Prepared Testimony of:

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Hearing on *The Danger China Poses to American Agriculture*

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Introduction

Chairman Thompson, Ranking Member Scott, and Members of the House Agriculture Committee, it is an honor to testify before you today to share the viewpoint of U.S. soybean farmers concerning China. My name is Josh Gackle. I am a soybean farmer from Kulm, North Dakota, on a third-generation farm where I farm with my dad and brother. Our family farm is our is our sole business and means of economic livelihood. This year, I have the privilege of serving as president of the American Soybean Association (ASA). Our association, founded in 1920, represents all U.S. soybean farmers on domestic and international policy issues important to the soybean industry. ASA has 26 affiliated state soybean associations representing more than 500,000 farmers in 30 primary soybean-producing states.

The U.S. soybean industry has a profound, positive impact on the U.S. economy. We have long been U.S. agriculture's #1 export crop, and a by-the-numbers look demonstrates soy's value to our domestic economic health. The U.S. Department of Agriculture (USDA) projects 82.4 million acres of soy will be harvested in 2024, with a production forecast of 4.2 billion bushels. Soybean production accounts for more than $4 billion in wages and over $80 billion in economic impacts, according to a study by the United Soybean Board (USB)/Soy Checkoff and National Oilseeds Processors Association (NOPA). This does not even include secondary soy markets and supporting industries like biodiesel, grain elevators, feed mills, ports, rail, refining, barges, etc., which bring soy's national total economic impact to a significant $124 billion.

Soybeans are the largest agricultural export in the U.S., and robust international trade is a priority of the U.S. soybean industry. In conjunction with our partners at the U.S. Soybean Export Council (USSEC), the World Initiative for Soy in Human Health (ASA-WISHH), USDA, and the Office of the U.S. Trade Representative (USTR), U.S. soy is working actively across the world to open new markets and introduce new customers to the value of high quality, high protein U.S. soy. Opening new markets is just the beginning: Markets require time, attention, and long-term relationship maintenance to ensure that once a market is open to U.S. soybean exports, access remains unhindered.

Our trading partners are all critical to the success of U.S. soy growers, but no export destination compares to China. In marketing year (MY) 2022/2023, the export value of U.S. soybeans totaled approximately $32.6 billion. China accounted for over $18.8 billion of this total; for perspective, the next largest destination by value totaled approximately $3.3 billion. The sheer scale of China's demand for soybeans – more than 60% of global soy imports – cannot be replaced. One in three rows of soybeans grown in the U.S. is destined for China.

As this committee – and Congress more broadly – discusses the complex relationship our nation has with China, there are two distinct considerations. There is a geopolitical relationship that affects national security and includes issues such as data privacy, human rights, and intellectual property; and there is the economic, commercial trading relationship. Our strong appeal is that careful consideration be given to maintain, rather than alienate, the economic relationship when discussions move forward in addressing geopolitical and other significant issues.

Soybeans have held the unfortunate distinction of serving as the prime casualty for what happened when the United States imposed tariffs on Chinese imports, and China responded with retaliatory tariffs on U.S. exports, including soybeans. In 2018, we saw not only an immediate loss in market share in our largest export market but also a price drop of two dollars per bushel[1] practically overnight.

This statement provides insights into the soybean industry's work in China, how farmers were impacted by the U.S.-China trade war in recent years, how our global competitors gained market share as a result, and policy recommendations for consideration.

U.S. Soy's Work in China

While U.S. soy is actively working in 112 markets around the world, I will focus my testimony today on our largest export market: China. Our industry has been developing the Chinese market since 1982 when ASA opened an international marketing office in Beijing. At the time, China did not have a vertically integrated animal feed industry, and livestock production lacked health and nutritional standards. Chinese farmers did not incorporate soy into their animal feed rations, despite maintaining the largest swine herd in the world. The same is true for aquaculture production; while China produces more farmed fish than the rest of the world combined, no Chinese producers were incorporating soy into fish feed at the time.

Due to the work of U.S. soy in China, soy utilization there has changed dramatically. Since 1995 – and prior to the trade disruption in 2018 – soybean meal use in animal feed has grown by 389%. Use of soybean meal in aquaculture feed has also risen dramatically, from zero to nearly six million metric tons in 2022. China is now the world leader in pork, egg, and aquaculture production. The country also leads the world in soy food consumption. U.S. soy contributed to this progress through professional and technical training, conducting animal feeding experiments and organizing seminars to exchange knowledge with local organizations; this work helped Chinese businesses capture value from U.S. soybeans and soy components.

