

**Testimony of Gary C. Martin, President and CEO  
North American Export Grain Association  
Before the Interagency Trade Policy Staff Committee (TPSC)  
September 23, 2004**

Thank you for the opportunity to address the Committee with regard to its efforts to assist the Office of the United States Trade Representative (USTR) in preparation of its annual report to the Congress on China's compliance with the commitments made by China in connection with its accession to the World Trade Organization (WTO).

NAEGA, established in 1912, is a not-for-profit trade association comprised of private and publicly owned companies and farmer-owned cooperatives involved in and providing services to the bulk grain and oilseed exporting industry. NAEGA member companies ship practically all of the bulk grains and oilseeds exported each year from the United States. The Association's mission is to promote and sustain the development of commercial export of grain and oilseed trade from the United States. NAEGA acts to accomplish this mission from offices in Washington D.C., and in markets throughout the world.

From the perspective of the US grain and oilseed export industry, China is one of our top priority growth markets and because its population and economic growth a major influence in many related markets. We see a successful Chinese effort to meet its WTO commitments as critical to the future of the WTO and the US grain and oilseed export industry.

China is now more than half-way through its commitment phase-in period. At this time China should have graduated from the early period of its implementation efforts. China has made progress in important areas, particularly in tariff reduction; revising existing laws and drafting and passing new ones to comply with its WTO requirements; and educating its officials and companies about its WTO obligations. China should be recognized for its efforts that have resulted in tangible improvements in market access. Given the sweeping nature of China's December 2001 market access commitments, this progress was to be expected.

The elevated meetings of the US and Chinese officials have made significant progress in several lagging areas of implementation. However, US agricultural interests have expressed and should continue to express growing concern regarding the progress of China's WTO implementation efforts.

China's WTO commitments to reduce both tariff and non-tariff barriers in the agricultural sector have met with mixed results. There has been welcome progress in some key areas such as tariff reductions. Unfortunately, however, many non-tariff barriers continue to limit the progress anticipated from China's WTO membership.

China has made some progress in addressing a range of problems with the implementation of China's promised TRQ system, including a lack of transparency, delay in the announcement of quotas, granting of insignificant and uneconomic quotas,

imposition of restrictions that are not required of domestic producers or merchants, and other unnecessary restrictions.

China has also removed, to a degree, uncertainty regarding biotech regulations and the issuance of permanent safety certificates for biotech products. The progress on certification of US genetically modified agricultural exports included a political commitment by the Chinese to not disrupt US soybean exports.

But while China has eliminated or reduced some tariff barriers, the benefits from these actions can be quickly offset by continued non-tariff barriers that restrict trade into China, create significant marketplace uncertainty, and discourage further foreign investment. We should also be concerned with the failure of China to reduce significant export subsidies for agricultural products, particularly corn.

Among the agricultural trade restrictions that China imposes are additional standards and actions on imports of agricultural products that:

1. Are applied without prior notice and geographic consistency;
2. Fail to provide for comment period and time provisions for trading partners to institute practices to readily comply;
3. Encourage and support Chinese firms to avoid contractual commitments;
4. Inappropriately discriminate against specific private entities through the broad-based imposition of company-specific trading bans (blacklisting); and
5. Result in unjustified management and delay of the issuance of Permits for Quarantine Inspections to control imports for political or economic reasons.

Soybean traders in particular have reported significant restrictions on exports of products to China stemming from the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic (AQSIQ). Although China removed soybean import quota control in 1999, we believe the Chinese government continues to control import volume through WTO-inconsistent methods such as the use of the AQSIQ import permits. AQSIQ issuance of permits has resulted in significant commercial uncertainty and, in some cases, has placed U.S. foreign investment in the Chinese agricultural sector at risk.

While the precise mechanism used by the Government of China to manage imports has a tendency to change quickly, I would like to point out a recent notice from AQSIQ that articulates and codifies inappropriate regulatory authority.

AQSIQ Decree 73, we fear, unilaterally imposes new and additional standards to imports of all plant and animal agricultural products and expressly rejects the sanctity of international sampling and testing procedures that have been developed and respected over time. China's issuance of the new measure, "*Items on Handling the Review and Approval for Entry Animal and Plant Quarantine*" on June 16, 2004, was not notified to the WTO and maintains the requirement that Quarantine Import Permits (QIP's) be approved prior to signing contracts. This is of significant concern to all U.S. agricultural exporters. The measure provides AQSIQ with blanket authority to annul or void import

permits in the case of a government issued warning or ban and also requires quarantine requirements specified in QIP's be written into contracts.

In addition to the concerns with Decree 73, US interests are harmed by the failure of China to utilize the International Plant Protection Convention and China's use of "zero tolerance" standards that are neither science based nor practical. Fundamentally, China needs to adhere to the WTO's Agreement on the Application of Sanitary and Phytosanitary Measures. These various non-WTO complaint measures are causing serious interruptions in cargo contracting and delivery thereby adding unnecessary risk to doing business with Chinese customers and limiting sales of many US agricultural products. The near and long term costs of such actions directly impact US farm income.

As a remedy for these AQSIQ related problems, China should provide for:

- Changes in activities that restrict actions to import quarantine procedures that are science based and compliant with WTO and international conventions and should not impose delays, uncertainties, or commercially discriminatory or commercially unrealistic requirements that inhibit free trade.
- The approvals of import permit requests in a timely and commercially realistic manner.
- Process and communication that ensures that all formalities are transparent, with clear timelines openly promulgated.

In the best interest of China and international commerce, China must meet its WTO obligations and improve the import quarantine process. Immediate increases in consistency and predictability of the process should be priority for all of us. An absence of progress in this regard will likely lead to the need for WTO dispute settlement proceedings.

Recognizing that much has been accomplished to date, I would like to urge the governments of China and the United States to press aggressively forward in their efforts to work collaboratively to reduce unjustified barriers to agricultural imports and the modernization of Chinese food production.

In closing, I wish to emphasize the importance of working with other nations that serve the Chinese market for agricultural products. The US competes for the Chinese market in many agricultural products including soybeans. However, with a market as large as and influential as China, an internationally consistent approach to technical issues that are addressed by the WTO Sanitary and Phytosanitary Agreement and that impact all suppliers will greatly enhance the success of our efforts. For products like soybeans, a multinational strategy that adds to the joint efforts of the governments of China and the US will help to ensure sufficient progress. Ultimately working to achieve international consistency on health and safety issues will support the maintenance of a level playing field for U.S. agricultural products in the Chinese market.

Thank you.