

Testimony of Craig Thorn



DTB Associates, LLP

before the

House Agriculture Committee

June 3, 2015

AGRICULTURAL SUBSIDIES IN ADVANCE DEVELOPING COUNTRIES

Mr. Chairman and Members of the Committee:

My name is Craig Thorn. I am a partner in the firm DTB Associates. Our firm represents a number of companies and trade associations in the agricultural sector. But I am here today in a personal capacity to present the results of a recent DTB study of agricultural subsidies in certain advanced developing countries.

Our paper is actually an update of an analysis we did in 2011. That study was prompted by trade problems encountered by U.S. clients in world markets – for example, low-priced Turkish wheat flour displacing U.S. wheat exports in Asian markets and increased competition from exports of corn, rice and wheat from Brazil. In investigating those issues, we learned that a number of large advanced developing countries had significantly increased their support to farmers in recent years. The 2011 study documented those increases and concluded the four countries examined – India, Brazil, Turkey and Thailand – were all out of compliance with their obligations under the *WTO Agreement on Agriculture*. Our new paper updates the original study and looks at China as well.

Our study is an objective analysis, not an advocacy piece. The data we used came from public sources, mainly reports by USDA agriculture attachés. We identified our data sources and explained in detail our methodologies and our legal reasoning. After four years of research, I am confident in the accuracy of our analysis.

The run-up in subsidies in the countries we examined began about a decade ago and has continued unabated. Support in those countries is now higher than in many developed countries. The table below shows support prices for wheat, corn and rice in the five countries we examined, compared with U.S. reference prices under the Price Loss Coverage (PLC) program.

Support Prices
(2013/14, unless otherwise noted)

| Country | Wheat | Corn | Long-grain Rice |
|----------------------|--------------|-------------|------------------------|
| China | \$384* | \$361 | \$438 |
| India | \$232 | \$217 | \$332 |
| Brazil | \$231* | \$128 | \$224 |
| Turkey | \$351 | \$310 | \$648 |
| Thailand | NA | NA | \$450 |
| United States | \$201 | \$146 | \$308 |

* 2014/15 support price levels

As you can see, price support levels are in most cases significantly higher in the five developing countries. But this comparison is actually unfair to the United States. The prices listed for the developing countries act as floor prices in the domestic market and incentive prices to the producer. The five governments use policy instruments such as government purchases and export subsidies to ensure that prices do not fall below the support level. By contrast (as you know), reference prices in the U.S. trigger payments to producers linked to a fixed payment base. The U.S. PLC program is less production-distorting because a producer is not required to plant a specific crop in order to receive a payment and cannot increase payments by increasing production.

Price support programs are not the only type of support offered by the five countries. Each also uses some combination of input subsidies, investment subsidies and commodity-specific direct payments. Of course, the United States uses other programs as well. In addition to the PLC, we have the Agricultural Risk Coverage program and subsidized crop insurance. However, the overall level of support for the products we examined was significantly higher in four of the five countries than in the U.S. The exception is Brazil, where the level of support is comparable.

These policies have a global impact. They have stimulated production, displaced imports and, in many cases, increased exports. For example, India has raised its support prices for rice and wheat by 130% and 111% respectively since 2005. Over the same period, Indian rice production increased by 13% and exports more than doubled, from 4.3 million metric tons to 10 million metric tons. In 2014 India became the number one exporter of rice in the world. Wheat production has increased since 2005 by 35%, and exports rose from 300,000 metric tons to 6.5 million metric tons.

Chinese officials speak openly of their policy of subsidizing producers to maintain self-sufficiency in wheat, corn and rice, despite the fact that they agreed at the time of China's accession to the World Trade Organization (WTO) to limit subsidies to no more than 8.5% of value of production. They have raised the support price for wheat by 71% since 2006, for corn by 50% since 2008, and for rice by 100% since 2007. They have increased subsidies for fuel, fertilizer and other inputs nine fold since 2006.

