



U.S. Department of Agriculture
Foreign Agricultural Service
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Permanent Normal Trade Relations With China
What's at Stake for Wheat?

Congress must grant China permanent normal trading relations (PNTR) status to guarantee that American agriculture benefits from the concessions the United States negotiated bilaterally under the World Trade Organization (WTO). Failure to grant China PNTR would mean that our Asian, European, and Latin American competitors would enjoy these benefits while American agriculture would lose out.

The Market

China is the world's largest wheat producer (115 million metric tons) and has had three bin-busting crops in a row, resulting in a dramatic cut in imports. Good weather and high guaranteed prices are chiefly responsible for the increase. Winter wheat accounts for nearly 90 percent of total production; the rest is mostly low-quality spring wheat. Wheat quality is variable and joint venture mills regularly import wheat to improve flours.

In recent years, China has pursued policies promoting domestic production and used other barriers such as state trading and phytosanitary bans to curtail imports. U.S. wheat exports to China have seen a dramatic slowdown. U.S. wheat exports to China in calendar 1999 were only 258,000 tons, valued at \$32.9 million, most of which was Soft Red Winter and Hard Red Spring.

In anticipation of its entry into the WTO and to stem overproduction, China has lowered wheat protection prices and initiated a phasing out of government purchases of low-quality wheat. This is expected to reduce marginal areas planted to winter wheat in northwest China and the region south of the Yangtze River, and spring wheat areas in northeast China. Lower prices will reduce wheat production overall, may modestly increase consumption, and, in turn, fuel higher imports. South China is the likely destination for much of the additional imports, needed for high-quality noodles, cakes, biscuits, and pastries. North China should continue to be supplied primarily by domestic production, though it, too, relies on imported wheat for blending purposes.

The Opportunities

- Despite large domestic wheat production, China's wheat quality is variable. This provides the United States with an opportunity to sell top-quality, high-protein wheat on a regular basis, especially to mills in urban areas.
- As part of the U.S.-China Agricultural Cooperation Agreement, China lifted a longstanding

phytosanitary ban on U.S. wheat from the Pacific Northwest due to concerns over TCK smut -- a minor plant disease occasionally found in U.S. grains. Exporting to China through Pacific Northwest (PNW) ports clears a major hurdle for increasing shipments from the United States by lowering shipping costs by up to 10 percent.

- When China accedes to the WTO, it will establish a tariff rate quota (TRQ) at 7.3 million tons, rising to 9.6 million tons in 2004. Ten percent of this market opportunity is reserved for the private sector. The United States and China have agreed on specific rules for TRQ administration to maximize the possibility that TRQ's are filled. Unutilized quota amounts will be reallocated to other importers.
- Although China currently has a TRQ for wheat with an in-quota duty of 1 percent and an out-of-quota duty of 114 percent, the quota amount has never been announced. A state trading entity called the China National Cereals, Oils, and Foodstuffs Import and Export Corporation (COFCO) controls the market, allowing only minimal imports. China's concession to reallocate unutilized quota amounts to other importers presents a major market opportunity for U.S. wheats. The country's accession to the WTO will include a commitment to keep the in-quota rate at 1 percent and reduce the out-of-quota rate to 65 percent by 2004.

The Bottom Line for the U.S. Wheat Industry

- Expanded access to a country where the demand for quality wheat is growing means that farmers in the wheat industry have new market opportunities. China has committed to cap and reduce trade-distorting domestic subsidies which will lower its domestic prices, decrease production and open the market to greater competition from suppliers such as the United States.
- In 1998/99, about 40 percent of U.S. wheat production was exported. The bottom line is that a large share of each wheat farmer's income originates from export sales.
- Granting permanent normal trade relations to China and China's accession to the WTO will benefit the whole supply chain, creating economic benefits not only for U.S. wheat growers, exporters, and cooperatives, but also for companies involved in port handling, transportation, and storage.
- In 1998, total foodgrain exports of \$4.3 billion supported nearly \$8.1 billion of total economic activity in agriculture and related industries. These foodgrain exports contributed nearly 75,950 jobs to the nation. Wheat accounted for about 86 percent of total foodgrain exports. Kansas, North Dakota, Montana, and Oklahoma are the leading wheat-producing states. The rest of the economy gains from wheat exports through supplying inputs, export services, storage, transportation, insurance, finance, and other related services.