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International Agricultural Trade Policy and China: Challenges and Opportunities

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I thank you for the invitation to have an open dialogue regarding the challenges and opportunities for trade between China and the United States. Collaboration and open dialogue between our nations around these opportunities and challenges has the potential for immense mutual benefit.

The American Meat Institute is the oldest and largest meat industry association in the U.S. representing the interests of beef, pork, lamb and turkey meat packers and processors as well as 225 equipment and supplier companies which service our packer/processor members. The views and analyses I present here are based on my experiences living in China and my research and interaction with companies trading with China.

China's land area is similar in size to the United States or Brazil, but with a diversified topography and climate which heightens the challenges of fostering successful agricultural enterprises and the feeding of 1.3 billion people daily. Perhaps few people realize that China is the world's largest agricultural producer, by volume, with intense farming systems, sometimes involving double- and triple-cropping, especially in the north central region. This intensive land use expertise with "Chinese characteristics" may have evolved over 5,000 years of history. Add to this profile, severe water shortages in the north China plain, extensive surface water pollution and air pollution, an emerging cold chain distribution system and consumer demands for high quality, safe food products and you can begin to understand the challenges faced by China's leadership and its agroindustry.

As in many countries, China attempts to negotiate the balance between promoting local agricultural production and importing products to meet its surging demand for food in the face of an expanding middle class and growing disposable income over the past 34 years, since "market opening in 1979." Because of these developments, China is now an increasingly sophisticated market as consumers look for the highest quality products and are acutely aware of the importance of food safety. The Chinese, in many respects, are similar to us. They want to trust

their food production system with assurances of quality and safety and want to provide what is best for their families, especially their children's future.

As a market for agricultural products, few countries can match China's short- and long-term potential for the entire array of products available from the United States (and other suppliers) whether bulk, intermediate or high-value, or consumer-ready products for immediate sale. However, as we have seen in other markets around the world with the reduction in import tariffs and quotas as a result of bilateral and multilateral negotiations and the proliferation of "free trade" agreements, non-tariff, sanitary and phytosanitary barriers to trade are now, more often than not, the trade barriers of choice. And, although we often complain about our trading partners' trade restrictive practices we must recognize that the United States has also used this tactic from time-to-time to inhibit trade for reasons other than science or food safety concerns.

With this background, I'll discuss some of our trade policy challenges and opportunities with China relative to the livestock, meat and poultry sectors. In this testimony, I'll refer to the "Chinese market," but this also includes Hong Kong even though Hong Kong technically is a separate customs area from mainland China for trade reporting purposes.

As I noted earlier, few if any countries match China as a potential growth market, especially for beef, pork, poultry and lamb products as well as other sources of protein. In 2012, China imported \$2.1 billion in U.S. beef, pork and poultry products representing 12.1 percent of total U.S. exports of these meat products at \$17.4 billion. This is tremendous performance given the import restrictions China imposes on U.S. beef, pork and poultry, which I will describe below. Since China's accession to the World Trade Organization in 2001, U.S. beef exports (including muscle cuts and variety meats) had by the end of 2012 grown 138 percent in volume and 235 percent in value to \$343 million. Pork products have also had a remarkable run increasing 400 percent in volume and 1,638 percent in value to \$886 million over the same period.

Is this export growth market sustainable? For beef, some estimates project the export impact at an additional \$200 million per year as a result of an official and fully opened Chinese market for U.S. beef. The potential for U.S. pork and lamb is also encouraging if certain restrictions are lifted. From a U.S. perspective in general, over the past 25 years, U.S. exports of beef, pork and poultry have become increasingly important to the long-term viability of the U.S. meat processing sector.

As per capita consumption of meat protein has declined in the United States, in recent years, foreign demand for U.S. meat protein is rising in North Asian markets, Canada and Mexico. In China, with strong economic growth and an expanding middle class with increasing disposable income, meat demand has been very strong. China is the largest pork producer and consumer in the world but is also a very promising market for pork exporters with access to the Chinese market. Recall China's intensive land use on an area equivalent to the United States with four times the human population and five times the number of breeding sows -- 50 million, to be exact. China will continue to face tremendous challenges in food, feed and livestock production over the long-term. The lack of arable land and difficulties in obtaining adequate, clean water sources and relatively low grain yields in the north China Plain indicate that China will continue to rely on imports, but will likely explore technological innovations to improve productivity and

wise use of its limited natural resources. The U.S. is well-situated to supply this demand, not only for meat and poultry products, but also grains, oilseeds, hides and skins, and large variety of intermediate and processed food products of interest to Chinese consumers.

