



No commodity is more distorted by government intervention in its production and trade than rice.

## Introduction

No commodity dominates the diets of so many people in the world as rice. Rice constitutes the principal source of caloric intake for about half the world's population, especially among the world's poor, and accounts for one in five calories consumed worldwide.<sup>1</sup> The word for rice in many languages translates literally as "food."

At the same time, no commodity is more distorted by government intervention in its production and trade than rice. Governments around the world maintain tariffs, tariff-rate quotas, escalating barriers to processed rice, production and export subsidies, and state monopoly trading enterprises. According to the World Bank, the weighted average tariff on rice imports as recently as 2000 was 43.3 percent.<sup>2</sup> The Organization for Economic Cooperation and Development estimates that government subsidies and trade barriers provide more than three-quarters of the income of rice farmers in the relatively wealthy OECD member countries.<sup>3</sup>

Hundreds of millions of people pay a price every day for intervention in the rice market. Consumers in countries with protected markets pay as much as four times the world price for rice, which reduces their standard of living. Taxpayers in wealthier countries pay billions of dollars more to support rice farmers and further distort global markets 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 caused by the interventionist policies of other countries.

One opportunity to reduce those costly distortions may be slipping away. The Doha Round of negotiations among members of the World Trade Organization has reached a stalemate with no likely prospect of a breakthrough anytime soon. Launched in 2001, the round was supposed to emphasize expanding market access for agricultural products and other issues of special importance to developing countries. At meetings in June and July 2006, major participants were unable to bridge differences over limits on domestic subsidies, reductions in tariffs, and exclusion of "sensitive" or "special" products. With presidential trade

promotion authority due to expire in mid-2007, there is no immediate prospect of an ambitious multilateral agreement that would reduce global distortions in the production and trade of rice.

Another opportunity remains, however, as the U.S. Congress prepares to rewrite the farm bill sometime in the first half of 2007. Like the European Union, Japan, and South Korea, the United States extends significant support to its rice farmers through tariff protection as well as direct payments decoupled from production and through countercyclical and loan-deficiency payments triggered when global prices fall below certain minimums. Those programs have cost American taxpayers an average of more than \$1 billion a year since 1998, account for half of all income for U.S. rice farmers, and exert a depressing effect on global rice markets by spurring farmers to overproduce. Subsidies for rice and other U.S. agricultural commodities undermine the U.S. government's bargaining position in global trade talks. They are also liable to challenge from other WTO members for violating our existing commitments to restrict domestic subsidies that injure other members, just as Brazil successfully challenged certain U.S. subsidies for cotton in 2005.

As Congress and the Bush administration begin to reexamine and reshape U.S. farm policy, they should consider the full cost of the U.S. rice program, not only the cost to rice producers in other countries but the cost to American taxpayers and consumers and to the U.S. agenda of promoting a more open and undistorted global market through trade negotiations.

In this study I will examine the peculiar nature of global rice production and trade and describe the significant distortions in global rice markets caused by widespread intervention, with special attention to the U.S. rice program. I will then analyze the many costs that those distortions impose at home in the United States and abroad and suggest reforms to the U.S. rice program that would serve our broader national interests.

## The Global Rice Market(s)

The global rice market is not one homogeneous market but many, with four major cate-

gories of rice and as many as 50 distinct varieties selling at different prices. Because of global trade barriers, rice markets are “thin,” with rice trade relatively small compared to production. And while imports of rice are diffused among nations, rice exports tend to be concentrated among relatively few. All those features have consequences for rice policy.

Although there are a numerous varieties, rice grains fall into four broad categories:

- *Long-grain* (also referred to as Indica) rice is grown in tropical and subtropical climates. Long-grain rice grains remain separate and relatively dry when cooked. Most long-grain rice is grown in southern and Southeast Asia and in the lower Mississippi River Valley of the United States. It accounts for 75 percent of rice traded in global markets.
- *Medium-grain* (also referred to as Japonica) rice is grown in temperate climates and becomes moist and sticky when cooked. Medium-grain rice is the variety grown primarily in Japan, Korea, northeastern China, and California’s Sacramento Valley. It accounts for about 12 percent of global rice trade.
- *Aromatic* rice represents subgroups of long-grain varieties such as jasmine rice from

Thailand and basmati rice from India. Aromatic rice varieties sell for premium prices and account for about 12 percent of rice trade.

- *Glutinous* rice is a variety of sweet rice grown in Southeast Asia. It accounts for only about 1 percent of the global rice market.<sup>4</sup>

Rice markets are also differentiated by degree of processing. The least processed form is *rough* 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* or *white rice*. Putting the nutrients back into the white rice produces *enriched rice*. Another way of retaining the nutrients involves boiling the rice in the husk, which drives the nutrients into the grain, resulting in *parboiled rice*.

Considered as a single commodity, rice is one of the most important in global agriculture. The grain is grown and eaten on every continent except Antarctica. In 2005 rice farmers worldwide produced a record 628 million metric tons of paddy rice, which equates to 409 million tons of milled rice.<sup>5</sup> The production and exporting of rice tend to be concentrated, while consumption and imports are diffused. Asia accounts for more

Because of global trade barriers, rice markets are “thin,” with rice trade relatively small compared to production.

**Table 1**  
**Top Producers, Exporters, Importers, and Consumers of Rice, 2003–05**

Production	Exports	Imports	Annual per Capita Consumption
1. China (29.7%)	Thailand (31.9%)	Nigeria (5.2%)	Vietnam (232 kg)
2. India (21.2%)	Vietnam (16.4%)	Indonesia (5.2%)	Bangladesh (196 kg)
3. Indonesia (8.2%)	India (13.6%)	Philippines (4.8%)	Thailand (165 kg)
4. Bangladesh (6.4%)	<b>United States (13.1%)</b>	EU (3.7%)	Indonesia (162 kg)
5. Vietnam (5.7%)	Pakistan (8.8%)	Brazil (3.3%)	Philippines (134 kg)
6. Thailand (4.7%)	Egypt (3.3%)	Bangladesh (3.2%)	China (105 kg)
7. Philippines (2.3%)	China (2.8%)	Saudi Arabia (3.1%)	Korea (100 kg)
8. Brazil (2.0%)	Uruguay (2.4%)	Iran (3.0%)	Malaysia (83 kg)
9. Japan (1.9%)	Korea (1.1%)	South Africa (3.0%)	India (78 kg)
10. <b>United States (1.7%)</b>	Australia (0.9%)	Japan (2.7%)	Japan (66 kg)

Source: Organization for Economic Cooperation and Development, *OECD-FAO Agricultural Outlook* 2006–2015 (Paris: OECD, 2006), Table A.8, pp. 130–33.