Exports to China were also boosted in 2000 when President Clinton signed legislation into law granting Permanent Normal Trade Relations (PNTR) status to China. ASA strongly supported and applauded China's ascension to PNTR status, having seen the growth potential for U.S. soybeans. At the time PNTR was granted, exports of soybeans and soy products to China were valued at $1 billion, and our industry estimated at the time those export numbers could double by 2010[2].

Our estimations were wrong: The numbers far surpassed doubling. In the MY 2022/2023, U.S. exporters shipped 67.6 million metric tons (MMT) of soy (beans, meal and oil) to foreign markets, accounting for nearly $40 billion in sales. Of those exports, 31.4 MMT of soybeans were bound for China, which is primarily a whole soybean importer. That volume represents 60% of U.S. soybean exports and accounts for $18.8 billion in value for U.S. soybean farmers. By comparison, our next two largest export markets were the Mexico and the European Union

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[1] The standard weight for a bushel of soybeans is 60 pounds - https://ussec.org/resources/conversion-table/

[2] https://soygrowers.com/news-releases/asa-celebrates-signing-of-pntr-for-china-legislation/

(EU). Mexico purchased 6.6 MMT of U.S. soy (beans, meal, and oil), and the EU purchased 6.4 MMT. For U.S. soybean farmers, China's demand for soybeans is greater than the rest of our foreign export markets combined, despite continuous efforts to diversify.

I farm soybeans in the Northern Plains. The growth of soybean production in this area has corresponded with China's increased imports. Almost all the soybeans from my farm are sent by rail to the Pacific Northwest, where they are loaded onto ships – many of which are bound for China. Without access to China's market, soybean production in my part of the country and on my farm would be reduced significantly due to a loss of demand. During the trade war, soybeans stored in my area (versus exported) increased significantly due to the loss of our primary market, and our local prices dropped at a rate higher than national prices.

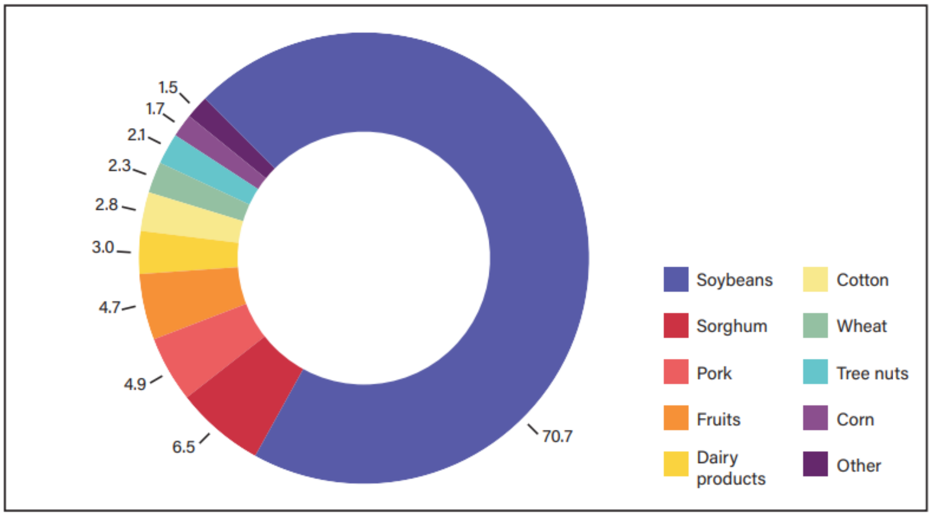
The 2018 Trade War

In 2018, President Trump levied tariffs on imports from China under Section 301 of the Trade Act of 1974, starting a tit-for-tat trade war between our two global economies. As a response, China applied retaliatory duties against U.S. soybeans that reached up to 27.5%. These duties, combined with uncertainty in the trade relationship, severely constrained U.S. soybean exports to China, which had exceeded a record amount of 36.1 MMT in MY 2016/2017, the last complete marketing year before implementation of the retaliatory tariffs. When tariffs were imposed late in MY 2017/2018, we saw an immediate impact, with the year finishing at 28.2 MMT exported to China – a 22% decrease from the previous year. In MY 2018/2019 and 2019/2020, these exports fell to 13.4 and 16.1 MMT, drops of 62% and 55% respectively from MY 2016/2017.

