Fact Sheet

U.S. Department of Agriculture
Foreign Agricultural Service
May 2000

Permanent Normal Trade Relations With China
What's at Stake for Oilseeds and Products?

China's successful entry into the World Trade Organization (WTO) will dramatically cut import barriers currently imposed on American agricultural products, including oilseeds and products. The bilateral WTO accession agreement China signed with the United States locks in structural reforms, tariff-rate-quotas, lower tariffs, and commits China to use sound scientific measures for phytosanitary import regulations -- all concessions that represent a significant opportunity to increase U.S. exports. China currently maintains a costly, non-market, and artificial system to stimulate domestic oilseed crushing. China has also threatened to use unscientific phytosanitary measures to limit or control imports. As the WTO agreement is implemented, structural reform and market liberalization will result in additional export opportunities for U.S. oilseeds and products to China and mean less central government involvement in the market.

Congress must grant China permanent normal trading relations (PNTR) status in order to guarantee that American agriculture benefits from the concessions the U.S. negotiated bilaterally under 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

As incomes in China have risen, so has demand for meat and poultry. This, in turn, has fueled demand for soybean meal, the major protein component of animal feed, making China the world's largest growth market for soybeans and products. Rising incomes have also increased the demand for vegetable oils. China's domestic soybean production, which peaked at 15.0 million tons in 1998 has been unable to meet this strong growth in demand. China has become the second largest consumer of soybean meal and oil behind the United States and, in the last five years, China has gone from being a net exporter to being a net major importer.

During the past three marketing years, U.S. exports of soybeans and products to China have averaged $798 million. The United States accounts for 16 percent of China's soybean meal imports, 20 percent of China's soybean oil imports, and 60 percent of China's soybean imports. The United States should ship over 3.7 million tons of soybeans to China this year. Unlike other large import markets, such as Japan and the European Union, China's import growth shows no sign of slowing.

Despite this success, exports of U.S. product continue to be hampered by arbitrary, unannounced policy changes such as temporary tariff increases, discriminatory treatment, state-trading (for soybean oil), and unscientific phytosanitary barriers. In addition, China accords competing products such as palm oil and other oilmeals preferential tariff treatment over soybean and sunflower oil and meal.

The Opportunities

- If China accedes to the World Trade Organization (WTO) it will bind its tariff for soybeans at the current applied rate of 3 percent and soybean meal at the current applied rate of 5 percent, foreclosing its ability to establish a quota in the future. China will allow unrestricted trade by all non-state trading entities with the right to trade. These concessions ensure that demand left unmet by China's domestic production will translate into higher imports and more U.S. sales.

- U.S. soybean oil will enjoy greater access to China's huge vegetable oil market. China currently restricts imports of soybean oil with a non-transparent quota that is unannounced, and a duty of 13 percent. Once it accedes, China will establish a tariff-rate quota (TRQ) for soybean oil of 1.72 million tons that will grow to 3.26 million tons by 2005, with the share reserved for private trade growing from 50 to 90 percent during that same period. The in-quota duty will be 9 percent and the out-of-quota duty will be phased-down from 74 to 9 percent by 2006. The United States and China have agreed on specific rules for TRQ administration to maximize the possibility that TRQ's fill. Unutilized quota amounts will be reallocated to other importers.

- On January 1, 2006, China will completely eliminate state trading for soybean oil, with nothing but a duty of 9 percent remaining. In the interim, China agreed that it would increase the TRQ for soybean oil by a commensurate amount if it increases the TRQ for any other vegetable oil.

- Opportunities are not limited to soybean oil; other U.S. vegetable oils will gain greater access. China will immediately eliminate quotas on cottonseed, sunflower, safflower, peanut, and corn oil, replacing them with a 10 percent tariff.

- In addition, China agreed that the applied duty for soybean, peanut, cottonseed, sunflower, and corn oils will be no greater than the duty for any other vegetable oil, thereby ensuring that access for vegetable oils of U.S. interest is not undercut by lower applied duties on competing oils.

- 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, trucking, warehousing, repair and maintenance.

The Bottom Line for the U.S. Oilseeds Industry

- Granting permanent normal trade relations to China will allow those in the U.S. oilseed and vegetable oil industry to take full advantage of one of the largest, fastest growing markets in the world.

- China has committed to reducing trade-distorting practices so that competition for the soybean, soybean meal and vegetable oil market will be fair and open. U.S. exporters will have increased flexibility in marketing their products. U.S. producers would suffer a major competitive disadvantage if China accedes to the WTO and Congress does not grant PNTR.

- During the 1998/99 marketing year, about 29 percent of U.S. soybeans, 19 percent of U.S. soybean meal, and 13 percent of U.S. soybean oil were exported. The bottom line is that an increasing share of each soybean farmer's income is dependent on export sales.

- In 1998, U.S. oilseed and product exports of $8.4 billion supported nearly $17.8 billion of total economic activity in agriculture and related industries. These exports supported over 104,500 jobs to the nation. Iowa, Illinois, Minnesota, Indiana are the leading oilseed producing states. The rest of the economy gains from oilseed and products exports through supplying inputs, export services, storage, transportation, insurance, finance, and other related services.