

Interim Report

on the
Economic and Trade Agreement between
the United States of America and the
People's Republic of China

AGRICULTURAL TRADE



October 2020

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**Economic and Trade Agreement between
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Office of the United States Trade Representative

Ambassador Robert E. Lighthizer

United States Department of Agriculture

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October 23, 2020

Interim Report on Agricultural Trade between the United States and China

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On January 15, 2020, President Trump signed the Economic and Trade Agreement Between the Government of the United States of America and the Government of the People’s Republic of China (the “Phase One Agreement”). In the historic Phase One Agreement, China committed to address a range of problematic trade practices affecting U.S. interests, including in agricultural trade.

Chapter Three of the Phase One Agreement contains concrete, specific commitments to reduce and eliminate structural, non-tariff barriers to U.S. agriculture in China’s market, including for meat, poultry, seafood, rice, dairy, infant formula, horticultural products, animal feed and feed additives, pet food, and products of agricultural biotechnology. To date, China has implemented 50 of the 57 commitments that have specific deadlines under Chapter Three of the Phase One Agreement. These structural changes will benefit American farmers for decades to come.

Chapter Six of the Phase One Agreement also contains specific commitments to expand trade in U.S. goods and services and will support a dramatic expansion of U.S. food, agriculture, and seafood product exports to China, increasing American farm and fishery income, generating more rural economic activity, and promoting job growth.

This Interim Report issued by United States Trade Representative Robert E. Lighthizer and Secretary of the Department of Agriculture Sonny Perdue, identifies key achievements over the last eight months in the area of agricultural trade between the United States and China. As the Interim Report shows, the Phase One Agreement already is delivering for U.S. agriculture.

Using the best methodology, we have calculated that China has purchased approximately 71 percent of its target for 2020. They have purchased \$23.6 billion in agricultural products so far this year. This is substantially more than the base year of 2017, and should end up being our best year ever in sales to China. It is still to be seen whether they meet their target but particularly given the COVID-19 effects on the global economy they are making substantial progress. It is worth noting that the Phase One Agreement did not go into effect until February 14, 2020, and March is the first full month of its effect. That means that we have seen seven months of agreement sales.

We have developed what we consider to be the best method possible for tracking actual agricultural purchases. Looking at simple import or export numbers alone is misleading because actual sales oftentimes lag exports by several months. What we have done is combine actual export numbers with the sales indicated in the U.S. Department of Agriculture (USDA) weekly Export Sales Reports (adjusting to eliminate any double counting) then, since the weekly sales reports only cover approximately 80 percent of U.S. agriculture sales, we have proportionally adjusted upward to cover products not included in the weekly reports. This methodology has proven accurate and corresponds with the similar numbers China keeps. Again, the highlight of this interim report is that we already are on pace to have all-time high sales to China in beef, pork, corn, and soybeans.

Structural Changes that Benefit U.S. Farmers and Ranchers

Chapter Three of the Phase One Agreement obligates China to implement structural changes – including streamlining its regulatory processes and providing new and expanded market access to U.S. products – that are translating into new opportunities for American farmers and food manufacturers.

The Office of the U.S. Trade Representative (USTR) and the U.S. Department of Agriculture (USDA) are fully committed to ensuring that China lives up to its commitments. Teams from USTR, USDA, the Food and Drug Administration, and the National Oceanic and Atmospheric Administration interact on a regular basis with their counterparts in China ensuring that China follows through on making fundamental changes that will benefit U.S. agriculture. To date, China has implemented 50 of the 57 commitments that have specific deadlines under Chapter Three of the Phase One Agreement.

These changes affect the entire range of agriculture products, including corn, soybeans, dairy products, poultry, pork, beef, horticultural products, pet food, and animal feed. The result is an historic expansion in the ability of our farmers and ranchers to sell their products to China. Before the Phase One Agreement, only approximately 1,500 facilities in the U.S. could export agricultural goods to China. Today, that number has increased to more than 4,000 facilities.

The opening of the China market has been particularly noteworthy in certain sectors. For example, the Phase One Agreement re-opened China's market to U.S. poultry meat, which previously had been completely closed due to a four-year-old ban related to avian influenza. U.S. poultry farmers have capitalized on the new opportunities opened up for them. In the first eight months of this year, U.S. poultry farmers had exported nearly

\$436 million in poultry meat to China. At the current pace, we expect a record year for poultry meat exports to China.