The impact of this crippled market was severe for both farmers and exporters. USDA's Economic Research Service (ERS) estimated the impact of retaliatory tariffs on U.S. agriculture, including Section 301 tariffs and Section 232 tariffs on steel and aluminum: The ERS estimate shows a 76% reduction in the value of U.S. exports to China from 2017 to 2018. ERS also estimated the trade war cost U.S. agriculture over $27 billion[3]. Soybeans accounted for 71% of the annualized losses.

[3] Morgan, Stephen, Shawn Arita, Jayson Beckman, Saquib Ahsan, Dylan Russell, Philip Jarrell, and Bart Kenner. January 2022. The Economic Impacts of Retaliatory Tariffs on U.S. Agriculture, ERR-304, U.S. Department of Agriculture, Economic Research Service.

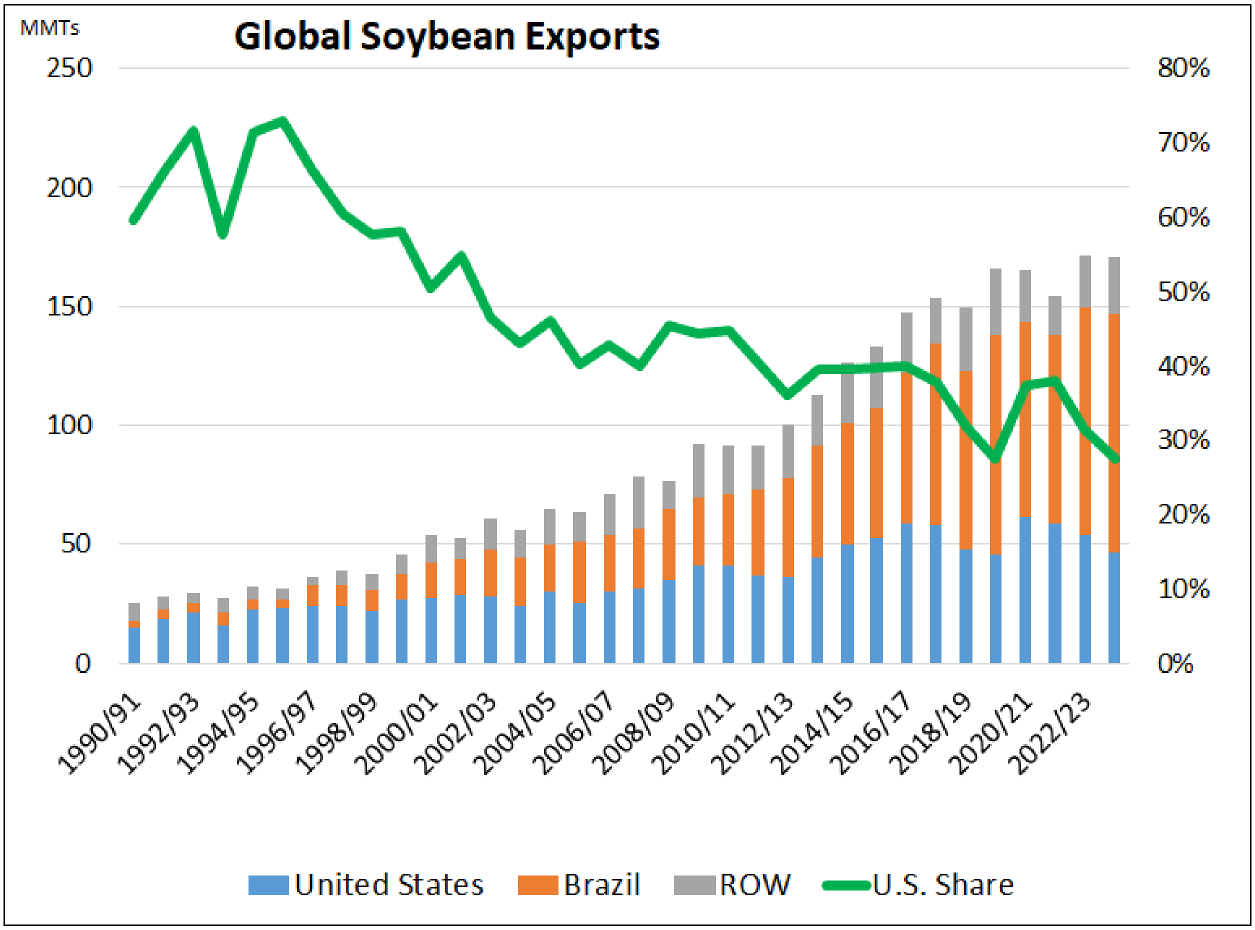
Figure 4
Percent share of annualized losses caused by retaliatory tariffs by commodity



