HEARING TO REVIEW AGRICULTURAL SUBSIDIES IN FOREIGN COUNTRIES

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BEFORE THE

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HEARING TO REVIEW AGRICULTURAL SUBSIDIES IN FOREIGN COUNTRIES

WEDNESDAY, JUNE 3, 2015

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Committee met, pursuant to call, at 10:01 a.m., in Room 1300 of the Longworth House Office Building, Hon. K. Michael Conaway [Chairman of the Committee] presiding.

Members present: Representatives Conaway, Neugebauer, Goodlatte, Lucas, King, Thompson, Gibbs, Crawford, Hartzler, LaMalfa, Davis, Yoho, Walorski, Bost, Rouzer, Moolenaar, Newhouse, Peterson, David Scott of Georgia, Walz, McGovern, Vela, Kuster, Nolan, Bustos, Kirkpatrick, Aguilar, Plaskett, Graham, and Ashford.

Staff present: Bart Fischer, Callie McAdams, Carly Reedholm, Haley Graves, Jackie Barber, Matt Schertz, Mollie Wilken, Scott Sitton, Skylar Sowder, Andy Baker, Liz Friedlander, Mike Stranz, and Nicole Scott.

OPENING STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

The CHAIRMAN. The hearing will come to order. I will ask Mr. Crawford to open us with a blessing. Rick?

Mr. CRAWFORD. Thank you, Mr. Chairman. Heavenly Father, I do bow humbly before you, thankful for every blessing of life, Father, thankful for this nation that we have and the freedoms that we enjoy through your divine providence. Father, I just ask that you fill this body with wisdom and discernment and that all that is said and done be pleasing to you. I ask in Jesus' name, amen.

The CHAIRMAN. Thank you, Rick. This hearing of the Committee on Agriculture regarding the review of agricultural subsidies in foreign countries, will come to order. I am pleased to have two expert witnesses with us this morning to talk about the topic, and I will not steal any of their thunder, but it is important for us to observe several studies listing the high and rising subsidies, tariffs, and non-tariff barriers being thrown up by our trading partners. Two of the authors of these studies are with us today, and it is my understanding that some of the subsidies, tariffs, and non-tariff barriers they report are so blatant that they are clear violations of the countries' WTO commitments.

I hope everyone takes a close look at these studies because they underscore two things: First, the United States Government needs to stand up to the countries that fail to abide by their commitments, and, second, we need strong U.S. farm policy as a modest response to foreign competitors that cheat.

It is disturbing that as this Committee worked to produce a farm bill that significantly reformed U.S. farm policy, achieving an estimated $23 billion in savings, many of our biggest trading partners were apparently increasing to new heights their already high tariffs, subsidies, and other trade barriers.

This is a troubling development for three reasons. First, free markets are the most effective means for ordering our economy. Trade agreements foster free markets by establishing rules for all countries to follow. We all know and agree on these things. But when trading partners do not follow the rules that they agreed to and it goes unchallenged, two serious problems develop. One, the American farmer and rancher lose market opportunities they were promised. This hurts our farmers and ranchers, it harms our economy, and it costs American jobs. As a result of the first problem, the second problem arises, and that is America's farmers and ranchers lose faith in trade agreements. Given the current debate over TPA, it is safe to say that free trade cannot afford to lose the support of American agriculture. The United States Government must enforce our trade agreements.

Second, American agriculture is incredibly dependent on trade. We all know this and agree on it. For example, 80 to 85 percent of the American cotton crop each year is exported. If our trade agenda freezes up because American agriculture loses confidence in trade, the biggest losers under that scenario are America's farmers and ranchers. We cannot afford to let that happen. Rigorous enforcement of our rights under trade agreements is part of the solution, but addressing the double-standard that exists between developed and large, emerging economies is of vital importance as well.

The key to getting stalled multi-lateral efforts like the Doha Development Agenda back on track is recognizing the disproportionate impact trade-distorting subsidies from large, emerging economies are having on world prices.

And, finally, my part of the country is particularly dependent upon trade. Our biggest cash crop in Texas is cotton. Unfortunately, trade in the world cotton market is neither fair nor free. Communist China's Government controls most of the world market. And what China does not control, countries like India and Turkey fill in the void to make the global cotton market absolutely haywire. For instance, we saw world cotton prices reach a record level in 2011 as China pursued a policy of building up stocks to an historic level. And then we saw prices nose-dive toward the end of last year when the Chinese Government changed its mind. Prices for cotton remain low today, and according to USDA, the Chinese Government's change in course could mean many years of depressed world cotton prices. The U.S. Government must work to address these problems through the WTO, and it must also stand by America's cotton farmers while the situation is made right.

On a related note, concerning our largest competitors, I recently read a report that Brazil is deliberating a new challenge to U.S. farm policy, this time against corn and soybeans. Let me just say this: Brazil's case against U.S. cotton was without merit from start to finish, but the WTO was determined to rule in Brazil's favor no matter the facts and rules. The WTO must now work to right that wrong by being vigilant and wary in regard to Brazil's latest saber rattling, and the United States must defend its farmers in a world where trade manipulation and distortions by foreign governments often come at the expense of America's farmers.

[The prepared statement of Mr. Conaway follows:]

PREPARED STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE IN CONGRESS FROM TEXAS

This hearing on agricultural subsidies in foreign countries, will come to order.

I am pleased to have before us two expert witnesses on the topic of today's hearing.

I will not steal the thunder from our witnesses but it is important for me to observe that there are several studies listing the high and rising subsidies, tariffs, and non-tariff trade barriers being thrown up by our trading partners. Two of the authors of these studies are here today, and it is my understanding that some of the subsidies, tariffs, and non-tariff barriers they report are so blatant they are clear violations of the countries' WTO commitments.

I hope everyone takes a close look at these studies because they underscore two things. First, the U.S. Government needs to stand up to countries that fail to abide by their commitments. And, second, we need strong U.S. farm policy as a modest response to foreign competitors that cheat.

It is disturbing that as this Committee worked to produce a farm bill that significantly reformed U.S. farm policy, achieving an estimated $23 billion in savings, many of our biggest trading partners were apparently increasing to new heights their already high subsidies, tariffs, and other trade barriers.

I am troubled by this development for three basic reasons.

First, free markets are the most effective means of ordering our economy. Trade agreements foster free markets by establishing rules for all countries to follow. We all know and agree on these things. But when our trading partners do not follow the rules that they agreed to and it goes unchallenged, two serious problems develop. First, American farmers and ranchers lose the market opportunities they were promised. This hurts our farmers and ranchers, it harms our economy, and it costs American jobs. And, as a result of the first problem, the second problem arises: America's farmers and ranchers lose faith in trade agreements. Given the current debate over Trade Promotion Authority (TPA), it is safe to say that free trade cannot afford to lose the support of American agriculture. The United States Government must enforce our trade agreements.

Second, American agriculture is incredibly dependent upon trade. We all know and agree on this. For example, 80 to 85 percent of American cotton is exported. If our trade agenda freezes up because American agriculture loses confidence in trade, the biggest losers under that scenario are American farmers and ranchers. We cannot afford to let this happen. Rigorous enforcement of our rights under trade agreements is part of the solution, but addressing the double-standard that exists between developed and large, emerging economies is of vital importance. The key to getting stalled multi-lateral efforts like the Doha Development Agenda back on track is recognizing the disproportionate impact trade-distorting subsidies from large, emerging economies are having on world prices.

And, finally, my part of the country is particularly dependent upon trade. Our biggest cash crop in Texas is cotton. Unfortunately, trade in the world cotton market is neither free nor fair. Communist China's Government controls most of the world market. And what China does not control, countries like India and Turkey fill in the void to make the global cotton market absolutely haywire. For instance, we saw world cotton prices reach a record-breaking level in 2011 as China pursued a policy of building up stocks to an historic level. And, then, we saw prices nose-dive toward the end of last year when the Chinese Government changed its mind. Prices for cotton remain low today, and according to USDA, the Chinese Government's change in course could mean years of depressed world cotton prices. The U.S. Government must work to address these problems through the WTO, and it must also stand by America's cotton farmers while the situation is made right.

On a related note, concerning our largest competitors, I recently read a report that Brazil is once again deliberating a challenge to U.S. farm policy, this time against corn and soybeans. Let me just say this: Brazil's case against U.S. cotton policy was without merit from start to finish, but the WTO was determined to rule in Brazil's favor no matter the rules or the facts. The WTO must now work to right that wrong by being vigilant and wary in regard to Brazil's latest saber rattling, and the U.S. must defend its farmers in a world where trade manipulation and distortions by foreign governments often come at the expense of America's farmers.

With that I would recognize my good friend and Ranking Member for any remarks that he may have.

The CHAIRMAN. With that I would like to recognize the Ranking Member for any remarks that he may have.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. Thank you, Mr. Chairman. Thank you for calling this hearing. I think it is important that the Committee address this issue because what is often lost during these debates on our farm safety net is the fact that other countries also provide agriculture subsidies to producers and sometimes more than we do. If we are going to compete in the global marketplace, we need to be on a level playing field.

That being said, I am concerned that some of these so-called advanced, developing countries have started to increase their subsidies and are arguing that we should push ahead with negotiations in the Doha Round, and as I have told some people in the Administration and the negotiators, I just think the whole Doha concept is flawed. We have people in there that are developing countries that are not developing countries. They are subsidizing considerably more than people recognize. This is not going to—they need to scrap this whole thing and start over in my opinion.

Now, this idea that somehow or another you are going to fix everything by using trade to help these developing countries, in my opinion, was a flawed concept to start with.

So I don't know how we get back to doing something sensible there, but currently what is going on is not working. I don't think it is fair that these developing countries, no matter how advanced, can designate themselves for special treatment.

So based on the testimony of our witnesses, I think it is time for the United States to start challenging Brazil and China, India and others when they fail to make their WTO commitments. Now I realize that the testimony covers a lot of ground, but to the extent possible, I hope that our witnesses will be able to give us a little more guidance on specific subsidies that we should consider challenging and what our chances of winning such challenges might be. So I hope our witnesses will be able to address some of these questions, and I look forward to their testimony and yield back.

The CHAIRMAN. Thank you, Collin. I appreciate that. I welcome our witnesses to our hearing today. I appreciate the time and preparation you put into getting here. I will ask Vice Chair Randy Neugebauer to introduce Dr. Hudson, and then I will introduce Mr. Thorn.

Mr. NEUGEBAUER. Well, thank you, Mr. Chairman, and thank you for holding this very important hearing. It is my honor to introduce Dr. Darren Hudson who is a Professor and the Larry Combest Chair at Texas Tech University. Go Raiders. It is good to have you here today. Dr. Hudson earned his B.S. at West Texas A&M University and his M.S. and Ph.D. degrees in agricultural and applied economics from Texas Tech University. He has been a Professor at Mississippi State University and a Farm Foundation Fellow. Hudson's research interests include agricultural policy, trade, economic development, marketing, and consumer demand in behavioral economics, and he participates in the Food and Agricultural Policy Research Institute consortium producing annual baseline projections for cotton for the group. Hudson is the past President of the Southern Agricultural Economics Association. Dr. Hudson, it is a pleasure to have you here. We look forward to your testimony today.