Our dairy farmers have also seen expanded opportunities to export to China. Prior to the Phase One Agreement, U.S. dairy and infant formula exports faced restrictive Chinese regulatory requirements that limited their ability to export to China. Because of the Phase One Agreement, China now recognizes the U.S. food safety system of oversight for dairy products, giving U.S. dairy and infant formula companies increased access to China while also providing Chinese consumers with a wider variety of high quality and safe U.S. products. As a result, exports of U.S. dairy products to China were already up 38 percent from January through August 2020 compared to the same period in 2019, and are expected to continue to rise.

The accomplishments of Chapter Three of the Phase One Agreement are evident across numerous products, as we have obtained better access and removed barriers to U.S. agriculture. Topline achievements over the last few months include the following:

- Lifting the ban on imports of U.S. poultry meat, including pet food containing poultry products.
- Lifting the ban on imports of beef and beef products from animals over 30 months of age and removing all references to age restrictions on China's internal list of beef products eligible for import.
- Signing protocols that allow the importation of U.S. horticultural products, including fresh chipping potatoes, California nectarines, California Hass avocados, and blueberries.
- Allowing imports of U.S. barley for processing, along with the forage products Timothy hay, alfalfa hay pellets and cubes, and almond meal pellets and cubes.
- Lifting restrictions on imports of U.S. pet food containing ruminant material.
- Updating an approved list of U.S. seafood species that can be exported to China.
- Expanding China's internal list of U.S. beef and pork products eligible to enter its ports, including processed meat products.
- Publishing a new domestic standard for dairy permeate powder for human consumption that will allow imports of this product from the United States,

recognizing the U.S. system of oversight for dairy food safety, allowing importation of U.S. ultrafiltered, fortified, and extended shelf life milk, and streamlining registration requirements for U.S. dairy and infant formula facilities.

- Signing a regionalization agreement that, in the event of a detection of highly pathogenic avian influenza or virulent Newcastle disease in a particular region of the United States, will allow U.S. poultry meat exports from unaffected regions of the country to continue.

Phase One Achievements for U.S. Exports

In addition to the structural changes required by Chapter Three of the Phase One Agreement, U.S. agriculture is benefitting from the provisions in Chapter Six of the Agreement, which sets forth specific purchase obligations covering all food and agricultural products. The Agreement recognizes that “the United States produces and can supply high-quality competitively priced” agricultural goods to “satisfy the increasing demand from Chinese consumers.” While the benefits of Chapter Six will continue for two years, it has already had a huge impact on U.S. agricultural sales. Sales and export data from several sectors demonstrate the benefits the United States is seeing from the Chapter Six purchase requirements.

Tracking China’s Commitments

USTR and USDA use all available data to closely monitor agricultural trade between the United States and China. In addition to official U.S. export data and Chinese import data, which are updated on a monthly basis with data now available through August 2020, USDA’s Export Sales Reporting Program (ESR) offers further insight on recent purchases of agricultural commodities. ESR monitors U.S. agricultural export sales on a daily and weekly basis and provides a constant stream of up-to-date market information for certain U.S. agricultural commodities sold abroad. The program also serves as an early alert on the possible impact foreign sales have on U.S. supplies and prices. The weekly U.S. Export Sales Report is the most current available source of U.S. export sales data. The data is used to analyze the overall level of export demand, determine where markets exist, and assess the relative position of U.S. commodities in foreign markets. All ESR weekly sales and export data is reported in volume and has been converted to value in this Interim Report using current and historic market prices.

