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U.S.-China Phase I Deal: Agriculture

On January 15, 2020, President Trump signed a “Phase I” executive agreement (that does not require congressional approval) with the Chinese government on trade and investment issues, including agriculture. This marks at least the temporary resolution of a dispute that began when the United States imposed tariffs on a wide range of Chinese exports in 2018, and China retaliated with tariffs on almost all U.S. agricultural products and certain other goods.

Under the agreement, China will not repeal any tariffs. It is possible that China will grant tariff exclusions for various agricultural products, lowering their prices to domestic buyers in order to reach a target level of U.S. imports. The agreement is expected to improve market access for U.S. agricultural products. The value of U.S. agricultural exports to China was far lower in 2018 and 2019 than in 2017 due to the retaliatory tariffs imposed by China (see CRS Report R45903, *Retaliatory Tariffs and U.S. Agriculture*). Key provisions of the agreement are discussed below.

Trade Commitments

- China agreed to import \$32 billion worth of additional U.S. agricultural products (relative to a 2017 base of \$24 billion) over a two-year period (**Figure 1**). It will likely achieve this by excluding those products from retaliatory tariffs. Products mentioned in the agreement include oilseeds, meat, cereals, cotton, and seafood. China has not committed to tariff exemptions or import levels for any specific products.
- China agreed to improve its tariff-rate quota (TRQ) administration of wheat, corn, and rice as per its obligations under the World Trade Organization (WTO). In April 2019, the WTO had ruled in favor of the United States in a dispute case regarding China’s TRQ administration. Changes in China’s TRQ administration are expected to improve market access for U.S. grains.

Figure 1. China’s Agriculture Import Commitments
In Billions of U.S. Dollars



Source: CRS using U.S. Department of Agriculture, Foreign Agricultural Service, data covering agricultural and related products, and Office of U.S. Trade Representative, *Economic and Trade*

Agreement Between the United States of America and the People’s Republic of China Text, January 15, 2020.

Other Measures

- China agreed to improve the transparency of its domestic agricultural support measures.
- China agreed to implement a transparent, predictable, efficient, science- and risk-based regulatory process for the evaluation and authorization of products of agricultural biotechnology.
- The United States and China agreed to implement and require science- and risk-based food safety regulations. China will improve its food safety measures to facilitate exports of U.S. food and agricultural products to China.
- China will improve access for U.S. beef products, including eliminating age restrictions on cattle slaughtered for export, eliminating traceability requirements, and establishing maximum residue levels for three hormones legally used in the United States.
- China agreed to broaden the list of pork products that are eligible for import and to conduct a risk assessment for the veterinary drug ractopamine, which is allowed in U.S. beef and pork production.
- China agreed to adopt poultry import regulations consistent with World Organization for Animal Health (OIE) Terrestrial Animal Health Code. In November 2019, China reopened its market to U.S. poultry, which had been closed since 2014 after an outbreak of avian influenza in some U.S. regions. The OIE protocol requires banning products from regions or states affected by the outbreak. China had banned poultry from the entire United States.
- China will implement the U.S. Department of Agriculture (USDA) Public Health Information System, an electronic system to provide export health certificates to an importing country in advance of shipment arrival.
- China will immediately engage in technical discussions to import U.S. live cattle for breeding.
- China committed to streamline procedures for registering U.S. dairy and infant formula facilities and products and to provide regulatory certainty and market stability for such products.
- China committed to authorize the import of U.S. rice from any USDA-approved rice facility.
- China agreed to approve the import of 26 aquatic species requested for export by the United States. China has also committed to streamline procedures for registering U.S. seafood facilities and products.
- China agreed to finalize phytosanitary protocols for U.S. avocados, blueberries, potatoes, California nectarines, barley, alfalfa pellets and cubes, almond meal pellets and cubes, and hay. In exchange, the United States

agreed to complete its regulatory notice process for imports of Chinese fragrant pear, citrus, and jujube and to complete a phytosanitary protocol for bonsai, excluding orchids.

- China agreed to immediately update its list of traditionally traded feed additive products with 23 U.S. products and to streamline the registration process for feed additives, premixes, and compound feed.
- China agreed to speed up license renewals for distillers' dried grains with solubles manufacturers.
- China agreed to resume imports of pet food containing poultry ingredients and to lift its ban on ruminant ingredients. China also committed to streamline the timelines and procedures for registering U.S. pet food manufacturing facilities.
- China agreed to not undermine market access for U.S. exports using trademarks and generic terms through any geographical indications measures taken in connection with an international agreement. This limits China's ability to prevent imports of U.S. products that may have a geographical indications trademark in another country with which China has a trade agreement.
- The United States and China agreed to continue their Scientific Cooperation and Exchange Program on agriculture-related issues.