The CHAIRMAN. Thank you and welcome Dr. Hudson. I would like to introduce Mr. Craig Thorn, Partner with DTB Associates, LLP, here in Washington, D.C. Dr. Hudson, the floor is yours.

STATEMENT OF DARREN HUDSON, PH.D., PROFESSOR AND LARRY COMBEST CHAIR FOR AGRICULTURAL COMPETITIVENESS, DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS, TEXAS TECH UNIVERSITY, LUBBOCK, TX

Dr. HUDSON. Thank you, Mr. Chairman and honorable Members. Please accept my gratitude for this invitation to speak to you today on foreign ag subsidies. As Congressman Neugebauer said, I am the Larry Combest Endowed Chair in Agricultural Competitiveness, named after a former Chairman of this Committee, and I also am Director of the International Center for Agricultural Competitiveness at Texas Tech.

My testimony today is based on years of data accumulation and analysis and, to the best of my ability, an objective assessment of the state of agricultural subsidization globally.

We all know that the issue of subsidies is controversial and contentious. And some groups such as the Environmental Working Group, Oxfam, and others attempt to frame the issues in such a way as to highlight the impact of U.S. subsidies. But their logic and their arguments presuppose that the United States operates in a vacuum, or more specifically, that the United States is basically the only country subsidizing.

My objective today is to provide some perspective on global subsidies so we can analyze those policy issues more objectively.

Based on just looking at OECD data which are publicly available, we can see that in 2012 the United States fits basically into the middle ground of total subsidies provided. The OECD data are not comprehensive in a sense that it covers all countries but clearly indicates that subsidies are by no means a U.S.-only phenomenon.

In fact, if we look at this case, China is much larger as well as the EU in total subsidies provided. The single year is helpful to look at, but the second figure also shows the trend in support that has occurred over time, isolating the two big developing countries in OECD data, China and Brazil, and the United States for comparison.

So, clearly the United States' trend of support is down. The word is everybody on this Committee is fully aware. But developing country support is growing exponentially. What data are available outside of the OECD data set show similar trends in developing countries' support around the world.

Briefly, I think it is useful to understand the types of support that are offered. The most transparent are direct price supports through price and income. Countries like China, India, and Brazil have moved to utilizing direct price supports on several commodities. The EU by contrast offers direct income support. For comparison's sake, the EU offers Spanish cotton farmers a direct payment of €435 per hectare which is equivalent to 32¢ per pound or 377 percent higher than the old United States direct payment to cotton producers.

The second major type are indirect subsidies which are subsidies on things like inputs, taxes and credits, R&D, among other things that exist out there. Countries like Egypt, India, Mexico, Pakistan, Turkey, Uzbekistan, and Brazil all use these types of subsidies.

As an example, Brazil offers debts forgiveness, restructuring, and broadly offers low-interest rates to agricultural producers in 2011 to the tune of $64 billion. West Africa offers free seed worth $30 to $60 per acre. And India just recently announced this fiscal year they will provide $11 billion in fertilizer subsidies. So that gives you some perspective on the scope of those types of indirect subsidies.

Finally there are the implicit subsidies that exist through trade barriers, and although it is beyond the scope here, China, for example, has used a myriad of tariffs, quotas, domestic stock-piling, and other non-tariff barriers to support domestic corn, some cotton, soybean, and other agricultural prices.

Direct analysis of subsidies is often difficult because subsidies are supposed to be reported to the WTO. We are often years or even decades behind in reporting. China, for example, just caught up to 2010 in its reporting to the WTO.

We have however collected data on subsidy rates, and I provide a couple of examples here for cotton and corn. So if you look at China, in cotton, offers cotton producers in their most productive region a direct price support of $1.60 per pound. Compare that to a U.S. loan rate of 45¢ to 52¢ per pound depending on the adjusted world price, and that loan rate must be either repaid or the crop forfeited, unlike a direct price support that China offers. Even Brazil offers direct price supports well above U.S. levels, whether or not they are in effect depending on world price. Corn, as another example, China offers three times the PLC reference price for corn and much higher than that of the loan rate.

So if we look across a broad set of commodities globally, the data clearly show that the United States is often in the middle or bottom of the rankings. Overall, I hope this information shows that global subsidization is deep and broad and is an important part if we look at how we are going to handle or address these issues. Many countries treat agriculture as a strategic asset, and our failure to do so would put our producers at a competitive disadvantage.

Mr. Chairman, thank you.

[The prepared statement of Dr. Hudson follows:]

PREPARED STATEMENT OF DARREN HUDSON, PH.D., PROFESSOR AND LARRY COMBEST CHAIR FOR AGRICULTURAL COMPETITIVENESS, DEPARTMENT OF AGRICULTURAL AND APPLIED ECONOMICS, TEXAS TECH UNIVERSITY, LUBBOCK, TX

Introduction

Mr. Chairman and Honorable Members, please accept my gratitude for the invitation to testify to you today. My name is Darren Hudson and I hold the Larry Combest Endowed Chair for Agricultural Competitiveness and the Director of the International Center for Agricultural Competitiveness at Texas Tech University. I was asked to address the topic of foreign agricultural subsidies. My testimony is based on years of data accumulation and analysis and, to the best of my ability, an objective assessment of the state of agricultural subsidization globally.

The issue of subsidies for agriculture has been a contentious one for quite some time. U.S. Federal budget concerns have continually put pressure on lawmakers to find avenues for budget savings in all areas, but agriculture has been a popular target because it is perceived as "low hanging fruit." Groups such as the Environmental Working Group (EWG) have framed agricultural subsidies as "corporate welfare" and argued that these subsidies distort domestic and international markets. International groups such as Oxfam have argued that U.S. subsidies damage markets for subsistence farmers in developing countries. And, while these groups make seemingly rational economic arguments, their logic is based on the U.S. acting in a vacuum—that is, the U.S. is the only country that subsidizes its agriculture, and, therefore, the only country that impacts world markets.

The purpose of this testimony is not to justify the existence of particular subsidies by particular players. Rather, the objective is to provide some perspective on the scope of agricultural subsidization globally, the means by which subsidies are provided, and some examples of subsidies in commodities around the globe. What is presented here is not exhaustive. The data are based on a database created and maintained by the International Center for Agricultural Competitiveness at Texas Tech University of which I am director. The database is simply a "one stop shop" agglomeration of publicly available data on subsidies from the USDA and various in country sources. No "models" or assumptions are used in its construction. The database's only purpose is to collect and disseminate factual information about agricultural subsidies.

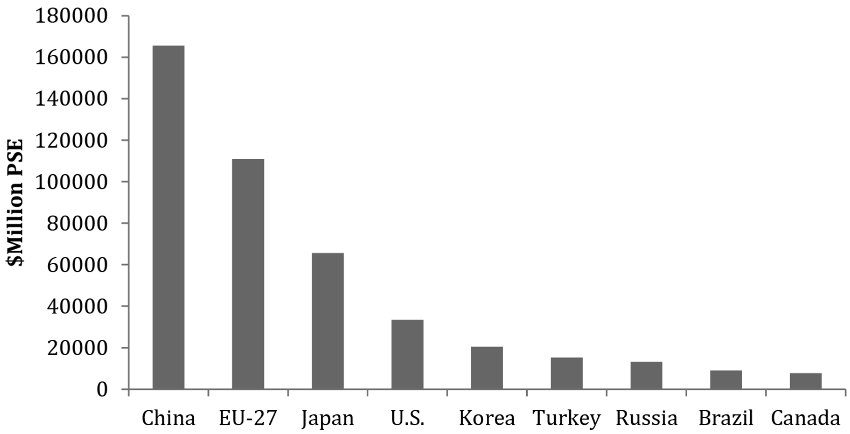
Scope and Types of Subsidies

Virtually every major agricultural producing country provides some sort of subsidies to their producers, be they complex systems as found in the U.S. and Europe, or simply supporting research and development projects to support agricultural productivity (*e.g.,* Australia).

Figure 1 shows the 2012 OECD estimates of Producer Support Estimates (PSE) spending in select agricultural producing countries.[1]

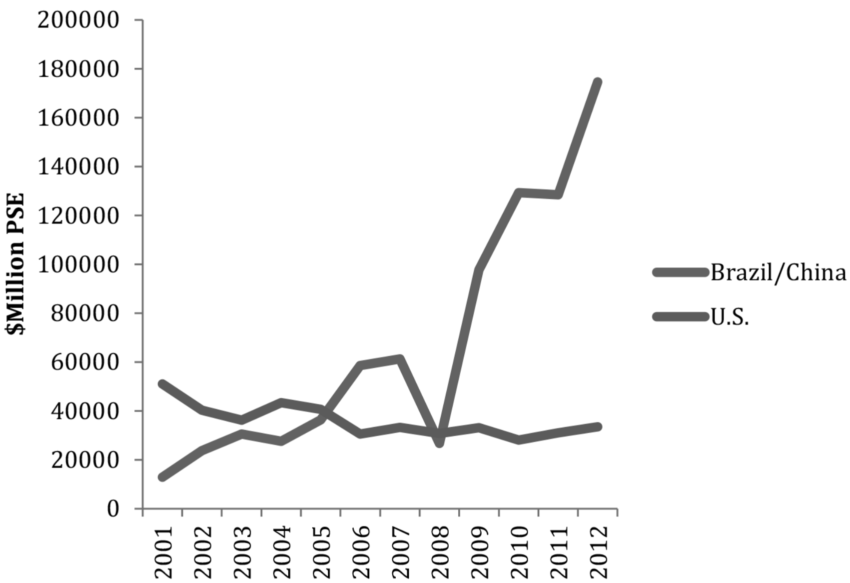
[1] OECD provides a consistent measurement of PSEs, but only cover a select set of countries outside of the OECD. But, it provides some perspective on overall subsidization across countries. Data from 2012 were the last available for the developing countries in the dataset.

Figure 1. PSE Data for Major OECD Agricultural Producing Countries and Select Non-OECD Countries, 2012



Clearly, the U.S. provides support to agriculture, but that support is orders of magnitude smaller than support provided by other major producing countries/regions. For perspective, the OECD estimates that about $492 billion in producer support was provided by all countries in 2012. Of that total, China provided 34% of the total compared with 7% for the U.S. But the snapshot in time does not provide the full detail. *Figure 2* shows the trend in support for two major non-OECD countries (China and Brazil) compared with the U.S.

Figure 2. Trends in PSE for Brazil + China *Versus* the U.S., 2001–2012



Source: OECD.