Trade barriers and restrictions to trade based on sanitary and phytosanitary concerns, real or imagined, have grown in recent years. Technical barriers to trade including restrictive licensing, facility registrations or labeling procedures have increasingly restricted access to many markets including China. Overall import tariffs have dropped as a result of the GATT, WTO and various regional and bilateral trade agreements which have come into force since 1994. We will benefit from overcoming the hurdles to get the free trade agreements in place with Korea, Colombia and Panama. I believe it is commendable that U.S. leadership is working very aggressively with the 11-nation Trans Pacific Partnership negotiations and the intent to engage the European Union in the Transatlantic Trade and Investment Partnership negotiations. These efforts should, sooner than later, encourage other countries such as China to become more involved in trade negotiations despite the action of other countries, such as Russia, who appear to be headed down a different path.

In China, U.S. exporters face restrictions on beef because of historic bovine spongiform encephalopathy (BSE) concerns, despite a recent recommendation by the World Organisation for Animal Health that the U.S. should be classified as a “negligible risk” nation. U.S. pork exporters face restrictions over the use of feed additives in production, such as Ractopamine hydrochloride—a feed additive approved by the U.S. Food and Drug Administration in 1999. Recently, U.S. exporters of processed meat products have faced a ban on processed meat products (sausages, bacon) based on a reinterpretation of the 1999 U.S.-China agreement and the imbedded definition of “meat.” U.S. government negotiators, the private sector companies and meat trade associations have worked diligently with the appropriate Chinese officials to resolve these trade restrictions, but the negotiations are tedious and progress is slow.

China’s import situation is complex and the goal of building trust and relationships with Chinese officials and trade contacts cannot be underestimated or assumed. Additionally, restrictions on meat trade ebb and flow based on market conditions, local production and meat supplies, and threat of price inflation at the wholesale and retail levels. Naturally, these are not hard and fast factors, but in general these touch points are of great importance to the Chinese government so supply and demand factors especially in the meat and poultry sectors are monitored closely. Based on my experience, this explains to some extent China’s apparent fluctuations in implementation of import restrictions—when local supplies are plentiful exporting becomes more difficult, especially for pork meat.

I would also like to address the restrictions on U.S. meat exports to China and to consider the current situation for beef and beef variety meats. China is one of many countries which continue to ban imports of U.S. beef based on presumed threats of transmission of BSE since the Canadian imported milk cow case in 2003. In fact, some of our best beef export markets such as Mexico, Japan, Korea and Taiwan still will only accept beef from animals less than 30 months of age despite a lack of scientific justification for these restrictions.

Clearly, the worldwide risk of BSE has diminished dramatically in recent years because of the ban on use of specified risk materials (SRM) in feed. As well, the prevailing general practice in the U.S. is to harvest beef meat livestock before reaching 30 months of age meaning the issue is inherently addressed for our trade partners with these restrictions. However, there is no logical reason not to accept U.S. beef animals or cull dairy or cow-calf cows over 30 months with SRM removed. In Japan, the Government is considering raising the age limit to 48 months to address local producers' requests. If enacted, presumably the relaxation of the requirement would apply to imports as well. Considering these arguments, China could request an age limit of 30 months or less simply because this is the prevailing arrangement the U.S. agreed to with our other major trading partners. We reluctantly accepted the non-scientific restriction to keep U.S. beef products flowing to these important markets and that with the under 30-month age limit we still account for over 80 percent of U.S. domestic beef cattle slaughter.

Regarding pork, China is an excellent market for U.S. pork despite the long-standing ban on imports of pork exhibiting Ractopamine hydrochloride residues. I should note that the Codex Alimentarius Commission reaffirmed the safety of Ractopamine by adopting maximum residue level standards in July 2012 and the compound is approved for use in 26 countries. However, China's February 18, 2013 "Risk Warning Notice" No. 1 declares that importer/agents must provide a "non-Ractopamine residue test" when importing pork from the United States "...in order to protect consumer health."¹ It is well-known and documented that China has had problems with feed additives but mostly with the illegal and misuse of Clenbuterol in animal feed in China. Other incidents demonstrating the lack of rule of law or simply the unconscionable behavior and practices to gain from the introduction of melamine in baby formula or pet food in recent years are examples of how the Chinese government and public must resolve and address human and animal health scandals to protect their citizens. The growing emphasis on food safety, food security and sustainability is the direct result of these scandals and the agricultural production challenges China faces with its resource and environmental constraints.