Note: Percentages are the share of world production, exports, or imports.

**Steep barriers to rice imports drive a wedge between domestic and global prices, forcing consumers in the more protected countries to pay as much as four times the world price for rice.**

than 90 percent of global rice production and consumption, with China, India, Indonesia, Bangladesh, Vietnam, and Thailand the world's top producers. Among non-Asian countries, Brazil, the United States, and Egypt are the largest producers. Five countries dominate the export market; Thailand, Vietnam, India, the United States, and Pakistan account for 84 percent of global exports. Imports are much more diffused, with no country accounting for more than about 5 percent of global imports (Table 1).

Those peculiar features of rice mean there is not one homogenous global rice market but several. Most exports of long-grain rice grown in the southern United States go to Latin America, while exports of medium-grain rice grown in the Sacramento Valley in California go to Japan and South Korea. Exports of Asian-grown long-grain rice go to Africa, the Middle East, and Europe, while Thailand and India export aromatic rice to the United States.

Although trade flows of rice have been growing in the past decade, those flows remain constrained and distorted by the high trade barriers and the domestic production and export subsidies maintained by a large number of nations.

## **Global Markets, Global Distortions**

For decades, rice trade has been distorted and suppressed by a patchwork of government policies. In the name of "food security" and protecting rice-sector jobs, importing nations have limited imports through tariffs, tariff-rate quotas, and outright bans. 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 stocks of oversupply through food aid programs. Exporters and importers alike have sought to exercise market power through state trading monopolies.

Global trade barriers against rice vary widely but on average are extraordinarily high. The World Bank calculates that the global trade-weighted average tariff on all varieties and grades of rice was 43.3 percent in 2000.<sup>6</sup> India

imposes a 70 percent tariff on imported milled rice and an 80 percent tariff on paddy rice.<sup>7</sup> Indonesia maintains an official 30 percent tariff supported by nontariff barriers that add up to an effective tariff of 100 percent.<sup>8</sup> Eighteen countries wield "special safeguards" that allow them to enact steep tariffs when rice imports grow beyond certain levels.<sup>9</sup>

The highest barriers to rice trade are found in Northeast Asia against medium-grain rice. Before the Uruguay Round's Agreement on Agriculture came into effect in 1995, Japan and South Korea enforced total bans on imported rice. Today both countries limit rice imports to a fraction of domestic consumption (7.2 percent in Japan) through tariff-rate quotas, which allow a certain amount of rice to be imported at a low or no tariff rate but then impose prohibitive rates on imports above the quota. Steep barriers to rice imports drive a wedge between domestic and global prices, forcing consumers in the more protected countries to pay as much as four times the world price for rice.<sup>10</sup>

Tariffs vary not only by country and type of rice but also by its stage of processing. Many countries practice "tariff escalation," imposing steeper tariffs on imports of more processed forms of rice to protect employment in rice mills and other processing sectors. Other countries discourage or forbid the exportation of paddy (i.e., unprocessed) rice to encourage domestic milling at the expense of the milling sector in other countries. Tariff escalation also adds to the cost of shipping because rice weighs about 43 percent more before the husk is removed than it does after milling, further depressing levels of global trade. Countries in Central America are among the most aggressive practitioners of tariff escalation. The "tariff wedge," or difference between rates imposed on paddy and more processed forms of rice, varies from 10 to 40 percent in Mexico, Guatemala, Honduras, El Salvador, and Nicaragua.<sup>11</sup> Tariff escalation in Latin America is one of the main reasons that U.S. exports have shifted over the past decade from milled to paddy rice.<sup>12</sup>

Distortions at the border are compounded by widespread subsidies for production and export, including the U.S. rice program described in the

next section. The United States and the European Union are among the largest dispensers of production subsidies for rice, but developing countries such as China and India also provide subsidies.<sup>13</sup> Progress has been made in the past decade in “decoupling” a growing share of subsidies from production requirements, but significant trade-distorting subsidies still remain. According to the OECD, border protection, domestic subsidies, and other government support accounted for an incredible 77 percent of gross receipts for rice farmers in OECD countries in 2002–04, an incremental improvement from the 81 percent provided in 1986–88.<sup>14</sup>

A number of countries also engage in the direct and indirect subsidy of exports. As a high-cost producer, the European Union relies on direct subsidies for most of its commercial exports.<sup>15</sup> The U.S. government promotes exports through export credit guarantees described below. When they are not subsidizing exports of rice, the United States and the European Union give away large quantities as food aid. According to the UN Food and Agricultural Organization, the two entities combined give away about 1.4 million tons of milled rice a year under various programs, accounting for 5 percent of global trade in rice.<sup>16</sup> Several developing countries, including Indonesia, the Philippines, Malaysia, Sri Lanka, Myanmar, and Kenya, try to influence global prices through monopolistic state trading enterprises.<sup>17</sup>

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 to 11 percent of feed grains (corn, oats, barely, and sorghum) and 17 percent of wheat production.<sup>18</sup> A major negative consequence of a thin global rice market is that production or consumption in a major trading country can have amplified effects on global prices, causing artificial and unnecessarily large disruptions in smaller rice markets.

