The Shameful Consequences of U.S. Rice Subsidies

By Daniel Griswold

No other commodity dominates the diets of so many people in the world as rice. Rice is the principle source of calories for about half the world, mostly the poorer half. Yet, sadly, no commodity's market is more distorted by government intervention – a tangle of tariffs, quotas and subsidies often overseen by state monopoly buyers and sellers.

According to the World Bank, the average tariff on rice imports was 43 percent as recently as 2000. By no coincidence, subsidies and trade barriers provide more than three-quarters of the income of rice farmers in the relatively wealthy countries that make up the Organization for Economic Cooperation and Development.

These market distortions are largely out of sight, but hardly benign. Consumers in countries with protected markets pay as much as four times the world price for rice. Taxpayers in wealthier countries pay billions of dollars more to support

resident rice farmers and to distort global production with subsidized exports. And tens of millions of rice farmers in poor countries find it harder to lift their families out of poverty because of the lower, more volatile prices created by these market interventions.

The Doha Round of negotiations among members of the World Trade Organization, started in 2001, was supposed to focus on expanding market access for agricultural products, including rice. But with the major players unable to bridge their differences, and with the White House's legislative authority to cut a deal on behalf of the United States due to expire in mid-2007, the chance of a breakthrough on rice is slipping away.

Another opportunity remains, however, as the new 110th Congress prepares to rewrite farm legislation in 2007. Like the European Union, Japan and South Korea, the United States protects its rice farmers with a host of programs intended to block imports and ensure minimum prices. These programs have cost American taxpayers an average of more than $1 billion a year since 1998, in the process depressing rice prices in world markets by spurring American farmers to overproduce. As the new Congress re-examines farm policy, it should consider the consequences not only to rice producers in other countries, but also to American taxpayers and consumers – not to mention America's broader stake in unfettered world trade.

some basics

Because of trade barriers, most rice is consumed in the country in which it is grown. And while many countries import some rice, only a handful export the grain.

The 50 or so distinct varieties of rice grains fall into four broad categories:

Long-grain (or Indica) rice is grown in tropical and subtropical climates. The grains remain separate and relatively dry when cooked. Most long-grain rice is grown in southern and southeastern Asia and in the lower Mississippi River Valley of the United States. It accounts for 75 percent of the rice traded in global markets.

Medium-grain (or Japonica) rice is grown in temperate climates and becomes moist and sticky when cooked. Medium-grain rice is raised primarily in Japan, Korea, northeastern China and the Sacramento Valley of California. It accounts for about 12 percent of global rice trade.

Aromatic rice is a mixed bag of long-grain varieties, including jasmine rice from Thailand and basmati rice from India. Aromatic varieties sell for premium prices and also account for about 12 percent of rice trade.

Glutinous rice is a variety of sweet rice grown in southeastern Asia, accounting for only about 1 percent of the global trade.

Rice markets are also differentiated by degree of processing. The least processed form is "rough rice" or "paddy rice," in which the husk remains on the grains. Once the husk is removed, it becomes known as "brown rice," and once the bran coating and its nutrients are removed, it becomes known as "milled rice" or "white rice." Adding the nutrients back to the white rice produces "enriched rice."

One variety or another is grown and eaten on every continent except Antarctica. In 2005, farmers worldwide produced a record 628 million metric tons of paddy rice, which equates to 409 million tons of milled rice. Asia accounts for more than 90 percent of

DAN GRISWOLD is director of the Center for Trade Policy Studies at the Cato Institute. This article is based on his November 2006 study, "The Hidden Cost of U.S. Rice Subsidies," available at www.freetrade.org.

previous page: john stanmeyer/vii

For their part, rice-producing countries have sought to stimulate domestic production and stabilize prices through production subsidies.

global production and consumption; China, India, Indonesia, Bangladesh, Vietnam and Thailand are the top Asian producers. Five countries dominate the export market; Thailand, Vietnam, India, the United States and Pakistan account for 84 percent of global exports. By contrast, no single country accounts for more than 5 percent of global imports.

