

CRS Report for Congress

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Agriculture and China's Accession to the World Trade Organization

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Summary

The prospect of future growth in demand for agricultural products makes China's accession to the World Trade Organization (WTO) an important issue for the U.S. agricultural sector. Most agricultural interest groups strongly support China's entry into the WTO, because they think it will increase U.S. agricultural exports and enhance farm income. In a November 15, 1999 agreement with the United States, China agreed, upon its accession to the WTO, to substantial reductions in tariffs on agricultural products and to the establishment of tariff rate quotas which expand market access for several agricultural products of interest to the United States. P.L. 106-286, which grants China permanent normal trade relations status (PNTR) contingent upon its accession to the WTO, should help ensure that the United States benefits from China's market opening in agriculture and other sectors. In the 107th Congress, attention is focused on China's final WTO accession negotiations where differences over agriculture have become an issue. This report will be updated as developments warrant.

U.S.-China Agricultural Trade

U.S. agricultural exports to China were estimated at \$1.5 billion in fiscal year 2000, making it the United States' seventh largest market for farm products. An additional \$1.2 billion of U.S. agricultural products were shipped to Hong Kong in 2000. The U.S. Department of Agriculture (USDA) forecasts that exports to China in FY2001 will reach \$1.8 billion. While the United States has an overall bilateral trade deficit with China, its farm exports in FY2000 exceeded imports by \$686 million. In recent years, relatively slow economic growth in China has reduced demand for U.S. agricultural exports, which are well below the \$2.4 billion reached in 1995. Several factors—China's 1.2 billion population, rising incomes, a growing middle class—suggest that in the long term, however, that China has enormous potential as a market for U.S. agricultural products.

This prospect of future growth in demand for agricultural products makes China's accession to the WTO an important issue for the U.S. agricultural sector. Most agricultural interest welcomed the November 15, 1999 U.S.-China agreement on the terms

of the latter's accession to the WTO as a way to deal with tariff and nontariff barriers that have impeded U.S. farm exports and to bring China under WTO dispute settlement procedures. Opposition to China's admission to the WTO came from those skeptical about China's willingness to open its markets to competition and to accept WTO rules and disciplines. Nontrade issues such as China's human rights policies also have led many in Congress to question or oppose U.S. support of China's accession to the WTO.¹

U.S.-China Agricultural Trade Issues

China has restricted market access for U.S. agricultural products through various means. High tariffs, quantitative barriers, sanitary and phytosanitary measures, and regulations that preclude commercial activities of U.S. exporters of agricultural products in China have been major obstacles to U.S. agricultural exports.

China's average tariff rate for agriculture is around 22%, but many products are protected by much higher rates. Tariffs for grains, oilseeds, and tobacco have been as high as 100% ad valorem. Tariffs, however, can vary as products may be exempted from published rates or be treated differently at different geographical points of entry. Meat tariffs have averaged around 45%, with the highest rates applied to imports of beef. Market access has been limited despite a 1979 bilateral agreement that dealt with access issues.

Sanitary and phytosanitary (SPS) measures also have impeded U.S. agricultural exports. In a 1992 bilateral memorandum of understanding (MOU) on market access, China agreed to base its SPS standards on scientific information and risk assessment. The Office of the U.S. Trade Representative (USTR) reports that China has generally met this requirement, but acknowledges that China's SPS standards are often "overly strict, unevenly applied, and not backed up by modern laboratory techniques."

China has used SPS restrictions to block U.S. exports of wheat, meats, and citrus. For more than 20 years, China's ban on the importation of wheat affected with TCK smut, a wheat fungus, has blocked exports of wheat from the Pacific Northwest. U.S. plant scientists have maintained that TCK poses no human health threat nor does it alter the baking quality of wheat. China has admitted meat products from only five approved U.S. plants. Also banned has been the entry of citrus fruits from all parts of the United States because of past infestations of Mediterranean fruit flies in certain U.S. regions.

China also limits the types and numbers of enterprises that have the legal right to engage in international trade ("trading rights"). 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 can be imported only or principally through state trading enterprises (STEs).

