Statement of the American Soybean Association
and U.S. Soybean Export Council
to the
U.S. China Economic and Security Review Commission
April 16, 2018

Introduction

This testimony is on behalf of both the American Soybean Association (ASA) and the U.S. Soybean Export Council (USSEC).

ASA is the national organization that represents U.S. soybean farmers on policy. USSEC is the international representative for U.S. soybeans maintaining a global network of international offices to help build a preference and ensure market access for U.S. soybeans and soybean products. We appreciate the opportunity to submit written testimony and commend you for holding this hearing to review the agricultural trade relationship between China and the United States.

In 2017, U.S. farmers produced record 116.9 million metric tons of soybeans and exported the equivalent of 62 percent of the crop, valued at $28.7 billion. For the last 20 years, soybeans have contributed more to the U.S. trade balance than any other agricultural product. We are very proud of this record, and of our role in helping to feed a growing world.

China is the world's largest soybean importer, buying over 93 million metric tons of soybeans in 2016/2017, mostly from Brazil, the U.S. and Argentina. In 2017, China imported 36.3 million metric tons of U.S. soybeans, 62 percent of total U.S. exports and nearly one-third of our annual soy production. Over the next 10 years, Chinese demand for soybeans is expected to grow annually by the size of our entire export market to the EU.

The U.S. Role in Developing the China Soybean Market

The U.S. government and farmers have partnered for decades and spent millions of dollars to establish foreign markets for U.S. soybeans. China is perhaps our most impressive success story. U.S. soybean growers opened an office in Beijing in 1982. At that time, China did not have a vertically-integrated animal feed industry, and livestock production lacked health and nutritional standards. China has the largest swine herd in the world but, at the time, much of it was backyard-based and its ration did not include soybean meal. Similarly, while China produces more fresh water fish than the rest of the world combined, none of its fish feed included soybean meal 20 years ago.

Through a long-term and comprehensive program to demonstrate the value of soy-based feeds, USSEC and its international marketing predecessor helped build demand for soybeans to the level China imports today. Since 1995, while feed use in China grew by 140 percent, soybean meal used in animal feed rose an unprecedented 839 percent. And we've seen the amount of soybean meal used in aquaculture feeds grow from zero just 20 years ago to 7 million metric tons this year. The value of U.S. soybean exports to China has grown 26-fold, from $414 million in

1996 to roughly $14 billion in 2017. Potential tariffs would put years of work to expand markets, and the livelihoods of thousands of U.S. farmers, in jeopardy.

Concern about a Trade War

Since early last year, the U.S. soybean industry has been very concerned about getting into a trade war with China. This concern was heightened when President Trump announced his decision to impose tariffs of 25% and 10%, respectively, on steel and aluminum imports. Our fears were confirmed after the Administration announced tariffs on an additional $50 billion of Chinese imports under Section 301 when China stated its intention to place a 25 percent tariff on imports of U.S. soybeans and other products. With this announcement, retaliation is no longer a "what if." The prospect of an escalating trade war has already created significant uncertainty in the U.S. soybean market and has driven up premiums for Brazilian soybeans from $10 to $30 per metric ton.

Economic Impact of Chinese Tariffs

Retaliation by China against U.S. tariffs would undercut prices received by soybean producers and further hurt the already depressed farm economy. Crop prices are down 40 percent since 2013, and farm income has fallen by 50 percent. Operating margins are slim, and farmers cannot absorb additional hits to the farm economy.

According to a study for the U.S. Soybean Export Council conducted by Purdue University, soybean exports to China could drop dramatically if China chooses to impose a 25 percent tariff on U.S. soybeans. Using an advanced version of the Global Trade Analysis Project (GTAP) model developed at Purdue, the study projects that China's soybean imports from the U.S. would fall by 65%, total U.S. soy exports would drop by 37%, and U.S. soybean production would decline by 15%.

It has been argued that trade in agricultural products is fungible, and that the loss of one market to a competitor will be replaced by other markets which that competitor will no longer sell to. In the case of soybeans, this argument fails to recognize that our largest competitor, Brazil, is continuing to expand soybean production on new lands. Brazil is already the world's largest soybean exporter, including to China, and would respond quickly in the event U.S. trade actions trigger retaliation against our soybean exports. We simply cannot accept the risk a trade war would create for our industry.

In addition to the concerns of U.S. soybean farmers, other commodity producers are at risk of losing critical sales to the China market. As a result of the prospective Section 301 and Section 232 tariffs, China has also threatened to retaliate against pork, sorghum, wheat, corn and beef. Last year, the value of China's imports totaled $1.1 billion for U.S. pork, $1 billion for cotton, $1.1 billion for sorghum, $450 million for wheat, $150 million for corn and $11 million for beef. Actions that threaten these markets have the potential to upend the farm and rural economy and put the livelihoods of farmers in jeopardy.

Opportunities to Improve Trade

Today there is an opportunity to make substantial progress towards a "reset" with China on a number of matters. While China is such a significant player in global soybean trade, there are a couple of issues that have created considerable frustration for players along the U.S. soybean value chain. The first is biotech approvals. China's regulatory framework for approving biotech traits for imports is asynchronous by design but also is slow and arduous lacking predictability, transparency and scientific justification for some of the requirements. The slow approval of new biotech traits has resulted in U.S. farmers and other farmers around the world to not have the latest technologies available to address very real issues, especially pest controls. This brings up another issue that has emerged in trade with China; weed seeds. China's Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) raised concerns to USDA APHIS about weed seed content in U.S. shipments. Through negotiations, it was determined that a short-term solution would be to make an additional declaration on the phytosanitary certificate. This additional declaration has created uncertainty in the trade due to the lack of a specific assurance and process on the Chinese side for how such shipments will be handled. We believe additional clarity could be achieved to help ease the concerns of the export companies to ensure uninterrupted trade. In addition, improved biotech approval procedures would also help reduce the weed seeds in shipments by allowing farmers access to new technologies.

Conclusion

Soybeans are the Nation's number one agricultural export and the soybean industry is an essential part of helping lower our trade deficit with China. We believe that expanding market access can play a vital role in increasing our agricultural trade surplus. We would like to see the United States and China work towards a solution that allows soybean farmers be part of the solution instead of collateral damage from a potential trade war.