The fragmentation of the rice market produces rather complex trade patterns. Most long-grain rice exported from the Mississippi Valley goes to Latin America, while the medium-grain rice from the Sacramento Valley goes to Japan and South Korea. Asia's exports of long-grain rice go to Africa, the Middle East and Europe, while Thailand and India export aromatic rice to the United States.

global distortions

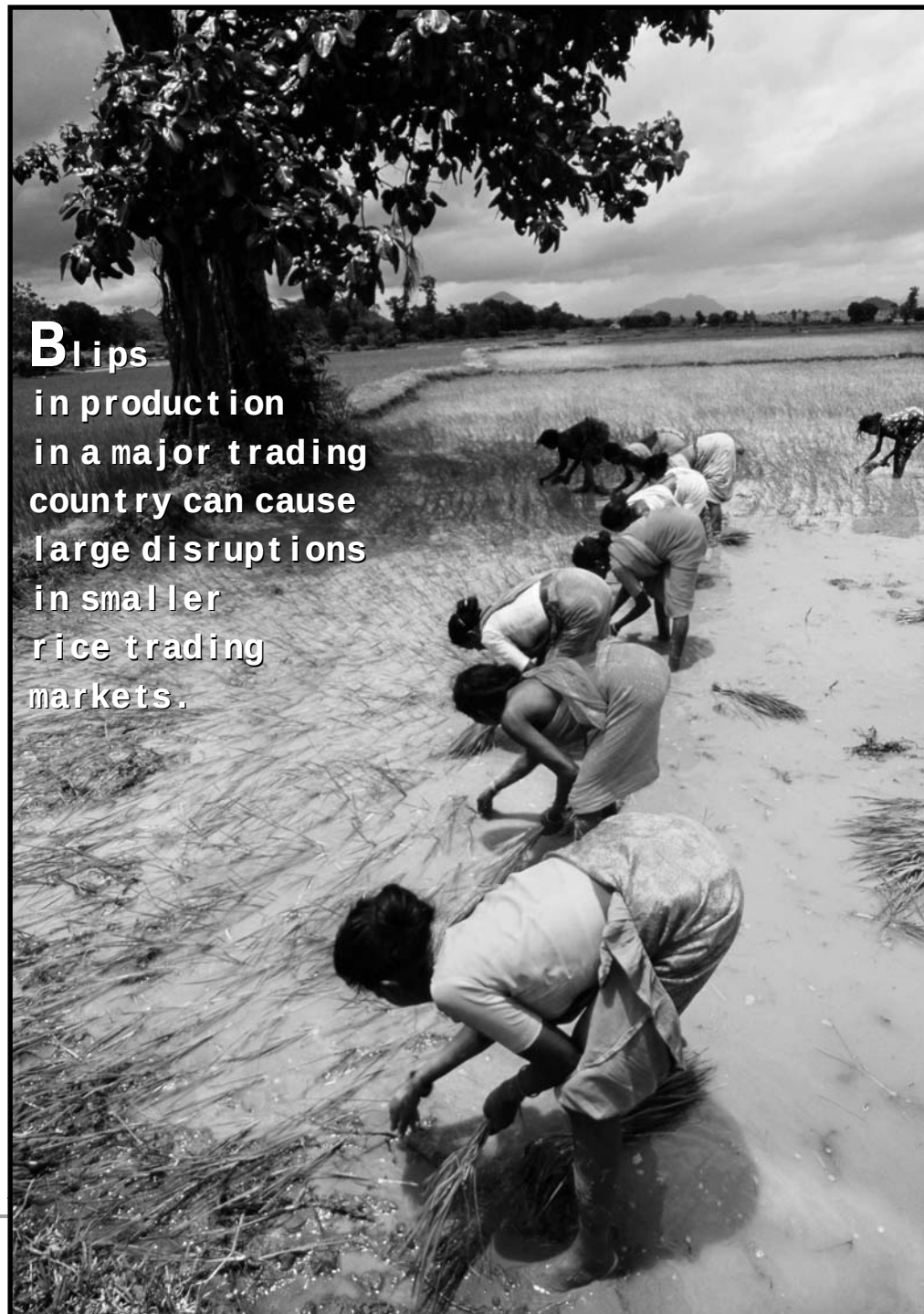
To protect local growers, rice-consuming nations curtail imports through a combination of tariffs, quotas and outright bans. For their part, rice-producing countries have sought to stimulate domestic production and stabilize prices through production subsidies, to compete in global markets through export subsidies, and to reduce surpluses through food aid programs. Exporters and importers alike have sought to flex market power through state trading monopolies.

