



***Hearing on "China's Agricultural Policies:
Trade, Investment, Safety, and Innovation"***

U.S. China Economic Security Review Commission

Written Comments

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Thank you for the opportunity to share some thoughts with the committee here today.

The U.S. Grains Council has been active in China since 1982, soon after U.S. recognition of China and the opening of China's relations with the world and particularly the United States. With the construction of a model animal feed pre-mix facility in Nanjing, China, the U.S. Grains Council embarked on a substantial investment in technical exchange and cooperation in the feed and livestock industry that defined our collaboration for decades to come.

Since 1982, the goal for Council programs has always been to build economically rational demand for U.S. coarse grains (corn, sorghum and barley, along with their co-products) through deep collaboration in the development of feed and livestock industries along with policy engagement based on food security with a role for trade.



Food security and U.S. exports

China's food security policies affect U.S. exports in several ways. Before going into this, it is useful to point out that in Chinese, the phrase "food security" can be interpreted as "food safety" as well as food security as we think of it, because the word for safety in Chinese is often translated as meaning "security" as well.

The primary way food security policies affect U.S. exports is by limiting imports of staple grains – wheat, rice, and corn. China's food security policies for these products are essentially self-sufficiency policies with the stated goals of maintaining "95 percent self-sufficiency" in these grains. While the policy is not clear whether each is to be 95 percent self-sufficient or whether aggregate of the three should be 95 percent self-sufficient, China has maintained this goal for all three grains individually since the policy was established in 1995. Since the U.S. is a major exporter of these products and is typically very competitive on global markets for these products, China's self-sufficiency policies have certainly reduced U.S. exports to China. China is moving away from these policies for corn, and many expect similar reforms to wheat and rice in coming years.

Food safety policies have also had adverse effects on U.S. imports, though this is more difficult to generalize. Food safety policies typically affect more processed products rather than staple grains. Taking pork as an example, China requires pork imports to be free from ractopamine, a beta agonist growth promoter that is approved for use in the U.S. but not in China due to food safety concerns. This has resulted in more limited pork exports from the U.S. to China than would have occurred if China did not ban ractopamine. Moreover, to be approved for export to China, pork processor must undergo special certification that their product is ractopamine free, which is an added cost, on top of the cost of less efficient production when not using ractopamine (estimated as high as seven percent higher feed costs for ractopamine free pork). These added costs are even higher than they look when you consider that only part of the animal is typically shipped to China: U.S. consumers value the bacon and ribs higher than consumers in China, and China's value other parts – feet, head, offal, higher than U.S. consumers so typically only those parts are shipped to China, not the whole animal. This makes the higher production costs for the animal even more difficult to recoup when only exporting a portion of the animal to China.

For corn, the product most central to the U.S. Grains Council's efforts, we do face some food safety issues primarily around the use of genetic engineering (GE). Farmers in the U.S. have been using genetically engineered corn for over 30 years, and it has helped them not only improve efficiency but also improve environmental outcomes on their operations. Additionally, genetically engineered corn has been shown to be as safe as non-GE corn with no instance to date of any food safety issue. Despite this success, these benefits have yet to be accepted in China, and consumers are still very wary of this technology, with many still vehemently



opposed to it. Because of lack of understanding regarding the safety of GE foods and other benefits of GE technology, China does not always approve new traits in a timely nor transparent manner. This has led to serious disruptions in corn and distillers grains exports in the past, and also prevents newly developed GE technology that would benefit U.S. farmers from being commercialized and made available to them.

Aside from these negative impacts on U.S. exports, there are some positive impacts of China's food safety policies. Many consumers in China do not trust China's domestic policies to provide sufficient safety guarantees and therefore seek out imported products. Again, this is primarily true for processed food products. China's large imports of dry milk powder are an example of how milk processors, as well as consumer, seek out imported supplies due to concerns about the safety of domestic supplies (as well as price advantages).

Competitiveness of U.S. Exports

If we consider the core competitiveness of U.S. agricultural goods in China, our products are in a strong position. First, U.S. agricultural products are typically very price competitive globally. Moreover, they are also typically price competitive with China's domestic products, particularly grains which are land-intensive to produce, and China is constrained with limited land and water resources given its large population. In addition to price competitiveness, U.S. products also have a reputation for quality and safety, particularly relative to China's domestic products.