2020 Sales Far Outpacing 2017 Sales

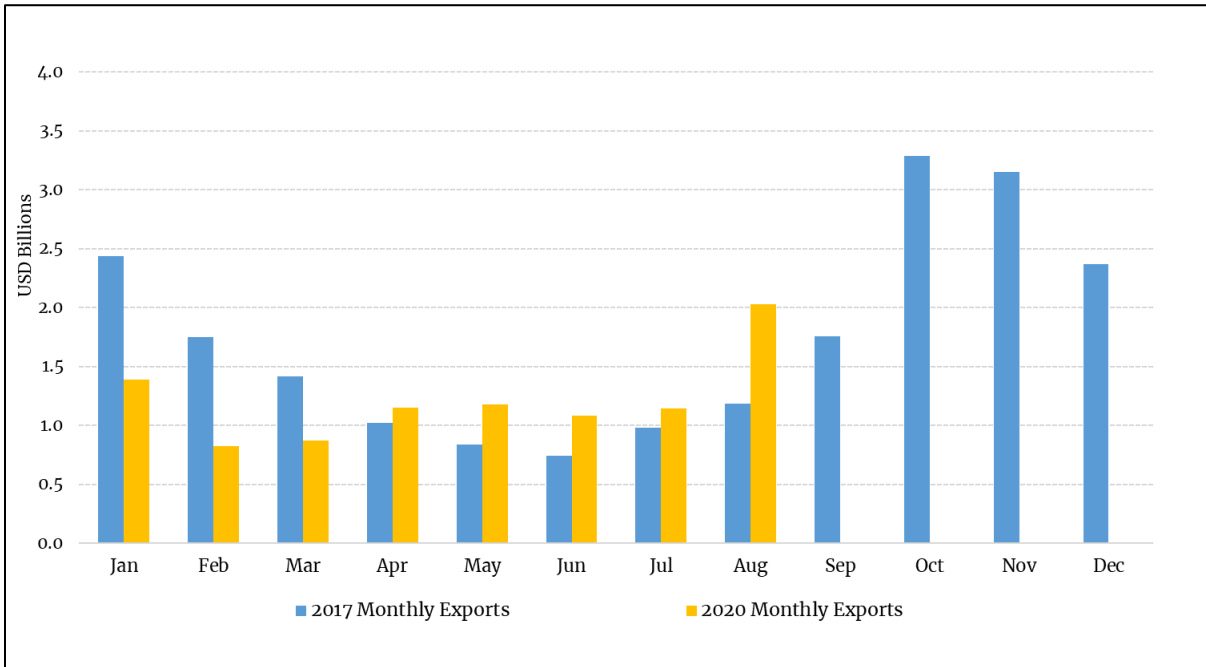
Export Sales Reporting indicates that, as of October 8, 2020, outstanding sales this year far exceed the number reported in the same period in 2017, which is the year used to determine “baseline” sales for purposes of the Phase One Agreement. These export sales numbers indicate strong actual export totals through the end of the year. Outstanding sales of corn to China are 8.7 million tons, an all-time high, while outstanding sales of soybeans to China stand at 17.4 million tons, double 2017 levels.

Monthly Data Shows Increasingly Positive Trends

Chart 1 shows the impact of the Phase One Agreement, which went into effect on February 14, 2020. Significantly, the 2020 monthly totals, shown in the orange columns, have exceeded their 2017 counterparts, shown in the blue columns, in every month since April.

Chart 1: 2017 & 2020 Monthly U.S. Agricultural Exports to China (Non-Cumulative)

(Billion USD)



