USDA

***Fact Sheet***

U.S. Department of Agriculture
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# *Permanent Normal Trade Relations With China*
# What's at Stake for Fresh and Processed Fruits and Vegetables?

China's successful entry into the World Trade Organization (WTO) will dramatically cut import barriers currently imposed on American agricultural products, including fresh and processed fruits and vegetables. The bilateral accession agreement China signed with the United States locks in lower tariffs, allows U.S. companies to more freely market and distribute products, and commits China to use sound scientific measures for phytosanitary import regulations. China made a significant concession by agreeing to a 12-year product-specific safeguard to protect the U.S. market from import surges. Even after that period ends, Section 201 safeguard provisions will remain available to address potential increasing U.S. imports. China's economy is already among the world's largest and over the past 20 years has expanded at a phenomenal rate of nearly 10 percent per year. Incomes among many segments of the population are increasing rapidly, raising demand for high-quality imports of grapes, apples, vegetables, wine, juice, and many processed products, such as frozen potatoes.

Congress must grant China permanent normal trading relations (PNTR) status in order to guarantee that American agriculture benefits from the concessions the United States negotiated bilaterally under the WTO. Even if Congress fails to approve PNTR, China will likely become a member of the 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 has already become an important market for U.S. fresh and processed fruits and vegetables, although many U.S. cargoes enter China as transhipments via Hong Kong. U.S. statistics show that direct U.S. exports to China in 1999 were valued at $25 million, up dramatically from $2 million in 1993. U.S. sales of fresh and processed fruits and vegetables to Hong Kong reached $108 million in 1999, about 20 percent more than shipments in 1993. According to official Chinese statistics, China imports about $350 million annually in fresh and processed fruits and vegetables, up 25 percent from just two years ago. Market liberalization through China's implementation of its WTO commitments for lower tariffs and fewer phytosanitary and technical barriers (such as labeling) can substantially increase U.S. sales.

As incomes in China increase, the market for high-quality U.S. products will grow. China has one-fifth of the world's population and its economy has grown an average 10 percent annually since 1980 and is expected to grow 7 percent annually until 2010. As per capita income rises, demand for high-quality fruits and vegetables available from the United States will increase. Poor storage and distribution facilities currently hamper the ability of U.S. exporters to service China's market, but as the market strengthens, more investment is being made in restaurants, supermarkets, and supporting refrigeration and handling infrastructure.

**The Opportunities**

- Once China accedes to the WTO all non-tariff barriers must be eliminated. Any other measure, such as inspection, testing, and domestic taxes must be applied in a manner that is consistent with WTO rules requiring a transparent and non-discriminatory system.

- U.S. companies will be able to more freely market, distribute, and provide sales services through China's liberalized distribution system, a primary commitment sought by U.S. agricultural exporters. China now generally prohibits companies from distributing imported products, an obstacle that will remain in place without PNTR. China's distribution commitment, phased in over three years, is comprehensive, covering commission agents services, wholesaling, retailing, franchising, sales away from a fixed location, as well as related subordinate activities such as inventory management.

- China has committed to a strong product-specific safeguard that allows the United States to address import surges. Specifically, the safeguard allows the United States to restrain increasing imports from China that cause or threaten to cause market disruption for 12 years after accession. After that, current U.S. safeguard provisions--Section 201--remain available to address increasing imports.

- Fruits and vegetables will face fewer trade restrictions once China is a WTO member, and phytosanitary measures must be based on sound scientific principles. Any future disagreements can be settled through the dispute resolution mechanism.

**China's accession to the World Trade Organization is expected to result in significant new export opportunities for U.S. fresh and processed fruits and vegetables as high duties come down.**

- **Fresh Table Grapes:** Currently U.S. exports of fresh table grapes to China face duties of 40 percent. With WTO membership, not only will licensing, distribution, and phytosanitary measures decline in use, but China will lower tariffs to 13 percent by 2004.

- **Vegetables:** As incomes in China increase, the market for high-quality U.S. products such as lettuce, broccoli, sweet corn, and potato products will grow. Tariffs are scheduled to shrink slightly from an average 13 to 10 percent, but the WTO commitments on licensing and distribution offer enormous potential for growth in the high quality market niche.

- **Apples:** After China accedes to the WTO, it will reduce the tariff on apples from 30 to 10 percent, making U.S. apples more affordable. Currently, China permits imports of only fresh

Red and Golden Delicious apples from Washington, Oregon, and Idaho, excluding other varieties and other states. As a WTO member, China would be required to adhere to the science-based rules of the Sanitary and Phytosanitary agreement, which could serve to speed the approval of other apple varieties and other states, expanding opportunities for U.S. apples.

- **Frozen Potato Fries:** Under China's accession to the WTO, China's tariffs on frozen potato fries will drop on average from 25 to 13 percent. Exports of this product to China have significant market opportunities given the expansion of China's fast-food industry.
- **Other Fruits, Grape Juice and Wine:** With WTO membership, China will reduce tariffs for pears, cherries, and peaches from 30 to 10 percent and plums and raisins from 40 to 10 percent. More processed products such as grape juice will see duties shrink from 35 to 20 percent by 2004. Tariffs on wine will be reduced from 65 percent to 20 percent by 2004. Rising incomes will make each of these products more attractive to consumers.

**The Bottom Line for the U.S. Fresh and Processed Fruits and Vegetables Industry**

- Reduced tariffs, phytosanitary, and technical barriers will lower prices for imported products and in the face of rising demand accelerate U.S. exports, provided Congress passes PNTR and China accedes to the WTO.

- Exports have become critical to the U.S. fruit and vegetable industry as a large share of its farm income originates from export sales. For example, about 12 percent of U.S. apples are exported now, compared with 6 percent several years ago. Trends indicate that exports will become increasingly vital to U.S. fruit and vegetable producers and processors.

- Many U.S. fruit and vegetable industries are currently facing enormous challenges in the domestic market, including oversupply, low prices, and increased foreign competition. For example, U.S. apple prices recorded their lowest level in 10 years during the 1998/99 season. The U.S. potato industry has focused its attention on developing and expanding export markets, mainly because of increased competition from Canadian potato products. Expanding exports, especially to a country as populous as China, would provide much needed relief from some of the U.S. industry's current problems.

- In 1998, U.S. fruit and vegetable exports (fresh, processed, or frozen) of $5.4 billion supported nearly $11.8 billion of total economic activity in agriculture and related industries. These exports contributed nearly 84,000 jobs to the nation. California, Florida, Texas, Washington, and Oregon are the leading producing and processing states. The rest of the economy gains from exports through supplying inputs, export services, storage, transportation, insurance, finance, refrigeration and other related services.