Sometimes impressions persist well beyond the point where reality has left the impression behind. In this case, the U.S. provided more support than major developing agricultural producers, leading to the impression that the U.S. was the primary distorter of markets. But, clearly, that has changed with major developing countries far outpacing the U.S., and, in fact, on an opposite trajectory with total support. These data indicate, in general, that agricultural subsidization is a multibillion dollar enterprise in many major agricultural producing countries globally. The broad scope of subsidization is associated with a wide variety of subsidy types.

Direct Price and Income Support. The most widely recognized type of support is direct price or income support. A direct price support is akin to the old target price/deficiency payment program in the U.S., or the PLC program in its most current decoupled formulation. China, for example, is also transitioning to direct price supports for cotton and other commodities. Pakistan, India, and Brazil all provide direct price support to producers for several commodities including corn and cotton.

The European Union provides direct income supports as opposed to price supports. For example, The EU provides Spanish cotton producers with a direct transfer payment of €435/hectare. Assuming an average 605 pound per acre lint yield to be comparable with U.S. yields used in direct payment calculations, this converts to $0.32/lb. of cotton, or 377% above the direct payment rate of $0.067/lb. for cotton under the U.S. 2008 Farm Bill.[2]

These direct subsidies are more transparent than other types of subsidies, and are, therefore, easier to identify and delineate the potential effects. Because the U.S. has used these approaches for some time, it has been much easier to target the U.S. subsidies in the media. At the same time, these direct subsidies are crop specific and relate to, at least for developed countries, commitment levels under the World Trade Organization (WTO).[3] A key issue in specific (non-aggregated) analysis of subsidies is that while notification of subsidy payments to the WTO is required, that requirement is rarely enforced. For example, China just notified its 2010 subsidy payment. Thus, specific analyses on subsidization levels often lags activity by years.

Indirect and Non-Commodity Specific Subsidies

Indirect subsidies come in a variety of forms. The most commonly used type of indirect subsidy is an input subsidy. Countries subsidize such things as fertilizer, seed, transportation, energy/fuel, *etc.* These subsidies are primarily used in developing countries such as Egypt, India, Mexico, Pakistan, Turkey, Uzbekistan, and the countries of West Africa, among others. Input subsides can be fairly innocuous and low value like slight price breaks on electricity to quite substantial like "free seeds" for cotton in West African countries like Benin that can have a commercial value of $30–$60 per acre, depending on the varieties and seeding rates used. As another example, India recently announced $11 billion in fertilizer subsidies along this fiscal year according to a Reuters news report (May 2015). Input subsidies are often treated as "decoupled" in subsidy accounting, but are coupled in the sense that they would not be provided unless planting were taking place.

Less coupled indirect subsidies include credit/interest rate subsidies (popular in Brazil, Nigeria, Mexico, Uzbekistan), favorable tax rates and terms (popular in Australia, Brazil, and EU), and government sponsored R&D and extension (popular in many countries around the world). These subsidies are not product specific, but do provide producers in those countries with indirect advantages over producers in other countries that do not receive those types of subsidies.

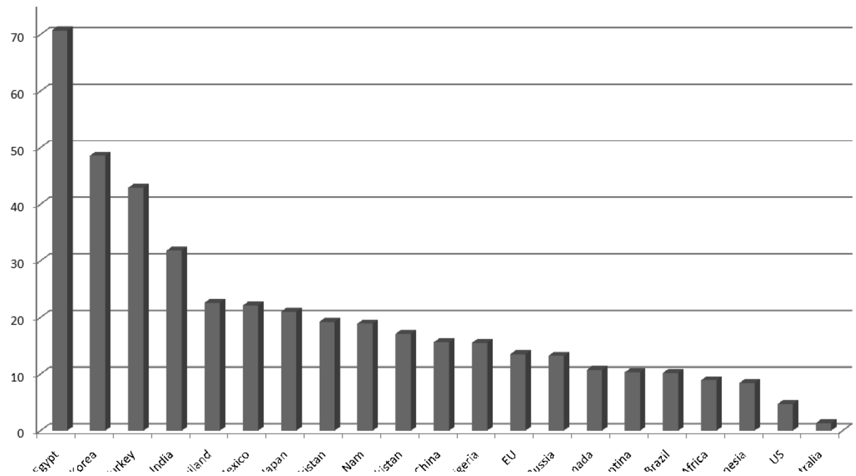
Finally, other indirect subsidies arise out of other types of policies. For example, a popular target in the U.S. media has been the impacts of the biofuels mandate on corn prices. It is interesting to note, however, that a diverse set of countries including Brazil, Canada, EU, Thailand and Turkey all have explicit biofuels mandates within their agricultural/energy policies.

Implicit Subsidies Through Trade Policy. Direct and indirect subsidization through standard agricultural policy is only one method of providing support to a country's agriculture. Trade policy, including tariffs, quotas, tariff rate quotas (TRQs), *etc.,* all provide support to domestic industries by driving a wedge between domestic/internal prices and international prices. The *Figure 3* below illustrates average applied tariffs on agricultural products around the world.

[2] U.S. direct payments were paid on 85% of base acres, so the effective subsidy rate is lower.

[3] Self-designated "developing" countries are not subject to the same types or magnitudes of restrictions on direct income/price support subsidies. They are subject to total subsidy levels, or *de minimis,* restrictions, but data on these subsidies are rarely reported in a timely fashion and/or are not enforced.

Figure 3. Average Applied Tariffs on Agricultural Products in Selected Countries, 2013



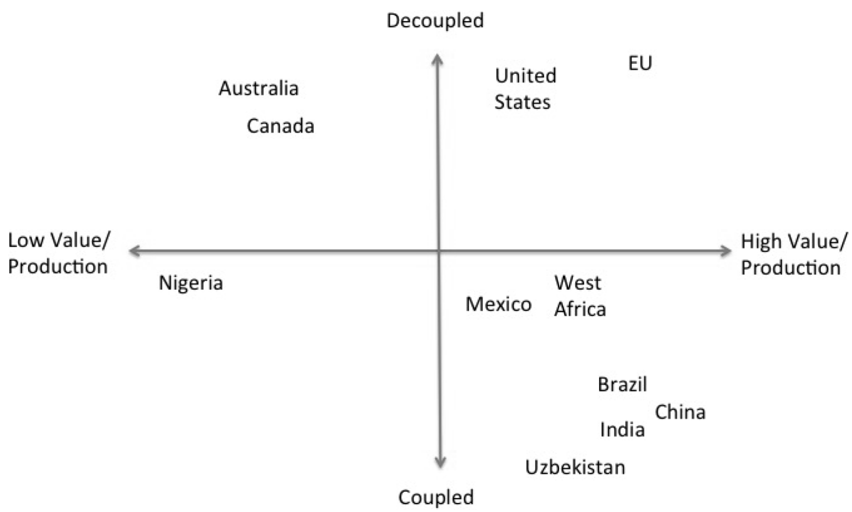
Source: World Trade Organization

While the U.S. does apply tariffs to agricultural imports, the average applied tariff ranks it as one of the lowest trade barrier countries among the major importing countries in the world. And, while trade issues are generally beyond the scope of this testimony, it is important to note that many countries do utilize trade policy to support domestic industries. For example, China has used import tariffs and quotas, domestic stockpiling, and even non-tariff trade barriers [4] to support domestic prices for corn, cotton, soybeans, and other agricultural products.

Overall, we can think of subsidies in a continuum. Although not the only two dimensional representation, a useful approximation of the differences in subsidies can be found in *Figure 4.*

[4] A non-tariff barrier is any barrier to trade that is not administered through a tariff or quota. In this case, China has used the issue of genetic modification as a basis to reject shipments of products and control the level of imports of corn below economically viable levels, which has resulted in higher internal prices of corn to the benefit of Chinese producers. This statement should not be construed as implying motives, only outcomes of the decision to reject shipments on the basis of GM corn.

Figure 4. Author's Representation of Subsidy Differences on a Couple/Value 2 Dimensional View



Thinking of one dimension as the magnitude of the subsidies (on average across all products) relative to the value of production, we can compare that to the other dimension of being coupled (the degree to which the subsidy depends on the linkage to actual production). In the bottom right quadrant are the countries that have large subsidies relative to production and those subsidies are relatively coupled (again, on average across products). In the upper left are countries that have low subsidies and are relatively decoupled. This diagram is conceptual and does not include all countries, but does give a reasonable idea of the scope and type of subsidies that are used globally.

Some Examples for Perspective

It is useful to examine specific cases of differences in support to provide some perspective on the relative position the U.S. holds in that area. *Figure 5* shows the example of minimum government support prices for cotton in major producing countries.

Figure 5. Minimum Stated Support Prices for Major Cotton Producing Countries, 2015 [5]

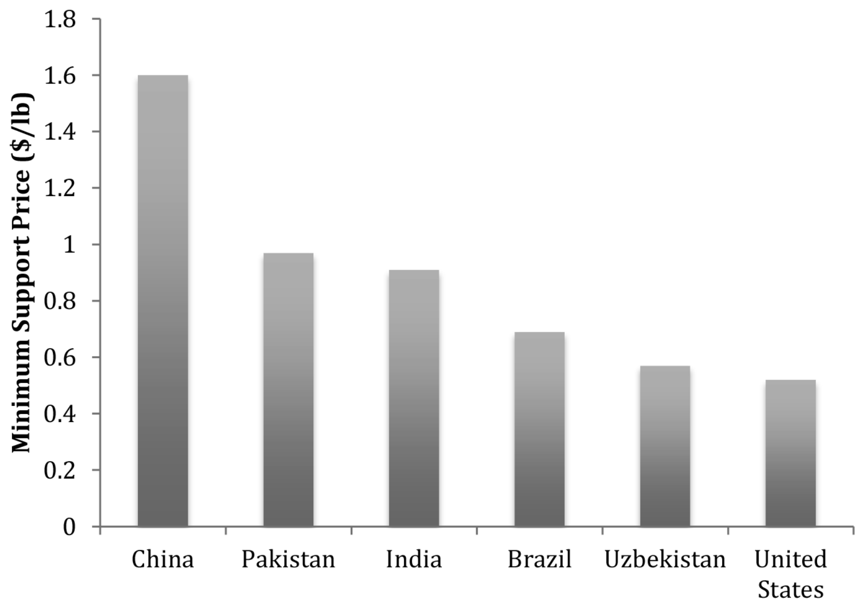


Figure 5 provides a stark visualization of the differences in support levels across different producing countries. With China at $1.60/lb. (depending on the assumed exchange rate), it is a little over three times the minimum support price found in the United States. Keep in mind also that these are on an equivalent nominal basis. If one adjusted for purchasing power differences, these nominal differences would be much larger. Also, keep in mind that the minimum support prices in China, India, and Pakistan are prices paid to producers. The U.S. price is a loan rate where money must either be repaid (or crop forfeited) leaving marketing responsibilities in the hands of the producers.