Source: U.S. Census

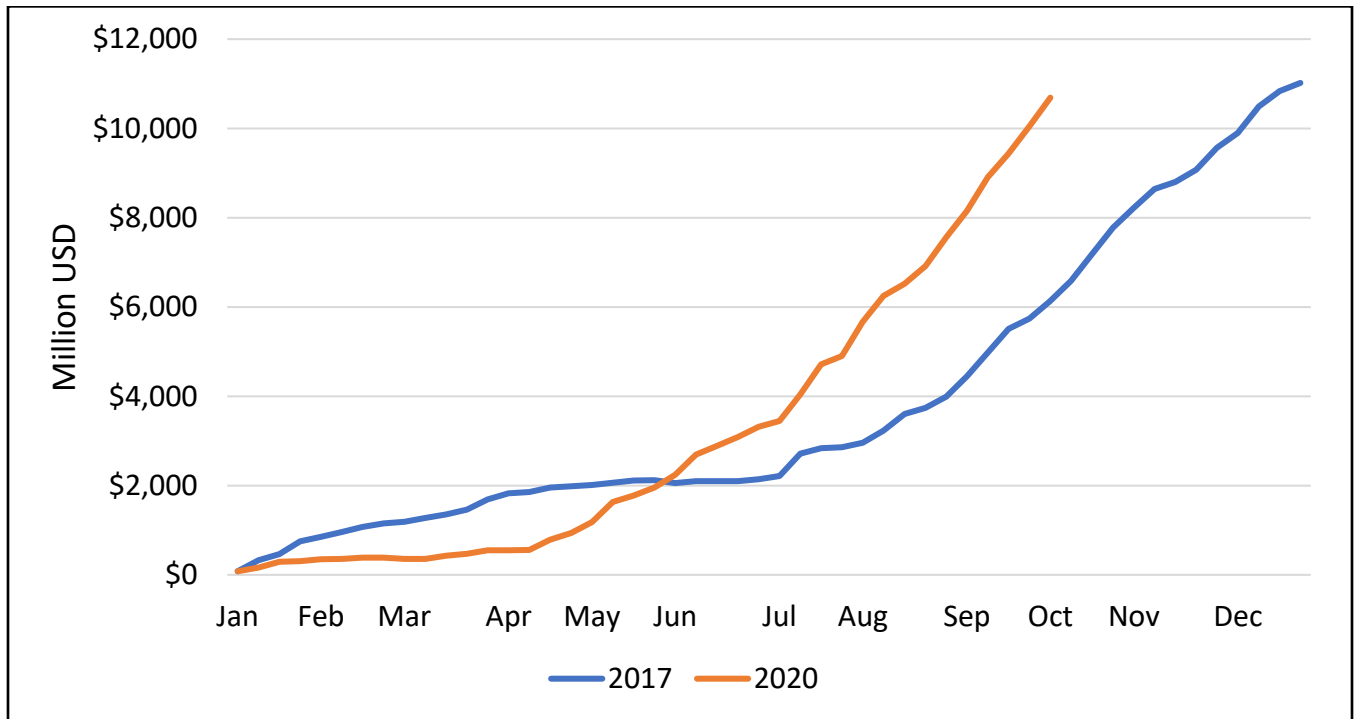
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U.S. soybeans sales for marketing year 2021 are off to the strongest start in history.

U.S. soybean exports to China are off to a strong start in the current marketing year, averaging over 1.1 million tons per week since the beginning of September according to ESR data. Sales are near record highs, with exporters reporting nearly 15.0 million tons in sales of U.S. soybeans to China since early August, valued near \$6.2 billion at current prices. Much of these sales will be exported before the end of the year with the balance exported during the first half of 2021.

Chart 2: Accumulated Weekly Soybean Sales (through October 8, 2020)

(Million USD, Export Value)



Source: Estimates Derived from USDA Foreign Agricultural Service (FAS) ESR system weekly net sales volumes

Note: Accumulated weekly sales in Charts 2-6 are calculated from net sales volumes reported by exporters to ESR and USDA estimates for average unit values for the period. Values show accumulated sales to China during 2020 versus the same period in 2017 and do not reflect actual trade during the period. For more information on ESR data, see here: <https://apps.fas.usda.gov/info/factsheets/exppls.asp>.

