Joint Submission
In Response to
Federal Register Notice USTR – 2015 – 0010
Office of the United State Trade Representative
Trade Policy Staff Committee
"China's WTO Compliance"
China's Subsidy Programs for Corn, Wheat and Rice
September 23, 2015

The comments in this submission will focus on China's domestic subsidy programs for corn, wheat and rice, as they related to China's WTO agricultural subsidy commitments. These comments represent a joint submission by the following organizations.

U.S. Grains Council

The U.S. Grains Council is a private, non-profit organization representing U.S. producers of corn, sorghum, barley, co-products such as ethanol, dried distiller grains (DDGS), and corn gluten and corn meal feed, and agribusinesses. The U.S. Grains Council develops export markets for U.S. barley, corn, grain sorghum and related products.

U.S. Wheat Associates

USW is the wheat industry's export market development organization working to promote all six classes of U.S. wheat in more than 100 countries. Its activities are made possible through producer checkoff dollars managed by 19 state wheat commissions and cost-share funding provided by USDA's Foreign Agricultural Service. For more information, visit our website at www.uswheat.org.

USA Rice Federation

The USA Rice Federation is the global advocate for all segments of the U.S. rice industry with a mission to promote and protect the interests of producers, millers, merchants and allied businesses.

Introduction

Over the last decade China has pursued an increasingly aggressive policy of subsidization for arable crops, including wheat, corn and rice. It has pursued this policy with the stated objective of achieving "self-sufficiency" in arable crop production. China's "No. 1" document, an annual publication outlining the government's agricultural policy objectives, has focused heavily on the need for "grain security", and the use of subsidies to achieve that goal.

China's subsidy programs for wheat, corn and rice have pushed domestic production to record levels. In marketing year 2015, combined output of the three crops totaled 560 million metric tons (MT), making China the world's largest producer of these grains. The run up in grain production and consequent massive accumulation of grain stocks has resulted in lower world prices for these products, and has significantly diminished Chinese demand for imported wheat, corn and rice.

In its 2015 "No. 1" document, the government itself appeared to take a slight step back from the aggressive "self-sufficiency" objectives contained in previous years, indicating that self-sufficiency should be "scientifically defined", and for the first time acknowledged the problems created by artificially high domestic prices, and rapidly accumulating grain stocks.[1] Nonetheless, in 2015 the government maintained subsidy programs for wheat and rice at the same record high levels that were made available the previous year, and in the case of corn actually increased the price support level.

The central pillar of China's subsidy programs for wheat, corn and rice is government price support. Under this program, the government purchases grain if market prices drop below a pre-established support price level. Support prices are established at levels aimed at ensuring producer profitability. In addition to the price support program, the government provides an array of other subsidies, including direct payments to farmers, as well as seed, machinery, fuel and fertilizer subsidies.

In 2014 the U.S. Wheat Associates, U.S. Grains Council and USA Rice Federation commissioned a study by DTB Associates of China's subsidy programs for grain, to assess whether or not they were compatible with China's WTO subsidy commitments. That study found that China was in violation of the agricultural subsidy commitments it made when it acceded to the WTO in 2001, by massive margins.[2]

The results of the analysis are summarized in more detail below. While the analysis covered subsidies in MY 2014, as noted earlier, China's support price and other subsidies either remained the same in MY 2015, or in the case of corn increased.[3] In addition, production of all three products increased in MY 2015. The 2014 analysis thus may represent an underestimation of the level of subsidies China provides to its grain sector, measured in WTO terms.

As the world's largest producer and stockholder of grains, China has a significant impact on world markets. There can be little doubt as to the negative impact that subsidy-driven production and stock increases have on world crop prices, and Chinese import demand.   One of the participants in this submission, U.S. Wheat Associates, commissioned a 2015 study by Iowa State University, to quantify the economic impact of the subsidy programs on the U.S.

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[1] "Chinese Government Tackles High Production Costs and Uncompetitive Prices in New Agriculture Strategy" FAS Beijing GAIN Report No. CH15010, 3/19/2015.
[2] DTB Associates, November 2014, "Agricultural Subsidies in Key Developing Countries: November 2014 Update".
Link to report.
[3] FAS Beijing GAIN Report No. CH15014. 5/8/2015. "China Grain and Feed Annual – 2015".

wheat industry.[4] That study found that the removal of subsidies would result in a six million MT increase in Chinese wheat imports, and a 2.4 percent increase in world wheat prices. The study thus in our view provides evidence that Chinese subsidies likely result in "serious prejudice" to the U.S. wheat industry, as that term is defined in the WTO Agreement on Subsidies and Countervailing Measures.

