Product Specific Outcomes Under the Economic and Trade Agreement Between the United States of America and the People's Republic of China ("Phase One agreement")

Animal Health Industry

The animal health industry are the innovators of animal medicines used to keep animals healthy – a critical step in ensuring a strong food system and protecting public health. China is just one part of a complex supply chain and represents a growing customer base for animal health products. This complexity is not without its challenges. Animal health companies encounter barriers that impair their ability to do business in China – including investment restrictions; weak intellectual property protections; technology transfer requirements, including a requirement that companies deposit master seed with Chinese regulators; and discriminatory product registration requirements, which make it virtually impossible to register vaccines manufactured outside of China. Additionally, non-science-based measures, such as bans on certain animal medicines, have hindered efforts to expand market access for US animal products.

Positive steps were taken under the China Phase 1 agreement. Under the China Phase I agreement, China agreed to conduct a risk assessment on ractopamine and have a work group based on the results of the risk assessment, recognize the U.S. beef and beef products' traceability system, and establish maximum residue levels for three synthetic hormones legally used for decades in the United States consistent with Codex Alimentarius Commission (Codex) standards and guidelines. Where Codex standards do not exist, China agreed to use MRLs established by other countries that have performed science-based risk assessments. Implementation of these commitments will affect record keeping and sample testing.

Barley

Over the last three marketing years (June-May), China has averaged approximately 6.5 million tons of barley imports. However, U.S. barley exports had been impeded by the lack of a phytosanitary protocol. In the 2019/2020 marketing year, the United States exported negligible volumes of barley to China. Under the Phase One agreement, China and the United States agreed on a protocol that should provide opportunities for both feed barley and barley for malting purposes. With Canada currently the second largest supplier of barley exports to China, the United States (with an industry similar to the Canadian barley industry) has the potential to compete in this market now that phytosanitary issues have been addressed—with possible volumes of several hundred thousand tons.

Biotechnology Innovation Organization

KEY ASK: Refocus efforts to implement key agricultural biotechnology provisions of the Phase One agreement, particularly structural reform commitments related to the approval process of biotech crops imported for feed and processing.

Biotechnology Structural Reform Commitments: The Phase One agreement included important biotechnology commitments, requiring China to implement a transparent, risk based and timely approval process, to complete reviews in an average of 24 months, and limit data requirements to only information necessary to assess safety for a product's intended use. With minor exceptions, China has not lived up to its Phase One agreement biotechnology commitments and has not articulated how recent changes in its regulatory process and policies are intended to meet its obligations under this agreement. The Phase One agreement commitments, if implemented, would mitigate damage to U.S. agricultural innovation resulting from Chinese regulatory delays and forced tech transfer policy. *The Administration should seek immediate implementation of the biotechnology reform commitments contained in the Phase One agreement.*

Cotton

Prior to the retaliatory tariffs imposed by China on imports of U.S. cotton, the United States accounted for approximately 45% of China's total cotton imports. Before the trade dispute, U.S. yarn manufacturers were shipping the equivalent of 150 thousand bales of cotton yarn. However, with the imposition of the 25% tariff, China turned to other suppliers during the 2018 and 2019 marketing years. This allowed Brazil, Australia, and other countries to gain market share.

Under the Phase One agreement, China has once again become the largest importer of U.S. cotton with purchases valued at $1.8 billion in 2020. China's current import pace is a major factor underpinning the current strength in cotton market prices. However, there has been no recovery in U.S. yarn exports to China. Going forward, it is critical that the targets established under the Phase One agreement be achieved. The United States must be diligent in monitoring importer performance to ensure that there are no non-tariff trade barriers imposed and that contract sanctity and purchase commitments are adhered to.

Corn and Sorghum

Feed grain sales to China in the new marketing year have soared, with 18.8 MMT (740 million bushels) of U.S. corn sold as of Feb. 25, 2021, versus a mere 61,000 tons (2.4 million bushels) at the same time in the prior marketing year. Similarly, U.S. sorghum sales to China as of Feb. 25, 2021, have surpassed 5 MMT (197 million bushels) versus just 834,000 tons (32.8 million bushels) at the same time last year, now accounting for 85 percent of total sorghum leaving the country.