Similarly for corn, reference prices in China ($10.11/bu), India ($5.70/bu), and Mexico ($7.20/bu) are all higher than the U.S. reference price in the PLC program of $3.70/bu. Again, differences in productivity per acre would need to be considered to arrive at an anticipated revenue per acre and costs deducted to examine profitability per acre. But, these data reflect the fact that U.S. subsidy rates are at least at or below global subsidy rates for the same given commodities.

Similar stories can be constructed for other commodities and other countries and all of these data can be accessed at the ICAC–TTU database at: *http://www.depts.ttu.edu/ceri/index.aspx* for more information. This database in continually updated as new data become available.

Conclusions

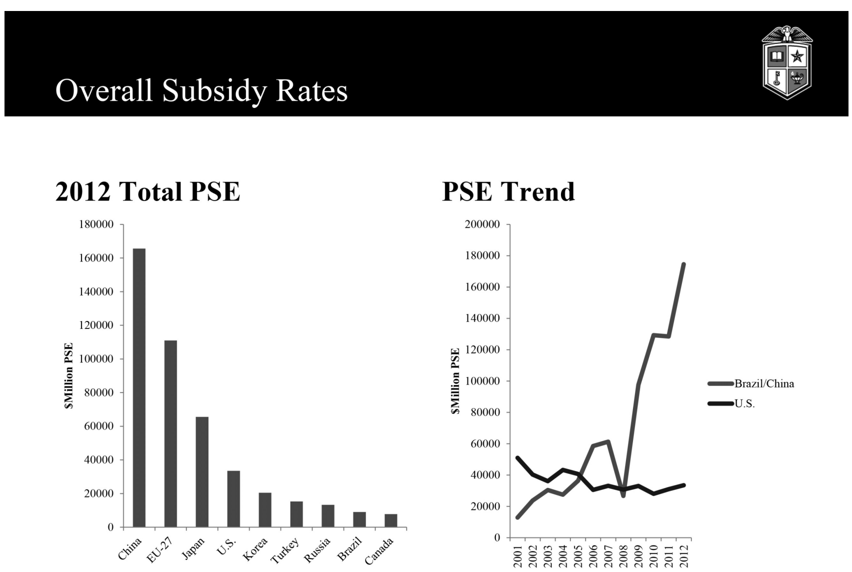
Thank you again for your attention and invitation to provide this testimony. If I could summarize what I hope you take away from these data I would say:

1. The scope of agricultural subsidization is broad and deep globally with virtually all major producing countries providing some type of support,
2. While the U.S. does provide significant support, the level of U.S. support in only average or below average in most cases, overall support is trending downward, and U.S. support is small relative to other major producing countries/region, and

[5] Note, China is based on the $/RMB exchange rate as of 5/27/2015 and this trial subsidy program is targeted at the Xinjiang province, which singularly produces over 67% of China's domestic cotton production according to recent USDA–GAIN reports on China. Pakistan, India, and Uzbekistan are officially on a seed cotton basis, but were converted to lint cotton basis assuming a 35% gin turnout rate and converted to U.S. dollars based on official exchange rate data in December 2014. Brazil is based on the R$/U.S.$ exchange rate as of December 2014.

3. There may be sound economic arguments that support a world without subsidies, but we do not live in one; other countries are treating their agricultural sectors as a national asset for security purposes and for the U.S. not to consider the implications of those choices would leave us at a competitive disadvantage.

ATTACHMENT

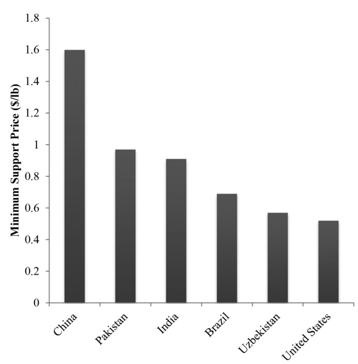


Types of Subsidies Used Globally

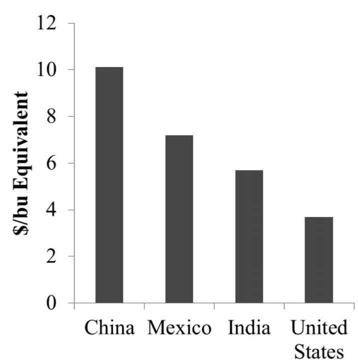
Subsidy Type	Description	Examples
Direct	Basic Price or Income Support	China, India, Brazil use direct price supports Europe uses direct income support (for example, a direct payment equivalent of $0.32/lb compared with $0.067/lb in the US
Indirect	Inputs, Credit/Interest Rates, Biofuels	India providing $11 billion in fertilizer subsidies West Africa provides free seed ($30-$60/ac benefit)
Implicit	Quotas, tariffs, and other forms of border protection	U.S. near the bottom of countries in applied tariffs

Examples—Minimum Support Prices for Corn and Cotton

Cotton



Corn



Conclusions

- Scope of subsidization if broad and deep globally
- Overall U.S. support is trending downward while developing country support is increasing
- We do ***not*** live in a world of no subsidies; other countries treat agriculture as a security issue; for us not to consider those implications puts us at a competitive disadvantage

The CHAIRMAN. Thank you, Dr. Hudson. Now Mr. Thorn?

STATEMENT OF CRAIG A. THORN, PARTNER, DTB ASSOCIATES, LLP, WASHINGTON, D.C.

Mr. THORN. Mr. Chairman and Members of the Committee, my name is Craig Thorn, and I am a Partner in the firm DTB Associates. Our firm represents a number of companies and trade associations in the agricultural sector. But I am here today in a personal capacity to present the results of a recent DTB study of agricultural subsidies in certain advanced developing countries.

Our study was prompted by trade problems our U.S. clients are encountering in world markets. For example, low-priced Turkish wheat flour displacing U.S. wheat exports in Asian markets and increased competition from exports of corn, rice, and wheat from Brazil. In investigating those issues, we learned that a number of large developing countries had significantly increased their support to farmers.

The run-up in subsidies began about a decade ago and has continued unabated. Support in the countries we examined is now higher than in most developed countries. I think you all have an old-fashioned handout that we distributed.

The first table in that handout shows support prices for wheat, corn, and rice compared with U.S. reference prices under the Price Loss Coverage Program. As you can see, support price levels are in most cases significantly higher in the five developing countries. But this comparison is actually unfair to the United States. The prices listed for the developing countries act as floor prices in the domestic market and incentive prices to the producer. Their governments use policy instruments such as government purchases and export subsidies to ensure that prices do not fall below the support level.

By contrast, as you know, reference prices in the United States trigger payments to producers linked to a fixed payment base. The PLC program is less production distorting because a producer is not required to plant a specific crop in order to receive payments and cannot increase payments by increasing production.

All five countries offer other forms of support as well such as input and credit subsidies and commodity-specific direct payments. Of course, the United States also has other programs, but the overall level of support for the products we covered was significantly higher in four of the five countries than in the United States. The exception is Brazil where the level of support is comparable.

These policies have a global impact. They have stimulated production, displaced imports and, in many cases, increased exports. For example, Indian rice exports have more than doubled since 2005 from 4.3 to 10 million metric tons. And China now requires importers of corn, wheat, and rice to purchase an equivalent quantity for domestic stocks.

The second table in the handout shows in the second column from the right our calculation of the level of support using the methodology specified in the WTO *Agreement on Agriculture.* We show a range in some cases because of methodological issues that we explain in our paper. The last column shows the support limit these countries accepted at the end of the Uruguay Round or when they joined the WTO. As you can see, they are all in violation of their obligations, in most cases by a large margin. Keep in mind that our study looks only at wheat, corn, and rice and in one case, sugar. Since all five countries have support programs for other commodities, our estimates of total AMS are almost certainly lower than the actual figures.

These issues are important to American farmers for obvious reasons. Subsidies in advanced developing countries are distorting world markets. The United States, the biggest agricultural exporter in the world, suffers most from these distortions. WTO members are currently discussing in Geneva a new work plan for negotiations on agriculture. American farmers would certainly benefit from a new WTO agreement that included additional disciplines on agricultural subsidies. However, some of the same countries that we cover in our report are insisting on a negotiating text that would require changes in U.S. policies but would do nothing to tighten the rules that apply to them. At the same time, India is arguing for rule changes that would significantly weaken those disciplines.

U.S. officials have been working to shine the light on these issues in Geneva. Unfortunately, there is no indication that advanced developing countries are ready to acknowledge the facts. In my opinion, it would be extremely foolish for the U.S. to agree to restart the negotiations until we have a plan to enforce existing rules and are convinced that any new disciplines would be targeted at the policies that are most responsible for current distortions.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Thorn follows:]

PREPARED STATEMENT OF CRAIG A. THORN, PARTNER, DTB ASSOCIATES, LLP, WASHINGTON, D.C.

Agricultural Subsidies in Advanced Developing Countries

Mr. Chairman and Members of the Committee:

My name is Craig Thorn. I am a partner in the firm DTB Associates. Our firm represents a number of companies and trade associations in the agricultural sector. But I am here today in a personal capacity to present the results of a recent DTB study of agricultural subsidies in certain advanced developing countries.

Our paper is actually an update of an analysis we did in 2011. That study was prompted by trade problems encountered by U.S. clients in world markets—for example, low-priced Turkish wheat flour displacing U.S. wheat exports in Asian markets and increased competition from exports of corn, rice and wheat from Brazil. In investigating those issues, we learned that a number of large advanced developing countries had significantly increased their support to farmers in recent years. The 2011 study documented those increases and concluded the four countries examined—India, Brazil, Turkey and Thailand—were all out of compliance with their obligations under the WTO *Agreement on Agriculture*. Our new paper updates the original study and looks at China as well.

Our study is an objective analysis, not an advocacy piece. The data we used came from public sources, mainly reports by USDA agriculture attachés. We identified our data sources and explained in detail our methodologies and our legal reasoning. After 4 years of research, I am confident in the accuracy of our analysis.

The run-up in subsidies in the countries we examined began about a decade ago and has continued unabated. Support in those countries is now higher than in many developed countries. The table below shows support prices for wheat, corn and rice in the five countries we examined, compared with U.S. reference prices under the Price Loss Coverage (PLC) program.

Support Prices

(2013/14, unless otherwise noted)

Country	Wheat	Corn	Long-grain Rice
China	*$384	$361	$438
India	$232	$217	$332
Brazil	*$231	$128	$224
Turkey	$351	$310	$648
Thailand	N/A	N/A	$450
United States	$201	$146	$308

* 2014/15 support price levels.

As you can see, price support levels are in most cases significantly higher in the five developing countries. But this comparison is actually unfair to the United States. The prices listed for the developing countries act as floor prices in the domestic market and incentive prices to the producer. The five governments use policy instruments such as government purchases and export subsidies to ensure that prices do not fall below the support level. By contrast (as you know), reference prices in the U.S. trigger payments to producers linked to a fixed payment base. The U.S. PLC program is less production-distorting because a producer is not required to plant a specific crop in order to receive a payment and cannot increase payments by increasing production.