Market Implications of China's Import Commitments

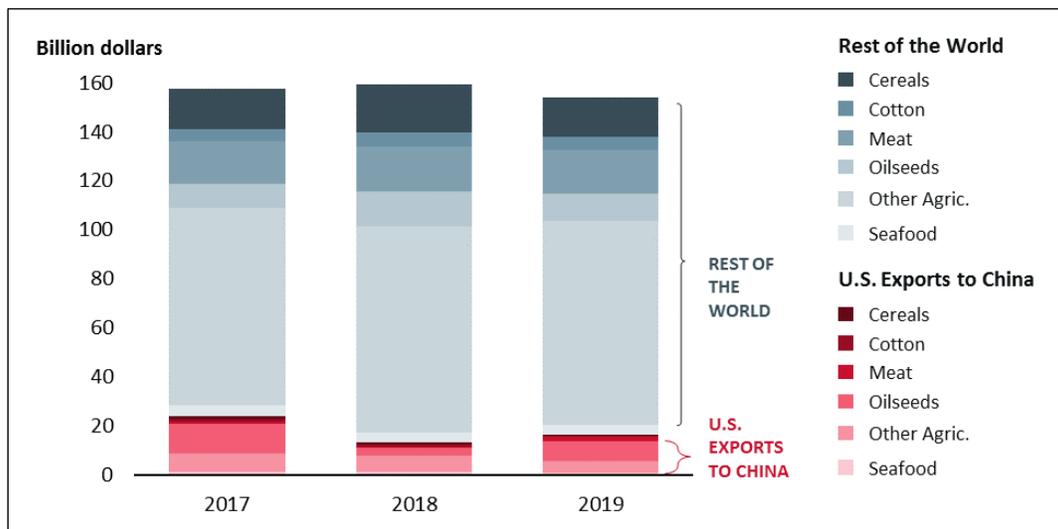
U.S. exports to China of agricultural products that China has committed to purchase under the Phase I agreement declined 46% in value from 2017 to 2018 even as U.S. exports to other countries increased. In 2019, China's

purchases rose but were still 32% below the 2017 level (**Figure 2**). Lower U.S. exports to China combined with abundant domestic and international supplies of grains and oilseeds contributed to relatively weak U.S. agricultural commodity prices and triggered a USDA aid package to farmers affected by the Chinese tariffs in 2018 and 2019.

Facing higher Chinese tariffs, U.S. exporters sought to develop new markets during 2018 and 2019. Brazil and other U.S. agriculture competitors took the opportunity to strengthen their relationships with Chinese importers.

The U.S.-China Phase I agreement is expected to provide improved opportunity for certain U.S. exporters. However, it may not create notable new market demand. Instead, the Phase I agreement may produce a rearrangement of broader trading patterns between China and its various import suppliers. For example, for the United States to meet the full commitment of an additional \$32 billion in agricultural exports to China over two years would likely require both diverting U.S. exports to China from other markets and China substituting some imports from its current sources to products from the United States. If the principal result of the Phase I agreement does not add "new" demand to the international marketplace, then market price effects of this switching may be minimal. Moreover, the United States and China acknowledge that purchases of additional U.S. agricultural products will occur at market prices and conditions, which may dictate the timing of purchases within any given year (Chapter 6, Article 6.2.1). Additionally, the coronavirus outbreak in China is likely to lower import demand for agricultural products. Therefore, additional U.S. agricultural exports to China may fall short of the target of \$32 billion over two years.

Figure 2. U.S. Agricultural Exports Since 2017
In Billions of U.S. Dollars



Source: CRS using FAS, based on U.S. Census Bureau Trade Statistics, Product Group BICO-HS-10, January 13, 2020, <https://apps.fas.usda.gov/gats/default.aspx>.

Notes: The figure includes agriculture and related products found in Chapters 1-24 of the U.S. Harmonized Tariff Schedule, essential oils (Chapter 33), raw rubber (Chapter 40), raw animal hides and skins (Chapter 41), and wool and cotton (Chapters 51-52). Data also includes major products derived from plants or animals that are not considered "agricultural" because of their manufactured nature, such as cotton thread and yarn; fabric, textiles and clothing; leather and leather articles of apparel; cigarettes and cigars; and spirits.

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