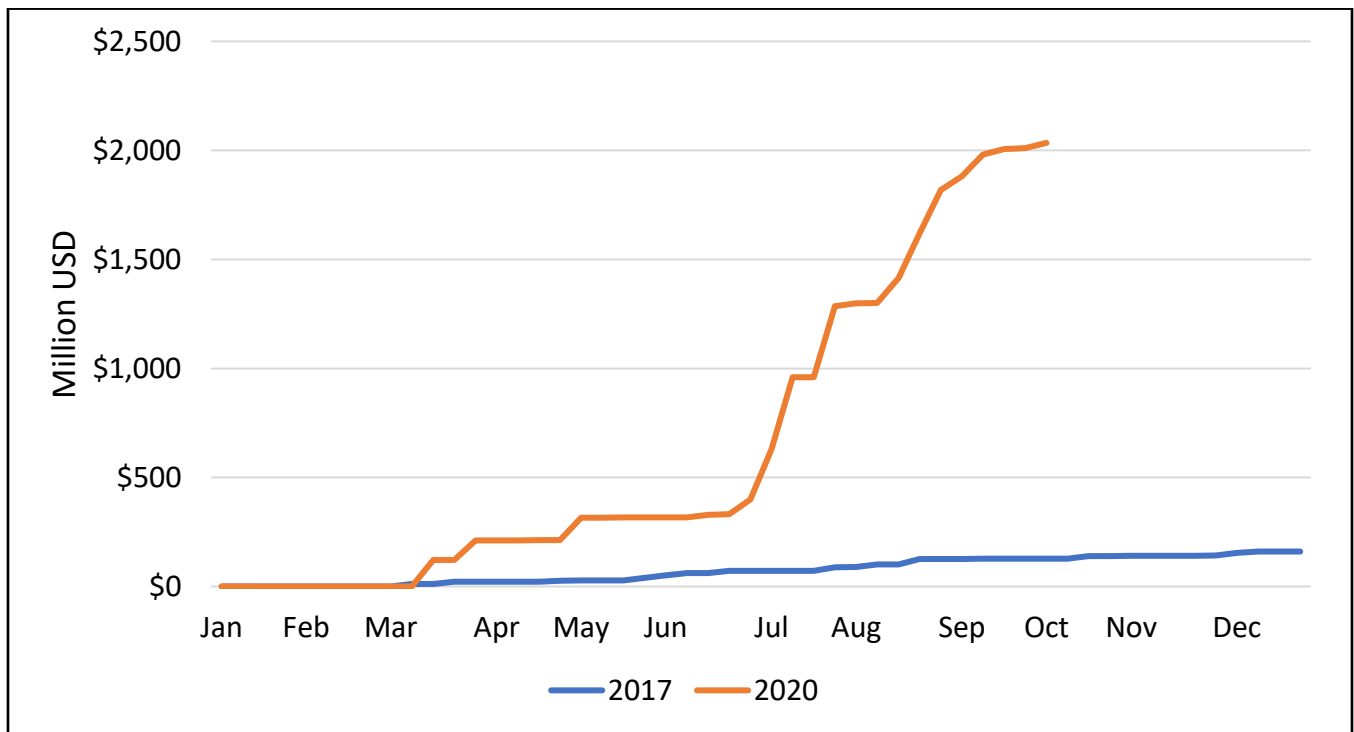
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U.S. corn exports and sales to China have taken off.

Corn sales to China are also at an all-time record. American farmers have never sold as much corn to China as they are selling right now. Indeed, during the week of July 30, U.S. corn exporters sold 1.94 million metric tons of corn to China, the largest daily sales total to China ever, and the third largest single U.S. corn sale on record. As of October 8, 2020, total accumulated corn sales for 2020 are more than 12 times greater than those accumulated by the same date in 2017.

Chart 3: Accumulated Weekly Corn Sales (through October 8, 2020)

(Million USD, Export Value)



