and enhanced diets through science and trade. We helped establish one of China's first modern feed mills in 1984, and we have sponsored over 200 seminars and technical visits, both of U.S. experts to China and Chinese experts to the U.S., to provide reliable information on modern animal production, U.S. grain production capacity, grain quality, and market trends.

We continue these technical programs today, but our focus has broadened as China has changed. Rapid economic growth, urbanization, the emergence of massive middle class demand for enhanced diets, and new technologies, including biotechnology, have created new challenges and opportunities. Trade policy issues, including notably biotechnology issues, are of increasing importance. We look forward to a continued partnership with our counterparts in the Chinese feed and livestock industries to ensure that issues are addressed constructively as they arise and that benefits of expanded trade are shared by both our nations.

Global Outlook

The Commission has expressed interest in the Council's assessment of the volume and product mix of future U.S. corn exports to China, and their implications for U.S. producers and agribusinesses. From a U.S. corn perspective, China emerged as an importer in 2010. It is a new market with exciting growth potential. We understand this potential; corn farmers commonly grow soybeans as well, and China has long been the world's leading importer of soybeans, predominately from the U.S., Brazil, and Argentina. It is important to begin, however, with a

broader context. The bilateral relationship between the U.S. and China is important, but corn and other coarse grains are ultimately commodity products sold into a global market. Both the U.S. and China must respond to larger market constraints. Four factors dominate the discussion.

1. Global Food Demand. The world's population last year passed seven billion. The conventional wisdom among the demographers is that it will rise to something over nine billion before stabilizing sometime around the middle of the century, and perhaps then begin to decline. In addition, the global middle class is continuing to grow rapidly; China alone, by the end of the next decade, will have a middle class population larger than the entire population of the United States. But as important as China is, many other emerging economies also contribute to demand growth. The FAO current baseline projects global agricultural production to increase by 60% by 2050, and another common benchmark for discussion is that the world needs to double food production by 2050 to fully meet the needs and aspirations of newly affluent consumers around the globe.

Recently a corn exporter, China emerged somewhat suddenly as an importer in 2010. The Council anticipates that China will continue to grow as a structural importer, with demand driven by its rapidly expanding livestock and industrial sectors. USDA currently projects that China's corn imports will reach 19.6 million tons by 2022/23, which would make China the world's largest corn importer by that time. Other estimates range both higher and lower. At 19.6 million tons, however, China's imports would account for only 14 percent of the total projected corn export trade in 2022/23. On a national basis, both Mexico (16.9 million tons) and Japan (15.9 million tons) are projected to trail China only narrowly as top importers. As U.S. producers and agribusinesses, therefore, we at the U.S. Grains Council are optimistic about China's growing demand potential, but we are focused on a broader global picture.

Whatever China's import demand may be, the Council anticipates that China, like other major importers, will be focused on price, quality, reliability, and food security. We expect also that China's commitment to food security will include a desire to diversify supply, a lesson driven home by the 2012 drought and short U.S. crop.

We expect that the U.S. will remain the world's largest corn exporter for the foreseeable future; USDA projects the U.S. with a 46 percent export market share in 2022/23, more than Argentina, Brazil, and Ukraine combined. Despite this export dominance, however, we certainly do not view China or any other major importer as a captive market. We will have to compete for every sale in a global market in which major importers view diversified sourcing as an essential part of their food safety net.

2. Competition. An old saying among farmers is that the cure for high prices is high prices. Recent higher price levels have incentivized investment and increased production of corn in many countries. While the United States is likely to remain the global corn export leader, we will have a smaller share of a bigger pie, as Brazil, Argentina, Ukraine, and others are increasing production for export. USDA currently projects that U.S. corn exports will reach a record high of approximately 64 million tons by 2022/23, but the 46

percent global market share projected for that year is well below the 65 percent average U.S. share of the 1990-2010 period.

The good news is that the pie is getting bigger. The United States is the world's leading agricultural exporter, but we cannot feed the world alone. Competitors are winning market share, and to feed a world of nine billion, it is important that they too continue to increase production. The world needs all of us. China itself is the world's second largest corn producer, and it too is committed to increasing its own yields. The growth of China's corn imports will of course be influenced by the rate at which China is able to increase domestic production, and this involves many complex decisions that China will make in its own strategic best interest; the USDA projection is merely a best guess.