Why have these developments not gotten more attention in the WTO? There are at least two reasons. First, the countries involved are all delinquent to one extent or another in reporting their subsidy increases to the WTO. More importantly, when they have submitted the required notifications, they have used faulty methodologies that misrepresent the level of support provided. Below is our calculation of the actual level of support for the products we examined in our most recent study:

**Aggregate Measure of Support (AMS)
(Billions of Dollars)**

| Country | Wheat | Corn | Rice | Other | Total | AMS Limit |
|-----------------|-----------------|-----------------|-----------------|--------|------------------|-----------|
| China | \$15.4 - \$18.4 | \$20.6 - \$54.4 | \$12.4 - \$37.0 | NA | \$48.4 - \$109.8 | \$0 |
| India | \$12.1 - \$15.8 | \$2.5 - \$3.8 | \$13.3 - \$28.2 | \$33.0 | \$36.1 - \$93.4 | \$0 |
| Brazil | \$0.8 | 0 * | \$0.6 | NA | \$1.4 | \$0.912 |
| Thailand | NA | \$0.5 | \$1.4 - \$10.1 | NA | \$1.9 - \$10.6 | \$0.634 |
| Turkey | \$5.7 | \$1.0 | \$0.3 | NA | \$7.0 | \$0 |

* Support below *de minimis* level (10% of value of production)

The second column from the right shows our estimate of the level of support. We used in our calculations the methodology specified in the *WTO Agreement on Agriculture*. We show a range in some cases because of methodological issues that we explain in the paper. The last column shows the support limit these countries accepted at the end of the Uruguay Round or when they joined the WTO. As you can see, they are all in violation of their obligations, in most cases by a large margin. A couple of points to keep in mind while looking at this table:

- The support levels are high in absolute and in relative terms. The U.S. AMS limit is \$19.1 billion. By our estimate China's AMS is at least double the U.S. limit, and perhaps as much as five times higher. In all cases except one, the levels of support for all commodities are a very large relative to value of production.
- Our study looks only at wheat, corn and rice. (In the case of India we added sugar.) China also has generous support programs for pork, cotton and soybeans. India has support prices for 17 other commodities, including soybeans and cotton. Turkey has high support levels for barley, oats, rye, soybeans, sunflower seed and sugar. Thailand subsidizes sugar production and Brazil supports cotton. Thus, our estimates of total AMS are almost certainly lower than the actual figures.

As I indicated previously, all of these countries have used or are currently using export subsidies. China used export subsidies for corn until a few years ago. India made subsidized export sales from government stocks within the past year and is currently subsidizing sugar exports. Thailand is using export subsidies for rice, and Turkey is using sales from government stocks and a WTO-inconsistent duty drawback scheme to subsidize wheat flour exports. When prices fall below the support levels in Brazil, the government uses programs called PEP and PEPRO to move surpluses onto the world market. The programs closely resemble the old U.S. Step 2 program for cotton. A WTO panel and the Appellate Body ruled that Step 2 payments were export subsidies, and the U.S. eliminated the program.

These issues are important to American farmers for obvious reasons. Subsidies in advanced developing countries are distorting world markets. I am convinced that they have become significantly more trade-distorting than subsidies in developed countries. The U.S., as the biggest agricultural exporter, suffers most from these distortions.

WTO Members are currently discussing in Geneva a new Doha Round work plan for agriculture. American farmers would certainly benefit from a new WTO agreement that included additional disciplines on agricultural subsidies. However, some of the same countries that we examined in this report are arguing that the only acceptable basis for negotiation is the text that was developed in the early stages of the Doha Round, before the developments we are discussing took place. That text would require changes in U.S. farm policy but would do little or nothing to tighten the rules that apply to advanced developing countries. At the same time, India and others are arguing for rule changes that would significantly weaken the disciplines on developing country subsidies.

U.S. officials have been working to change the narrative in Geneva. Ambassador Michael Punke has been particularly forceful and effective in this regard. Unfortunately, I have not yet seen any indication that advanced developing countries are ready to acknowledge the facts. In my opinion, it would be extremely foolish for the U.S. to agree to restart the negotiations until we have a plan to ensure compliance with current commitments, and we are convinced that any new disciplines will be targeted at the policies that are most responsible for current distortions.

Thank you, Mr. Chairman.

Below is a link to the DTB study:

<http://dtbassociates.com/docs/DomesticSupportStudy11-2014.pdf>