U.S. International Trade Commission
Investigation No. 332-518

CHINA'S AGRICULTURAL TRADE: Competitive Conditions and Effects on U.S. Exports

As Presented by the Almond Board of California

BACKGROUND

The California Almond industry appreciates this opportunity to provide information on the importance of the Chinese market.

Almonds are California's largest agricultural export, with a value of approximately $2 billion. There are about 6,000 almond growers in California; according to the 2007 USDA Agricultural Census, over 80% are family operations three-quarters of which are small- or medium-sized. Almonds are put into commercial channels by approximately 100 handlers – also predominantly family-owned and operated. The handlers are the companies that purchase almonds from the grower and ship them into domestic or export markets. 100% of U.S. commercial almond production is in California, which also represents approximately 80% of the global supply.

In 1950, almond growers enacted a federal marketing order under USDA which is administered by the Almond Board of California. The Board's key program areas include industry information and statistics, nutrition research, global market development and promotion, food safety, environmental stewardship, and production research. The programs are funded by a mandatory assessment, and are directed through a committee structure which is overseen by an industry-elected Board of Directors.

Almond production has continued to grow in California. Since 2000, the industry has experienced six record shipment years.[1] The 2008/09 crop (August 2008-July 2009) was in fact the largest ever. While the current 2009/10 year's production is down approximately 13%, it is still the second largest crop on record.

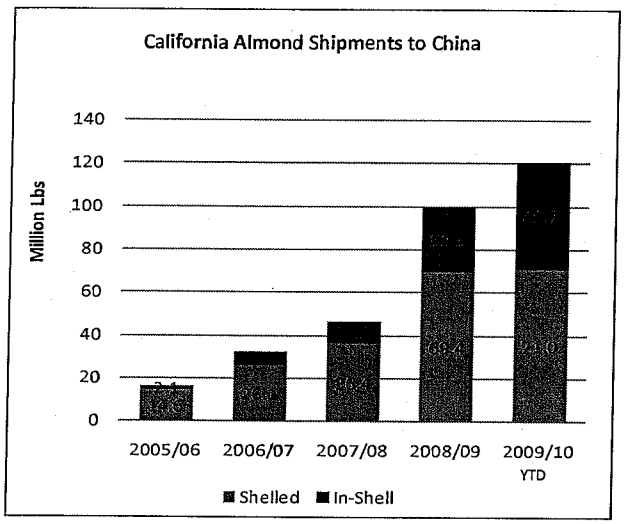
The California Almond industry is also heavily export dependent, with about 70% of our shipments destined for over 80 markets worldwide. This makes demand creation and undisrupted market access vital to the long-term viability of our farm families.

[1] Almond Board of California

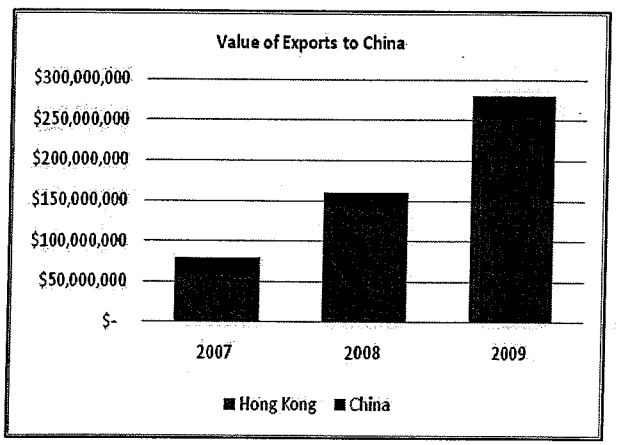
CALIFORNIA ALMONDS AND CHINA

Like many agricultural products, almonds are finding the Chinese market to be a "demand phenomena." China is anticipated to surpass Japan as the world's second largest economy within 2010, and to become the largest economy within the next 20 years. Their middle class is projected to reach 500-600 million by 2020 – driving the fastest consumer boom ever. Beyond the major coastal cities like Beijing, Shanghai and Guangzhou, urbanization and increasing consumption power in emerging city markets is spurring food retail development, and an increasing demand for higher quality, healthy food.[2] For 2010, the government is targeting 8% growth.

Almonds are mainly imported via Hong Kong into southern China, where they are locally roasted, salted and packaged, and then distributed to wholesalers, retailers and repackers along the eastern coast and inland. Crop year shipment information reported by the almond industry, through the Almond Board of California, indicates that total almond exports to China doubled in 2008/09, reaching about 100 million pounds versus 46 million pounds in 2007/08. In fact, 2008/09 marked the fourth consecutive year of record California Almond exports to China.



With only two months remaining in the current 2009/10 crop year, shipments are already 124% of the *total* 2008/09 shipments to China. The result is that this dynamic environment has gone from our 10th largest export market in crop year 2003/04, to now being the #1 export destination for California Almonds.



U.S. Commerce Department data confirms that the value of shipments to China and Hong Kong has tripled in the past two years, going from approximately $80 million in 2007 to more than $280 million in 2009.[3] The increase from 2008 alone supported an additional 1,765 jobs in the U.S.[4]

[2] InterChina Consulting/China Europe International Business School (CEIBS)
[3] U.S. Census Bureau, Department of Commerce
[4] 14,603 jobs/billion $ export value, according to USDA/ERS Agricultural Trade Multiplier for Tree Nuts

OPPORTUNITIES FOR FURTHER GROWTH?