Summary of DTB Study on China's Subsidy Programs for Wheat, Corn and Rice

When China joined the WTO in 2001, it did not declare any trade-distorting subsidies above the *de minimis* level (in the case of China, *de minimis* was established at 8.5% of the value of production). As a result, China's Aggregate Measure of Support (AMS), the quantification of trade-distorting subsidies using the WTO methodology, is bound at zero. This means that if China exceeds the *de minimis* threshold for any single commodity, it is in violation of its WTO commitments. The 2014 study presents evidence that subsidies for all three commodities – wheat, corn and rice – far exceed the *de minimis* level, and therefore violate China's WTO subsidy obligations.

Wheat

China's price support program for wheat covers six provinces: Henan, Hebei, Jiangsu, Anhui, Shandong and Hubei. These provinces account for roughly 77 percent of Chinese wheat production.

Since there is evidence that the price support raises the price of wheat in all of China, not just the provinces where intervention takes place, the study argues that it was appropriate to use 100 percent of production in the calculation of the AMS for the price support scheme. This methodology is used in Table 1 below. However, Table 2 uses 77 percent of production as the basis for the AMS calculation, reflecting production in the six provinces where the price support operates.

Table 1
Price Support AMS Calculation for Wheat
100% of Production
(Prices per MT)

1) Administered Price, 2014/15 1/	2) Fixed External Reference Price 2/	3) Production (2014/15) 3/	4) Level of support (1-2) X
RMB 2360	RMB 1698		RMB 82.1 b
$383.74	$276.10	124 MMT	$13.3 b

1/ Source: USDA/FAS GAIN reports.
2/ WT/ACC/CHN/38/Rev3

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[4] "Analyzing the Impact of Brazilian, Chinese, Indian and Turkish Wheat Support Polices on U.S. and Global Wheat Production, Trade and Prices". Iowa State

Table 2
Price Support AMS Calculation for Wheat
77% of Production
(Prices per MT)

1) Administered Price, 2014/15 1/	2) Fixed External Reference Price 2/	3) Production (2014/15) 3/	4) Level of support (1-2) X 4
RMB 2360	RMB 1698		RMB 63.2 b
$383.74	$276.10	95.5 MMT	$10.3 b

1/ Source: USDA/FAS GAIN reports.
2/ WT/ACC/CHN/38/Rev3
3/ Official USDA estimate

The estimates of the AMS for China's 2014/15 price support program for wheat thus range from RMB 63.2 billion – RMB 82.1 billion ($10.3 billion – $13.3 billion).

As noted earlier, China provides other forms of subsidies to Chinese wheat farmers, including direct payments, and input subsidies. Since these subsidies are paid on an area basis, the study allocates a subsidy amount to wheat based on the percentage of harvested area that wheat accounted for among the eligible products. The tables below add these subsidies with the price support subsidy to obtain a total AMS for wheat, and then compare that AMS to the *de minimis* threshold for the product.

Table 3
AMS for Wheat
100% of Production

Program	AMS RMB	AMS $
1) Price support (MY 2014/15)	RMB 82.1 b	$13.3 b
2) Direct Payments	RMB 3.9 b	$0.6 b

Program	AMS RMB	AMS $
3) Input Subsidies	RMB 27.8 b	$4.5 b
TOTAL AMS	RMB 113.8 b	$18.4 b
DE MINIMIS THRESHOLD[1/]	RMB 26.4 b	$4.3 b

1/ Calculation *de minimis* threshold: Value of production 2014: 124 million MT x $411 MT (average domestic price Feb 2014, FAS data) = $51 billion $51 billion x 8.5% = $4.3 billion

Table 4
AMS for Wheat
77% of Production

Program	AMS RMB	AMS $
1) Price support (MY 2014/15)	RMB 63.2 b	$10.3 b
2) Direct Payments	RMB 3.9 b	$0.6 b
3) Input Subsidies	RMB 27.8 b	$4.5 b
TOTAL AMS	RMB 94.9 b	$15.4 b
DE MINIMIS THRESHOLD[1/]	RMB 26.4 b	$4.3 b