Source: Estimates Derived from FAS ESR system weekly net sales volumes

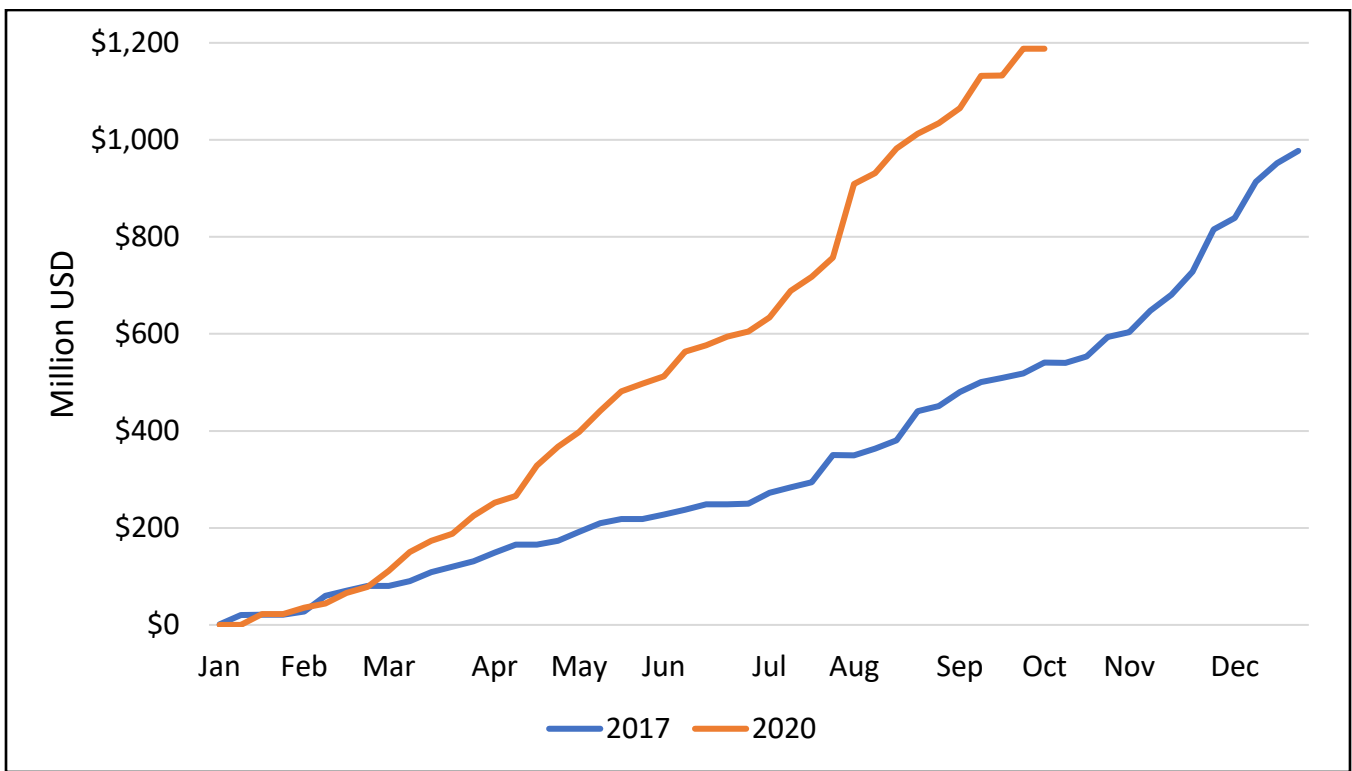
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China’s purchases continue to rise for U.S. sorghum.

U.S. exports of sorghum to China from January through August 2020 totaled \$617 million, compared to \$561 million for the same period in 2017. China has purchased nearly all available old crop U.S. supplies. New crop sales to China remain strong. As of October 8, 2020, total accumulated sorghum sales for 2020 are more than twice those accumulated by the same date in 2017.

Chart 4: Accumulated Weekly Sorghum Sales (through October 8, 2020)

(Million USD, Export Value)



Source: Estimates Derived from FAS ESR system weekly net sales volumes

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China’s record purchases of pork and beef

When China partially re-opened its market to U.S. beef and beef products in 2017, following a 13-year ban, many unscientific restrictions remained, including on age, product scope, use of veterinary drugs, and traceability. In addition, it was very difficult

to register new U.S. facilities with Chinese authorities to export these commodities to China. Similarly, China had maintained longstanding market access restrictions on specific U.S. beef, pork, and poultry products.

