Impacts of WTO Policy on U.S. Rice Policy

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Overview

- Overview of U.S. rice policy
- Role of U.S. rice in the global rice economy
- Analysis of U.S. rice policy reforms on U.S. rice
- Summary and conclusions
Current U.S. Rice Policy

- Loan rate: $6.50/cwt
- Direct payment: $2.35/cwt
- Target price: $10.50/cwt
U.S. rice policy – 2002 Farm Bill

- **Target Price** – $10.50
- **Loan Rate** – $6.50
- **Direct payment** – $2.35
- **MLG/LDP**
- **CCP**

Payments on 85% of program acres (payment acres = 0.85 x base acres)

- Decoupled payments
- Coupled payments

Market Receipts

Q
U.S. Rice Prices and payment rates
Decoupled US rice payment rates
RICE PSE of OECD countries

Source: OECD
Top 5 rice exporting countries
U.S. rice exports and domestic use

Source: USDA Rice Outlook, May 2005
U.S. exports: milled and rough

Source: USDA Rice Outlook, May 2005
Study objectives

- Examine the impact U.S. response to the Brazilian case by reducing output subsidies.
- Export credits reform was not included in the analysis.
Previous research

In recent studies, we estimated policy reform in global rice trade by separating out the elimination of specific distortions:

- Domestic supports
- Export subsidies
- Tariffs and TRQs
Policy reform: net impact on rice trade

Policy reform: net impact on Thai 100% B long grain price

Method of analysis

- GTAP (6.0 version) model was used
- Database aggregation
  - 5 regions: US, EU, Japan, ROWX, ROWM
  - 10 sectors: paddy rice, milled rice, wheat, coarse grains, oilseeds, sugar, food, manufactures, services and capital goods
  - 5 factors: land, unskilled labor, skilled labor, capital, and natural resources
Method of analysis

Examine several scenarios of reductions in U.S. domestic output subsidies

- 36% reduction
- 36% reduction + 3% productivity gain
- 100% reduction
- 100% reduction + 3% productivity gain

Used a domestic support level in the baseline of the average over 1996-2003

(PSE output subsidies as reported by OECD)
Impacts on U.S. rice production

Output subsidy reduction (+ productivity gain)
Impacts on U.S. rice farm price

Percent increase from baseline

Output subsidy reduction (+ productivity gain)

<table>
<thead>
<tr>
<th></th>
<th>36%</th>
<th>36% + 3%</th>
<th>100%</th>
<th>100 + 3%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent increase from baseline</td>
<td>10.2</td>
<td>7.1</td>
<td>41.8</td>
<td>39.5</td>
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</tbody>
</table>

36% 36% + 3% 100% 100 + 3%
Impacts on world reference milled rice price

Output subsidy reduction (+ productivity gain)
Impacts on U.S. rough rice exports

Output subsidy reduction ( + productivity gain)
Impacts on U.S. milled rice exports

Output subsidy reduction (+ productivity gain)

<table>
<thead>
<tr>
<th>Percent reduction from baseline</th>
<th>36%</th>
<th>36% + 3%</th>
<th>100%</th>
<th>100 + 3%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.4</td>
<td>0.7</td>
<td>5.3</td>
<td>4.8</td>
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Impacts on U.S. rice land rent

Percent decrease from baseline

Output subsidy reduction ( + productivity gain)
Summary of the analysis

- Analysis is preliminary
- Scenarios are all unilateral
- Farm production declines but higher market prices partially offset this effect
- Higher rough rice prices reduce rough rice exports significantly and milled exports to a much less degree
- Productivity gains offset the impacts of the output subsidy reduction