1/ Calculation *de minimis* threshold: Value of production 2014: 124 million MT x $411 MT (average domestic price Feb 2014, FAS data) = $51 billion $51 billion x 8.5% = $4.3 billion

Using either full wheat production or 77 percent of production, China's AMS for wheat is far above the *de minimis* threshold, and must therefore be included in the current Total AMS. Since China's AMS is bound at zero, subsidies for wheat, by themselves, violate its AMS commitment.

Corn

Notwithstanding the fact that China's price support program for corn is called a "temporary reserve program", and that price support announcements for corn are made on an *ad hoc* basis, taking into consideration annual supply and demand conditions, the program is clearly a market price support program of the kind covered by Annex 3.8 of the WTO Agriculture Agreement. The primary purpose and effect of the price support regime for corn is certainly the same as those for wheat and rice – to raise domestic producer prices.

Moreover, although China refers to it as temporary, it has since 2008 employed the program in every marketing year in which market prices, and supply and demand conditions, warranted it. High support prices have had a dramatic effect on production. Since China first implemented

the price support for corn in 2008, production has increased from 165 million MT to 225 million MT, a 36% production increase over a six-year period.

The price support program for corn covers four provinces, Jilin, Heilongjiang, Liaoning and Inner Mongolia. These provinces account for about 37 percent of corn production. Since there is evidence that the program raises the price of corn in all of the country, not just the four provinces where intervention takes place, the study argues that it was appropriate to use 100 percent of production in the calculation of the AMS for the price support scheme. This methodology is used in Table 5 below. However, the calculation in Table 6, reflects only production in the four provinces where the price support operates.

It should also be noted that while the study uses the MY 2013/2014 support price of RMB 2,240/MT, the MY 2015/16 price support was set at 2,360 RMB/MT. The higher price support, combined with increased production of corn in MY 2015, would further inflate the AMS.

In addition, the study uses two different external reference prices in the two tables below. The first uses the external reference price that China notified to the WTO, which the authors of the study regarded as being inflated. The second uses a price that is calculated using Global Trade Atlas data. (Note: The source for GTA China data is China Customs.) Using the independently calculated reference price significantly widens the price gap, and therefore increases the AMS for the price support program.

Table 5
Price Support AMS Calculation for Corn
100% of Production
(Prices per MT)

1) Administered Price, 2013/14 1/	2) Fixed External Reference Price 2/	3) Alternative Fixed External Reference Price 3/	4) Production (2013/14) 4/	5) Level of support (1-2) X 4	6) Level of Support (1-3) X 4
2240 RMB	1198 RMB	892 RMB	217 MMT	226 b RMB	292 b RMB
$361.21	$194.30	$143.87		$36.2 b	$47.1 b

1/ Source: USDA/FAS GAIN reports, average support price.
2/ WT/ACC/CHN/38/Rev3
3/ Global Trade Atlas, average FOB China price for corn, 1996-1998
4/ Official USDA estimate
Exchange rate: $1 = RMB 6.20. July 2013, www.xe.com.

Table 6
Price Support AMS Calculation for Corn
37% of Production
(Prices per MT)

1) Administered Price, 2013/14 1/	2) Fixed External Reference Price 2/	3) Alternative Fixed External Reference Price 3/	4) Production (2013/14) 4/	5) Level of support $(1-2) \times 4$	6) Level of Support $(1-3) \times 4$
RMB 2240	RMB 1198	RMB 892	80 MMT	RMB 83.3 b	RMB 107.8 b
$361.21	$194.30	$143.87		$13.3 b	$17.3 b

1/ Source: USDA/FAS GAIN reports.
2/ WT/ACC/CHN/38/Rev3
3/ World Trade Atlas, average FOB China price for corn, 1996-1998
4/ Official USDA estimate

The estimates of the AMS for China's 2013/14 price support for corn thus range from RMB 83.3 billion – RMB 292 billion ($13.3 billion – $47.1 billion).