China is an enormous market for corn, representing 25 percent of the world's corn demand. China has been importing roughly 2 MMT to 5 MMT annually in recent years, however, the U.S. Department of Agriculture estimates China's corn demand has outpaced its production since 2017. As a result of its burgeoning demand, China's corn imports surged in the second half of 2020, and China is projected to be the world's leading corn importer for the 2020/2021 marketing year (September to August) at 24 MMT. As the world's largest corn exporter, the United States is well-positioned to supply China's increasing demand in future years.

China's large purchases of U.S. sorghum this marketing year have eclipsed the previous high-water mark of 4.7 MMT in sales in 2016/2017. An anti-dumping investigation in early 2018 resulted in a preliminary duty of 179 percent and exports dropped to 628,000 metric tons in

2018/2019. The investigation and preliminary duty have been rescinded and U.S. sorghum's largest market – China – has returned.

Dairy Products

The Phase One agreement reached with China in January 2020 made important progress on regulatory restrictions and other nontariff barriers hindering dairy trade. These changes are a welcome step toward increased market access with the third largest export destination for American dairy products. We also welcome the specific volumes of agricultural products that China agreed to purchase from the United States as a great opportunity to sell more U.S. dairy products. However, following an unpredictable year defined by volatile markets and shifting supply chains, U.S. dairy producers and manufacturers are seeking stability and assurances of more dependable market access conditions. The application-based tariff waiver process has not helped to significantly increase the U.S. dairy industry's market share in China and poses serious market predictability problems given how dairy trade is typically conducted. To take full advantage of the $12.7 billion Chinese dairy market and increase the U.S. dairy market share from its present level of only 4%, further steps should be taken by the U.S. government to facilitate a more predictable trading environment that delivers a more a level playing field with our competitors. Given an opportunity for increased market access, U.S. dairy exports can play an integral role in helping China fulfill its agricultural purchase commitments captured in the Phase One agreement and significantly grow our exports beyond the $539 million total reached in 2020.

Our organizations strongly support the de-escalation of trade tensions via continued negotiations and subsequent removal of retaliatory tariffs on dairy products. In the absence of outright tariff elimination, we urge USTR to seek additional yearlong tariff waivers open to all importers, as successfully implemented for certain whey products already. Waivers granted on an individual exporter basis are not viable for U.S. dairy products to thrive in the long term, as Chinese purchasers turn to our trade competitors for simplicity and stability. Provided adequate steps are taken to alleviate the challenges our exporters currently face and that China maintains its compliance with the numerous non-tariff barrier alleviations provided by the Phase One agreement, China can continue serve as an integral dairy export destination for years to come.

Consistent with provision 3 of Annex 2 on infant formula in Phase One agreement, we ask the State Administration for Market Regulation (SAMR) to uphold the commitment to use U.S. regulations as the basis for regulatory approval of infant formula applications. Using U.S. regulations in all cases and approving the registration in the timeframes specified in provision 3(c), (d) and (e), or a maximum of 105 working days, would be a more consistent and effective approach, would enable the industry to rely more heavily on U.S. facilities as part of their global supply chains to supply the Chinese market and could result in significant additional U.S. exports of infant formula products to China.

Distiller's Dried Grains with Solubles

U.S. distiller's dried grains with solubles (DDGS) sales to China are impeded by prohibitive tariffs and duties following both anti-dumping and countervailing duties cases. China imported more than 50 percent of the exportable supply of U.S. DDGS, or 6.2 MMT valued at nearly $1.8 billion in MY 2013/2014. In 2016, China initiated anti-dumping (AD) and countervailing duty (CVD) investigations of U.S. DDGS exports resulting in final duties of up to 96.2 percent in tariffs and taxes. As a result, exports fell to a record low in MY 2017/2018 of only 168,000 MT ($33 million) and only 180,000 MT ($39 million) in MY 2018/19 and 269,000 MT ($53 million) in MY 2019/20. In addition, DDGs faced an additional 25 percent in retaliatory tariffs that has been exempted. U.S. DDGS are not competitive at current market values, though opportunities exist to recover previous market shares.

Ethanol

As the second largest gasoline market in the world (approximately 50 billion gallons annually), China represents an immense opportunity for U.S. ethanol exports. Despite suspension of its nationwide move to E10, many provinces within China continue meeting its E10 policy mandates. The 1.14 billion gallons of fuel ethanol produced by China in 2019 represent one quarter of the ethanol required for a 10 percent ethanol blend in the gasoline pool at a national level. With a growing fuel market and an appreciation of the octane value of ethanol, China has a significant ethanol production deficit that needs to be filled by the international market.