Another thing that importers often point out to the Grains Council is that they like doing business with U.S. exporters rather than exporters in other countries. The use of and compliance with detailed contracts generates trust and certainty that make imports from the U.S. easier to manage than imports from other countries where these practices are less prevalent. Moreover, the efforts of organizations like the U.S. Grains Council help build strong personal relationships between importers and end users in China and producers and exporters in the U.S. These relationships also help facilitate more reliable trade and help importers procure the quality characteristics they seek.

The chief market access barriers for U.S. corn, sorghum, and co-products are:

- 1) A tariff rate quota on corn imports,
- 2) Very high (roughly 66 percent) AD/CVD duties on U.S. Dried Distillers Grains with Solubles (DDGS), a co-product from ethanol,
- 3) A likely/imminent AD/CVD tariff on U.S. sorghum in coming days, weeks or months, and
- 4) 30 percent import tariffs on imported ethanol, soon to be 45% with the recent retaliatory tariffs in response to the U.S. self-initiated steel and aluminum tariffs.



In past years, GE traits not approved in China that were commercialized in the U.S. also limited U.S. corn access, and there are still issues with end users requiring more stringent certification to use imported GE corn in their operations.

Can the U.S. compete based on higher quality?

Reliable and consistent quality is one factor contributing to demand for U.S. coarse grains and co-products. However, the restrictions outlined above reduce the extent to which the U.S. can promote these products for export to China. In an open, competitive trade environment, the U.S. would be a strong competitor given its consistent, high quality crop that can be delivered year-round, strong contract sanctity, backed by a world standard grain sampling a grading system.

Trade retaliation and U.S. exports

Agricultural imports are viewed as a suitable, and in some ways ideal, means for retaliation against U.S. trade actions. While China imports large amounts of U.S. agricultural products, it is in a position today where consumers have sufficient access to food, so additional supplies from the U.S. are not needed to avert food crises. Instead, many U.S. agricultural exports to China are used to meet demand for variety, quality, and in some cases, safety. The only major agricultural item that might affect food prices are soybeans, and China may find ways to raise the price of U.S. soybeans through a tariff. There are other global suppliers that China can turn to for replacing at least a portion of U.S. soybean exports. Raising soybean prices will raise the price of soybean meal, which will raise feed costs and the costs of livestock production. This will only partially show up in final costs of livestock products as those are mostly determined by supply and demand in those markets. For meat, the market is dominated by pork and pork production, which usually takes 1 to 2 years to adjust to shocks in feed supply and costs. Moreover, hog and pork prices are just now entering what is expected to be a prolonged period of low prices, and this will not change much even if feed costs go up. Soybean oil prices may also rise, and while consumers in China are sensitive to cooking oil prices, China can import soybean, palm, or other edible oils from other countries to augment lower supplies from domestic sources.

Agricultural exports are even more ideal in today's political environment. China's leaders realize that rural voters are strong supporters of the Trump administration. Engaging in retaliation that targets the supporters of the administration that initiates trade actions only increases the desirability of using agricultural exports as a means for retaliation. Another political factor is that there is a powerful domestic constituency in China that is against reliance on global markets for food supplies, and this constituency tends to be more anti-U.S. than others who advocate for greater integration with global markets for food. Because of this,



implementing restrictions on U.S. imports will be well-received by some key players in China's leadership and policy making community.

Above and beyond all of this is the core of where the U.S. Grains Council has been since 1982. No other market in the world, including India, holds as much positive potential for growth of U.S. agricultural exports than China. With 97% of the projected population growth over the next 35 years occurring outside the borders of the United States, U.S. coarse grains producers have a laser focus on trade as the new demand driver for their products and co-products. A stable, predictable, and mutually rational trade relationship between the U.S. and China is a top priority for our organization. The U.S. Grains Council's board of directors in their most recent strategic plan (December 2017) has a line item goal of "Give proper attention to the trade relationship with China." No other country was singled out in the USGC strategic plan; that is how important our board feels China is to the future of the U.S. corn, sorghum, and barley sectors.