Distortions in the global rice market were even worse two decades ago. Since the early 1990s, global trade barriers have trended downward and production subsidies have been shifting from the trade-distorting “amber box” to the less-

distorting “green box” and “blue box” categories, which are used in WTO jargon to designate less-distorting subsidies decoupled from production. The Uruguay Round Agreement on Agriculture cracked opened the previously closed Japanese and Korean markets and required quotas to be converted to more transparent tariffs and tariff-rate quotas. Brazil, Bangladesh, Sri Lanka, Indonesia, Nigeria, and other African nations have lowered barriers to imported rice. The European Union under the Blair House Agreement of 1995 has allowed more imported rice, especially through expanded preference programs for low-income countries, and has cut subsidized procurement prices in half. China and Taiwan opened their markets further for rice imports as part of agreements to enter the WTO. Meanwhile, India, Pakistan, and Vietnam have loosened controls on rice exports.<sup>19</sup> The average global tariff wedge against more processed forms of rice has been reduced in the past decade from 23 percent to 17 percent.<sup>20</sup>

Even after piecemeal liberalization, the global rice market remains suppressed and distorted by an array of remaining government subsidies and trade barriers. As one rice trade expert concluded: “In several high-income countries, the rice sector has been isolated from external competition through high border protection, in the form of outright import prohibitions, state trading monopolies, minimum import quotas, high tariffs or variable duties. Rice in those countries is also subject to export subsidies, credit guarantees and food aid.”<sup>21</sup>

The U.S. rice program is part of the problem.

## The Protected and Subsidized U.S. Rice Industry

The U.S. government supports domestic rice production through tariffs on imported rice and direct taxpayer subsidies based on production, prices, and historical acreage. Those programs make rice one of the most heavily supported commodities in the United States, with ramifications for U.S. taxpayers and consumers and rice producers abroad.

**Border protection, domestic subsidies, and other government support accounted for an incredible 77 percent of gross receipts for rice farmers in OECD countries in 2002–04.**

**On top of protection at the border, the U.S. government favors domestic rice producers through three major domestic subsidy programs.**

Federal rice programs are aimed at helping about 9,000 rice farmers concentrated almost exclusively in six states. Arkansas farmers alone account for 45 percent of the nation's rice production, producing mostly long-grain rice but also some medium-grain. California farmers account for 18 percent of production, almost all of it medium-grain. Missouri, Mississippi, Louisiana, and Texas account for the rest, almost all of it long-grain.<sup>22</sup>

Collectively, American rice farmers produced an average of 6.9 million metric tons of rice (milled basis) in 2003–05, making the United States the world's 10th-largest producer of rice.<sup>23</sup> U.S. producers export about 40 percent of their crop, with long-grain rice typically exported from the South to Latin America and medium-grain exported from California to East Asia. Imports account for about 13 percent of domestic consumption; imports are predominantly aromatic varieties such as basmati rice from India and Pakistan and jasmine rice from Thailand (varieties not typically grown in the United States).<sup>24</sup>

Supporting the American rice industry are tariff barriers and an array of taxpayer subsidies. According to the Harmonized Tariff Schedule of the United States, the most commonly applied (i.e., the most favored nation) tariffs range from 0.44 cents per kilogram on lower quality, broken rice to 2.1 cents per kilogram on husked brown rice. Imported white and parboiled rice face an ad valorem rate of 11.2 percent. Those per kilogram tariffs translate into ad valorem rates of 3 to 24 percent, depending on the type of rice and fluctuations in global prices. (Because those tariffs are fixed at per kilogram rates, higher global prices per kilogram will mean lower effective ad valorem rates, while lower prices will mean higher rates.)<sup>25</sup>

### **Triple Subsidies with a Tariff on Top**

On top of protection at the border, the U.S. government favors domestic rice producers through three major domestic subsidy programs. The Farm Security and Rural Investment Act of 2002, the most recent farm bill, contains three major provisions extending subsidies to rice farmers through direct payments, countercyclical payments, and marketing assistance loans.<sup>26</sup>

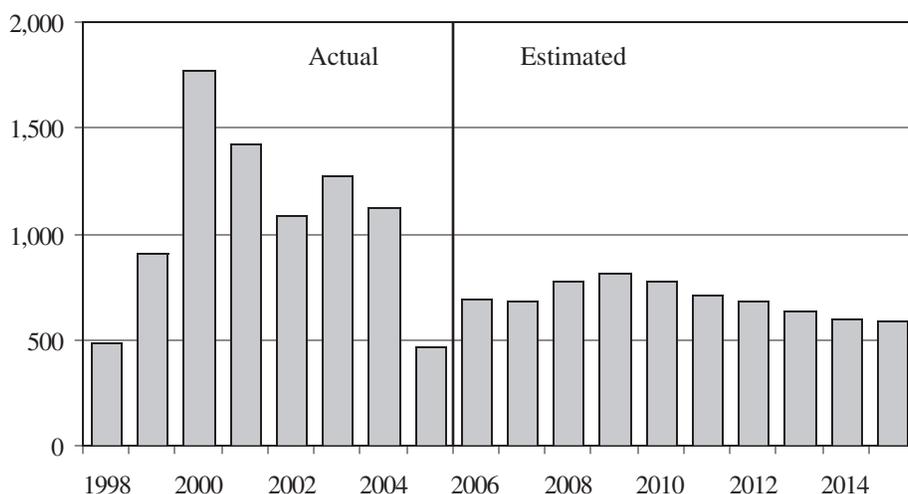
The direct payment program rewards farmers and other landowners on the basis of past acreage planted and average yields. Specifically, the program pays owners of the land \$2.35 per hundredweight (100 pounds) times 85 percent of the farm's base acreage times the yield-per-acre level set by the program. Base acreage is not the number of acres currently under cultivation but the area farmed during a previous base year; the per acre yield is based on an industrywide average.

Countercyclical payments kick in when the "effective price" of rice falls below the government-set "target price." The effective price is the sum of the direct payment rate of \$2.35 per hundredweight and the higher of the national average farm price of rice for the current marketing year or the national loan rate for rice (set by law at \$6.50 per hundredweight). Rice farmers receive such payments whenever the effective price falls below the government-set target price of \$10.50 per hundredweight. That means the minimum effective price is \$8.85 (the loan rate plus the direct payment rate) and the maximum countercyclical payment is \$1.65 (the target price minus the effective price). As with direct payments, the total payment amount equals the countercyclical payment rate times payment acres times the payment yield per acre. In effect, the lower the domestic market price of rice, the higher the payments to domestic rice farmers, up to \$1.65 per hundredweight.

Marketing assistance loans allow farmers to use their actual production as collateral for federal loans. If the adjusted world price, as defined by the USDA, falls below the national average loan rate of \$6.50 per hundredweight, the farmer can forfeit the rice pledged as collateral to the Commodity Credit Corporation 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. As an alternative, farmers can receive direct "loan deficiency payments" without needing to first take out a loan. Such payments are also based on the difference between market prices and the loan rate.