Global trade barriers against rice are extraordinarily high. For example, India imposes a 70 percent tariff on imported milled rice and an 80 percent tariff on paddy rice. Indonesia maintains an official 30 percent tariff, supported by nontariff barriers that add up to an effective tariff of 100 percent. Eighteen countries wield "special safeguards" that allow them to enact steep tariffs when rice imports grow beyond certain levels.

Before the last successful round of trade liberalization went into effect in 1995, Japan

and South Korea banned all rice imports. Today both countries limit rice imports to a fraction of domestic consumption (just 7.2 percent in Japan) through "tariff rate" quotas, which allow a fixed amount to be imported at a low tariff or none at all but impose prohibitive rates on imports above the quota.

Many countries practice "tariff escalation," applying steeper tariffs on imports of more processed forms of rice to protect employment in rice mills. Others discourage or forbid the exportation of unprocessed rice to encourage domestic milling at the expense of



the milling operations in other countries.

Distortions at the border are compounded by widespread subsidies for production and export. The United States and the European Union are among the largest dispensers of production subsidies for rice, but developing countries, including China and India, are also in the game. Progress has been made in the past decade, but significant trade-distorting subsidies still remain. Government support in one form or another accounted for an incredible 77 percent of gross receipts for rice farmers in OECD countries in 2002-04.

Export subsidies play a big role, too, in distorting global rice markets. As a high-cost producer, the European Union relies on direct subsidies for most of its commercial exports. The United States relies more on export credit guarantees. Meanwhile, both the United States and European Union rid their markets of potential surpluses by giving away about 1.4 million tons of milled rice a year – 5 percent of global trade in rice. For their part, many poor countries, including Indonesia, the Philippines, Malaysia, Sri Lanka, Myanmar and Kenya, distort prices by funneling rice through monopoly state trading enterprises.

High trade barriers against rice mean that global markets for the commodity are thin and volatile. Only about 6 percent of global rice production in 2005 was traded on international markets, compared with 11 percent of feed grains (corn, oats, barley and sorghum) and 17 percent of wheat. One consequence is that blips in production in a major trading country can cause large disruptions in smaller rice trading markets.

the coddled united states rice industry

Federal rice programs support some 9,000 rice farmers, almost all of them in six states. Arkansas farmers alone account for 45 percent of the nation's rice production, growing mostly long-grain rice. California farmers account for 18 percent, almost all of it medium-grain. Missouri, Mississippi, Louisiana and Texas account for the rest – almost all of it long-grain.

Collectively, American rice farmers produced an annual average of 6.9 million metric tons of rice (milled basis) in 2003-05, making the United States the world's 10th largest producer. They export about 40 percent of the crop, with long-grain rice typically exported from the South to Latin America and medium-grain exported from California to East Asia. Meanwhile, the United States imports about 13 percent of domestic consumption – mostly aromatic varieties from India, Pakistan and Thailand that are rarely grown here.

Triple Subsidies with a Tariff on Top

U.S. protection translates into rates of 3 to 24 percent, depending on the type of rice and fluctuations in global prices. On top of this protection at the border, the United States government favors domestic rice producers through three major domestic subsidy programs: direct payments, countercyclical payments and marketing assistance loans.

The direct payment program rewards farmers (and owners of land that used to grow rice) based on past acreage planted and average yields. Countercyclical payments kick in when the "effective price" of rice falls below the government-set "target price." In effect, the lower the domestic market price of rice, the higher the payments to domestic rice farmers, up to $1.65 per 100 pounds.