Price support programs are not the only type of support offered by the five countries. Each also uses some combination of input subsidies, investment subsidies and commodity-specific direct payments. Of course, the United States uses other programs as well. In addition to the PLC, we have the Agricultural Risk Coverage program and subsidized crop insurance. However, the overall level of support for the products we examined was significantly higher in four of the five countries than in the U.S. The exception is Brazil, where the level of support is comparable.

These policies have a global impact. They have stimulated production, displaced imports and, in many cases, increased exports. For example, India has raised its support prices for rice and wheat by 130% and 111% respectively since 2005. Over the same period, Indian rice production increased by 13% and exports more than doubled, from 4.3 million metric tons to 10 million metric tons. In 2014 India became the number one exporter of rice in the world. Wheat production has increased since 2005 by 35%, and exports rose from 300,000 metric tons to 6.5 million metric tons.

Chinese officials speak openly of their policy of subsidizing producers to maintain self-sufficiency in wheat, corn and rice, despite the fact that they agreed at the time of China's accession to the World Trade Organization (WTO) to limit subsidies to no more than 8.5% of value of production. They have raised the support price for wheat by 71% since 2006, for corn by 50% since 2008, and for rice by 100% since 2007. They have increased subsidies for fuel, fertilizer and other inputs nine fold since 2006.

Why have these developments not gotten more attention in the WTO? There are at least two reasons. First, the countries involved are all delinquent to one extent or another in reporting their subsidy increases to the WTO. More importantly, when they have submitted the required notifications, they have used faulty methodologies that misrepresent the level of support provided. Below is our calculation of the actual level of support for the products we examined in our most recent study:

Aggregate Measure of Support (AMS)

(Billions of Dollars)

Country	Wheat	Corn	Rice	Other	Total	AMS Limit
China	$15.4–$18.4	$20.6–$54.4	$12.4–$37.0	N/A	$48.4–$109.8	$0
India	$12.1–$15.8	$2.5–$3.8	$13.3–$28.2	$33.0	$36.1–$93.4	$0
Brazil	$0.8	*0	$0.6	N/A	$1.4	$0.912
Thailand	N/A	$0.5	$1.4–$10.1	N/A	$1.9–$10.6	$0.634
Turkey	$5.7	$1.0	$0.3	N/A	$7.0	$0

* Support below *de minimis* level (10% of value of production).

The second column from the right shows our estimate of the level of support. We used in our calculations the methodology specified in the WTO *Agreement on Agriculture.* We show a range in some cases because of methodological issues that we explain in the paper. The last column shows the support limit these countries accepted at the end of the Uruguay Round or when they joined the WTO. As you can see, they are all in violation of their obligations, in most cases by a large margin. A couple of points to keep in mind while looking at this table:

- The support levels are high in absolute and in relative terms. The U.S. AMS limit is $19.1 billion. By our estimate China's AMS is at least double the U.S. limit, and perhaps as much as five times higher. In all cases except one, the levels of support for all commodities are a very large relative to value of production.
- Our study looks only at wheat, corn and rice. (In the case of India we added sugar.) China also has generous support programs for pork, cotton and soybeans. India has support prices for 17 other commodities, including soybeans and cotton. Turkey has high support levels for barley, oats, rye, soybeans, sunflower seed and sugar. Thailand subsidizes sugar production and Brazil supports cotton. Thus, our estimates of total AMS are almost certainly lower than the actual figures.

As I indicated previously, all of these countries have used or are currently using export subsidies. China used export subsidies for corn until a few years ago. India made subsidized export sales from government stocks within the past year and is currently subsidizing sugar exports. Thailand is using export subsidies for rice, and Turkey is using sales from government stocks and a WTO-inconsistent duty drawback scheme to subsidize wheat flour exports. When prices fall below the support levels in Brazil, the government uses programs called PEP and PEPRO to move surpluses onto the world market. The programs closely resemble the old U.S. Step 2 program for cotton. A WTO panel and the Appellate Body ruled that Step 2 payments were export subsidies, and the U.S. eliminated the program.

These issues are important to American farmers for obvious reasons. Subsidies in advanced developing countries are distorting world markets. I am convinced that they have become significantly more trade-distorting than subsidies in developed countries. The U.S., as the biggest agricultural exporter, suffers most from these distortions.

WTO Members are currently discussing in Geneva a new Doha Round work plan for agriculture. American farmers would certainly benefit from a new WTO agreement that included additional disciplines on agricultural subsidies. However, some of the same countries that we examined in this report are arguing that the only acceptable basis for negotiation is the text that was developed in the early stages of the Doha Round, before the developments we are discussing took place. That text would require changes in U.S. farm policy but would do little or nothing to tighten the rules that apply to advanced developing countries. At the same time, India and others are arguing for rule changes that would significantly *weaken* the disciplines on developing country subsidies.

U.S. officials have been working to change the narrative in Geneva. Ambassador Michael Punke has been particularly forceful and effective in this regard. Unfortunately, I have not yet seen any indication that advanced developing countries are ready to acknowledge the facts. In my opinion, it would be extremely foolish for the U.S. to agree to restart the negotiations until we have a plan to ensure compliance with current commitments, and we are convinced that any new disciplines will be targeted at the policies that are most responsible for current distortions.

Thank you, Mr. Chairman.

Below is a link to the DTB study: *http://dtbassociates.com/docs/DomesticSupportStudy11-2014.pdf*.

The CHAIRMAN. Gentlemen, thank you very much. The chair will remind Members they will be recognized for questions in order of seniority of the Members who were here at the start of the hearing. After that, Members will be recognized in order of arrival. I appreciate Members' understanding, and I recognize myself for 5 minutes.

We had a General Farm Commodities and Risk Management Subcommittee hearing yesterday. Every producer-witness said one of the biggest impacts to the financial health in the U.S. agricultural industry is competition from foreign governments, and particularly, foreign subsidies and tariffs. So it is timely that we are having this hearing.

Dr. Hudson, you mentioned in your written testimony that the minimum support price for cotton in China is three times the minimum support price for cotton right here in the United States. How does that support level compare to current world prices and what impact do you think that will have on producers here at home?

Dr. HUDSON. Thank you for your question. The minimum support price in China is at $1.60 a pound. If we look at a typical U.S. or futures price at this point, it is about 65¢ a pound, or if you go to world prices, somewhere around 80¢ per pound. At least twice the quoted world price level is what China is supporting its producers at.

Certainly the elements we are looking at here in terms of China, because it is either depending on the year the largest or second-largest producer of cotton, that level of support is significantly distortionary to world markets. Obviously they have had a stockpiling policy that has accumulated 65 million bales of cotton, and that has tremendous impacts on U.S. producers in terms of price suppression and the ability for us to work our way out of that overstock situation over time. We are going to see extended periods of lower prices because of that policy.

The CHAIRMAN. Put 65 million bales into context. How much does the world use every year?

Dr. HUDSON. The typical production year is about 115 million bales. So it is over ½ of world production in any given year.

The CHAIRMAN. Thank you, Dr. Hudson. Mr. Thorn, can you describe some of the strategies that you have documented that countries use to obscure their WTO violations and their commitments under the WTO such as delinquent reporting, faulty methodology or other classifications from what is submitted? Can you talk to us, go into a little in depth, on the way they are hiding the ball from everybody?

Mr. THORN. Sure. Thank you. Well, that has been a problem. One of the reasons that these issues haven't gotten more attention in Geneva is because countries have been delinquent in reporting changes in their subsidy programs. And then even more importantly, when they have submitted notifications, the required notifications, they have used methodologies that understate the level of support, misrepresent the level of support. And the most common methodological problem that we see in these notifications is that when they are calculating the level of support resulting from price support policies, they would normally be required under the WTO methodology to use in the calculation 100 percent of production. They are using instead just quantities purchased under the government program.

You don't have to know very much about price programs to know that the support really benefits all producers. It benefits every ton, it doesn't only affect the tonnage purchased.

And so when they do the calculations using quantities purchased, you get a much lower number than you would if they used the proper methodology.

Let me add though that I don't think that the problem, especially the problems with delays in reporting, needs to affect our handling of the issues because the data are available. There is no reason for us to wait for countries to report their subsidies before we take action.

The CHAIRMAN. On the methodology issue, is it something for which the WTO should establish a standard methodology that everybody would have to comply with to avoid these kind of cooking-the-books kind of things?

Mr. THORN. I think the WTO already has established a standard methodology, and it is contained in the *Agriculture Agreement.* That agreement has actually been interpreted in a couple of dispute settlement cases. The United States, if we were to challenge the calculations that countries have notified, would stand on very firm ground. The methodology that we used in the calculations we did in our paper is the same methodology the United States has used in all of its notifications to calculate.

The CHAIRMAN. So in terms of us evaluating whether or not somebody is violating the rules, just simply the way they come about their number, we can challenge that if we so choose?

Mr. THORN. Absolutely.

The CHAIRMAN. I thank the gentleman. Mr. Peterson, 5 minutes.

Mr. PETERSON. Thank you, Mr. Chairman. I don't know. Dr. Hudson, in your detailed information you gave us here, in the case of Argentina where they have these crazy export taxes that fund their government, soybeans now are 35 percent, somewhere in that neighborhood, and oil is 32 percent. As I understand it the last time I was there, there is no export tax on biodiesel. So my biodiesel people were complaining that basically because of these other export taxes on soybeans, what they are doing is building biodiesel plants in Argentina and then sending the soybeans to us as biodiesel. Is that the case of what is going on?

Dr. HUDSON. Yes, that is correct. The last indication I have had, there is no export tax on the biodiesel. And what an export tax does generally is it makes it more expensive for foreign people to buy that product outside of Argentina which lowers the price inside Argentina.

Mr. PETERSON. Yes. Well, and I had a——

Dr. HUDSON. And then it passes straight through in terms of biodiesel to whoever buys the biodiesel.

Mr. PETERSON. Now I had a long 2 hour meeting with the President of Argentina about this, and she clearly was doing this, she thought, to lower the price for her poor people. I mean, that is her whole mentality.

So these countries that have exceeded their WTO limits, do either one of you know any or do you know efforts to challenge this in the WTO? I think it is clear they are doing it. Is anybody in this country trying to challenge that? Either of you know?

Mr. THORN. I will take that one. The short answer is no. There hasn't been a challenge.

Mr. PETERSON. Why?

Mr. THORN. Well, I guess various reasons. For one thing, this is a relatively new phenomenon. It has really been only in the past few years that we have started noticing the effects of this run-up in subsidies. Also, normally you don't jump right into a dispute settlement case. The Administration is raising the issue in Geneva, especially in the context of the discussion of the relaunching of the Doha Round negotiations.

Eventually though I do believe that it will be necessary to go to dispute settlement. You try to avoid that whenever you can, but if you assume that these countries aren't going to change their policies on their own, you probably have to be willing to take that step and go to dispute settlement.

