FOREIGN SUBSIDIES HARM U.S. WHEAT FARMERS

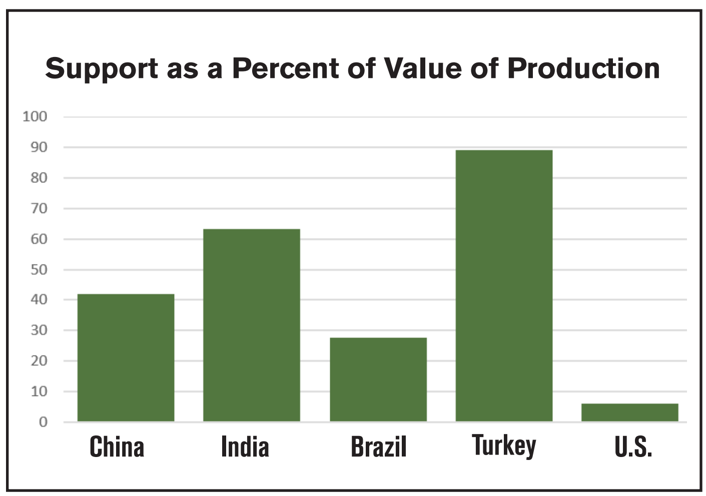
FREQUENTLY ASKED QUESTIONS

What is trade distortion?
Trade distortion is a significant shift in the production, supply or distribution of a product due to government involvement in the marketplace. In the case of wheat, major sources of trade distortions are subsidies in China, India, Turkey and Brazil.

What is the WTO Agreement on Agriculture and why is it important?
The World Trade Organization (WTO) Agreement on Agriculture is a cornerstone of global agricultural trade. WTO members recognized that certain policies had negative effects on farmers in other countries. That is why every WTO member took on commitments that allow proportionate retaliation if WTO proceedings show a country to be in violation. If countries believe they can circumvent their commitments without consequence – especially if it is politically expedient to do so – the agreement will become irrelevant, to the detriment of all farmers trying to compete on a level playing field.

What is market price support?
One of the most trade-distorting forms of support is market price support. The government sets a minimum price; if that price is above world market prices it sends an artificial price signal to farmers that they should increase wheat production. When market prices fall below that minimum price, governments are forced to purchase large quantities of wheat into public stocks. This reduces returns to competitive wheat exporters by depriving them of market opportunities.

Which countries violate WTO commitments and by how much?
An analysis by DTB Associates looked at wheat subsidy programs in four countries: China, India, Turkey and Brazil. The analysis showed each was in blatant violation of their WTO commitments. For wheat alone, China is providing an aggregate measure of support (AMS) of at least $15.4 billion. India is providing an AMS of at least $12.1 billion, while Turkey's AMS is $5.7 billion and Brazil's is $750 million. These values are much higher than allowed under WTO rules.

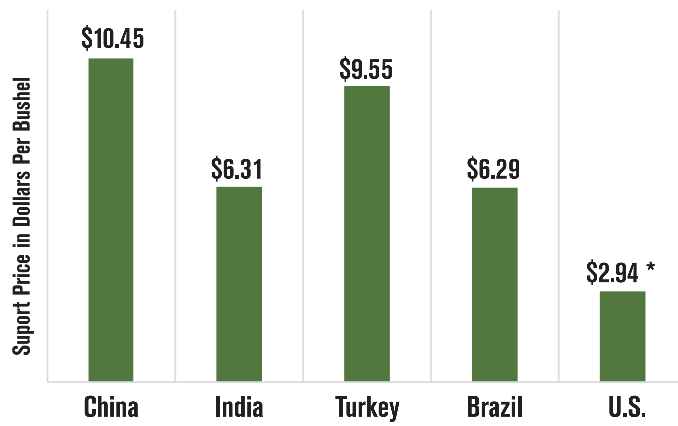


This amounts to 36%, 49%, 90%, and 28% of the value of production respectively, well over the 10% allowed for most developing countries and the 8.5% allowed for China.

Doesn't the U.S. support its farmers?

The United States does support its farming sectors, but in a substantively different way that has very little impact on farmers in other countries. That is because the support is not tied to production of specific commodities but is decoupled from current production (ARC/PLC) or adjusts annually to current market prices (crop insurance). Contrast this to the types of support in many developing countries where politicians establish high prices for specific commodities, encouraging farmers to produce more of those commodities. The size of support is much greater in these countries than it is in the United States. And unlike these countries, the United States is fully in compliance with its WTO commitments.

Wheat Support Prices Across Countries



* U.S. marketing loan rate for wheat.

What's the economic impact?

A recent study by Iowa State University economists showed nearly a billion dollar revenue loss for U.S. wheat farmers from market price supports and input subsidies in these four countries. The study estimated the level of support during a period of high market prices, meaning that today, when our farmers are facing low prices, the impacts of those subsidies are even larger. Wheat farmers in countries that do not shield farmers from world price signals have to make painful adjustments to low prices by cutting back production or even going out of business. According to the study, if these subsidies were removed, U.S. farm gate prices would increase by $0.30 per bushel (4 percent) and total U.S. wheat exports would increase by 2.2 million tons (9 percent).

What can be done?

WTO commitments must be enforced to be effective. One of the primary functions of the WTO is to enforce trade agreements. Any WTO member country that believes another country is violating the rules can bring a case against it. If neutral panels agree that the complaining country is correct they will rule that the accused country is in violation of its commitments and authorize retaliation. The point is to create enough economic pressure to encourage the losing country to change its policies. These emerging market countries are highly unlikely to reform their policies without enforcement through the WTO.

Is this a problem that only affects wheat farmers?

This is not a problem that is confined to wheat production, but it is the most significant trade issue wheat producers face. The DTB Associates analysis found comparable results for corn and rice. Undoubtedly, other commodities face similar issues in these and other countries.

Aren't these countries trying to promote food security?

A common reason used to justify these programs is they are just trying to promote food security through self-sufficiency and local food production. There is nothing wrong with local food production or even encouraging it through government support. The problem is when governments provide support in a way that encourages planting of otherwise uncompetitive crops, which distorts markets.

Are the effects of trade violations more severe when wheat prices are low?

Yes. Farmers adjust to low prices by producing less wheat, decreasing supplies and driving prices up. These countries' policies effectively tell their farmers that prices are still high so they should produce more. The adjustment in the global marketplace falls on producers in countries like the United States that plant for the market, not for government programs.

U.S. WHEAT ASSOCIATES

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U.S. Wheat Associates (USW) is the industry's market development organization working in more than 100 countries. Its activities are made possible by producer checkoff dollars managed by 17 state wheat commissions and through cost-share funding provided by USDA's Foreign Agricultural Service.

National Association of Wheat Growers (NAWG) is a federation of 21 state wheat grower associations that works to represent the needs and interests of wheat producers before Congress and federal agencies. Based in Washington, D.C., NAWG is grower-governed and grower-funded, and works in areas as diverse as federal farm policy, trade, environmental regulation, agricultural research and sustainability.

National Association of Wheat Growers

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