Together, those federal programs have delivered between \$473 million and \$1,774 million

**Figure 1**  
**Federal Expenditures for Rice Subsidies, 1998–2015 (millions of dollars, fiscal years)**



Sources: Commodity Credit Corporation, 1998–2005; Food and Agricultural Policy Research Institute, 2006–2015.

in taxpayer subsidies to the rice sector each year since 1998 through the Commodity Credit Corporation (Figure 1). Year-to-year variations in spending are driven by changing global prices, with lower global prices quickly translating into higher taxpayer subsidies.<sup>27</sup> According to the OECD, government protection and subsidies account for fully half of the income of U.S. rice farmers, making rice the single most subsidized commodity in the United States.<sup>28</sup>

Along with income subsidies and tariff protection, the federal government also supports the rice industry with various programs to promote exports. Through the Export Credit Guarantee Program, it guarantees payment to U.S. exporters on private loans to foreign customers, while the Supplier Credit Guarantee Program provides short-term financing. Other programs give rice away to poor countries free of charge or under concessionary terms. Through Public Law 480, the USDA channels rice to developing countries by acquiring rice in the open market and selling it through low-interest loans. Through Title II of the Food for Progress Program, the U.S. Agency for International Development donates rice to poor countries.<sup>29</sup> U.S. food aid accounted for 5.8 percent of U.S.

rice exports in fiscal year 2004 and 3.5 percent in FY05.<sup>30</sup>

### Concentrated Benefits

Contrary to popular perception, payments do not necessarily go to individual rice farmers. 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 a recent nine-month investigation by the *Washington Post*, “[T]he 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.” The report cited an 87-year-old homeowner who had collected \$191,000 during the past decade and a Houston surgeon who had collected \$490,709—all because they owned land in southeast Texas, near Houston, that had once been used to grow rice.<sup>31</sup>

Other nonfarmers collecting payments are the landlords of active rice farmers. Part owners and tenants work almost 80 percent of farms producing rice, compared to 40 percent for farming in general. That causes the “leakage” of intended benefits away from households actual-

**Federal programs have delivered between \$473 million and \$1,774 million in taxpayer subsidies to the rice sector each year since 1998.**

**In the public's mind, farm payments are seen as a way to help small, struggling farmers, when in reality, a significant share of government support payments goes to large, nonfarming interests such as major landowners and agribusinesses.**

ly growing the rice to upstream and downstream interests, namely landowners and processors.<sup>32</sup> In the public's mind, farm payments are seen as a way to help small, struggling farmers, when in reality, a significant share of government support payments goes to large, nonfarming interests such as major landowners and agribusinesses. As the U.S. Department of Agriculture's chief rice expert, Nathan Childs, notes, "The rice sector tends to be dominated by a relatively few large producers."<sup>33</sup>

Congress has tried to reduce the relative 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.

Obviously, federal rice programs benefit certain rice producers through direct taxpayer subsidies for production and exports and tariff restrictions against foreign-grown rice. It should be equally clear that those programs do not benefit most Americans or promote our broader national interests.

## **Impact on U.S. Taxpayers and Consumers**

Americans pay for the rice program three times over—as taxpayers, as consumers, and as producers.

The most obvious cost of the rice program is found in the federal budget. Depending on the market price of rice, the federal government spent from \$473 million to \$1,774 million a year on direct, countercyclical, and loan payments to the rice sector between fiscal years 1998 and 2005, an average of slightly more than \$1 billion per year. Without reforms, those payments are expected to continue to average \$700 million a year through FY15—amounting to total outlays on the program during the next decade of \$7 billion (see Figure 1). That is \$7 billion that will not be available for deficit reduction, tax relief, or national defense.

Consumers also pay a price for the rice program through higher prices because of tariffs. Granted, U.S. tariffs are significantly lower than tariffs imposed by some other OECD member countries, such as Japan and Korea, but existing U.S. tariffs of 3 to 24 percent still keep domestic rice prices higher than they would be if Americans could buy rice freely from producers abroad.

The rice program imposes a drag on the U.S. economy generally through a misallocation of resources. Domestic subsidies and trade barriers artificially divert resources in the market economy—land, capital, production inputs, and labor—to maintaining a level of rice production greater than what the market would call for if the program did not exist. The program drives up the price of land, energy, fresh water, and other inputs to production, making those resources more expensive or unavailable for other sectors where Americans would enjoy a greater comparative advantage. Thus an artificially protected and stimulated rice industry crowds out other, more economical activities, slowing, even if incrementally, the growth rate of the U.S. economy.

The rice program has hurt of the U.S. economy generally by compromising the U.S. government's ability to negotiate more effectively for more open markets abroad. U.S. farm subsidies were one of the major obstacles to forging a comprehensive agreement in the Doha Round of negotiations in the WTO. A comprehensive agreement could have delivered significant market access abroad for U.S. manufacturing, service providers, and farm producers. Although other U.S. programs and foreign governments shared the blame, the rice program was part of the problem that prevented a breakthrough in Doha.

There is no evidence that the costs imposed on the rest of American society have bought self-sustaining prosperity for the U.S. rice sector. In fact, subsidies and trade protection have probably contributed to the sector's declining competitiveness in global markets. America's share of the global rice export market has been in steady decline since the 1970s, when the United States was the world's leading exporter. From more than a quarter of global exports in

1975, the U.S. share has dropped steadily to a low of 10.4 percent in 2001 and has recovered only modestly since then.<sup>34</sup> Meanwhile, total rice imports have more than doubled since 1993–94 and now account for 12–14 percent of domestic use.<sup>35</sup>

### What about “Food Security”?

One argument made for the rice program and other commodity subsidies and trade barriers is “food security.” Although not a precise term, food security typically means pursuing policies that ensure reliable access to food in the face of external shocks such as war, embargoes, and natural disasters abroad. It emphasizes national self-sufficiency over reliance on imports.