The U.S-China bilateral relationship is therefore important, as China is expected to account for 40 percent of the increase in global corn imports over the next decade, but it is also important to remember that 60 percent of the total increase will be absorbed by other buyers. In a global commodity market, whether consumer A, B, or C purchases from producer X, Y, and Z is a secondary question. Over the next several decades, the world will need all producers to step up to meet aggregate demand. It is essential that we continue working to remove trade barriers and move the global agricultural trading system towards more transparent, predictable, enforceable rules-based standards.

3. Food Security Through Trade. Most countries have historically defined food security as self-sufficiency. While outright starvation today is mostly the result of armed conflicts that obstruct the delivery of aid, much of the world continues to live with food insecurity, and even in countries that have made great recent progress, food insecurity is often still a living memory. Developing systems of trust and confidence in the reliability and transparency of markets is a major challenge and a precondition of export expansion.
4. Technology. Finally, it is clear that the world cannot meet the dietary aspirations of the rising global middle class without significant and continuing increases in yield. This will require major new investment in both production technology and better genetics. These issues are not merely technical; modernization of agriculture is likely to involve major demographic, social, economic, and political challenges as well, as countries transition from predominately rural to predominately urban populations. Countries will set their own courses and proceed at their own pace. From a U.S. trade perspective, inconsistent, dilatory, and unpredictable regulation of biotech event approvals is a particular concern. China is one of many countries in which this issue is a significant complication.

Looking forward, the growth of aggregate demand presents a remarkable opportunity for producers and agribusinesses not only in the U.S., but around the world. It is difficult, however, to predict with any certainty how the bilateral balance with China will evolve with regard to any particular commodity, whether corn, corn coproducts, or other coarse grains.

Focus on China

This uncertainty is true of other trading partners as well, but it is perhaps especially pertinent to China. China's agricultural sector is balanced, diversified, and creative. China is the world's

leading producer of wheat, rice, pork, vegetables, seafood, potatoes, cotton and much else; the second leading producer of corn and poultry; and the number three producer of beef, citrus, sugar, and milk. At the policy level, it is committed to food self sufficiency, particularly in grains, and has prioritized corn as an area of investment and growth. While we anticipate that the growth of internal demand will grow more rapidly than domestic production and thus lead to increased Chinese imports of feed grains and finished products in the future, China has considerable flexibility in charting its course.

U.S. Agricultural Production: “One Stop Shopping”

The U.S. has a unique position in global agricultural trade. The size, breadth, and flexibility of the U.S. agricultural production base gives us an unmatched capacity across multiple sectors and across the value chain. With regard to China, this gives us the capability to mirror China’s evolving demand pattern and to supply needs at virtually any point in the value chain.

U.S. corn exports are a case in point. The current marketing year is an anomaly because of the drought, but from 2001 through 2012, U.S. total annual exports of unprocessed corn averaged about 1.8 billion bushels, declining slightly at the end of the period, while exports of processed corn as DDGS, meat and dairy products, ethanol, and food products more than doubled.

China is able to access this product stream at any point. China will make its value chain decisions based on its own perceptions of strategic interest. A key objective for the U.S., therefore, is to remain a reliable supplier across the value chain, so that we are able to serve our customers’ needs as our customers themselves define them.

As a policy objective, China has traditionally set a goal of 95 percent self-sufficiency in corn. Its emergence as a structural importer is a relatively new development. The U.S. Grains Council recognizes that this is a matter of great sensitivity in China. It is important to build China’s confidence in the reliability and capacity of U.S. as a long-term supplier, and in the global corn production system as a whole. China’s standards of self-sufficiency may evolve over time, but that is a choice for China to make.

Intellectual Property/Biotechnology

Among the most important factors affecting the near term evolution of U.S. exports of corn is the regulatory treatment of biotechnology. This is an issue in many regions, including but certainly not limited to China. Agricultural biotechnology has transformed the ability of farmers to achieve higher yields to meet the demands of the growing population and middle class in emerging global markets. As the importance of biotech crops continues to increase globally, potential disruptions due to inconsistent and sometimes unpredictable national treatment have become a recurring concern. With regard to China, the asynchronous approval process for biotech events is of particular importance.

The U.S. Grains Council has developed a continuing dialogue with the Chinese government and private sector to work cooperatively towards a more synchronous approval process. We also

support the government-to-government efforts of the U.S.-China Biotechnology Working Group in this area. In addition, the Council is working with counterpart farmer organizations in Brazil and Argentina to develop common strategies for communicating the benefits of modern farming practices, including agricultural biotechnology, in meeting the expected future global demand for feed and food products.