Notes: Estimates reflect annualized losses calculated using data from mid-2018 through the end of calendar year 2019. Shares calculated over selected commodities reported in Appendix 2. Data may not equal 100 due to rounding.

Source: USDA, Economic Research Service (ERS) estimations using data from USDA, ERS, State Exports, Cash Receipts Estimates, Trade Data Monitor (2021), and Grant et al. 2021. "Agricultural Exports and Retaliatory Trade Actions: An Empirical Assessment of the 2018/2019 Trade Conflict," *Applied Economic Perspectives and Policy* 43:619–640

Loss of about a third of the demand for U.S. soybeans has had major consequences. As a result of the trade war, Brazil ramped up production to meet Chinese demand. Beyond capturing additional market share in China, Brazil was prompted to increase its land area in agricultural production: This has done irreparable and long-lasting harm to the U.S. soybean industry. In the 2017/2018 marketing year, Brazil overtook the United States as the world's largest producer of soybeans. As a result of the trade war and the incentives it provided to Brazil to significantly increase production, our industry now faces increasing competition with Brazil in every export market, not just China.



Source: USDA Office of the Chief Economist

The U.S.-China Phase One agreement was signed January 15, 2020. This agreement was critical in providing relief from damaging retaliatory tariffs, as it provided an exclusion mechanism for Chinese importers. Customers were able to apply to their government to reduce the trade war tariff level of 27.5% back to Most Favored Nation (MFN) levels of 3%. As a result, U.S. soybean exports to China stabilized and have returned to near pre-2018 levels. While that exclusion process is functional, it is not guaranteed by China and could change at any time. China may choose to discontinue the waiver procedure, a move that would have an immediate damaging effect on U.S. soy exports.

This environment, anti-China rhetoric from Congress, the continued threat of tariffs from both the U.S. and China, and the lack of a roadmap for long-term resolution of these challenges combine to increase uncertainty for U.S. farmers and exporters. There is substantial risk that more unanticipated tariff action will undermine investments, export prices, and farm income.

Finally, the trade war also damaged U.S. soy's reputation as a reliable provider of soybeans and soy products in global markets. Section 301 tariffs and the retaliatory trade actions have jeopardized our place in these markets, undermined the U.S.'s reliable reputation, and thus damaged in-country relationships developed over decades. Because trade uncertainty has brought into question our reliability as a consistent supplier, it has in some years forced our customers to look elsewhere for their needs to avoid trade risk or excess duties. Despite regaining our foothold in the Chinese market, the long-term reputational damage to U.S. soybean growers will not be so quick to rebound.

I cannot emphasize this point enough – **even as the United States considers actions to protect our national security interests, we must also maintain and protect our economic and trade interests as well. Soybean growers need predictability and certainty that we will retain market access in China**. U.S. soy growers started building the China market for U.S. soybeans more than 40 years ago. Soybean growers are keenly aware of the time, financial and other related investments it takes to establish new markets and are likewise aware that markets, once lost, are extremely difficult to rebuild.

ASA Policy Recommendations

ASA appreciates the work Congress has invested in examining ways the legislative body could best address the relationship between the U.S. and China. We want to extend our appreciation to Chairman Mike Gallagher, Ranking Member Raja Krishnamoorthi, and members of the House Select Committee on the Chinese Communist Party (SCCCP) for their endeavors over the past year, which resulted in the committee's release of over a hundred policy recommendations in its December 2023[4] report. While ASA does not have a position on all the issues outlined, there were several recommendations we strongly support, including directing USTR to publish a full assessment of China's compliance with the Phase One agreement, reauthorization of the Generalized System of Preferences (GSP) program, renewal of Trade Promotion Authority (TPA), and the addition of the Secretary of Agriculture to the Committee on Foreign Investment in the United States (CFIUS).