Sen. Ken Salazar (D-CO) employed the food security argument in a recent speech to the Rocky Mountain Farmers Union. Salazar told the group that food security needs to be an important element in the next farm bill. “We’re talking about a very fundamental issue to the United States of America, and that is our national security,” he said. “I would hate to think of a day where the United States of America becomes hostage to other countries [that export food to the United States], in a way that we are held hostage over our energy needs.”<sup>36</sup>

True food security does not depend on closed or subsidized markets; it depends 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 are thin and protected markets. Americans would be less likely to face shortages and price hikes on food commodities if our markets were open to imports rather than closed to global suppliers. Like diversifying when investing, diversifying our food portfolio actually decreases risk and volatility. If food supplies are disrupted in the domestic market because of weather, pests, disease, or other shocks, producers abroad can provide additional supplies through imports. It is more economical to import extra supplies of food than to maintain an expensive domestic storage system vulnerable to pests and rot.

Advocates of protection in the name of food security propose a costly form of insurance

against a set of circumstances that is only remotely possible. It is highly unlikely that a significant share of America’s food imports would be cut off by some kind of military blockade against the United States, or that major food exporters to the United States would decide to restrict supplies through an embargo. And even if some suppliers decided to reduce exports to the United States, for whatever reason, other global competitors would be eager to fill the gap. Against that negligible risk, food security advocates would have Americans pay a premium of billions of dollars a year in higher food prices and federal outlays. Out of an exaggerated fear that foreign supplies of food might be cut off, we would perversely enact policies that cut off foreign supplies of food.

For U.S. agriculture, the food security argument would be a double-edged sword. Last year, American farmers exported \$62.5 billion worth of agricultural commodities, representing 27 percent of U.S. farm receipts.<sup>37</sup> Our major farm exports include soybeans, corn, wheat, meat and poultry, rice, fruits, vegetables, and nuts. U.S. farmers would potentially lose billions in sales abroad if other nations embraced the flawed food security argument.

In the end, the food security argument is no more valid than other arguments put forward to restrict imports and subsidize domestic production of rice. By any objective cost/benefit analysis for the United States as a whole, the rice program has failed to deliver benefits to a significant number of Americans outside the small rice sector.

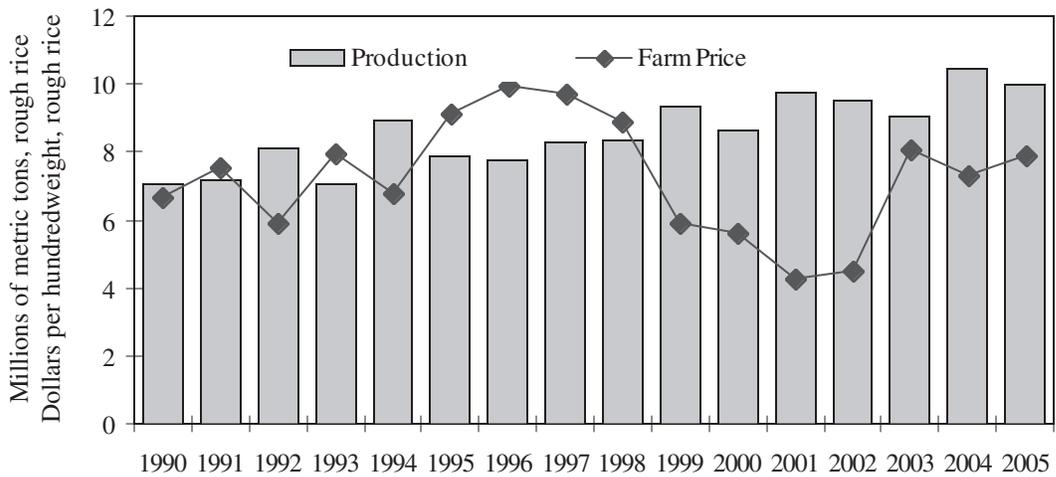
### Impact on Poor Rice Farmers Abroad

America’s rice program causes collateral damage beyond our borders. By subsidizing production and exports and restricting imports, U.S. policy drives down global prices for rice. Those lower prices, in turn, perpetuate poverty and hardship for millions of rice farmers in developing countries, undermining our broader interests and our standing in the world.

The very purpose of the U.S. rice program, as of other commodity support programs, is to insu-

**Out of an exaggerated fear that foreign supplies of food might be cut off, we would perversely enact policies that cut off foreign supplies of food.**

**Figure 2**  
**U.S. Rice Production and Prices, 1990–2005**



Source: U.S. Department of Agriculture.

late domestic production levels from changes in global price signals. In this way the program promotes overproduction during times of lower global prices by promoting exports above the level that a free and open market would determine. Because of those distortions, U.S. rice producers are slow to respond to market signals. The marketing loan benefits and countercyclical payments, in particular, dull incentives to cut back production during periods of falling prices. High fixed costs and a lack of easy alternative crops further inhibit a supply response when rice prices change.

As a result, rice production in the United States has been remarkably unresponsive to changes in market prices. When global prices for rice collapsed in the late 1990s in the aftermath of the East Asian financial crisis, U.S. rice production continued to grow steadily. As Figure 2 shows, from 1997 to 2001, the average farm price for rough rice, as reported by the USDA, plunged by more than half, from \$9.70 per hundredweight to \$4.25; U.S. rice farmers ramped up their annual production during that same period from 8.30 million to 9.76 million metric tons of rough rice, an 18 percent increase from 1997 to 2001.<sup>38</sup> Thanks to price-sensitive subsidy programs, federal support payments to rice farmers in the meantime exploded from less than

half a billion a year before the price drop to \$1.77 billion in 2000 and \$1.42 billion in 2001.<sup>39</sup>

In the face of falling prices through 2001, American rice farmers switched from growing for the market to growing for the government. That was undoubtedly welcome relief for U.S. producers, but subsidies merely deflected the cost of adjustment from U.S. farmers to poor farmers in Vietnam, India, and Thailand. As Oxfam International concluded in a 2005 study, “[T]he USA deflected the shock of low prices back to the world market, and forced the adjustment onto other exporting countries.”<sup>40</sup>

Rice market intervention by the United States and other countries “thins” the global rice market, reducing trade relative to production and leaving global markets and prices vulnerable to supply shocks in major trading countries. In a thin market, changes in production or consumption in a major market are amplified in global markets, forcing other countries to make disproportionate adjustments in production and supply.