Marketing assistance loans allow farmers to use their actual production as collateral for federal loans. If the world price falls below the national average loan rate of $6.50 per 100 pounds, the farmer can forfeit the rice pledged as collateral in full settlement of the loan. If

prices are higher than the loan rate, the farmer can sell the rice at market prices and repay the loan at a favorable rate of interest. Farmers can even short-circuit the process by receiving direct "loan deficiency payments" without bothering to take out a loan in the first place.

Together, those U.S. government programs have delivered $473 million to $1.774 billion in taxpayer subsidies annually since 1998 – the spending varies because of variations in world market prices. That makes rice the most heavily subsidized commodity in the United States, when calculated as a share of farmers' income.

Wait, there's more. The Export Credit Guarantee Program guarantees payment to U.S. exporters on private loans to foreign customers, while the Supplier Credit Guarantee Program provides them with short-term production financing. The Department of Agriculture acquires rice in the open market and sells it to poor countries with low-interest loans as a sweetener. And the United States Agency for International Development simply gives it away to the poorest of the poor.

Concentrated Benefits

Farm subsidies are sold politically as a way to help small, struggling farmers; in reality, most support payments go to agribusiness. As the U.S. Department of Agriculture's chief rice expert, Dr. Nathan Childs, notes, "the rice sector tends to be dominated by a relatively few large producers."

Indeed, because direct payments and countercyclical payments are decoupled from actual production, payments can be received by owners of land that has been removed from rice farming altogether. According to *The Washington Post*, "the federal government has paid at least $1.3 billion in subsidies for rice and other crops since 2000 to individuals who do no farming at all." One Houston surgeon collected $490,709 because he owned land in southeast Texas that had once been used to grow rice.

Congress has tried to blunt the concentration of payments by setting limits on how much can be received per farm. Rice producers, however, have managed to work around the limits through joint ownership. The "three entity rule," for example, allows rice farmers to claim subsidies for one farm and for a 50 percent stake in two other farms, effectively doubling the limit.

who pays (here at home)

As noted above, American taxpayers have shelled out an average of $1 billion annually on support payments to the rice industry since 1998. Without changes in the law, those payments are expected to continue to average $700 million a year through the 2015 fiscal year – or $7 billion for the next decade.

Consumers also pay a price for the rice program through higher prices because of tariffs. United States tariffs are significantly lower than tariffs imposed by other OECD member countries, notably Japan and Korea, but still keep domestic rice prices higher than they would if American processors could buy rice freely abroad.

A large but hidden cost of the rice program has been to compromise the United States government's ability to pursue market-opening initiatives. U.S. farm subsidies were one of the major obstacles to forging a comprehensive agreement in the Doha round – holding American consumers and efficient American exporters hostage to the cause of keeping inefficient farmers in business.

For all the money thrown at rice, there is no evidence that the pampering has brought the industry any closer to competitiveness.

inga spence/getty images

Quite the opposite: America's share of global rice exports has been in steady decline since the 1970s, when the United States was No. 1. From more than a quarter of global exports in 1975, the United States share has dropped steadily to a low of 10.4 percent in 2001 and has recovered only modestly since then.

What About Food Security?

Although not a precise term, the goal of "food security" typically means pursuing policies that ensure reliable access to food in the face of external shocks like wars, embargos and natural disasters abroad. The relevance to 21st century America is a bit hard to conjure – this, after all, is a land in which fast-food calories are almost too cheap to meter and the government is gung-ho to divert corn to the gas pump.

Giving the argument the benefit of a doubt, though, true food security does not depend on closed or subsidized markets, but on the ability to buy food from a variety of sources. Open global markets with expanding levels of trade are actually less volatile in terms of price changes and supply disruptions than thin and protected markets. Americans would thus be less likely to face shortages and price spikes on food commodities if our markets were wide open to imports.

