



U.S. Department of Agriculture
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Permanent Normal Trade Relations With China
What's at Stake for Tree Nuts?

China's successful entry into the World Trade Organization (WTO) will dramatically cut import barriers currently imposed on American agricultural products, including tree nuts. 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'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 almonds, pistachios and walnuts, among others.

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 loses out.

The Market

Nut snacks are to the Chinese what popcorn and potato chips are to U.S. consumers. This popularity is increasing as the high nutritional value and health effects of all nuts are communicated. China offers great opportunities for increased pistachio and almond sales, since there is no domestic production. Pistachios and almonds, along with other nuts, also have real growth potential as snacks for urban, middle income consumers and in China's growing, high-quality baking, hotel, and restaurant industries.

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 tree nuts from the United States will increase.

China's per capita tree nut consumption is well below other Asian markets, such as Japan and Korea. China's large urban population and strong economic growth present a substantial export opportunity especially when, as demonstrated elsewhere in Asia, there is a sustained market development effort.

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, transparent and non-discriminatory.

- The current import tariffs for pistachio and shelled almond imports are 35 and 30 percent, respectively. China's WTO accession includes a commitment to reduce those tariff rates to 10 percent for both by 2004. Additionally, the tariffs for shelled hazelnuts and shelled/canned walnuts will be reduced from 30 to 10 and 20 percent, respectively. The lowering of these tariff barriers will make U.S. nuts more affordable.
- 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.
- Tree nuts will face fewer trade restrictions once China is a WTO member and its phytosanitary measures must be based on sound, scientific principles. Any future disagreements can be settled through the dispute resolution mechanism.

The Bottom Line for the U.S. Tree Nut Industry

- The reduction of tariff barriers in China, a country where the demand for nuts is enormous, means that U.S. almond and pistachio growers will have more outlets for their products.
- In 1998, about 60 percent of U.S. tree nut production was exported. The bottom line is that a large share of each grower's income is dependent on export sales. Increasing export markets for U.S. tree nuts is critical to the future viability of the farm economy.
- In 1998, U.S. tree nut exports of \$1 billion supported nearly \$1.9 billion of total economic activity in agriculture and related industries. These exports contributed nearly 18,100 jobs to the nation. California, Florida, Texas, and Washington are the leading tree nut producing states. The rest of the economy gains from exports through supplying inputs, export services, storage, transportation, insurance, finance, and other related services.