Despite efforts to “decouple” U.S. rice subsidies from production, those subsidies continue to promote overproduction. Even supposedly decoupled subsidies insulate risk-averse farmers from the full impact of changes in prices. By making farmers more financially secure, direct payments make them less risk averse, encourag-

**In the face of falling prices through 2001, American rice farmers switched from growing for the market to growing for the government.**

ing them to plant more acreage than they would otherwise. Greater wealth also allows farmers to more easily finance operations and to ride out fluctuations in prices, effectively reducing their costs. Farmers have also been allowed to periodically update their “base acreage,” sending the signal that payments are not entirely decoupled and therefore indirectly encouraging higher production in order to qualify for larger payments in the future. A study by agricultural economists Jayson Beckman and Eric J. Wailes found that countercyclical payments, although technically decoupled, still prompted an increase in supply.<sup>41</sup>

### “Serious Prejudice” against Foreign Producers

By stimulating overproduction, U.S. rice subsidies increase the global supply of rice and thus put downward pressure on global prices. In a study for the Cato Institute in 2005, agricultural economist Daniel Sumner estimated that U.S. rice subsidies depress global prices by 4 to 6 percent.<sup>42</sup> Most distorting is the marketing loan program followed by countercyclical payments. U.S. subsidies are especially prejudicial against rice exports from Uruguay and Thailand. “The data on corn, wheat, and rice programs indicate that there are plausible claims that those subsidies cause serious prejudice to competitors in the U.S. domestic market or international markets,” Sumner concluded. “The remedy for those adverse effects is to eliminate the programs, reduce the subsidy amounts, or reduce the degree of linkage to productions.”<sup>43</sup>

Without reform, the U.S. government can expect that its rice program will be successfully challenged in the WTO 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, Suriname, Thailand, Uruguay, Venezuela, and Zambia could all plausibly claim that the U.S. rice program has driven down global prices to the detriment of their citizens.

WTO legality aside, artificially depressed global rice prices can have terrible consequences for poor farmers and their families. A 2002 study for the National Bureau of Economic Research found that higher rice prices in Vietnam were associated with significant declines in child labor

rates. Specifically, a 30 percent increase in rice prices accounted for a decrease of children in the workforce of one million, or 9 percent. The drop was most pronounced among girls aged 14 and 15. As the incomes of rice-growing families rose, they chose to use their additional resources to remove their children from work in the field and send them to school.<sup>44</sup> If U.S. rice subsidies are indeed depressing global rice prices, then those same programs are plausibly responsible for keeping tens of thousands of young girls in Vietnam and other poor countries in the labor force rather than in school.<sup>45</sup>

The United States is certainly not alone among OECD countries in maintaining rice policies that are detrimental to farmers in developing countries. Total government support for rice production in OECD countries averaged \$25 billion a year in 2000–02, through a combination of direct domestic subsidies and trade barriers, with trade barriers causing the most distortions in global markets. In fact, a number of developing countries, including Nigeria, the Philippines, Mexico, India, and Bangladesh, also maintain high tariffs on rice imports, further distorting global markets.<sup>46</sup>

If the United States were to join with other countries to scrap all subsidies and border protection for rice, global trade in rice would expand, export prices would rise, and import prices would fall. According to a recent World Bank study: “Complete liberalization in 2000 would have resulted in a significant expansion in global rice trade of nearly 3.5 million metric tons, a 15 percent increase in trade. Trade-weighted average export prices would be 32.8 percent higher and trade-weighted import prices would be 13.5 percent lower.”<sup>47</sup>

Even if the rest of the world did not join in eliminating subsidies and protection for rice producers, the United States and its citizens would still be better off if we eliminated our program unilaterally.

## The 2007 Farm Bill: An Opportunity for Reform

The cost that the U.S. rice program imposes on poor farmers abroad is significant, but the

If U.S. rice subsidies are indeed depressing global rice prices, then those same programs are plausibly responsible for keeping tens of thousands of young girls in Vietnam and other poor countries in the labor force rather than in school.

**The rice program exists not because it serves the national interest but because the special interests that benefit from it are more organized, concentrated, and motivated than the general public that pays for the program.**

cost it imposes on Americans alone more than justifies radical reform. For our own national interest, the U.S. Congress and the Bush administration should work together to adopt a more market-oriented rice program in the upcoming farm bill. As the evidence presented above indicates, eliminating trade barriers and further reducing and decoupling subsidies would save taxpayers billions of dollars during the next decade, lower domestic rice prices, and spread goodwill toward the United States abroad.

In the new farm bill, expected to be addressed in the first half of 2007, Congress should do the following:

- Repeal all trade barriers against imported rice. Tariffs act as a regressive tax on food while delivering support to a small group of rice farmers through a nontransparent and market-distorting mechanism.
- Eliminate the market loan program, which is the most production- and trade-distorting of the three main support programs. The program is vulnerable to a challenge in the WTO.
- Phase out or buy out the other two subsidy programs, direct payments and counter-cyclical payments, which, although less market distorting, amount to an unjust transfer of wealth from tens of millions of American households to a few thousand 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 something less than the net present value of the phased-out payments.

Congress should avoid merely tinkering with the program but instead should end current programs outright or within a limited time period. The chief failure of the 1996 farm bill was that it left much of the agricultural support infrastructure in place. When global agricultural prices fell in the late 1990s, followed by rising demands from certain farm sectors for government relief, it was too easy for Congress to ramp up emergency spending through still-

existing programs. If the programs were eliminated entirely, a future Congress would face the additional hurdle of having to recreate the programs from scratch if it were to renew price supports.

A major obstacle to scaling back the rice program is interest-group politics. The rice program exists not because it serves the national interest but because the special interests that benefit from it are more organized, concentrated, and motivated than the general public that pays for the program. 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 had contributed \$250,076 in the current 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.<sup>48</sup>

The answer is not to restrict campaign donations but to expose the true costs to the public of the federal rice program. In the wake of various lobbying scandals in Washington, reforming the rice program and other farm programs offers members of Congress an opportunity to show that they can serve the broader public interest by asserting their independence from special-interest lobbying.

Congress should also reject any hyperbole about the very survival of the rice sector depending on the rice program. Elimination of the rice program would obviously and intentionally reduce production from uneconomic farms that cannot survive in a free and unsubsidized market. But a reformed and more competitive, if somewhat smaller, U.S. rice sector could be expected to survive and thrive without federal support.