In seeking to understand China's concerns about use of and standards for hormones, beta-agonists and other livestock production technologies one must consider China's cultural, social and economic perspectives. For example, I recall a lengthy discussion with one Chinese official about the importance of science and valid risk assessments in setting standards for international trade. After numerous arguments and positioning he finally said: "Perhaps our science is different than yours?" This ended our discussion of this topic, but I thought about his comment for days and tried to assess what it meant from a trade perspective.

In contemplation of this official's quote, I thought about the Chinese diet. For those who have traveled to or lived in China, the traditional cuisine is unlike anything available within the U.S. stateside and the regional cuisine is simply outstanding. Many would consider China's traditional diet as quite unusual with its emphasis on consumption of non-muscle cuts, offal, pig feet and jowls, chicken paws, wing tips and other "dark" meat boiled in a hot pot with vegetables and spices. It is from this perspective that Chinese officials make assessments and evaluate the

¹ General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China, Risk Warning Notice, 2013 Notice No. 1, "AQSIQ Notice on the requirement of non-Ractopamine residue test report for pork imports from the United States" dated February 18, 2013.

safety of meat and other livestock products in terms of, for example, feed additives and product exclusions. This explains why last year, following the Codex adoption of maximum residue levels (MRLs) for Ractopamine, China wanted to have additional research on feed additive residues in pig lung tissues. This is not an issue for us in the United States because we do not consume this product. This explains the “different science” and why we must be aware of potential cultural differences which, in the end, impact trade or are considered trade barriers. In some respects, the U.S. has much to gain by developing and maintaining open channels of communication, exchange of technical information and cooperative technical assistance programs to develop a greater understanding of the means to facilitate trade. Technical assistance and market development are not mutually exclusive but are complementary, even in China.

In addition, there is a nexus between domestic economic interests and broader trade issues. China is a market that is appealing and competitive to those exporting meat and poultry products. As noted earlier, this market holds the greatest potential for U.S. packer/processor exporters. Certainly, China’s domestic pork, beef, poultry and dairy production drive or influence the demand for imported meat and livestock products just as it does in the United States and nearly every other market in the world. China monitors very closely the movement of meat and poultry supplies, the daily market trends and the resulting impact on wholesale and retail prices. Two of the most import factors driving economic and trade policy in China are the annual growth in gross domestic product and controlling food price inflation. As a centrally-planned economy, China is suited and positioned to play a role in managing inflationary pressures and now a stronger position in advancing its own trade position and strategy.

Regarding the last point, China perhaps has been the rule taker for many years in terms of adhering to or being forced to adhere to other standards and rules of trade. In some respects we can expect China to take a great leadership role in evaluating and trying to influence global trade standards, regulations and procedures which parallel China’s domestic requirements. As China’s stature and importance as a market has grown combined with its financial strength and reach we should expect China to be more prominent and strict in negotiating trade arrangements as long as it suits their interests.

Finally, with consideration for the recent leadership transition in China our key contacts in the livestock and poultry sectors and in the Chinese government agencies have not changed significantly. Most of the U.S. work on market access, regulatory affairs and trade policy in general involve the following agencies and departments: Administration of Quality, Supervision, Inspection and Quarantine (AQSIQ—equivalent to the Food Safety and Inspection Service, parts of the Agricultural Marketing Service, parts of the Food and Drug Administration and Customs and Border Patrol), the Ministry of Agriculture, the Ministry of Health, the National Development and Reform Commission and the Ministry of Commerce.

To address the meat and poultry market access issues described above, the U.S. Congress should consider the following:

- Recognize the growing importance of exporting and the development of export markets in maintaining the long-term viability and growth of the U.S. livestock, meat and poultry sector.
- Support U.S. participation in international standard setting organizations such as the Codex Alimentarius and the World Organisation for Animal Health (OIE);
- Ensure that U.S. Government agencies and departments involved in market access and trade negotiations are staffed with professionals who understand the U.S. livestock, meat and poultry sector;
- Ensure that the U.S. Department of Agriculture's Food Safety and Inspection Service and Foreign Agricultural Service have adequate resources to regularly meet and engage with appropriate Chinese officials to facilitate communication and strive to remove barriers to U.S. exports;
- Ensure that USDA meat and poultry technical experts are included in all discussions and meetings with Chinese officials on meat market access issues; and,
- Ensure that USDA is afforded the license to create and base our own trading rules, standards and practices on sound science in a timely manner to meet the needs of our trading partners and hold them to these high standards as well.

The opportunities are great and through collaboration and dialogue, the U.S. and China can benefit greatly. Again, thank you for this opportunity and I welcome any questions.