In any event, even the rhetoric of food security undermines American interests. In 2005, American farmers exported some $62 billion worth of agricultural commodities – soybeans, corn, wheat, meat and poultry, rice, fruits, vegetables and nuts. People living in proverbial glass houses shouldn't throw stones.

who pays (abroad)

Americans, one could argue, will always be able to afford to pay an extra dime for a box of Rice-A-Roni, even if the dime goes to an unworthy cause. But by any reckoning, the collateral damage in poor countries of American rice supports is a serious matter. By subsidizing production and exports and restricting imports, U.S. policy drives down global prices for rice. Those lower prices, in turn, perpetuate hardship for millions of rice farmers in developing countries.

Like other commodity support programs, the very purpose of the U.S. rice program is to insulate domestic producers from changes in global price signals. As a result, rice production in the United States has been remarkably unresponsive to changes in market prices. Thus, even as rice prices fell from $9.70 per 100 pounds in 1997 to just $4.25 in 2001 thanks to the collapse in Asian currencies, United States farmers ramped up production by 18 percent.

In effect, American rice farmers switched from growing for the market to growing for the government. That undoubtedly suited California farmers – who, incidentally, couldn't grow rice at all without access to heavily subsidized water. But it meant that the full cost of adjustment to the price shock was borne by poor farmers in Vietnam, India and Thailand.

"Serious Prejudice" Against Foreign Producers

Unless Congress acts to rein in these malign subsidies, Washington can expect that its rice program will be successfully challenged in the World Trade Organization – just as the U.S. cotton program was successfully challenged by Brazil in 2005. Countries as diverse as Costa Rica, Ghana, Guyana, Haiti, India, Mexico, Pakistan, Peru, Surinam, Thailand,

clay mclachlan/ipn

In practical terms, what could Congress do now? Here's my wish list:

- **Repeal all trade barriers against imported rice.**
- **Eliminate the market loan program,** which is the most production- and trade-distorting of the three main support programs – and the program most vulnerable to a challenge in the WTO.
- **Phase out or buy out the other two subsidy programs** – direct payments and countercyclical payments – which, although less market-distorting, amount to an unjust transfer of income from American taxpayers to a few thousand current and former rice farmers. The payments could be phased out over a period of three to five years or they could be ended immediately with the payment of a lump sum equal to less than the present value of the phased-out payments.

The chief failure of the 1996 farm act – billed in many quarters as a reform – was that it left much of the agricultural support infrastructure in place. When global prices fell in the late 1990s and the various farm lobbies came to Washington for help, it was too easy for Congress to ramp up emergency spending through still-existing programs. If the programs were eliminated entirely, future Congresses would face the additional hurdle of having to recreate the programs from scratch if it were to renew price supports.

The major obstacle to scaling back the rice program is, of course, interest-group politics. The rice program exists because it is supported by well-organized, financially motivated rice farmers and processors. In the 2003-04 election cycle, political action committees connected to the rice sector contributed $289,300 to influence elections for the U.S. House and Senate. And those same PACs contributed $250,076 in the most recent election cycle through June 30, 2006. The three largest contributors were the Farmers' Rice Cooperative, the USA Rice Federation and Riceland Foods. Not surprisingly, a significant share of contributions went to members of the agricultural subcommittees that oversee the rice program.

In my view, the answer is not to restrict campaign donations but to shine a light on the true costs of the federal rice program. In the wake of various lobbying scandals in Washington, reforming the rice program and other farm programs offers Congress an opportunity to show that it can serve the broader public interest by asserting its independence from special-interest lobbying.

Elimination of the rice program would obviously reduce the production by uneconomic farms that could not survive in a free market. But a reformed, if somewhat smaller, United States rice sector could be expected to thrive without federal support. The United States has certain inherent advantages as a rice producer, including a reputation as a reliable supplier and proximity to major markets in Latin America. Indeed, if other countries responded with lower tariffs and reduced subsidies, American rice producers might even increase their production in a global free market.

Ending the United States rice program would not be "unilateral disarmament," but an exercise in asserting our own national interest regardless of what other countries choose to do. The rice program is not an asset to be jealously guarded, but a national liability to be jettisoned as soon as possible. By reforming the rice program unilaterally, the United States government would bolster our national economic well-being, create good will among less developed countries and enhance our nation's role as a leader in the world economy.