Mr. PETERSON. Thank you. Dr. Hudson, you mentioned that Brazil's PEP and PEPRO Programs are moving surpluses into the world market. What commodities are they moving in under this? And can you tell us a little bit more about the similarities of this program? Are they old Step 2 Program that they sued us over?

Dr. HUDSON. Well, there are a number of policies that Brazil uses among others. I won't go into the details of those. They are available. But the notion is that they are export subsidies, either provided by payments directly to the person exporting or through another mechanism which moves product out into the world market. That is essentially, for all intents and purposes, the same thing as the Step 2 Program which was both a subsidy for exports and a subsidy for domestic use.

So the characteristics or the design of it might appear superficially different, but the operation of it is very much the same.

Mr. PETERSON. And we are not doing anything about that either, apparently.

Dr. HUDSON. As far as I know, no. No cases have been filed or complaints have been filed.

Mr. PETERSON. Mr. Thorn, in your OECD information here, it has identified Canada as having higher subsidies than the United States as measured by producer support estimates. According to the OECD, Canadian producers receive 14 percent of each dollar from public policies rather than the marketplace. In the United States it is eight percent.

But in *Figure 4* of your testimony, why do you place Canada in the low subsidy quadrant and the United States in the large subsidy quadrant, given those facts?

Mr. THORN. I will defer to Dr. Hudson on that one.

Dr. HUDSON. I think that was actually my testimony.

Mr. PETERSON. I am sorry. Yes.

Dr. HUDSON. No, that is fine. *Figure 4* in my testimony is based on total volume, not per unit. And so the Canadian and the OECD data on a per-unit basis is higher across the board than the United States. But in a total volume it is not.

So my figure is based on total volume, but you are absolutely right. On a per-unit basis, the OECD data is pretty clear that Canada has higher per-unit subsidies on the products covered.

Mr. PETERSON. Is that partly because of the supply management in dairy and poultry?

Dr. HUDSON. Yes.

Mr. PETERSON. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. I thank the gentleman. Mr. Neugebauer, 5 minutes.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. Dr. Hudson, I want to go back to China just a little bit. So basically it looks like they are stockpiling what, about ½ of the world's production on an annual basis? They are supporting their cotton at like almost $1.50 is the number.

So kind of walk through with me, currently how much cotton has China been actually exporting? Are they exporting any of their domestic cotton or are they taking all of their domestic cotton into their stockpiling? Because if they are paying their producers $1.48, I am trying to figure out how that economic model works where you have a world price of what, 70¢?

Dr. HUDSON. Thank you for the question. The first issue in that is that an assumption of an economic model. I am not sure that they are operating rationally. But China has recently changed. They were in a stockpiling scenario where they were purchasing domestic use or domestic-produced cotton at a high rate. They were also buying it off the world market at whatever the going rate was and then selling it off or auctioning it off to domestic users. It actually created an interesting distortion in the market from the standpoint that they were drawing cotton off. It was still selling at a very high price inside of China to domestic mills. So domestic mills actually quit spinning as much cotton and started buying spun yarn out of India into China to fulfill contractual needs.

So the way that they manipulated that price was through that border protection of restricting the amount of cotton allowed to come in at certain tariff levels. They have moved or stated that they are moving away from the official stock-piling policy and to this direct price support program. And the direct price support program will operate in a way that the stated reference price, depending on exchange rates, somewhere between $1.50 and $1.60 a pound. They just pay the difference between the market-landed prices at mills *versus* this reference price or this target price if you will. And they allow that cotton to flow into the mills at whatever the going market rate is.

So it is a throwback to the Target Price Deficiency Program we had years ago in the United States. So it is very different.

Mr. NEUGEBAUER. So their domestic mills that the government sets the price of which, what, domestic mills have to pay for cotton?

Dr. HUDSON. Yes, in an indirect way. The state-owned mills are required to pay a certain rate. The privately owned mills buy out of the market, but they buy off of the government reserve which is auctioned off by the government. And so they determine those prices.

Mr. NEUGEBAUER. So you would use some gross or some total numbers for subsidies in comparing the United States and other countries. One of the things I was wondering about, when you look at subsidies as a percent of total farm income, for example, in the United States, what percentage of total farm income would be attributed to U.S. subsidies?

Dr. HUDSON. I don't know the exact figure from this last year, but it is certainly less than five percent now, depending on what you measure and how you measure it. But it is very low on that spectrum. I believe that is Congressman Peterson's point with the Canadian OECD data was somewhere up around 12 percent, 12 or 14 percent. So the U.S. subsidy rates are actually much lower as a percentage of total value.

Mr. NEUGEBAUER. Chairman Conaway alluded to the fact that Brazil is thinking about another round now and going after different commodities. But when we look at these, the presentation that both of you made today, I am having a hard time figuring out on what basis, if they are subsidizing at a much higher rate than the United States, what basis, how are their subsidies different and how are they more market distorting than the U.S. subsidies?

Dr. HUDSON. Well, I will briefly do this and turn it over to the former trade negotiator, but that is a good question. I don't know that there is a very good leg for the Brazilians to stand on in that basis. And so their target at the United States would have to be aggregate measure of support violations, and we are not there.

The ability to tie the decoupled programs to any specific trade-distorting policies would be a much more difficult task.

Mr. THORN. I would agree that I do not think the United States is vulnerable to a challenge on soybeans or corn right now. I think the Brazilians are much more vulnerable than the United States is.

Mr. NEUGEBAUER. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Scott, for 5 minutes.

Mr. DAVID SCOTT of Georgia. Thank you, Mr. Chairman. It is very interesting, but I would like to get your take on this issue and the impact of currency manipulation. China is notorious in currency manipulation, and not only China. Mr. Thorn, you mentioned in your analyses that in calculating its aggregate measure of support, AMS, India converted its external-reference prices to dollars using an exchange rate that was seriously distorted by government controls.

I think it would be very interesting to get y'alls take on the implications because all of these countries—and let's just take for example cotton which is very vital to the United States. And cotton is so dependent because most of what is produced here is exported. So it would be very interesting to get your take on how this currency manipulation plays into all of these and the disadvantage that it is holding us to and what we need to do about it. Mr. Thorn? Dr. Hudson?

Mr. THORN. Okay. Yes, I will kick it off. In the specific case of India, that is a very clear case of the effects of currency manipulation on a very specific aspect of WTO disciplines. India fixed its reference price that it used in the calculation of its aggregate measure of support at the end of the Uruguay Round based on the exchange rate between the Rupee and the dollar that existed back in the period 1986 to 1988. At that time, the Rupee was not convertible. It was a government-mandated exchange rate.

When they later started moving toward convertibility and submitted their first notifications to WTO, they converted that reference price into dollars. They used the old exchange rate, which meant that their reference prices were more than double the reference prices that you saw from most other countries. The practical effect of that is that it reduced the level of support from their price support policies when they do their calculations. It is clear that they didn't have the right to make that conversion to dollars and that we could challenge if we were taking a case, for example, against India for violating its AMS obligations, I think we could successfully challenge that conversion at a distorted exchange rate.

Mr. DAVID SCOTT of Georgia. I see. Dr. Hudson, your thoughts on that?

Dr. HUDSON. Yes, and I agree with that, and in a more general sense, currencies are a macro problem. And so I don't think governments necessarily manipulate currencies to have any effect on AMS support or anything like that. But it is a side-effect of what they do. But when they pursue particular policies in terms of the currency, it is usually basically to either enhance their export, the ability to export the product by devaluation if they are facing high inflation. But if you look at Brazil, for example, one of the reasons that their aggregate measure of support appears lower than it has in the past is the depreciation of the real. So it actually looks better for them than it probably is in effect in a nominal sense there.

So currencies definitely, to the extent that governments move around in currencies, they are certainly moving these markets around significantly.

Mr. DAVID SCOTT of Georgia. And in each of your opinions, where do you feel the court of decision needs to be? Do you feel that, in this currency manipulation, that the WTO is that entity with which to deal with this problem? It is clearly one that has severe repercussions for our producers, and I am wondering, do you feel that it is the WTO that is the entity with which to best solve this issue of currency manipulation?

Mr. THORN. In my opinion, these issues are best dealt with in the multi-lateral financial institutions, like the IMF, not the WTO. I think the WTO has a specific focus, and it would be very difficult to negotiate disciplines on exchange rates in WTO.

Mr. DAVID SCOTT of Georgia. And are you satisfied that the IMF is moving forward on this issue of currency manipulation aggressively enough?

Mr. THORN. I think it requires more effort.

Mr. DAVID SCOTT of Georgia. Dr. Hudson?

Dr. HUDSON. I would completely agree with that. That is a good statement.

Mr. DAVID SCOTT of Georgia. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. King, for 5 minutes.

Mr. KING. Thank you, Mr. Chairman. I thank the witnesses for your testimony. I would like to just gather first just a couple of big-picture things here and ask this question this way. Of all the subsidies going on with egg commodities and globally, if we got our way, which in my view would be everybody on exactly the level playing field. Let's just say all those subsidies disappeared overnight, and now we have an open global market that would make an adjustment, that would be abrupt, but it would stabilize. If it stabilized, once you get to that point, what then, first Dr. Hudson, would you predict happens to our commodity process? They go up or down? Generally, is food more expensive or cheaper if we don't have the subsidies distorting their production?

Dr. HUDSON. Overall, if you look at the way that subsidies operate, the end result is higher prices overall for everybody involved. But there is a demand adjustment, too, once prices happen. So it is very hard to predict where the subtle point would be, but certainly you would anticipate supply shocks to result at least in persistent long-term, higher prices, until demand adjusted to that.

Mr. KING. When demand adjusts to that, then do we have more production or less production?

Dr. HUDSON. I think that depends on where in the world you are talking about but——

Mr. KING. The whole world on average.

Dr. HUDSON.—overall, you are going to have whatever production is supported by the income of people to buy the products. So as long as you didn't see dramatic shifts in income, you would probably see a slight reduction in overall global production. But in the long run, it has to stabilize where people buy food. It would just be a higher share of our income at that point.

Mr. KING. I would like to hear from Mr. Thorn. What is your response to that?

Mr. THORN. In general, I would agree. I do believe that if we were able to get rid of all of these policies, you would see production fall, especially in countries like China and India. I think the reduction would be substantial, especially in China. And then in the long run, you would see higher and more stable world prices which would benefit you as producers.

Mr. KING. Which was going to be my follow-up question on that. If we could actually get to where we would like to go, idealistically here, it benefits you as producers because we can compete in that marketplace.

Mr. THORN. Absolutely.

Mr. KING. And when you do the analysis of the subsidies, does crop insurance figure into this, into that equation, Dr. Hudson?

Dr. HUDSON. No, in terms of the numbers that we are looking at, no. We have not included crop insurance. We have tried to document it where globally, those kinds of products are provided, but I don't calculate the aggregate measure of support. So that would be his field. So I do not include it, but I do try to document it where it exists.