ASA recognizes that the foreign ownership of farmland by China is a hot topic at both the state and national levels. ASA's voting delegates have adopted resolutions that take a prudent approach to this issue and address both national security and farmer concerns; we urge Congress to take a prudent approach as well. Specifically, ASA's voting delegates adopted a resolution last year that supports a federal approach to this issue. It protects national security and economic interests without limiting soybean industry research or market access. And less than a month ago, ASA's voting delegates adopted additional language that supports adding the Secretary of Agriculture to the Committee on Foreign Investment in the United States (CFIUS) and stated our belief that CFIUS is the proper entity to review agricultural and other transactions by China and others to ensure national security interests are appropriately protected. We were grateful to see the inclusion of the Secretary of Agriculture in CFIUS was included in H.R.4366, the Consolidated Appropriations Act, 2024, and thereafter signed into law by President Biden on March 9, 2024.

[4] https://selectcommitteeontheccp.house.gov/sites/evo-subsites/selectcommitteeontheccp.house.gov/files/evo-media-document/reset-prevent-build-scc-report.pdf

As this committee and others look to the Select Committee's report and other policy ideas to curtail China's influence on the United States, ASA offers the following recommendations from the perspective of U.S. soybean growers:

1. **Reject legislative attempts to repeal or modify China's Permanent Normal Trade Relations (PNTR) status.**

   As highlighted in this testimony, China's ascension to PNTR status helped U.S. soy exports to China skyrocket. From 191 million bushels, or 5.2 MMT of soybeans sold in MY 1999/2000, to 31.4 MMT sold in MY 2022/2023, the pre-trade war certainty our customers in China gained from tariff stability was invaluable in growing that market to the behemoth it is today.

   All members of the World Trade Organization (WTO) are granted MFN/PNTR as part of joining the WTO. Revocation of PNTR would move China from Column One of the Harmonized Tariff Schedule to Column Two. Countries in Column One enjoy duties set at a very low rate and are agreed upon by both countries. Countries in Column Two are subject to much higher duties that can be lowered and raised by the U.S. at any time. Currently, the only countries subject to Column Two duty rates are Cuba, North Korea, Russia, and Belarus (the latter two added most recently due to the invasion of Ukraine).

   ASA is very concerned that revoking PNTR for China would immediately raise tariffs on imports from China. As this testimony has laid out, it is very likely that a change in China's trade status would result in immediate retaliation from Beijing. In 2018, U.S. soybean exports to China were among the first agricultural commodities targeted for retaliatory tariffs, and if past is prologue, it is entirely possible that U.S. soybeans would be impacted yet again.

   Bear in mind, the retaliatory tariffs levied by China in 2018-2019 are technically still in place. While currently waived due to the Phase One Agreement, that agreement does not include an enforcement mechanism and could go away at any time. Were that to happen, we would be back to facing a 27.5% tariff to enter the Chinese market – before any additional potential retaliation.

   During the trade dispute, USDA created the Market Facilitation Program (MFP) and the Agricultural Trade Promotion (ATP) program to provide some relief for producers. MFP was created to provide ad hoc financial assistance to farmers and ranchers of commodities directly impacted by foreign retaliatory tariffs. ATP's purpose was to help U.S. agricultural exporters develop new markets and mitigate the adverse effects of other countries' tariff and non-tariff barriers.

   In the SCCCP's report, the committee recommends Congress should also consider additional appropriations to offset retaliation for farmers and ranchers, U.S. exporters, and other American workers, acknowledging that increased tariffs and retaliation against U.S. agriculture unfortunately go hand in hand. As ASA stated publicly in 2019 when the MFP was announced by USDA, it is important to note the key word in that program's name is "facilitation." Trade assistance only facilitates growers' ability to farm. It does not make their losses whole, or their tariff woes disappear long term. Trade assistance is a short-term solution for a trade war with long-term consequences. Farmers would prefer access to open, predictable and profitable markets, rather than reliance on government payments.

