

U.S. Challenges to China's Farm Policies

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In 2019, the World Trade Organization (WTO) ruled in favor of the United States in two cases that the U.S. Office of the Trade Representative (USTR) filed against China, alleging that China's agricultural policies were inconsistent with its WTO obligations. While China agreed to conform to the WTO rulings, USTR contends that Beijing failed to act on one of the cases by the [agreed-upon deadline](#) of June 30, 2020, and [requested the WTO](#) authorization to take countermeasures against imports from China.

China's Farm Support Spending

In the first case ([DS511](#)), USTR contended that China's support policies to growers of wheat, rice, and corn exceeded the spending limits it agreed to in 2001, when it joined the WTO, by nearly \$100 million from 2012 through 2015. USTR asserted that these policies created an incentive for Chinese farmers to increase production of the subsidized crops, displacing imports and distorting international trade.

On February 28, 2019, the WTO [dispute settlement body agreed](#) with major parts of the U.S. complaint, finding that China had exceeded its domestic support limits for wheat and rice in each year between 2012 and 2015. The WTO body also disagreed with China's methodology for calculating the amount of domestic support its wheat and rice farmers received. It recommended changes to bring the Chinese policies into compliance with China's WTO commitments. It did not make a ruling on corn because, following the 2015 harvest, China made changes to its calculations of corn support prices, making them less market distorting. China did not appeal the ruling but committed to abide by it. China restated that commitment in [its Phase One trade agreement with the United States in January 2020](#).

On June 18, 2020, [China notified the WTO](#) that China had implemented changes to its rice and wheat policies to comply with the WTO recommendations. China adopted an approach that the dispute settlement body had indicated as potentially legal under the [WTO's Agreement on Agriculture](#). China is to cap the annual quantity of wheat and rice eligible to receive government support at a level substantially less than total national production. Each year, in advance of planting, China is to announce both the support prices and the maximum production amounts eligible for government procurement at those prices. Any quantities produced beyond the announced level would not be eligible for government support and would therefore not count against spending limits.

[In 2016 China reported that it had purchased 28.5 million metric tons \(MMT\) of wheat](#), representing 6.6% of the total value of national wheat production. Under the prior system, the [dispute settlement body found](#)

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this to violate China's WTO commitments because there was no cap on government procurement, and the price support could have led to greater domestic production. This meant that China's spending limits included the potential cost of supports for the entire rice and wheat crops.

Under the new system, the eligible quantity is announced in advance, so the policy can be perceived as not encouraging production beyond that cap. With the flexibility to set these amounts annually, China can alter the quantity of subsidized commodities to remain within the WTO allowable limit of 8.5% of the value of production, but purchase domestic rice and wheat at existing or higher levels than it previously did. China's new policy thus provides the government flexibility to determine the quantity of production it would like to support, possibly influencing the amount of rice and wheat that the country imports.

Although this support framework may appear to be compliant with China's WTO commitments, the United States stated that it does not consider the new policy to comply with the WTO ruling. Its request for authorization to take countermeasures, if granted, would allow the United States to raise tariffs on \$1.3 billion of imports from China. The choice of products to target would be up to the U.S. government.

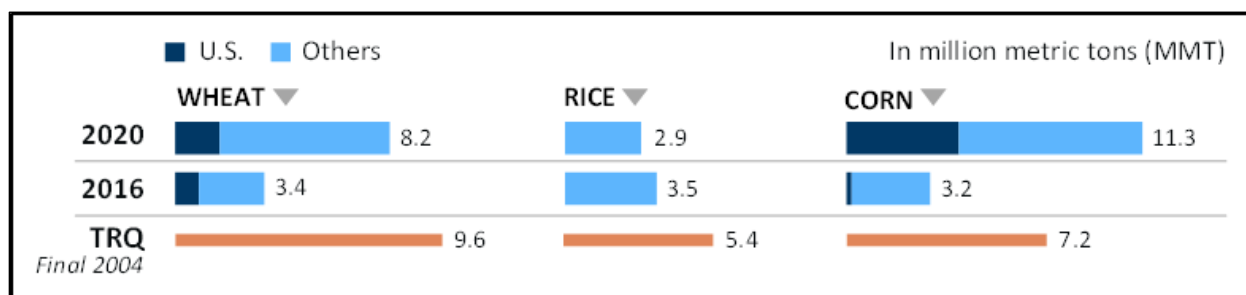
China's Market Access Policy

On December 15, 2016, USTR filed a second WTO dispute settlement case (DS517) against China, alleging that China's administration of its tariff-rate quotas (TRQs) for wheat, rice, and corn were unclear and had prohibited imports, thus undermining U.S. exports. A TRQ sets a low (or even zero) tariff on a certain annual quantity of imports, while imports above the quota amount are levied a higher tariff rate.

When China joined the WTO in 2001, it agreed to create TRQs to allow imports of wheat, rice, and corn, setting in-quota tariffs for all three commodities at 1%, while the over-quota tariffs are set at 65%. As China never imported these grains at the 1% tariff rate as its TRQs allow, even when imported grains were priced much lower than domestic grains, USTR alleged that China's TRQ administration procedures inhibited imports of these commodities. On April 18, 2019, the WTO ruled in favor of the United States, recommending that China make changes to conform to its WTO obligations. In the U.S.-China Phase One trade agreement, China agreed to comply with the WTO ruling, and the United States and China informed the WTO on April 12, 2021, that they had agreed that China would comply by June 29, 2021.

Figure 1. China's Tariff-Rate Quotas (TRQs) and Grain Imports

2016 versus 2020, in Million Metric Tons (MMT)



Source: China Customs Data, via Trade Data Monitor, accessed April 2021. TRQ volumes have not changed since 2004.

China's imports of wheat and corn have grown significantly from the low levels of 2016, but its rice imports in 2020 were 20% lower than in 2016, and barely half of the 5.4 MMT allowed under its TRQ at a 1% tariff rate (Figure 1). Given the low level of imports, USTR may continue to question China's administration of its rice TRQ before agreeing to resolve the ongoing dispute.

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