As the most cost-competitive supplier of ethanol and the only country able to meet such large demand volumes, the United States is poised to serve as a significant contributor to Chinese ethanol imports should tariff issues be addressed, including returning the MFN rate to 5 percent. Prior to the trade dispute, the United States exported $165 million (109 million gallons) worth of ethanol to China in the September 2017/August 2018 marketing year – a figure that could dramatically increase with increased market access and continued adoption of E10 at the provincial and national levels. While U.S. fuel ethanol exports have been limited since March 2018 due to tariffs and duties of up to 70 percent, 21.1 million gallons were shipped in November and December 2020, and in January 2021, the United States exported 22.7 million gallons of denatured fuel ethanol to China. U.S. ethanol is also one of few products within the agriculture portfolio capable of generating $1 billion worth of sales to China in the short term and over time as China reinvigorates its national E10 policy.

Petfood

The Phase One agreement delivered immediate and substantial benefits to U.S. pet food makers, who were largely shut out of the vast and growing Chinese pet food market for decades. The agreement's pet food provisions were operationalized in mid-April but U.S. dog and cat food exports to China still tripled last year, totaling $32.6 million. Conservative estimates of $300 million in U.S. pet food exports to China are well within reach under the agreement, which means more U.S. jobs, especially in our heartland.

Pork and Beef Exports to China

U.S. pork and beef exports to China reached 1.04 million mt, valued at $2.59 billion in 2020. This represented a year/year value increase of 87% and a volume increase of 77%. Multiple factors contributed to the massive increase in red meat exports to China but was in large part facilitated by improving the market access position for U.S. red meat through the Phase One agreement. Removing barriers to trade for U.S. beef exports, including the establishment of Codex MRLs for synthetic hormones and removing onerous traceability requirements for U.S. cattle, were key to the U.S. exporting $310 million of beef and beef variety meat products to China. Likewise, the Phase One agreement expanded the scope of eligible pork products, including further processed pork, and streamlined the approval process for U.S. red meat establishments.

The overwhelming impact of African Swine Fever on domestic Chinese pork production was the critical driver of not only U.S., but global pork exports to China in 2020. U.S. exports reached a record of 996,040 mt, valued at $2.28 billion. This was achieved despite retaliatory tariffs stemming from the Section 232 and 301 investigations of 50 percent. While in early March 2020, China developed a tariff waiver that allows importers to apply for an exemption from the 232-retaliatory tariffs, the United States still exports at a significant tariff disadvantage (33% for pork cuts, 37% for pork variety meats vs. 8% and 12% MFN, respectively) vis-a-vis their global competitors.

There are still outstanding components of the Phase One agreement which necessitate clarification or further implementation on the part of China, including: completing the risk assessment on ractopamine residues, maintaining its commitments to periodic plant list updates, clarification of approved further processed products, and necessary rule making and national standards for veterinary drug residues. Likewise, outside the direct scope of the Phase One agreement, China's opaque testing and disinfecting policies for COVID-19 in cold chain foods threatens to further disrupt the supply chain and dramatically increases risk for U.S. exporters. Overall, the U.S. industry hopes China moves further toward implementing a transparent and science-based import regime aligned with current international and science-based standards.

China is the largest importer of pork and beef in the world, and current U.S. market share is relatively low. There is potential for further growth in U.S. exports to China, especially for U.S. beef, which gained momentum from the second half of 2020.

In short, the United States improved its competitive position in China significantly in 2020, which led to record export growth for pork and beef. The Phase One agreement positioned the industry to capitalize on a short supply situation in China, and there is still vast growth potential. It is critical that the Phase One agreement access is maintained, while also addressing outstanding access and tariff issues, in order to sustain the momentum gained in 2020.

Potatoes

For over 20 years, the United States has sought fresh potato access to China. The Phase One agreement resulted in a market access protocol for U.S. chipping potatoes (potatoes to be processed into potato chips) from the states of Idaho, Washington and Oregon to China. The U.S. potato industry welcomed this hard-fought agreement. Although pleased with this result, a year later, chipping potatoes from the Pacific Northwest have yet to be exported to China. The U.S. potato industry is awaiting China to approve processing facilities in China to receive U.S. potatoes. Once this action occurs, there is strong interest in U.S. product. The U.S. potato industry looks forward to fulfilling the promise of the Phase One agreement and exporting its product to China.