The market demand growth for almonds in China has been dramatic. However, price, inflated by import duties and value added tax (VAT), is the limiting factor to greater consumer penetration and long term commercial investment.

In conjunction with China's WTO accession, tariffs on almonds were reduced from their original 30% level to 10% on shelled almonds, and 24% on inshell almonds, which encouraged greater shipments in early 2002-2004. However, these rates continue to be significantly more trade restricting as compared to other key export markets, particularly since there is no competing local Chinese production of almonds.

Example of Almond Tariffs in Key Export Markets										
	China	EU	India	Japan	Korea	Malaysia	Russia	Singapore	Vietnam	Hong Kong
Shelled (HS08021200)	10%	3.5%	65 rupees/kg	2.4%	8%	0%	0%	0%	10%	0%
Inshell (HS08021100)	24%	5.6%	35 rupees/kg	2.4%	8%	0%	0%	0%	15%	0%

A concern to the California Almond industry is that China has negotiated or is in the process of negotiating trade agreements with a number of countries that compete with the U.S. in export markets. The resulting agreements could put almonds at a competitive disadvantage. Specifically, China and Chile signed a free trade agreement entered into force in October 2006, and will fully liberalize the tariff for almonds in 2015. Chile is a small competing producer of almonds, but negotiations are also underway between China and Australia, which is anticipated to become the second major producer of almonds within the next two-three years.

China relies primarily on imports for almonds. While a major walnut, peanut, and apricot kernel producer, reports of increased almond plantings in China seem to be unfounded. In 2007, the California Almond industry conducted research in several provinces, working closely with USDA's Foreign Agricultural Office and utilizing funding from the USDA Emerging Markets Program. Almonds were being planted in a number of regions, but it was often focused on reforestation objectives rather than agricultural production. The study concluded that China is unlikely to become a competitor to California in the future.

But the market channels are highly fragmented with multiple layers of importers, distributors, and regional repackers. Chinese customs statistics do not capture true import volumes due to this amalgam of trading conduits, which also are believed to result in duty and VAT payments not being fully captured. A change in the duty rate, whether it is bringing the inshell rate down to coincide with the 10% on shelled almonds or a more significant reduction to 5% across the board, would likely add transparency to import

channels and encourage greater direct shipment to China. The impact for China could in fact be greater revenue as well as expanded growth if local industries see almonds as a cost effective, stable ingredient in their formulations.

ALMOND INDUSTRY MARKETING EFFORTS

The Almond Board was among the first USDA cooperator groups back in the late 1990's and early 2000's to launch market development efforts in China. In fact, it was China that first began marketing salted, flavored inshell almonds which resulted in significant growth early on.

Today, almonds are mainly consumed in China as roasted, salted snacks. Ingredient usage has been modest compared with the snack segment, although innovation with almond ingredients is rising. Almond industry efforts have continued to focus on the need to increase education among end-users regarding how to incorporate almond varieties and forms as versatile, value-adding ingredients in a variety of food applications. The bakery, food service, and confectionery sectors are projected to achieve double-digit average annual growth, however, long term market penetration requires a stable distribution network which is hampered by current import and regulatory processes that discourage investment.

IMPACT OF A CHANGE IN THE TARIFF RATE

What this all means for almonds and our family farms, is a tremendous growth opportunity. Shipments to China have doubled twice in the past three years. Our industry firmly believes that shipments to China have the potential to double again – particularly if there is a change in the tariff rate. This would not only support the Administration's National Export Initiative, but would mean significant job creation here in the U.S.

Expanded exports will also result in greater investment in China, leading to an improved trade situation and benefiting their deficit situation. China, too, is concerned about improving the quality of life for their population. Chinese consumers do not have a special affinity for almonds, which face competition from substitutes such as seeds, peanuts, pistachios and extruded products. But we have seen from our own programs and the market evolution, that consumers are becoming more health-conscious in their purchasing decisions, as well as desiring premium, high-quality items. The concept of functional foods is also starting to emerge, and the Chinese government is increasing its focus on nutritionist training.

It is important to note that the California Almond industry has invested not only in demand creation initiatives in China, but also in capacity building. Over the past eight years, the industry has worked

cooperatively with an expanding number of universities. What began as an almond product innovation competition for food science students in one or two universities has now evolved into a broad-based food technologist education program supported by the California Almond industry in conjunction with leading universities. The focus is on improving production and processing capabilities for the long term benefit of the Chinese food industry. Over 5,000 students have participated in the program; in fact, 10 of the participating 36 universities are including the program as part of their curriculum, making it a model for other food technologist programs in the region. Of the students who have now left the university, we estimate that over 90% are using the knowledge developed through this initiative, many in professional positions with leading food companies throughout China.

Our industry has also invested in research in China, to address China-specific concerns. This has ranged from assessing the benefits of Vitamin E in various Chinese populations, to studying the impact of storage conditions in China on overall almond quality and shelf life.

GOING FORWARD

The California Almond industry believes the opportunities in China are significant. Elimination of the high tariff rates will encourage greater direct investment in China....capacity building initiatives can be expanded....and greater economic opportunities will emerge with increased production expanding beyond the southern coastal region to central and northern China.

Our commitment to China began more than 15 years ago, and will continue well into the future. The opportunities and potential returns to California Almond growers are considerable, as are the potential benefits to Chinese consumers and industry. We look forward to working together with the U.S. government to see this become a reality.

We appreciate the opportunity to provide comments to the International Trade Commission.