Mr. KING. Okay. I would turn to Mr. Thorn on that.

Mr. THORN. Okay. In WTO, crop insurance is counted as a part of the aggregate measure of support calculation. That is the subsidies to crop insurance premiums. And the United States reports those subsidies as product-specific support, even counting those subsidies, our level of support is significantly below the level that we have calculated for these other countries.

Mr. KING. But if you calculate the U.S. subsidies, there is a distinction in commodity to commodity on how much subsidy exists because of crop insurance?

Mr. THORN. Yes.

Mr. KING. What would then be the commodity that is the most highly subsidized by crop insurance in the United States?

Mr. THORN. I am sorry. I don't know that.

Mr. KING. Do you calculate this separate by commodity or——

Mr. THORN. Yes. As a matter of fact, the United States just submitted a new notification to WTO covering the 2012 marketing year, and in that notification they broke out on a commodity-by-commodity basis crop insurance subsidies. So if I had that in front of me, I could answer your question.

Mr. KING. I want to ask you if you could produce that document for our review. I would appreciate it, and it would help our understanding of this. And in the perfect world or let me just say that we are where we are with this.

[The information referred to is located on p. 43.]

Mr. KING. Then what do you advocate we do to bring this thing towards a solution? Are you advocating that we file a case with WTO? And having just experienced this with COOL, we came out second on that which I am fine with because it was trade protectionism on the part of the COOL litigation. But what would you predict would happen down the litigation side with WTO?

Mr. THORN. Well, yes. As your question implies, we are dealing with two separate issues here. The issues that we raise in our paper mostly have to do with enforcement of current commitments. And that is going to require some work, getting countries to live up to their current commitments. And it may take a settlement case. If we do take a case, I am absolutely confident that we have a very strong one and that we would win.

And the United States, by the way, has very good record in cases that we have taken to WTO. The other question is what do you do for the long run? How do we tighten disciplines further? That is an issue for a new round of negotiations if those negotiations ever get started again. And in that case, what we need to do, as Congressman Peterson implied, throw away the text that is currently on the table, get a new start, focus on distortions that we see in the current market.

Mr. KING. Thank you, Mr. Thorn. I thank the witnesses, and I yield back.

The CHAIRMAN. The gentleman's time has expired. Mr. Aguilar, 5 minutes. No questions? Mrs. Kirkpatrick, 5 minutes.

Mrs. KIRKPATRICK. Thank you, Mr. Chairman. Mr. Thorn, I am intrigued with your statement on page 3 of your written testimony. When you talk about how China really has disregarded their agreement, you mentioned that they have increased rice subsidies by 100 percent since 2007. That is disturbing, and is it just because we are not paying attention or we don't have the resources to bring a case to the WTO? I would like to drill down a little bit more on why that has happened. We obviously know that it happened, but it seems like we are not doing anything about it.

Mr. THORN. Yes. I do think it is true. It is accurate to say that we have the data now. We do know what is going on. It is not a secret. And it is clear that they are well-beyond their *de minimis* threshold and therefore in violation of their obligations.

The question at this point in my mind is just what you do about it. And——

Mrs. KIRKPATRICK. I agree. That is my question, too.

Mr. THORN. Right. Exactly. Well, this issue is getting a lot of attention at USTR, and I don't know when they are going to come to a decision about where to handle it. They are raising it bilaterally. I know that is the case. They are also raising these issues in forms like the Agriculture Committee in Geneva that oversees the implementation of the *Agriculture Agreement*. They raised just yesterday Indian subsidies in the trade policy review that was going on, the review of Indian Trade Policy in Geneva. This issue was given prominent attention. Those can be seen maybe as precursors to the filing of a dispute settlement complaint. But I don't know how close they are to making the decision to file such a complaint.

Mrs. KIRKPATRICK. And how long does it take to process such a complaint?

Mr. THORN. It varies. It can take a long time. In my opinion, this case is not particularly technically complex. We have the data. We know what the methodology is. So my guess is that from beginning to end, if it were to run the full course, you are talking about a couple of years.

Mrs. KIRKPATRICK. What is your thought about some automatic consequences? So for instance, we know this data, and it seems like there is no consequence unless there is a case that is prosecuted. What is your thought about some immediate fines or sanctions or something that would be an immediate consequence once the information was found out?

Mr. THORN. Well, when you get to the end of the dispute settlement process, there is a ruling from the dispute settlement panel and then normally also the appellate body. If the judgment is against the defending country, they will order them to come into compliance with their obligations. And if they don't, then the ultimate sanction is withdrawal of concessions by the complaining party which would mean if the defendant, for example, were China, that the United States would be allowed to raise import duties against Chinese products. And since this is a big case involving real money, that would probably be a pretty substantial threat.

And so that is the ultimate leverage you have at the end of the end. It puts a lot of pressure on countries to make the adjustments that they need in order to come into conformity with their obligations.

Mrs. KIRKPATRICK. Well, just looking at the increases that China has put in place makes me think that it may be just the cost of doing business. I do share Mr. Peterson's thought that we may need to just throw out the old and come up with something new and would welcome that conversation.

I have about 1 minute left. Dr. Hudson, I really was intrigued with your comment when you said that a lot of these countries use agriculture as a strategic asset. And we don't seem to do that. What would it look like if we did?

Dr. HUDSON. The comment is intended to sort of draw attention to the fact that a lot of countries will essentially think of food security as a matter of national security. So when you start to think of it in terms of national security, you start to justify a lot of things that you probably wouldn't do in an ordinary commercial transaction, trade restrictions, subsidies, that sort of thing.

And so my point was that if these countries are going to do that, it probably behooves us to look at the implications of their treatment of it as a security asset in the way that we handle it, whether it is in a dispute resolution process or the way we handle our own internal policy, that sort of thing. The statement is not really to advocate one particular direction or another. It is just that if we don't do that, we put our producers at a competitive disadvantage because they are facing those subsidies. They are going to do it for whatever reason they are going to do it, and we just have to address that in our own policy.

Mrs. KIRKPATRICK. Thank you. Thank you, Mr. Chairman, for indulging in my extension of time.

The CHAIRMAN. The gentlelady's time has expired. Mr. Gibbs, for 5 minutes.

Mr. GIBBS. Thank you, Mr. Chairman, and also Mr. Chairman, thank you for holding this hearing. I think this is good. It brings out in the public view what is happening, how it affects American agriculture, and what other countries are doing with their producers.

I want to talk about corn a little bit because I am from Ohio and I notice we were talking about cotton, but looking at Dr. Hudson's chart here at the $1 a bushel equivalent, about $10 compared to the United States. Well, first I want to say when Mr. King's discussion of subsidies ended, you are absolutely right in your answers because subsidies, these high subsidy rates like corn as the example, they are subsidizing inefficiency. And so the inefficient producers are going to be chased out of the market, and you hit that on the nail.

My question going into this is if we are looking at tariffs and trade and all that. How does this, like China for example, and corn with that high subsidy level and I assume the tariffs are having on our corn coming into that country. How does that inter-react with the tariffs with their subsidy? I don't know who wants to jump in.

Mr. THORN. Do you want me to grab that one?

Dr. HUDSON. Go ahead.

Mr. THORN. Well, it is a good question because it is true that China could probably not support that sort of high, internal domestic price if they didn't have border restrictions. We have China coming out of the WTO accession negotiations implemented a tariff rate quota for corn. All right? Forget the quantity, but it is fairly small in terms of domestic production and imports beyond that tariff rate quota quantity face a prohibitive import tariff.

In addition, China has actually messed around a bit with the way they administer that tariff quota. So it has been—and also they have given us problems on biotechnology, so for various reasons it has been difficult to export corn to that market.

And so they have been able to implement this support price policy. They are finally now reaching the point where it's getting away from them. Last year they had to purchase over 60 million tons of corn to maintain the domestic price of the support level. And so they are actually considering changes in policy because even with their high import protection, they are having a difficult time maintaining that support price.

Mr. GIBBS. Where is China on the corn exports, do you know?

Mr. THORN. They haven't exported corn for the last few years. You don't have to go back very far, though, to see some fairly substantial subsidized corn exports. They were exporting at that time mainly to Korea.

Mr. GIBBS. Okay.

Mr. THORN. That was affecting U.S. access to that market.

Mr. GIBBS. Okay. Mr. Thorn, this is a question that is not in your testimony but I want to see if you have any knowledge. I know South Africa, currently, has a *de facto* ban on U.S. pork exports, and the Administration is working with South Africa to open up their market. Are you familiar with this?

Mr. THORN. Yes.

Mr. GIBBS. And are you sharing with the Committee what the status is, do you know?

Mr. THORN. I don't know if I can give you all the details, but I do know that the restrictions they have, typical of some of the bogus SPS restrictions that you see in markets around the world. The two restrictions that I am familiar with in South Africa have to do with *Trichinae* and PERS.

Mr. GIBBS. Okay.

Mr. THORN. And in both cases, South Africa has restrictions in place that can't be justified on the basis of science. *Trichinae* is——

Mr. GIBBS. Yes, help eradicate the United States, especially with——

Mr. THORN. And I know that there are ongoing negotiations to get the South African Government to adopt more science-based import policies. And these are policies that have been adopted by our trading partners around the world. *Trichinae* ceased to be an issue of food safety concern in the U.S. at this point.

Mr. GIBBS. Yes. Well, typically you have seen the past countries—you put barriers up at the sanitary—with the barriers.

Mr. THORN. Right.

Mr. GIBBS. It is kind of *de facto* tariff.

Mr. THORN. Exactly.

Mr. GIBBS. Mr. Chairman, thanks for holding this. I think this is very interesting and also the discussion on the currency exchange rates. I think it has an impact on trade and how we move forward. So thank you. I yield back.

The CHAIRMAN. The gentleman yields back. Mr. Vela, 5 minutes? No questions? Mr. Crawford, 5 minutes.

Mr. CRAWFORD. Thank you, Mr. Chairman. I appreciate you gentlemen being here today. And I will start with you, Mr. Thorn. You indicated in your written testimony that extremely high support levels for long-grain rice in China and as the gentlelady from Arizona referenced 100 percent that she talked about in her questioning, and it has come to my attention recently that China is actually taking an interest in U.S. rice, in purchasing some long- and medium-grain rice and which obviously I appreciate, coming from a rice district, a rice state. Still, a few SPS concerns with that, but in light of the fact that the extreme subsidization for rice and China's position on their own domestic rice production and their political interests, should we be skeptical about that? What do you think about that interest in U.S. long-grain and medium rice?