We cannot prejudge the outcome of these discussions. It is important to note, however, that China is committed to developing its own indigenous biotechnology industry. It clearly recognizes the importance of this technology to boost yields and modernize the agricultural sector. As China emerges as a technology provider in this area, we can anticipate a growing commonality of interest on issues related to the protection of intellectual property and regulatory harmonization. This will continue to be a major trade policy focus for the Council.

Value Added Production

From a U.S. economic standpoint, it would be advantageous to capture as much value added production as possible; from a U.S.-centric perspective, in a perfect world all corn exports would be value-added. But that decision is not ours to make in isolation. Food is a strategic commodity, and we cannot and do not expect major trading partners to entirely vacate significant portions of the value chain. The U.S. Farm Bill is notorious for the difficulty of striking an appropriate balance among different agricultural sectors, and we recognize that these choices are as sensitive in other nations as they are here.

China's potential for ethanol imports, for example, is still highly uncertain. Recent adverse air quality events, especially in Beijing this past winter, have sparked new discussion in China about remedies. Ethanol is important not only as a fuel extender, but also as a fuel additive to reduce carbon monoxide, carbon dioxide, toxic chemicals, and particulate matter in auto emissions. Whether China opts to increase its use of ethanol for air quality reasons remains to be seen; the discussion is in its early stages. China, however, is also a major buyer of U.S. distillers dried grains with solubles (DDGS), a coproduct of ethanol production. Should China elect a pro-ethanol strategy for environmental reasons, it is possible that it would import corn and produce both ethanol and DDGS domestically.

Similarly, China currently opts to import mostly unprocessed corn rather than finished feed. Here again, the Council's view is that the customer is always right. We consult, and will continue to consult, on least cost formulations, and we count as a noteworthy success our participation over the past decade in popularizing DDGS as a feed additive. But if China finds it advantageous to import raw corn and DDGS to blend with locally available resources, that is its prerogative.

Meat and dairy production have a similar dynamic. While USDA projects that China's swine imports will rise to 1.2 million tons a year by 2022, China still seems committed to producing the bulk of its own meats. Again, the U.S. stands ready to supply shortfalls at any point in the value chain as China's needs evolve, and we recognize that China's standards of self-sufficiency are likely to change as urbanization increases and living standards rise.

Expect the Unexpected: Food 2040

Finally, we must be ready to expect the unexpected.

Last year, the Council in collaboration with USDA's Foreign Agricultural Service (FAS) released *Food 2040*, a study analyzing "*The Future of Food and Agriculture in East Asia*."

Food 2040 is a discussion of possible futures, not a prediction, but it envisions the emergence of China as the largest food market in the world; as a global leader in biotechnology; and as the driver of new systems for ensuring food quality, food safety, and traceability that are likely to affect the global food production system.

Food 2040 projects that by 2040, 65 percent of food expenditures in a predominately urban China will be for foods prepared outside the home. It anticipates that newly affluent Asian consumers may be the early adapters for next-generation foods with enhanced nutritional and health values; that consumer barriers to genetically engineered foods will be significantly reduced; and that the massive emerging markets of East Asia will be characterized by a very high degree of product differentiation and highly targeted marketing to sophisticated, health conscious consumers utilizing a wide range of new systems for food preparation, storage, and service.

A major implication of *Food 2040* is that over time, the legacy commodity production and distribution system may be forced to change to accommodate these developments. The average U.S. supermarket stocks nearly 40,000 items. The question to consider is this: when the average Chinese consumer -- not just in Shanghai or Harbin or Taiyuan or NanPing, but in countless small towns and villages across China -- begins to expect and demand a comparable range of consumer choice, who will be stocking those shelves?

This observation is not unique to corn. It applies to every agricultural commodity across the board. The United States today is just 5 percent of the world's population. As the developing world rises to middle class affluence, farmers and agribusinesses around the world will find themselves producing increasingly for these new markets abroad.

This is a great opportunity, for commodity and value-added production alike. It is a global opportunity, but with the world's most creative, flexible, and productive agricultural system, the U.S. is well positioned to benefit. Free trade is the path forward.

As the U.S. continues negotiations on the Trans Pacific Partnership and looks towards opening the Transatlantic Trade and Investment Partnership discussions in the near future, it is thus important that the U.S. not waver from our commitment to free trade and that expanded trade in agricultural products -- often among the most difficult sections of any trade negotiation -- be a continuing priority. Whether we sell commodity corn or a finished product, the opportunity is great. Thank you.