U.S. WHEAT ASSOCIATES

Presentation by

Paul Dickerson
Vice President, U.S. Wheat Associates

CONGRESSIONAL-EXECUTIVE COMMISSION ON CHINA
ISSUES ROUNDTABLE

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Thank you for this opportunity to discuss the U.S. wheat industry experience with trade to China. First, if I may, I'd like to give some background on U.S. Wheat Associates and my experience in grain trading.

USW does not buy or sell wheat. Our job, since the 1950's, has been to develop and maintain export markets for American wheat. We are the marketing arm for the American wheat farmer, and over the years we have worked in nearly 100 countries. Our expert staff has a depth of knowledge on wheat issues that is unmatched anywhere else in the world. We receive a third of our funding from wheat producers, through checkoffs funneled through our 20 member state wheat commissions, but the remaining two-thirds of our budget, including all of our overseas work, depends on USDA's Foreign Market Development program and the Market Access Program. We simply could not do our work without that support.

As vice president of overseas operations for U.S. Wheat Associates, I direct the market development activities of USW's 15 overseas offices. I joined them in 1992, first serving as regional vice president of the South Asian region in Singapore, and then moving to the Washington D.C. office in 1995.

I was General Sales Manager and Associate Administrator of the U.S. Department of Agriculture's Foreign Agricultural Service between 1989 and 1991. Previous to my work at USDA, I've been a consultant and marketing agent in the Pacific Northwest, and was president and chief operating officer of Columbia Grain, Inc. in Portland, Oregon. I've also worked for Cargill and Cook Industries, Inc., both in the U.S. and several overseas locations. In total, I spent the first 26 years of my career in the private sector in various grain trading and management positions.

I've been very lucky to view wheat trade from all of these perspectives — from private grain trade, from government, and from a commodity organization. And it's been fascinating to be involved, from those angles, in the long and difficult history of U.S. wheat trade with China.

As you know, the U.S. agricultural community, including the wheat industry and the trade, was very supportive of China's admission to the WTO. While the outlook for significant wheat export opportunities looked promising, however, the results were initially quite disappointing.

Until very recently, the U.S. wheat industry faced continuing problems. While China reduced its old carryover stocks, which were more than needed, it used various devices to curb exports from the United States of quality wheat that its end users could import without a series of trade barriers.

There were three chief areas of concern affecting access to China's market:

1. Tariff Rate Quota implementation for the private sector was inadequate, in that individual allocations were too small, and there was no transparency. Companies had to combine TRQ's in order to get a commercially viable volume.

2. Licenses, that were supposed to be issued by the State Administration of Quality Standards, Inspection and Quarantine (AQSIQ) for commodity imports, were given for a limited period of time, which discouraged purchases.

3. Sanitary and phytosanitary barriers relating to TCK — a wheat smut — continued to be a problem, despite the Agriculture Trade Agreement that was reached in 1999, ending a trade dispute that began in 1972.

The story about how this phytosanitary dispute over TCK evolved and was resolved is a long saga, which I will not go into today. Let me just point out that, after decades of the best efforts of scientists from the U.S. Department of Agriculture and the wheat industry, an international panel conducted an independent pest risk assessment (PRA), following guidelines established by the UN Food and Agricultural Organization and, in May 1998, the PRA was presented to Chinese officials.

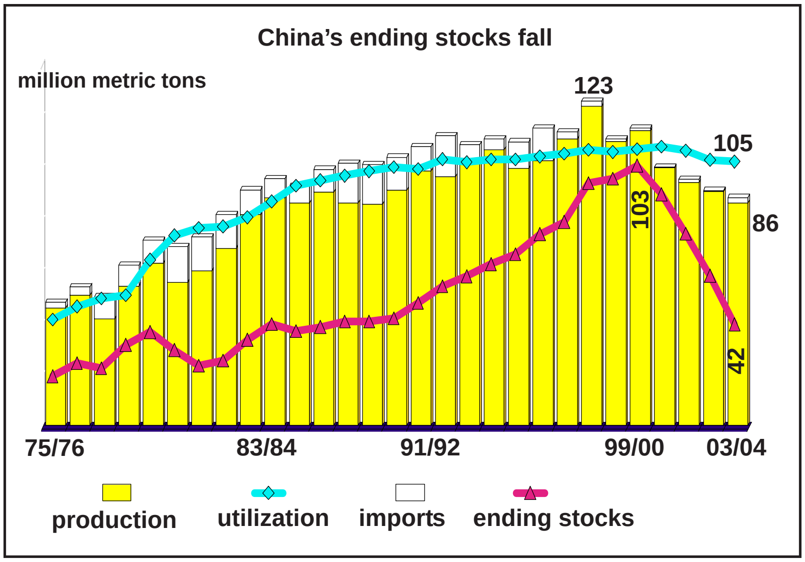
The public response to the PRA from the Chinese was, essentially, silence.... until WTO talks began.

When negotiations between USTR and the Chinese government began in earnest in 1999, we were grateful for USTR's support on the U.S. wheat industry's position: that there could be no WTO agreement without resolution on the TCK issue.

On April 9, 1999, the USTR announced the agreement that would allow U.S. wheat imports from any state to enter any Chinese port. The agreement allowed wheat imports that do not exceed a tolerance level of 30,000 TCK spores per 50 gram sample, a level that is easily met by U.S. wheat. That agreement was translated into Chinese, and the USTR and Chinese officials officially "confirmed" that version in early December 1999 while the countries were in Seattle for the World Trade Organization meeting.