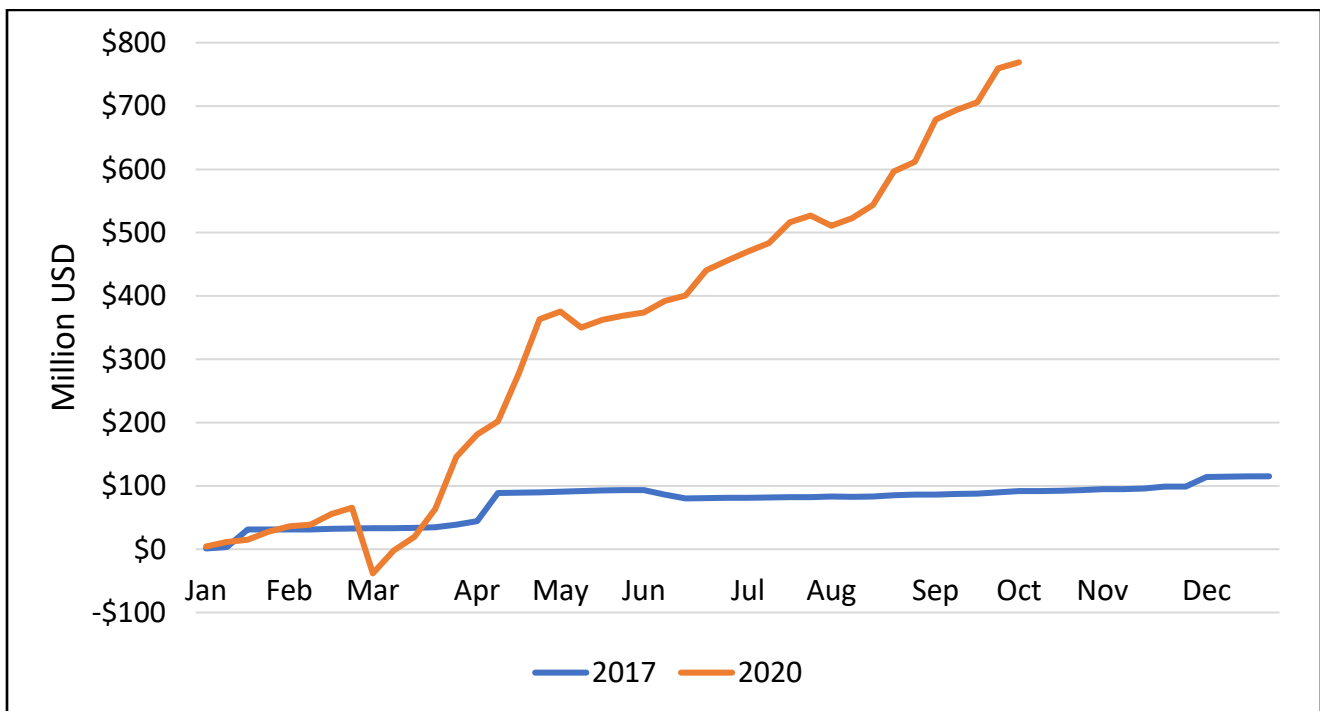
The Phase One Agreement addresses these issues and has given U.S. companies streamlined access to China’s market, while providing Chinese consumers with a wider variety of American beef, pork, and poultry products to choose from in the future.

U.S. pork exports to China hit an all-time record in just the first five months of 2020.

The strong export performance for U.S. agriculture extends to pork, where U.S. exports to China are breaking records. U.S. pork and pork product exports to China stand at over \$1.5 billion from January through August 2020 and, as reported to USDA, China continues to buy U.S. pork at strong levels. As of October 8, 2020, total accumulated pork sales to China in 2020 are eight times greater than those accumulated by the same date in 2017.

Chart 5: Accumulated Weekly Pork Sales (through October 8, 2020)

(Million USD, Export Value)



