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Abstract

Testimony before the House Committee on Agriculture

Disciplines

Agricultural and Resource Economics | Agricultural Economics | Economic Policy | International Economics

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Trans-Pacific Partnership and Foreign Ag Subsidies

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Testimony before the House Committee on Agriculture

**Dermot Hayes
Pioneer Chair in Agribusiness
Professor of Economics and Finance
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Chairman Conaway, Ranking Member Peterson, and Members of the Committee—thank you for holding this hearing and for the invitation to testify this morning. This is an important topic, and I appreciate your continued attention to, and interest in, the impact of other countries’ domestic support programs on U.S. agricultural producers. My name is Dr. Dermot Hayes, and I am the Pioneer Chair of Agribusiness at Iowa State University, as well as a professor of economics and finance.

As this Committee heard this past summer from Craig Thorn with DTB Associates, several advanced developing countries like China, India, Turkey, and Brazil have structured their agricultural support programs in ways that lead their farmers to over-produce, and subsequently deflate the price of, some commodities on the world market, particularly for wheat, corn, and rice.

Earlier this year, I was asked by U.S. Wheat Associates to conduct a study to quantify the economic impact of those countries’ support programs on U.S. producers. Last month, I joined with U.S. Wheat and the National Association of Wheat Growers (NAWG) in releasing the study, which included a briefing for this Committee and the Administration, as well as a press conference to share the findings.

The predominant forms of support in these particular countries are input subsidies as well as market interventions aimed at ensuring a minimum price. These minimum price supports often significantly above the world prices. In using a model that was developed by Iowa State’s Center for Agriculture and Rural Development (CARD) and the Food and Agricultural Policy Research Institute (FAPRI), I looked at what would happen if price supports and input subsidies in Brazil, China, India, and Turkey were removed, and what the resulting impact would be on production, trade, and prices in the U.S. and globally.

The “CARD-FAPRI model” is a system of econometric, multimarket, price driven models of global agriculture, and it incorporates all major temperate crops, sugar, biofuels, dairy, and livestock and meat products for all major producing and consuming countries. The model captures derived demands for feed for livestock, feedstock for biofuels, substitution between similar products, and competition for land. This model is able to generate ten-year baseline projections of supply, utilization and prices for major agricultural commodities, and can be used to evaluate the impact of policy changes.

In this study, we evaluated the impact of the removal of support prices and input subsidies in each country individually, as well as the net impact of the removal of these support programs in all four countries combined.

These four countries play a particularly important role in the world wheat market, and, as the DTB study showed, they have recently ramped up their trade distorting support policies in recent years; DTB found that a few of these countries had dramatically increased the minimum government support for wheat by as much as \$50 to \$100 per metric ton since their last study in 2011. The econometric study, which I have enclosed with this testimony, illustrates that if the trade-distorting programs were removed in all four of these countries, global wheat prices would increase by almost 5 percent, with U.S. net exports increasing by over 9 percent. Ultimately, this means that U.S. wheat farmers are missing out on nearly a billion dollars a year in lost revenue as a result of depressed market prices. If such policies are removed in a country, it would lead to reduced domestic production and increased domestic consumption in that country, which could mean new trade opportunities for U.S. producers with those countries. Given the similarities in wheat and corn policies I suspect that the results for corn would have been very similar.

In conducting this analysis, my goal was to provide an accurate picture of the impact of subsidies that are structured in such a way that they distort markets. It is important to recognize, that the manner in which a country subsidizes its producers can have a significant impact on world markets. These four particular countries have continually exceeded their trade commitments, and a result, driven down prices received by our producers.

The U.S. international Trade Commission recently conducted a comprehensive investigation of the competitiveness of the U.S. rice industry in response to a request from Ways and Means Committee Chairman Camp. This investigation, *Rice: Global Competitiveness of the U.S. Industry*, was published in April 2015 and included a quantitative assessment of the impact of government programs on the global rice market using the RiceFlow model developed by the University of Arkansas's Department of Agricultural Economics and Agribusiness. The Commission modeled the impact on global rice production and trade from the elimination of six policy instruments (including producer price, factor input and intermediate input supports; consumption support, tariffs and export taxes) across 11 countries including the United States and three of the four countries covered in DTB's report. The USITC staff conducted several simulations and the results are documented in the investigation report. The results indicate global disruptions caused by foreign government rice policies that hurt U.S. producers.

Here are the key findings:

Elimination of all barriers except tariffs would have increased U.S. paddy production by 182,000 metric tons (almost 3 percent) and increased exports by the same amount (almost 6 percent).

Eliminating tariffs in addition to removing other support policies would have led to an expansion in U.S. production of over 1.3 million metric tons (over 21 percent) and a rice in exports of 1.4 million metric tons (about 45 percent).

Under WTO rules, participating countries agree to limit various types of programs, based on the degree to which they are considered to be trade-distorting. In the U.S., the new programs created in the Agricultural Act of 2014—the Agriculture Risk Coverage (ARC) program and the Price

Loss Coverage (PLC) program—are structured in such a way that payments are decoupled from current planting decisions. Additionally, the federal crop insurance program helps farmers manage yield and revenue risk through a market-based system. As a result U.S. farm programs are not currently viewed as trade distorting. Additionally, the United States has always met its notification commitments, and has never exceeded its Aggregate Measure of Support (AMS) limit. An outside observer would look at our Price Loss Coverage program, which is a reference price program, and think that this is the same thing as the price supports utilized by these other countries. What isn't always noted is that our PLC program is structured in a way that payments are decoupled and based on historical information for a particular producer. It's essentially a different program from the minimum government price support programs of these other trade-distorting countries.

In developing my econometric study, I'm hopeful that I've been able to provide you with useful insight into why particular types of programs, like input subsidies and price supports, can cause distorted markets and ultimately drive down revenue for U.S. producers. Crop prices have fallen significantly since the DTB study was completed and I am sure that the distortive effect of these minimum price programs has actually increased in recent years.

Let me finish with an observation: U.S. farmers appear to be highly supportive of TPP and I suspect that this support will be pivotal in getting this agreement through congress. It is important that our crop and livestock producers know that commitments made during these agreements will be met. If countries continue to find ways to offset the concessions made during agreements there will be little reason for them to continue to support trade liberalization.