Finally, in early 2000, the China National Cereals, Oils and Foodstuffs Corporation (COFCO), the official government buyer, announced their purchase of wheat, including wheat from the Pacific northwest. It was the first largely unrestricted commercial cargo of northwest wheat to be shipped to the Peoples Republic of China in 27 years. The bulk carrier "Miyama" left the Columbia River on June 2, carrying 52,678 metric tons of wheat: 30,000 MT of soft white wheat and 10,000 each of hard red winter and hard red spring.

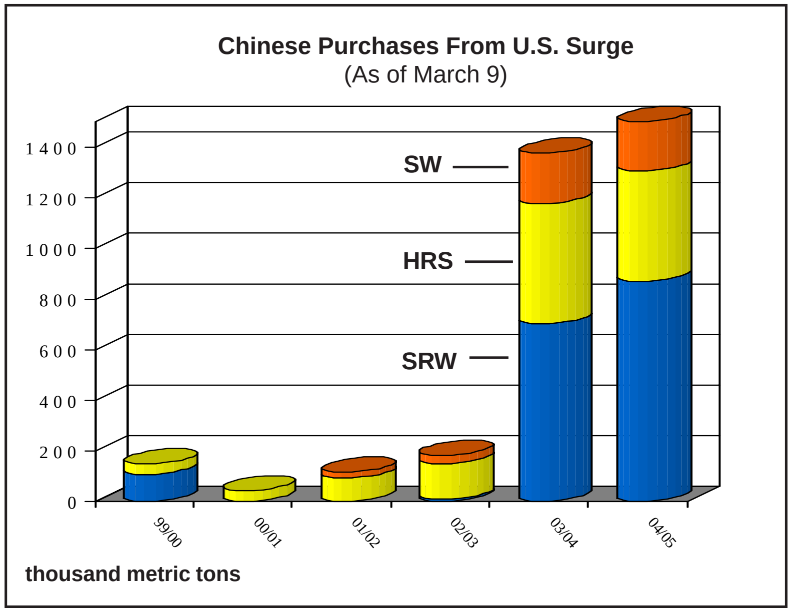
Resolution to the TCK issue was absolutely vital to U.S. exports of wheat. With the agreement and with permanent Normal Trade Relation status for China, the U.S. could increase total wheat exports up to 10% each year.



There is a huge market potential for U.S. wheat in China. Between 1985 and 1995, on average, China imported 10 million tons of wheat each year (ranging from 4 to over 15 million tons), relying on imports during this time for just over 10% of its wheat needs. But then their domestic wheat production improved dramatically, and imports dropped steadily since 1996 — until this year.

China has drawn down its wheat stocks in recent years, most recently with domestic sales of nearly a million tons of old crop. They now produce about 86 million metric tons annually (for comparison purposes, the U.S. produced 64 MMT during the current crop year), but their consumption is estimated at 105 million metric tons. These three factors — lower stocks, lower production, and steady demand — now come together, forcing China to import wheat in much larger quantities than in the past several years. This "draw down" in stocks has brought China back to the market as their domestic prices have increased.

China is buying wheat from the United States, purchasing nearly three million metric tons this year and next year. And COFCO representatives say there is more to come. But the question, until recently, was whether they would truly honor the agreement on TCK. Would they buy from the Pacific Northwest ports? Would they ship? Would they continue to discourage their buyers from purchasing wheat from the United States? And would they offload that wheat and put it into domestic circulation?



Last month, representatives from COFCO conducted a whirlwind U.S. buying tour. Before beginning its rounds of meetings in Washington, Chicago and Portland, however, the COFCO team graciously agreed to meet with members of the U.S. media in the nation's capitol. The chairman directly addressed concerns about whether TCK was still an issue in purchasing decisions, stating flatly that "the TCK problem has already been resolved. It is not a problem." He went on to say that wheat from the PNW "gives us more variety, and provides wheat that China doesn't have." Also, he noted, "we want to cut shipment costs" and shipping out of Portland is less expensive for China than shipping from the Gulf. That freight savings is currently about $20 to $25 per metric ton. That's over a million dollar *difference* for a normal 50,000 metric ton shipment.

	03/04	04/05	TOTAL
SRW	705	870	1.575
HRS	479	435	914
SW	198	270	468
ALL CLASSES	1.382	1.575	2.957

thousand metric tons

U.S. Wheat Associates, the industry's export market development organization, which has maintained an office in Beijing since 1983, has worked for years just for this moment in history. Hopefully, the TCK issue is in the past, but we cannot be certain until volume shipments discharge at ports in China — until then it is difficult to confirm resolution of the issues. We still anticipate some problems for the private sector licensing and TRQ allocations, and we will continue to work with COFCO and other Chinese agencies, with the private entrepreneurs in China, and with the dedicated professionals at USTR and USDA., especially as wheat shipments arrive in China.

In the long-term, liberalization of China's import policies and internal reforms of the grain industry are expected to generate higher imports than at present, with estimates of import levels ranging from 5 to 10 million tons. Some estimates go even higher.

The opportunity for the U.S. wheat industry is immense. Under the U.S. — China agreement, the TRQ for wheat is 9.6 million metric tons. The tariff is 1%, lower than most other Asian countries. If the U.S. could get 40% of those sales, we would increase the total U.S. wheat annual exports by 10%.