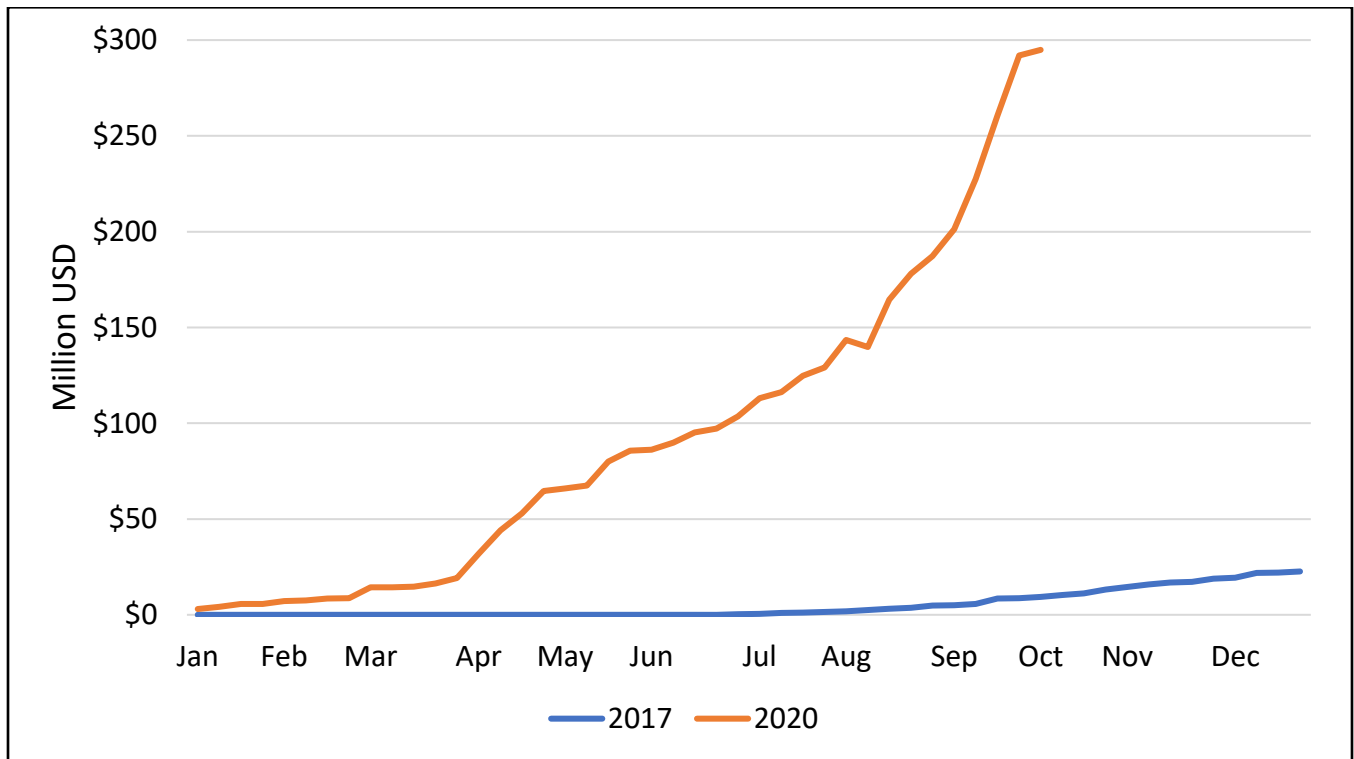
Source: Estimates Derived from FAS ESR system weekly net sales volumes

U.S. beef exports to China have tripled.

The Phase One Agreement eliminated many longstanding structural barriers that hampered access for U.S. beef to China. As a result, 2020 exports of U.S. beef and beef products to China through August are up 118 percent compared to the same period in 2019 and are already more than triple the total for U.S. beef exports to China in all of 2017. In addition, as of October 8, 2020, total accumulated beef sales to China in 2020 were over 25 times greater than those accumulated over the same period in 2017.

Chart 6: Accumulated Weekly Beef Sales (through October 8, 2020)

(Million USD, Export Value)



Source: Estimates Derived from FAS ESR system weekly net sales volumes

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Exports of certain fruits, vegetables, and other specialty crops have increased.

U.S. pecan exports to China totaled \$23 million from January through August 2020, which represented an 84 percent increase from the same period last year. Pecan exports are on track to beat the previous annual record by the end of the year. Furthermore, U.S. peanut exports to China totaled over \$168 million from January through August 2020, compared to just \$30 million during the same period in 2017.

Exports of animal feed and pet food have increased.

U.S. alfalfa hay exports to China totaled \$270 million from January through August 2020, up from \$236 million during the same period in 2017, and are on track to beat the previous annual record by the end of the year. By the end of August, U.S. pet food exports to China totaled over \$20 million, nearly doubling the previous annual record. With the commitments and structural reforms of the Phase One Agreement in place, the Chinese market for U.S. pet food could reach \$300 million or more annually.

Conclusion

All indications are that the substantial increases in China's agricultural purchases will continue and benefits will redound for years, if not decades, as U.S. farmers and ranchers continue to build strong connections with China's consumers who can see for themselves that U.S. agricultural products are unmatched in quality and affordability.

America's farmers and ranchers are the best in the world when it comes to producing safe, high quality foods and agricultural products. For too long, however, unfair trade practices by many of our trading partners prevented our farmers and ranchers from competing fairly and providing their great products to the rest of the world. This was especially the case with China. The Phase One Agreement marks a historic opportunity for U.S. agriculture. In just a few short months, the provisions in the Agreement have yielded a great harvest for our farmers and ranchers. The results are evident in the record sales to China for our farmers in a wide range of important products. Even more importantly, the required structural changes in the Phase One Agreement are being implemented, further opening one of the world's biggest markets to U.S. farmers and ranchers. With the achievements in place already, and with more to come, the Phase One Agreement will benefit United States agriculture for years and decades in the future.