2. **Pass a comprehensive farm bill this year that meets the needs of U.S. agriculture.**

   The long-term success of U.S. soy abroad would not be possible without the foresight of Congress. Resources provided through USDA are vital in assisting farmers with promoting agricultural products on a global stage and expanding and diversifying export opportunities. ASA is a longtime cooperator of these programs, particularly the Market Access Program (MAP) and Foreign Market Development (FMD) program. Utilizing MAP and FMD, ASA has leveraged funds received to increase market access, address technical barriers to entry and create on-the-ground capacity and demand for U.S. soy. These cost-share programs are an excellent example of public-private partnership.

   Over the lifespan of these programs, however, industry funds have risen dramatically while funding from the U.S. government has remained stagnant. Seventy-seven percent of total annual spending on market development and promotion now comes from industry dollars, up from just 45% in 1996.

   We greatly appreciate the USDA's recent creation of the Regional Agricultural Promotion Program (RAPP) and the additional investments it will create in cultivating new markets abroad. However, this funding does not change the very real need for additional funds in the farm bill to enhance long-term market development and diversification opportunities.

   While these programs have been greatly successful, it is concerning that government investment levels have remained mostly unchanged – even as the number of cooperators to these programs has increased. FMD has been funded at the same level – $34.5 million annually – since the 2002 Farm Bill, and MAP funding has been level at $200 million since 2006. As we look toward the next farm bill, ASA strongly supports efforts to double these funding numbers to $400 million for MAP and $69 million for FMD.

   Outside the farm bill's Title III programs, there is a need for certainty in farm country, particularly when access to export markets may be at risk. During the U.S.-China trade war, U.S. soybean farmers endured significant market impacts but experienced an insufficient farm safety net under the current farm bill. This farm safety net must be improved in the next farm bill. A soybean farmer's worst-case scenario during a time of export market loss or other economic disruption is a combination of policy developments that looks like this: a new farm bill that maintains or further diminishes the inadequate farm safety net for soy, restrictions placed on USDA that limit its ability to respond to farmers in need, and a congressional stalemate on emergency appropriations for farmers in need. This is a scenario that ASA hopes will not come to fruition, and we look forward to working with the committee to develop a more meaningful, predictable farm safety net.

3. **Exercise congressional oversight authority to press the administration to reengage in negotiations for bilateral and multilateral free trade agreements (FTA).**

Trade promotion and market access are major priorities for the U.S. soybean industry. Tariff and non-tariff barriers to trade are frequent problems for our exports, and these barriers limit the potential for predictable global market access for soybeans, soybean meal and soybean oil. Barriers facing U.S. soybeans and soy products include tariffs and quotas, unjustified or risk-unproportionate sanitary and phytosanitary measures, and rules and regulations not based in science. These obstacles distort markets and reduce the potential for U.S. soy exports.

As we previously have stated before this committee, we remain greatly concerned with the current U.S. approach to bilateral and multilateral agreements. The U.S. was once a leader in establishing new free trade agreements. Nevertheless, the FTA landscape has changed considerably since the last new U.S.-based FTA was signed with Colombia. While the U.S. has engaged in negotiations of existing agreements such as USMCA and the updated U.S. Korean Free Trade Agreement (KORUS), our last new FTA entered into force in 2012, despite having negotiated the Trans-Pacific Partnership (TPP). That is over 10 years of stagnation for codified market expansion for U.S. agriculture.

ASA recognizes the international landscape has changed since the U.S. first negotiated the original TPP, and we are grateful for Ambassador Katherine Tai's leadership both during those negotiations and now in her role as the U.S. Trade Representative. Continued market access in the Indo-Pacific region is of critical importance to the ongoing success of U.S. soybean growers. Outside of China, several of U.S. soy's top 10 export markets are in the region: Indonesia, Japan, Taiwan, Thailand, and Bangladesh.

The importance of expanded market access for U.S. soybean exports cannot be overstated, particularly if we are to diversify our export markets and decrease our reliance on the Chinese market. An original intent of TPP was to create a hedge around China, and ASA still believes that agreement and the markets party to that agreement hold tremendous potential for U.S. agriculture. We encourage Congress to press the administration on the importance of traditional FTAs, and we likewise encourage USTR to look to multilateral free trade agreements to maximize the U.S.'s strategic position in the global economy and provide U.S. agriculture much-needed market access in emerging economies.