Rice

China has purchased just one container of rice from the United States despite assurances of commercial purchases under the Phase One agreement. China also agreed to come into compliance with the WTO's rulings regarding the administration of its tariff rate quota system for rice as well as domestic support levels for rice, both of which remain unresolved. Additionally, China agreed to properly re-classify U.S. medium/short grain rice to not hinder market access of U.S. exports in the Chinese market, and yet the first commercial shipment was imported under an incorrect classification.

Seafood

For other food exports, China fell well short of its Phase 1 agreement commitments. In the case of seafood, for the first 10 months of 2020, China's purchases were 45 percent *below* the 2017 baseline (comparing January - October data for both years). This sharp reduction in imports from the United States is especially concerning given that China's total global seafood imports for the first ten months of 2020 were 53 percent *above* the 2017 baseline. Given that the seafood market in China is dominated by small, private-sector buyers, only a blanket exclusion from retaliatory tariffs imposed on U.S. seafood imports will enable China to increase purchases and approach its Phase One agreement commitments relating to seafood. China should grant such a blanket exclusion immediately.

USTR must insist on full implementation of Phase One agreement's Chapter 6 purchase obligations for all included U.S. food exports. Where 2020 purchase obligations were not met, USTR must press China to take immediate action to ensure that purchases are increased, and Phase One agreement commitments are met.

Soybeans

U.S. soybean growers were pleased to see China increase its purchase of soybeans in the latter half of 2020 under the Phase One agreement. As the Chinese economy recovers from the Covid-19 pandemic, and Chinese farmers rebuild the domestic swine herd after the outbreak of African Swine Fever, it is expected that China will continue to purchase U.S. soy to meet its purchasing commitments. The importance of the Chinese market to soybean growers cannot be overstated.

While soybean growers hope the United States and China continue with the Phase One agreement, it is also necessary to hold the Chinese accountable for commitments yet unfulfilled. It has been a long-term goal of U.S. agriculture to see significant reforms to China's biotech approvals process; however, the reforms promised under the Phase One agreement have yet to materialize. U.S. soybean growers urge the Biden administration to continue to press Beijing on its commitments to overhaul its biotechnology approval process.

In 2017, the last full year before China increased tariffs on U.S. soybeans by 25 percent, the United States exported $12.2 billion in soybeans to China. Soybeans alone represented 51 percent of the total value of U.S. agricultural exports to China. In 2020, China reentered the U.S. market in a major way and purchased $14.2 billion worth of U.S. soybeans. Soybean sales were 49 percent of the total value of U.S. agricultural exports to China in 2020, nearly matching the pre-trade disruption level. China represents approximately 60 percent of the world's soybean imports, and in 2020 China imported roughly one-third of the total U.S. soybean production. The Phase One agreement's purchase commitment is expected to contribute substantially to U.S. soybean exports to China over the life of the agreement.

Wheat

Recognizing that while China fell short of the purchase targets, it did set a record for agriculture imports from the United States, and a remarkable number of barriers were cleared. The structure of exchanges the agreement set-up provides a solid opportunity to address additional barriers that were not explicitly named in the agreement. Any future trade discussions with China should seek to build on that framework and the successes of the Phase One agreement.

U.S. wheat specific numbers are solid, but are going to pale in comparison to the soybean/corn numbers. The United States did not set any records, but we have seen a doubling of wheat imports from the United States compared to pre-trade war levels. Overall wheat imports into China have made it the world's 3rd largest wheat market – up from being the 19th largest in MY 2018. Or if you want to list tons of sales from the United States instead of rankings, we are at about 3.1 MMT since the signing of the Phase One agreement. That misses a recent chunk of sales to "unknown" destinations, that are almost certainly China.

Similar to corn, China maintains high wheat price supports to incentivize domestic production. To prevent cheaper wheat imports from entering, China has allocated a large share of its wheat tariff-rate quota to its state-owned trading enterprises. The U.S. Trade Representative submitted and won a significant decision at the World Trade Organization against China's inappropriate import barriers. Prior to retaliatory tariffs, U.S. wheat exports to China averaged nearly $150 million annually, and sales for 2020 jumped to $570 million. USDA projects China's over all wheat imports will nearly double in 2021, a significant share of which should be from the United States, in large part due to USTR's effective intervention and the Phase One agreement.