The United States has certain inherent advantages as a rice producer, including plentiful land, human and physical capital, a reputation as a reliable supplier, and proximity to major markets such as Latin America. If other countries respond with lower tariffs and reduced subsidies, American rice producers could even increase

their production in a global free market for rice.<sup>49</sup> The recent experience of New Zealand demonstrates that an advanced agricultural nation can sharply reduce its agricultural payments and still retain its competitiveness as a global agricultural producer.<sup>50</sup>

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

## Notes

1. United Nations Food and Agricultural Organization, “Rice Liberalization: Predicting Trade and Price Impacts,” Policy Brief no. 12, p. 1, <ftp://ftp.fao.org/docrep/fao/008/j5931e/j5931e01.pdf>, accessed July 27, 2006.

2. Eric J. Wailes, “Rice: Global Trade, Protectionist Policies, and the Impact of Trade Liberalization,” in *Global Agricultural Trade and Developing Countries*, ed. M. Ataman Aksoy and John C. Beghin (Washington: World Bank, 2005), p. 185.

3. Organization for Economic Cooperation and Development, *Agricultural Policy and Trade Reform: Potential Effects at Global, National and Household Levels* (Paris: OECD, 2006), p. 21.

4. Concepción Calpe, “International Trade in Rice, Recent Developments and Prospects,” UN Food and Agricultural Organization, Paper presented at the World Rice Research Conference, November 5–7, 2004, p. 6.

5. UN Food and Agricultural Organization, *Rice Market Monitor* 9, no. 1 (March 2006): 1.

6. Wailes, p. 185.

7. *Ibid.*, p. 181.

8. *Ibid.*, p. 182.

9. UN, *Rice Market Monitor*, p. 2.

10. OECD, *Agricultural Policy and Trade Reform*, p. 22.

11. E. Wailes, A Durand-Morat, L. Hoffman, and N. Childs, “Tariff Escalation: Impact on U.S. and Global Rice Trade,” Paper prepared for the American Agricultural Economics Association Annual Meeting, August 1–4, 2004, p. 4, [agecon.lib.umn.edu](http://agecon.lib.umn.edu).

12. *Ibid.*, p. 21.

13. Nathan Childs, “Rice Situation and Outlook Yearbook,” U.S. Department of Agriculture, Economic Research Service, November 2005, p. 5.

14. OECD, *Agricultural Policy and Trade Reform*, p. 21.

15. Childs, “Rice Situation and Outlook Yearbook,” p. 57.

16. UN, *Rice Market Monitor*, p. 3.

17. *Ibid.*, p. 2.

18. Organization for Economic Cooperation and Development, *OECD-FAO Agricultural Outlook 2006–2015* (Paris: OECD, 2006), Figure 2.9, p. 46.

19. Calpe, pp. 2–3.

20. Wailes, Durand-Morat, Hoffman, and Childs, p. 4.

21. Calpe, p. 1.

22. Jayson Beckman and Eric J. Wailes, “The Supply Response of U.S. Rice: How Decoupled Are Income Payments?” Paper prepared for the American Agricultural Economics Association Annual Meeting, July 24–27, 2005, p. 3, [agecon.lib.umn.edu](http://agecon.lib.umn.edu).

23. OECD, *Agricultural Outlook*, Table A-8, p. 130.

24. Childs, “Rice Situation and Outlook Yearbook,” p. 73.

25. U.S. Harmonized Tariff Code, Chapter 10.

26. The description of the major subsidy programs that follows is based on U.S. Department of Agriculture, “Rice: Policy,” Economic Research Service Briefing Rooms, [www.ers.usda.gov/Briefing/Rice/Policy.htm](http://www.ers.usda.gov/Briefing/Rice/Policy.htm), accessed June 20, 2006.

27. U.S. Department of Agriculture, “CCC FY 2007 Budget Estimates, Table 35, CCC Net Outlays by Commodity and Function,” Farm Service Agency, [www.fsa.usda.gov/Internet/FSA\\_File/07msrweb35.pdf](http://www.fsa.usda.gov/Internet/FSA_File/07msrweb35.pdf).

28. Cited in Wailes, p. 184.

29. For a description of export subsidy programs, see USDA, "Rice: Policy."
30. Childs, "Rice Situation and Outlook Yearbook," p. 34.
31. Dan Morgan, Gilbert M Gaul, and Sarah Cohen, "Farm Program Pays \$1.3 Billion to People Who Don't Farm," *Washington Post*, July 2, 2006, p. A1.
32. Nathan W. Childs, "Rice: Background and Issues for Farm Legislation," Economic Research Service, USDA, RCS-0601-01 July 2001, p. 3, [www.ers.usda.gov](http://www.ers.usda.gov).
33. *Ibid.*, p. 3.
34. Childs, "Rice Situation and Outlook Yearbook," p. 53.
35. *Ibid.*, p. 15.
36. Steven K. Paulson, "Salazar: Farm Bill Should Aim at National Security," Associated Press, August 21, 2006, [cbs4denver.com/politics/local\\_story\\_233201402.html](http://cbs4denver.com/politics/local_story_233201402.html).
37. See Michael Johanns, U.S. secretary of agriculture, Speech to the Bretton Woods Committee Annual Meeting on Agricultural Trade and Farm Policy, Washington, D.C., May 23, 2006, [www.usda.gov](http://www.usda.gov).
38. U.S. Department of Agriculture, Economic Research Service, *2005 Rice Yearbook*, Appendix Table 11, "U.S. Rice Acreage, Yield, and Production," and Table 16, "Ending Stocks, Prices, and Payment Rates for Rice."
39. U.S. Department of Agriculture, "CCC FY 2007 Budget Estimates, Table 35."
40. Oxfam International, "Kicking Down the Door: How Upcoming WTO Talks Threaten Farmers in Poor Countries," Oxfam Briefing Paper 72, April 11, 2005, p. 38.
41. Beckman and Wailes, p. 3.
42. Daniel A. Sumner, "Boxed In: Conflicts between U.S. Farm Policies and WTO Obligations," Cato Institute Trade Policy Analysis no. 32, December 5, 2005, p. 21.
43. *Ibid.*, p. 25.
44. Eric Edmonds and Nina Pavcnik, "Does Globalization Increase Child Labor? Evidence from Vietnam," NBER Working Paper no. 8760, July 2002.
45. Even in low-income countries that import rice, distorted global markets can have harmful long-term effects. To the extent that artificially low prices depress global trade and production, they add to market volatility and the potential for supply disruptions.
46. Wailes, p. 185.
47. *Ibid.*, p. 186.
48. Figures compiled by the Center for Responsive Politics, [www.opensecrets.org/pacs/index.asp](http://www.opensecrets.org/pacs/index.asp).
49. Wailes, p. 189.
50. See Thomas Lambie, "Miracle Down Under: How New Zealand Farmers Prosper without Subsidies or Protection," Cato Institute Free Trade Bulletin no. 16, February 7, 2005.

