U.S. WTO Complaint on China’s Domestic Support – Wheat, Corn and Rice:
Preliminary Observations

Lars Brink and David Orden

Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium’s (IATRC’s) 2016 Annual Meeting:
Climate Change and International Agricultural Trade in the Aftermath of COP21, December 11-13, 2016, Scottsdale, AZ.

Copyright 2016 by Lars Brink and David Orden. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.
US WTO Complaint on China’s Domestic Support -- Wheat, Corn and Rice: Preliminary Observations

Lars Brink and David Orden

(Paper available on request)

International Agricultural Trade Research Consortium IATRC Annual Meeting
Scottsdale, Arizona
11-13 December 2016

Lars.Brink@hotmail.com
orden@vt.edu
WTO domestic support in agriculture

• Not through border measures
  – Some DS subject to limits
  – Other DS exempt from limits
    » Green box, blue box, some input & investment subsidies

• AMS = MPS + Payments
  – Aggregate Measurement of Support
    = WTO Market Price Support + Non-exempt payments +
    + Revenue forgone

• WTO MPS
  – Administered price
  – Fixed external reference price FERP
  – “Eligible production”

• Different from economic MPS
WTO limits and dispute

• China: Limit on each product’s AMS
  – 8.5% of product’s value of production in each year

• US claims:
  – AMSs for wheat, corn and rice exceeded ...

• WTO dispute settlement
  – Dispute initiated in September 2016
  – Process now underway to establish a Panel
    » Can take a year or more to settle
  – One of very few agriculture domestic support disputes
Support prices were raised, production grew and grain imports increased.

China's net trade in grains, 2000-2015 (million metric tonnes)

Source: Gale et al. (2015) (kindly updated by Gale in 2016)
But corn and wheat imports from the US dropped drastically in recent years.

Source: USDSA/FAS Global Agricultural Trade System
Possible issues to be resolved

• Guessing at issues – no info in US documentation so far
  – What is “eligible production” in WTO MPS?
    » Total production as in economic MPS
    » Total production in states where support prices apply
    » Some implied limit on how much is to be procured
    » Actual procurement quantity
  – Adjust reference price from milled to unmilled rice?
    » Domestic support price is for unmilled rice
  – Other issues?

• Resolve by interpreting Agreement on Agr, not economics
  – E.g, “taking into account” or “in accordance with”
    » Some guidance from Korea-Beef on eligible production
Stakes are high

• US says excess MPS in 2015 nearly $100 billion

• Implications
  – Many countries with price support
    » Will more of them be in danger of being challenged?
    » Doha domestic support revival?
  
  – “Public stockholding” negotiations (i.e., stock acquisition)
    » Stronger push to shelter excess MPS from legal challenge?
  
  – Legal or economic meaning of “eligible production”
    » Affirmation of narrow legal reading?
      • => Erode WTO power to curb trade-distorting support
**China’s Market Price Support for Wheat, Corn and Rice, Percent of Value of Production, 2008-2015**

WTO MPS$_t$ = [Admin Price$_t$ – FERP] x [Eligible Production$_t$]

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-12.6</td>
<td>0.1</td>
<td>3.1</td>
<td>12.6</td>
<td>15.8</td>
<td>23.0</td>
<td>27.4</td>
<td>27.7</td>
</tr>
<tr>
<td>Corn</td>
<td>21.5</td>
<td>19.9</td>
<td>33.9</td>
<td>37.1</td>
<td>40.6</td>
<td>48.1</td>
<td>47.9</td>
<td>49.6</td>
</tr>
<tr>
<td>Rice (unmilled FERP)</td>
<td>-15.1</td>
<td>1.4</td>
<td>3.3</td>
<td>13.1</td>
<td>24.3</td>
<td>32.9</td>
<td>35.6</td>
<td>34.1</td>
</tr>
<tr>
<td>Rice (milled FERP)</td>
<td>-57.1</td>
<td>-41.7</td>
<td>-30.4</td>
<td>-16.6</td>
<td>4.6</td>
<td>3.7</td>
<td>6.2</td>
<td>6.1</td>
</tr>
</tbody>
</table>
### Comparison to Economic Market Price Support

\[
\text{Economic MPS}_t = \left(\text{Domestic Price}_t - \text{Border Price}_t\right) \times \left(\text{Total Production}_t\right)
\]

<table>
<thead>
<tr>
<th></th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WTO MPS</strong></td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td></td>
</tr>
<tr>
<td>percent</td>
<td>-12.6</td>
</tr>
<tr>
<td>Corn</td>
<td></td>
</tr>
<tr>
<td>percent</td>
<td>21.5</td>
</tr>
<tr>
<td>Rice (unmilled FERP)</td>
<td>-15.1</td>
</tr>
<tr>
<td>Rice (milled FERP)</td>
<td>-57.1</td>
</tr>
<tr>
<td><strong>OECD MPS</strong></td>
<td></td>
</tr>
<tr>
<td>Wheat</td>
<td></td>
</tr>
<tr>
<td>percent</td>
<td>34.7</td>
</tr>
<tr>
<td>Corn</td>
<td>-15.5</td>
</tr>
<tr>
<td>Rice (unmilled)</td>
<td>-65.8</td>
</tr>
</tbody>
</table>
Thank you!

Lars.Brink@hotmail.com
orden@vt.edu

Selected references


WTO. 2016. China – Domestic support for agricultural producers. Request for consultations by the United States. WT/DS511/1; G/AG/GEN/135; G/L/1150. 20 September.