¹ Other CRS reports deal with China's accession to the WTO, China's economy, and U.S.-China foreign policy differences, including *China and the World Trade Organization*, CRS Report RS20139; and *China's Economic Conditions*, CRS Issue Brief IB98014, updated regularly

WTO Accession and China

Negotiations over a country's prospective admission to the WTO proceeds along two lines—bilateral negotiations between an applicant and its major trading partners, and multilateral negotiations to develop a “protocol of accession” in a Working Party composed of interested WTO members. Bilateral negotiations address primarily market access issues of importance to trading partners but can also deal with protocol issues concerning the applicant country's adherence to WTO rules and obligations. China has completed accession negotiations with most of its major trading partners including the European Union, Australia, Canada, and Japan in addition to the United States. Multilateral negotiation, between China and members of the Working Party, focus on consolidating China's best market access offers and the way in which WTO rules and obligations will be applied.

Accession negotiations concluded in November 1999 between the United States and China resulted in broad market opening commitments for agricultural products once China becomes a WTO member. In addition, April 1999 negotiations resulted in three important bilateral agreements on agricultural trade. These include specific commitments by China to remove certain SPS measures that have blocked trade.

China's Agreements on Market Access Commitments

China's market access commitments, which would be implemented upon its accession to the WTO, are global and open to all WTO members. Conversely, China's commitments on SPS measures for wheat, meats, and citrus are specific to the United States. The agricultural market access measures include tariff reductions, the establishment of tariff rate quotas for bulk commodities, commitments not to use export subsidies and to reduce domestic support, and a phase-out of restrictions on trading rights. These agreements would provide opportunities to U.S. producers to compete with other agricultural exporting WTO members for potentially larger shares of China's markets for agricultural products.

Tariffs. Upon accession, China would reduce its tariffs for agricultural products from an average level of 22% to 17%. The average tariff reduction for several U.S. agricultural products, including soybeans, meats, fruits, wine, and dairy products, would drop from 31.5% to 14.5%. Tariff cuts would be phased in by 2004, the date when WTO members (that are developing countries) will have implemented their Uruguay Round tariff cuts. Specific tariff cuts for selected products include:

Product	Current level(%)	2004 (%)
Soybeans	(not available)	3
Beef	45	12
Pork	20	12
Poultry	20	10
Citrus	40	12
Grapes	40	13
Apples	30	10

Product	Current level(%)	2004 (%)
Almonds	30	10
Wine	65	20
Cheese	50	12
Ice Cream	45	19
Source: USTR		

Tariff Rate Quotas (TRQs). China has agreed to establish TRQs for bulk agricultural commodities as part of its accession agreement. A TRQ provides for a specified level of imports up to a quota limit with low tariffs on within-quota imports. Imports above the quota would be assessed a higher duty. Establishment of TRQs meets WTO requirements that nontariff quantitative barriers be converted to tariff rate quotas. TRQs for several commodities of interest to U.S. producers include:

Product	Year	TRQ Quota (mil. tons)	1997/99 Imports (mil. tons)	U.S. Exports 1997/99 (thous. ton)	Non-state TRQs (%)	TRQ Tariff Rate (%)	Over-quota Tariff Rate (%)
Wheat	2000	7.3	1.47	301.9	10	1	77
	2004	9.6					
Corn	2000	4.5	0.28	176.0	25	1	77
	2004	7.2					
Rice	2000	2.6	0.29	0.465	50	1	77
	2004	5.3					
Soybean Oil	2000	1.7	3.68	277.9	50	9	74
	2004	3.3					
Cotton	2000	0.743	0.64	7.0	67	4	69
	2004	0.894					
Source: USDA, U.S. international Trade Commission (USITC), and USTR							

No TRQ will be established for barley, but its tariff will be reduced to 9%.

Trading Rights. China agreed to eliminate restrictions on trading rights for both agricultural and industrial products over a three-year phase-in period. At the end of that transition period, all foreign and domestic enterprises will have trading rights. Full trading and distribution rights will enable U.S. firms to deal directly with Chinese customers rather than through intermediary companies with exclusive rights to import.

Export Subsidies. China also agreed not to use export subsidies on corn, cotton, and rice. China's export subsidy commitment is complementary to a U.S. objective in ongoing multilateral trade negotiations on agriculture, i.e., the elimination of agricultural export subsidies.

Domestic Support. China committed to cap and reduce trade-distorting domestic subsidies and to make them more transparent and predictable. The specific level of reduction will be determined in protocol negotiations with the Working party on accession.