## Trade Briefing Papers from the Cato Institute

- “Milking the Customers: The High Cost of U.S. Dairy Policies” by Sallie James (no. 24; November 9, 2006)
- “Who’s Manipulating Whom? China’s Currency and the U.S. Economy” by Daniel Griswold (no. 23; July 11, 2006)
- “Nonmarket Nonsense: U.S. Antidumping Policy toward China” by Daniel Ikenson (no. 22; March 7, 2005)
- “The Case for CAFTA: Consolidating Central America’s Freedom Revolution” by Daniel Griswold and Daniel Ikenson (no. 21; September 21, 2004)
- “Ready to Compete: Completing the Steel Industry’s Rehabilitation” by Dan Ikenson (no. 20; June 22, 2004)
- “Job Losses and Trade: A Reality Check” by Brink Lindsey (no. 19; March 17, 2004)
- “Free-Trade Agreements: Steppingstones to a More Open World” by Daniel T. Griswold (no. 18; July 10, 2003)
- “Ending the ‘Chicken War’: The Case for Abolishing the 25 Percent Truck Tariff” by Dan Ikenson (no. 17; June 18, 2003)
- “Grounds for Complaint? Understanding the ‘Coffee Crisis’” by Brink Lindsey (no. 16; May 6, 2003)
- “Rethinking the Export-Import Bank” by Aaron Lukas and Ian Vásquez (no. 15; March 12, 2002)
- “Steel Trap: How Subsidies and Protectionism Weaken the U.S. Industry” by Dan Ikenson (no. 14; March 1, 2002)
- “America’s Bittersweet Sugar Policy” by Mark A. Groombridge (no. 13; December 4, 2001)
- “Missing the Target: The Failure of the Helms-Burton Act” by Mark A. Groombridge (no. 12; June 5, 2001)
- “The Case for Open Capital Markets” by Robert Krol (no. 11; March 15, 2001)
- “WTO Report Card III: Globalization and Developing Countries” by Aaron Lukas (no. 10; June 20, 2000)
- “WTO Report Card II: An Exercise or Surrender of U.S. Sovereignty?” by William H. Lash III and Daniel T. Griswold (no. 9; May 4, 2000)
- “WTO Report Card: America’s Economic Stake in Open Trade” by Daniel T. Griswold (no. 8; April 3, 2000)
- “The H-1B Straitjacket: Why Congress Should Repeal the Cap on Foreign-Born Highly Skilled Workers” by Suzette Brooks Masters and Ted Ruthizer (no. 7; March 3, 2000)
- “Trade, Jobs, and Manufacturing: Why (Almost All) U.S. Workers Should Welcome Imports” by Daniel T. Griswold (no. 6; September 30, 1999)
- “Trade and the Transformation of China: The Case for Normal Trade Relations” by Daniel T. Griswold, Ned Graham, Robert Kapp, and Nicholas Lardy (no. 5; July 19, 1999)
- “The Steel ‘Crisis’ and the Costs of Protectionism” by Brink Lindsey, Daniel T. Griswold, and Aaron Lukas (no. 4; April 16, 1999)
- “State and Local Sanctions Fail Constitutional Test” by David R. Schmahmann and James S. Finch (no. 3; August 6, 1998)
- “Free Trade and Human Rights: The Moral Case for Engagement” by Robert A. Sirico (no. 2; July 17, 1998)

## Board of Advisers

**Jagdish Bhagwati**  
Columbia University

**Donald J. Boudreaux**  
George Mason University

**Douglas A. Irwin**  
Dartmouth College

**José Piñera**  
International Center for  
Pension Reform

**Russell Roberts**  
George Mason University

**Razeen Sally**  
London School of  
Economics

**George P. Shultz**  
Hoover Institution

**Clayton Yeutter**  
Former U.S. Trade  
Representative

## CENTER FOR TRADE POLICY STUDIES

The mission of the Cato Institute's Center for Trade Policy Studies is to increase public understanding of the benefits of free trade and the costs of protectionism. The center publishes briefing papers, policy analyses, and books and hosts frequent policy forums and conferences on the full range of trade policy issues.

Scholars at the Cato trade policy center recognize that open markets mean wider choices and lower prices for businesses and consumers, as well as more vigorous competition that encourages greater productivity and innovation. Those benefits are available to any country that adopts free trade policies; they are not contingent upon "fair trade" or a "level playing field" in other countries. Moreover, the case for free trade goes beyond economic efficiency. The freedom to trade is a basic human liberty, and its exercise across political borders unites people in peaceful cooperation and mutual prosperity.

The center is part of the Cato Institute, an independent policy research organization in Washington, D.C. The Cato Institute pursues a broad-based research program rooted in the traditional American principles of individual liberty and limited government.

For more information on the Center for Trade Policy Studies,  
visit [www.freetrade.org](http://www.freetrade.org).



1000 Massachusetts Ave., N.W.  
Washington, D.C. 20001

Presorted  
First Class  
U.S. Postage  
**PAID**  
Permit #1906  
Southern MD

TRADE BRIEFING PAPER • TRADE BRIEFING PAPER • TRADE BRIEFING PAPER

Nothing in Trade Briefing Papers should be construed as necessarily reflecting the views of the Center for Trade Policy Studies or the Cato Institute or as an attempt to aid or hinder the passage of any bill before Congress. Contact the Cato Institute for reprint permission. Additional copies of Trade Briefing Paper are \$2 each (\$1 for five or more). To order, contact the Cato Institute, 1000 Massachusetts Avenue, N.W., Washington, D.C. 20001. (202) 842-0200, fax (202) 842-3490, [www.cato.org](http://www.cato.org).

