

**Statement by Gary Joachim, Vice President
American Soybean Association**

before the

**Committee on Finance
United States Senate**

on

U.S.-China Economic Relations

March 29, 2006

Good morning, Mr. Chairman and Members of the Committee. I am Gary Joachim, a soybean and corn farmer from Owatonna, Minnesota. I currently serve as Vice President of the American Soybean Association. ASA represents 25,000 producer members on national issues important to all U.S. soybean farmers. We appreciate your invitation to testify today on the current state of U.S.-China economic relations.

It is impossible to overstate the importance of China as a market for U.S. soybeans. In 1996, the U.S. sold \$414 million worth of soybeans to China – a significant market at that time. Last year, the value of our soybean exports reached a record of nearly \$3.0 billion. This represents more than a seven-fold increase in a decade in which China emerged as the largest foreign buyer of U.S. soybeans. The 405 million bushels we exported to China in 2005 represented 40 percent of total U.S. soybean exports, and 13.5 percent of last year's U.S. soybean harvest.

Prospects for continued growth in Chinese soybean imports are excellent. China's total population of 1.3 billion is close to leveling off, but its urban component has more than doubled since 1980, from 20 to 42 percent of the total population. As urban per capita income has risen to \$1,300 per year, more Chinese consumers can afford a diet higher in protein and vegetable oil. Annual consumption of protein meal, including livestock products, is currently 30.9 pounds per capita, just 27 percent of the protein we consume in the U.S. China's per capita consumption of vegetable oil is 15.7 pounds per year, or 44 percent of our level of consumption. As protein and vegetable oil demand continue to grow, China's inability to significantly expand domestic production of soybeans and

other oilseeds and feeds means that most of these requirements will be met through imports.

ASA has worked closely with this and previous Administrations to increase access to this growing Chinese market through trade negotiations. We provided specific objectives to U.S. negotiators during talks on China's accession to the World Trade Organization, and strongly supported Congressional approval of this agreement. As negotiations under the current Doha Round proceed, additional reductions in China's agricultural tariffs and expansion of its tariff-rate-quotas (TRQs) will be critically important to achieving a successful final agreement.

I would like to comment more specifically on the importance of improved market access in China in the Doha negotiations. According to preliminary analysis by the American Farm Bureau Federation, China will play a significant role in the final economic impact of a WTO agreement on global agricultural trade. The analysis assumes that China will be subject to whatever market access commitments are required of developing countries. It also does not take into account the possible exclusion of Sensitive or Special Products from formula tariff reductions.

Based on these assumptions, the Farm Bureau analysis indicates that China will account for between 35 and 40 percent of total world agricultural trade gains from a new WTO agreement. This amount includes 85-90 percent of increased global trade in soybeans and soybean oil, and 40-45 percent of the trade gain for soybean meal. China also will account for a substantial amount of the increase in world trade for other agricultural commodities: wheat (85-90 percent), corn (60-65 percent), barley (50-55 percent), poultry (45-50 percent), and beef (35-40 percent).

Given the high dependence of increased exports of key U.S. agricultural products on improved market access in China, it is critically important that China accept the same tariff reductions required of other developing countries. We must also prevent key U.S. agricultural product exports, including livestock products, from being excluded from full tariff reductions or TRQ expansion through designation as Sensitive or Special Products. Unless China is a full participant in the market access negotiations, it is doubtful there can be enough expansion in trade in a final agreement to justify the concessions the U.S. has offered to make on reducing trade-distorting domestic support.

ASA is aware of concerns with China's \$200 billion-plus trade surplus with the U.S., and of proposals to impose a high punitive tariff on Chinese imports if China does not revalue its currency against the Dollar. As we indicated in testimony to the Committee last June, we are concerned that higher tariffs on Chinese goods could trigger retaliation by China against U.S. imports. As an alternative for addressing the trade imbalance, we would encourage the Committee to ensure that China undertakes full market access commitments in the Doha negotiations, and that the number of agricultural commodities that can be designated as Sensitive or Special Products be extremely limited. If successful, this course of action would increase U.S. agricultural exports to China, rather than causing them to be further restricted.

As we also indicated in our June testimony, our industry's trade relations with China have not been without difficulties. These problems have included uncertain and changing requirements on imports of biotech soybeans, and various restrictions based on the reported presence of diseases or fungicide residues in soybean shipments. While we have not experienced these disruptions in the past two years, the potential for unexpected actions in the future remains a serious concern. However, we believe the relatively smooth course of our trade relations with China in recent years is due, in part, to the resolution of disputes through reinforcement of the mutual benefits of free and balanced trade, rather than through public confrontation.

In closing, Mr. Chairman, China is a vital and growing market for U.S. agricultural sales. Including China as a full participant in the current WTO market access negotiations is critical to achieving a meaningful improvement in world trade in agricultural products. ASA urges the Committee to focus on this priority as it addresses the current U.S.-China trade imbalance.

Thank you again for the opportunity to appear today. I will be happy to answer any questions.