As noted earlier, China provides other forms of subsidies to corn farmers, including direct payments, and input subsidies. Since these subsidies are paid on an area basis, the study allocates a subsidy amount to corn based on the percentage of harvested area that corn accounted for among the eligible products. The tables below adds these subsidies with the price support subsidy to obtain a total AMS for corn, and then compare that AMS to the *de minimis* threshold for the product.

Table 7
AMS for Corn
100% of Production

Program	AMS RMB	AMS $
1) Price support (MY 2013/14)	RMB 226 - 292 b	$36.2 - 47.1 b
2) Direct Payments	RMB 5.5 b	$0.90 b
3) Input Subsidies	RMB 39.6 b	$6.40 b
TOTAL AMS	RMB 271.1- 337.1 b	$43.5 – 54.4 b
DE MINIMIS THRESHOLD[1/]	RMB 41.5 b	$6.7 b

1/ Calculation *de minimis* threshold: Value of production 2013/14: 217 million MT x $363.72 (average domestic price based in Feb 2014 on FAS data) = $78.9 billion $78.9 billion x .085 = $6.7 billion
De minimis threshold: $6.7 billion

Table 8

AMS for Corn
37% of Production

Program	AMS RMB	AMS $
1) Price support (MY 2013/2014)	RMB 83.3 – 107.8 b	$13.3-17.3 b
2) Direct Payments	RMB 5.5 b	$0.90 b
3) Input Subsidies	RMB 39.6 b	$ 6.4 b
TOTAL AMS	RMB 128.4 – 152.9 b	$20.6 – 24.6 b
DE MINIMIS THRESHOLD[1/]	RMB 41.5 b	$6.7 b

1/ Calculation de minimis threshold: Value of production 2013/14: 217 million MT x $363.72 (average domestic price based in Feb 2014 on FAS data) = $78.9 billion $78.9 billion x 0.085 = $6.7 billion
De minimis threshold: $6.7 billion

Using either full corn production or 37 percent of production, China's AMS for corn is far above de minimis level, and must therefore be included in its current total AMS. China's AMS binding is zero, so subsidies for corn, by themselves, violate its AMS commitment.

As noted earlier, the AMS calculations contained in Tables 7 and 8 are based on the MY 2013/14 price support for corn of RMB 2240 for corn. Using the MY 2015/16 price support of RMB 2360 MT, along with higher corn production numbers, would further increase the AMS level.

Rice

The price support program for rice was implemented in MY 2005/06. The province-level participation in the support price for rice varies by rice type. In the case of early Indica, the covered provinces are Anhui, Jiangxi, Hubei and Hunan. For mid-late rice, the covered provinces are Jilin, Heilongjiang, Anhui, Jiangxi, Hubei, Hunan and Sichuan. These provinces collectively account for 77 percent of rice production. In addition, rice-producing provinces that are not specifically designated by the central government also have the discretion to implement the price support if they so choose.

Because there is no data breaking down production of the two types of rice, the study uses a simple average of the two support prices for the administered price level in Tables 2 and 3.

Since there is evidence that the price support program raises the price of rice in all of China, not just the designated provinces where intervention must take place, the study argues that it is appropriate to use 100 percent of production in the calculation of the AMS for the price support scheme. This methodology is used in Table 2 below. However, in Table 3, DTB used 77 percent of rice production as the basis for the AMS calculation, reflecting production in the seven provinces where the price support operates.

In addition, the study uses two different external reference prices in the two tables below. The first reflects China's external price notification to the WTO. The second uses a price that is calculated using Global Trade Atlas data. (Note: The source for GTA China data is China Customs.)

Table 9
Price Support AMS Calculation for Rice
100% of Production
(Prices per MT)

1) Administered Price, 2014/15 1/	2) Fixed External Reference Price 2/	3) Alternative Fixed External Reference Price 3/	4) Production (2013/14) 4/	5) Level of support (1-2) X 4	6) Level of Support (1-3) X 4
RMB 2,900	RMB 2,659	RMB 1,971	203 MMT	RMB 48.9 b	RMB 188.6 b
$471.54	$432.36	$320.49		$8.0 b	$30.7 b

1/ Source: USDA/FAS GAIN reports
2/ WT/ACC/CHN/38/Rev3
3/ Global Trade Atlas, average FOB China price for rice, 1996-1998
4/ Official USDA estimate
Exchange rate: $1 = RMB 6.15. July 2014 (Source: www.xe.com)