SPS Measures. China will abide by the terms of the WTO SPS Agreement which requires that animal, plant, and human health import requirements be based on science and risk assessment.

Anti-dumping and Safeguards. The Agreement permits the United States to continue using its non-market economy methodology for determining anti-dumping duties for 15 years after China's accession to the WTO. A special safeguard will permit the United States to restrain import surges from China that cause or threaten market disruption for 12 years after accession.

U.S.-China Bilateral Agreements on Wheat, Meats, and Citrus

In the course of the accession negotiations, China and the United States reached an agreement on the application of sanitary and phytosanitary restrictions on wheat, meat, and citrus imports. These agreements were negotiated in parallel with the agricultural market access agreements that would be part of China's protocol of accession to the WTO, but, in principle, became effective immediately on signature. The agreements were signed on April 14, 1999, and resolved several longstanding agricultural trade disputes between the United States and China. Implementation of these bilateral agreements slowed to a standstill when the accession negotiations ceased. Conversely, the accession agreement reached in November appeared to remove any obstacle to China's implementation of the agreements. In the interim, China has made purchases of U.S. wheat, meats, and citrus under these bilateral accords. The specifics of the agreements are:

- ! China will eliminate restrictions on wheat imports from the Pacific Northwest imposed out of concern for TCK smut;
- ! China will open its market to U.S. pork, beef, and poultry imports by agreeing to accept USDA certification of the safety of U.S. products exported; and
- ! China will eliminate its comprehensive ban on imports of U.S. oranges, grapefruit, and other citrus fruit.

Impact on U.S. Agriculture

USDA estimates that China's accession to the WTO would potentially add \$1.6 billion by 2005 to the annual total of U.S. exports of grains, oilseed products and cotton. These gains would come from increased exports to China as well as from increased exports elsewhere. U.S. farm income would rise because of the increase in exports. USDA and other analyses caution, however, that the magnitude and timing of China's imports of agricultural products will depend on the extent and pace of changes in China's domestic agricultural production, pricing and marketing policies, and institutions in response to a more liberalized trade environment.

Congress and China's Accession to the WTO

During the 106th Congress, President Clinton requested and Congress enacted legislation (P.L. 106-286) to accord China permanent normal trade relations (PNTR) status. This legislation, which extends to China the same low tariffs applied to other member countries of the WTO, will help ensure that the United States can take advantage of market openings for agriculture and other sectors when China enters the WTO. During the debate over PNTR, many U.S. agricultural organizations, particularly those representing commercial farmers and agribusinesses, argued that PNTR along with China's accession to the WTO would (according to USDA estimates) potentially increase U.S. farm exports by \$1.6 billion by 2005, and thus raise farm prices and incomes. Failure to grant PNTR would have ceded these market opportunities to U.S. competitors, they argued. Opposition to PNTR arose from skepticism about China's willingness to open its markets to competition and to accept WTO rules and disciplines. Opponents also raised other issues such as China's questionable human rights policies and labor standards, and U.S. national security concerns.

Once the 106th Congress had acted on PNTR, attention turned to final negotiations on China's WTO accession agreement where differences over agriculture have emerged as a main obstacle to completing the accession protocol. China is holding out for treatment as a developing country when it comes to exemptions from reduction commitments for trade-distorting domestic farm subsidies – 10% of the total value of agricultural production exempted from cuts, versus 5% for developed countries. The United States argues that China should be held to the lower 5% exemption because it is such a large actor in world agricultural markets. China also wants a longer period of time to phase in its domestic support reductions. Because of these and other differences, the timing of China's accession may be pushed back until the end of the first quarter of 2001 or even later.

Congressional committees in the 107th Congress (the House Ways and Means, Senate Finance, and House and Senate Agriculture Committees) have indicated that they will closely monitor China's accession negotiations. Because PNTR authority will not take effect until China accedes to the WTO, the 107th Congress could confront the issue of temporarily extending NTR status to China for another year. Congressional debate of a Presidential waiver of denial of NTR to China (under the Jackson-Vanik Amendment to the Trade Act of 1974, P.L. 93-618, section 401) would likely evoke many of the same issues raised during the debate over PNTR in the 106th Congress.