Finally, ASA strongly encourages Congress to reauthorize TPA. TPA is an important tool in the toolbox for the U.S. to engage in FTA negotiations. Ensuring TPA is in place will not only allow the president a chance to codify both the priorities of this administration and congressional intent in negotiating procedures, but also it will give assurance to our trading partners that there will be a straightforward procedure in the U.S. Congress for consideration of a final deal.

Conclusion

Chairman Thompson, Ranking Member Scott, and members of the House Agriculture Committee, thank you again for the opportunity to testify on behalf of U.S. soybean farmers regarding the importance of the Chinese market to our industry. The scars of the 2018 trade war are still fresh –and ongoing – for our farmers. Market access is one of the most important issues for U.S. soy, and we need certainty that access to our largest trading partner will remain, despite ongoing geopolitical issues.

ASA appreciates and understands the momentous work ahead of this committee, and I am grateful for the opportunity to share the perspective of U.S. soybean farmers with you. The soy industry stands as a resource for the committee, Congress, and the administration as this dialogue continues to unfold. Thank you again for the opportunity to testify today.

Josh Gackle

President, American Soybean Association

Josh Gackle, a farmer from Kulm, North Dakota, is president of the American Soybean Association. He farms 2,800 acres of soybeans and also produces corn, wheat and barley. Gackle began his service on ASA's board of directors in late 2017.

Gackle has served as a director on the North Dakota Soybean Growers Association board for eight years and has been an active member of NDSGA’s legislative and membership committees. He is also on the Kulm City Council. Gackle has a bachelor’s in history and social studies education from Bethel University in St. Paul, MN.

Truth in Testimony Disclosure Form

In accordance with Rule XI, clause 2(g)(5)* of the *Rules of the House of Representatives*, witnesses are asked to disclose the following information. Please complete this form electronically by filling in the provided blanks.

Committee: Agriculture

Subcommittee:

Hearing Date: 03/20/2024

Hearing Title:

"The Danger China Poses to American Agriculture"

Witness Name: Josh Gackle

Position/Title: President

Witness Type: ○ Governmental ● Non-governmental

Are you representing yourself or an organization? ○ Self ● Organization

If you are representing an organization, please list what entity or entities you are representing:

American Soybean Association

FOR WITNESSES APPEARING IN A NON-GOVERNMENTAL CAPACITY

Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.

Are you a fiduciary—including, but not limited to, a director, officer, advisor, or resident agent—of any organization or entity that has an interest in the subject matter of the hearing? If so, please list the name of the organization(s) or entities.

American Soybean Association

Please list any federal grants or contracts (including subgrants or subcontracts) related to the hearing's subject matter that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the source and amount of each grant or contract.

USDA Foreign Agricultural Service funds for Foreign Market Development, Market Access Program, Emerging Market Program, and/or Technical Agricultural Assistance:
2022: $19,987,775
2023: $17,608,334
2024: $16,441,682

Please list any contracts, grants, or payments originating with a foreign government and related to the hearing's subject that you, the organization(s) you represent, or entities for which you serve as a fiduciary have received in the past thirty-six months from the date of the hearing. Include the amount and country of origin of each contract or payment.

None

Please complete the following fields. If necessary, attach additional sheet(s) to provide more information.

☑ I have attached a written statement of proposed testimony.

☑ I have attached my curriculum vitae or biography.

* Rule XI, clause 2(g)(5), of the U.S. House of Representatives provides:

(5)(A) Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof.

(B) In the case of a witness appearing in a non-governmental capacity, a written statement of proposed testimony shall include— (i) a curriculum vitae; (ii) a disclosure of any Federal grants or contracts, or contracts, grants, or payments originating with a foreign government, received during the past 36 months by the witness or by an entity represented by the witness and related to the subject matter of the hearing; and (iii) a disclosure of whether the witness is a fiduciary (including, but not limited to, a director, officer, advisor, or resident agent) of any organization or entity that has an interest in the subject matter of the hearing.

(C) The disclosure referred to in subdivision (B)(iii) shall include— (i) the amount and source of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) related to the subject matter of the hearing; and (ii) the amount and country of origin of any payment or contract related to the subject matter of the hearing originating with a foreign government.

(D) Such statements, with appropriate redactions to protect the privacy or security of the witness, shall be made publicly available in electronic form 24 hours before the witness appears to the extent practicable, but not later than one day after the witness appears.