Table 10
Price Support AMS Calculation for Rice
77% of Production
(Prices per MT)

1) Administered Price, 2014/15 1/	2) Fixed External Reference Price 2/	3) Alternative Fixed External Reference Price 3/	4) Production (2013/14) 4/	5) Level of support (1-2) X 4	6) Level of Support (1-3) X 4
RMB 2900	RMB 2659	RMB 1971	156.3 MMT	RMB 37.6 b	RMB 145.2 b
$471.54	$432.36	$320.49		$6.1 b	$23.6 b

The estimates of the WTO AMS for China's 2013/14 price support for rice thus range from RMB 37.6 – 188.5 billion ($5.64 - $30.9 billion).

As noted earlier, China provides other forms of subsidies to Chinese rice farmers, including direct payments, and input subsidies. Since these subsidies are paid on an area basis, the study allocates a subsidy amount to rice based on the percentage of harvested area that rice accounted for among the eligible products. The tables below adds these subsidies with the price support subsidy to obtain a total AMS for rice, and then compare that AMS to the *de minimis* threshold for the product.

Table 11
AMS for Rice
100% of Production

Program	AMS RMB	AMS $
1) Price support (MY 2014/15)	RMB 48.9 – 188.6 b	$8.0 - $30.7 b
2) Direct Payments 2013	RMB 4.8 b	$0.8 b
3) Input Subsidies 2013	RMB 34.2 b	$5.5 b
TOTAL AMS	RMB 87.9 - 227.6 b	$14.3 - $37.0 b
DE MINIMIS THRESHOLD[1/]	RMB 50.3 b	$8.2 b

1/ Calculation *de minimis* threshold: Value of production 2013/14: 203 MMT x $474 MT (FAS data) = $96.2 billion
De *minimis* threshold: $96.2 billion x 8.5% = $8.17 billion

Table 12
AMS for Rice
77% of Production

Program	AMS RMB	AMS $
1) Price support (MY 2014/2015)	RMB 37.6 – 145.2 b	$6.1 - $23.6 b
2) Direct Payments 2013	RMB 4.8 b	$0.8 b
3) Input Subsidies 2013	RMB 34.2 b	$5.5 b
TOTAL AMS	RMB 76.6 – 184.2 b	$12.4 - $29.9 b

DE MINIMIS THRESHOLD[1]	RMB 50.3 b	$8.2 b

1/ Calculation *de minimis* threshold: Value of production 2013/14: 203 MMT x $474 MT (FAS data) = $96.2 billion
De *minimis* threshold: $96.2 billion x 8.5% = $8.17 billion

China's AMS for rice ranges from RMB 76.6 – RMB 227.6 billion ($12.4 billion - $37.0 billion). All of these figures are higher than the estimated *de minimis* threshold for rice, in most cases by large margins. <u>Since China's AMS limit is zero, subsidies for rice by themselves, violate its AMS spending limit.</u>

Conclusion – China Violates its WTO Subsidy Commitments

As noted earlier, China did not declare any trade-distorting domestic subsidies above *de minimis* level when it joined the World Trade Organization. As a result, its AMS is bound at zero. This means that if China exceeds the *de minimis* threshold for any single commodity, it is in violation of its WTO commitments. The DTB study provides strong evidence, based almost entirely on information derived from government data, that subsidies for all three commodities covered in the study – corn, wheat and rice – exceed the *de minimis* level, and therefore violate China's obligations.

The following table summarizes the DTB calculations.

Table 13
Total AMS for Corn, Wheat and Rice
MY 2013/14

Commodity	AMS RMB	AMS - $
Corn	RMB 128.4 – 337.1 b	$20.6 – 54.4 b
Wheat	RMB 94.9 – 113.8 b	$15.4 – 18.4 b
Rice	RMB 76.6 – 227.6 b	$12.4 – 37.0 b
<u>TOTAL AMS</u>	RMB 299.9 – 678.5 b	$48.4 – 109.84 b
<u>AMS LIMIT</u>	0	0

Finally, it should be noted that products such as pork, oilseeds and cotton were outside the scope of the study. Had they been included, it is likely that AMS estimates would have been significantly higher than the figures indicated in the table above.