Mr. THORN. Well, I think that on a certain level the interest is genuine. But, we should be very skeptical, too. China, for years now, has had a stated policy of maintaining self-sufficiency for rice, corn and wheat. And they have done their best to do that by using subsidies and by using import restrictions. I think that we are in the position of sort of taking crumbs from the table in cases where domestic production doesn't meet domestic demand. Then they will be happy to import, and because of the size of the market, those imports might, in some years, be quite substantial. But I don't see any indication that they have changed their policy. They continue to work to maintain self-sufficiency. And until they change that policy, I don't think we are going to have the access to that market that we are rightfully entitled to under WTO rules.

Mr. CRAWFORD. So despite their interest, we still see some pretty significant impediments to access in that market.

Mr. THORN. Absolutely, and you can list them. I mentioned earlier that problems that we have had with the way that they administer their tariff rate quota, and I won't get into the details of that. They also—and this is something I mentioned in my oral testimony—they have recently, just in the last 6 months, implemented requirements for rice, corn, and wheat that importers make purchases. If you are importing a ton of rice, you have to purchase a ton from domestic stocks. And that makes import significantly less competitive. That is a blatant violation of WTO rules, and they are—

Mr. CRAWFORD. That almost harkens back to our Step 2 program in cotton to a certain degree, doesn't it, that we had to dismantle for similar reasons. I appreciate you bringing that point up.

Let me get to another issue and to both of you. Both of you made reference to this in your testimonies. Illegal subsidies are very difficult to enforce, the WTO, either that or as a nation, we are just simply not willing to bring those cases to WTO for whatever political reasons might be. It doesn't seem like that is changing in this environment right now. We are seeing countries that are figuring out ways to try and cheat the system.

But my question is this to both of you. What do you think is our best option? Do you think we need to pressure the Executive Branch a little more or do you think that Congress needs to weigh in legislatively and create some vehicle to pursue some stronger enforcement remedies that the industries then can utilize to advocate for themselves? And Dr. Hudson, if you would, I will start with you on that.

Dr. HUDSON. Well, the danger in acting sort of unilaterally is that you potentially set up a situation where incentives are skewed to file cases when you don't have good cases, things like that.

There was a time, in the past perhaps, that the U.S. Administration was fairly aggressive about pursuing trade enforcement. That has lapsed quite a bit.

The difficulty in enforcement mechanisms in my mind to the WTO, as my colleague had mentioned a moment ago, was that the only mechanism or the hammer that we have is an import duty. But the difficulty with an import duty is it harms American consumers because they are now having to pay more for what we were buying previously.

So there is a real disincentive to try to do that, plus there are a number of aspects. Really, the course that we need to follow is more aggressive pursuit of enforcement of the rules that we have in place through the Executive Branch. We have good trade deals, but the process of enforcing them has fallen by the wayside.

Mr. THORN. I only add that I don't think we need to assume at this point that the decision has been made not to take a case. I do believe that USTR is seriously considering the possibility of taking a case. They are looking at trying to address the issues without having to go to dispute settlement, but they haven't dismissed that as a possibility. There may come a time when we decide that it is necessary to give them a bit of a shove. Congress is always effective in doing that.

Mr. CRAWFORD. Thank you. I yield back.

The CHAIRMAN. The gentleman's time has expired. Mr. Davis, for 5 minutes.

Mr. DAVIS. Thank you, Mr. Chairman. Thank you to both witnesses. I would like to start with Mr. Thorn. Mr. Thorn, it is rumored that Brazil is collecting evidence and planning to bring the WTO case against U.S. farm support programs. Obviously from your previous comments and the many questions my colleagues have brought forth, and they claim that U.S. farm subsidies are increasing which they think is going to further depress their markets. In considering this claim, it is important to address Brazil's use of domestic and export subsidies. And can you explain what types of support programs Brazil's farmers receive and what incentives are used to subsidize their exports?

Mr. THORN. Yes, I will do that, and I will try to make it simple because they have a lot of programs, and some of them are quite complicated. But the principal method of support for especially producers of rice, corn, and wheat in Brazil, there are two programs, one called PEP (Program for Product Flow (*Prêmio para Escoamento do Produto*)) and the other called PEPRO (Equalizing Premium Paid to Growers (*Prêmio Equalizador Pago ao Produtor, PEPRO*)). And they are basically export subsidies. In years where Brazil has surplus production in the main producing regions and prices threaten to fall below the support level, the Brazilian Government opens a tender normally under one of these programs. And then companies bid under that tender for specific amounts, and then they take possession of the commodity and export the commodity. When they present proof of export, then they receive a payment, and that payment is the difference between the price that they received and the support price. And so as we have discussed previously, that program meets the definition of an *export subsidy* under the WTO agreement. I am confident of that. It resembles in a lot of ways the Step 2 Program that was a problem in the cotton case, and Brazil also uses credit subsidies and does direct government purchases in some cases. But it is really the PEP and PEPRO programs that are the most vulnerable the WTO challenge.

Mr. DAVIS. All right. Thank you very much. Dr. Hudson, thank you for being here today. When my colleague, Mr. Neugebauer, said go Raiders being an Oakland Raiders fan, I thought he was talking about them. Then I realized that you are with Texas Tech, a fine university, *albeit* not the University of Illinois, the greatest university, but maybe someday you could go there. That would be great.

The database of crop subsidies by foreign governments is quite impressive that you put together, and among the multitude of the foreign subsidies that our U.S. farmers have to compete with and many in my State of Illinois, especially are those who are growing corn and soybeans in central Illinois.

Can you point to a few of the country and crop combinations? Maybe focus on those two for my sake if you could, which foreign subsidies have the greatest potential to impact markets?

Dr. HUDSON. Well, okay. So I will begin by saying the Texas Tech is the university in Texas.

Mr. DAVIS. Go Raiders.

Dr. HUDSON. Yes, go Raiders. No, so if I was to isolate a country or set of countries, I would define it as China, China, and China, and then throw in India and Brazil. China is so large relative to everybody else, both in just total production but also in total volume of subsidies that anything they do to distort the market, even marginally, has a large impact on global markets.

India and Brazil, Brazil being sort of a little more at the margin in terms of their subsidization overall. But, corn is definitely, as we illustrated in the testimony, both of us, at $10 per bushel in China, it is a huge distortionary impact on the market.

China is so pervasive in terms of both its use of subsidies and then its use of trade barriers to manipulate internal prices that it distorts markets terribly. And a previous question was interesting in the standpoint that they asked about corn and tariffs, and we talked about the tariff rate quota. But their GMO restrictions, their SPS restrictions, there is an interesting case here because they refuse to import some corn, and then imported sorghum which grain sorghum sold at a discount to corn for years, has always sold at a discount and now sells at a premium to corn because China has moved into that market and has bought everything off the market.

So there is a real question about the strategy that they are using there. But certainly I would say, if I was going to focus on a couple of things, China and India and cotton, corn or grains in general, rice and wheat. And then I would throw in Brazil as a fairly important player at the margin.

Mr. DAVIS. Thank you both very much.

The CHAIRMAN. The gentleman's time has expired. Ms. Kuster, for 5 minutes.

Ms. KUSTER. Thank you very much, Mr. Chairman, and thank you for appearing before us today. My question is maybe in a small corner of the world, but it is important to my State of New Hampshire. I have heard concerns from American dairy farmers including those in the Northeast about the potential for increased imports into our country of New Zealand dairy products and about a potential unfair advantage posed by New Zealand's largest dairy cooperative which controls over 90 percent of that country's dairy market. And I am interested in your opinion about the impact that this anti-competitive market structure could have on America's small and family-owned dairies and again, I said particularly in the Northeast but maybe in other parts of the country.

Mr. THORN. Yes. I think the concern springs from the TPP negotiations that we are engaged in right now, and it is true that there is a possibility that those negotiations could result in a significant reduction in U.S. import restrictions on dairy products and that could lead to an increase in imports from countries like New Zealand and Australia, by the way.

At the same time, though, there are a couple of countries that are also involved in the negotiations that are potentially significant export markets. I am talking about Japan and Canada. I think the judgment of a lot of people in the dairy industry is that if we get a TPP agreement, that substantially opens up the market for dairy products in those countries. It will take away a lot of the sting from the lowering of U.S. import barriers. The situation would be pretty difficult if the U.S. lowered its barriers and didn't get a good market access agreement from the other two countries. I think in the context of a big market access agreement that involves all of the main participants, we can probably survive pretty easily, the liberalization of U.S. market access.

Ms. KUSTER. And what in particular, with Canada, what would that look like? How would you anticipate that playing out? What would the actions that would happen—

Mr. THORN. Yes.

Ms. KUSTER.—in Canada with those markets and Japan as well if you would like to comment.

Mr. THORN. That is very hard to predict because we are at a stage in the negotiations where they are holding very closely the information on the market access offers. I don't know. I am not privy to that, to the offers that have been made. I think it is still the case that Canada has offered nothing. They are holding back for I don't know what. The negotiations with Japan are in their latter stages, although they are still talking about improvements in market access for dairy. Canada has not yet offered anything at all. That is probably going to be an end-of-the-day issue for them. But what I expect the final agreement might involve is some sort of tariff rate quota with the substantial quantity of access for the U.S. and other TPP members. But it is hard to characterize what it might be because we just haven't seen anything from them, ma'am.

Ms. KUSTER. Sure, and you can appreciate the concern from Members of Congress trying to make these decisions. I will end here, but just to comment, it is becoming more and more difficult to even be in the business of dairy in small family farms which are critical for us in the Northeast. I have talked to dairy farmers. We are in a very, very brief drought. It doesn't hardly happen in New England and it is particularly unusual this time of year. And they just have said to me recently, this is too hard. We can't be giving it away. So you can imagine the impact of these types of decisions. So thank you so much. I appreciate your testimony. Mr. Chairman, I yield back.

The CHAIRMAN. The gentlelady yields back. Mr. Thompson, 5 minutes.

Mr. THOMPSON. Mr. Chairman, Ranking Member, thank you for this hearing. I think it is very timely as we really get kind of an overview of some of the dynamics that are going on in terms of trade, especially when you prepare for a couple of trade agreements that have been a primary—consuming a lot of oxygen in our discussions right now and our thoughts, and I wanted to thank you both, gentlemen, for your testimony. As I read through your testimony and I heard your verbal testimony, compliance was an issue that came up. The compliance has been a discussion as we prepare for this next round of trade agreements. And it seemed like we have an opportunity to maybe put some measures in place, exercise the will of Congress within the trade promotional authority. Dr. Hudson, you had mentioned a very specific example in your written testimony of a lack of timely compliance when you talked about a key issue and specific analysis of subsidies that while notification of subsidy payments to WTO is required, requirements are rarely enforced. And you give an example where China just notified now its 2010 subsidy payment. So it is not real time, 5 year delay. The harm has already been imposed.

And so my question is more of a broader question looking forward as we have opportunities with the trade promotion authority or perhaps the customs bill that is out there as well. Do you have recommendations based on what we have learned and when it comes to compliance that we should be articulating as kind of ground rules? How do we get better enforcement of compliance? And what should we be asking for?

Mr. THORN. Okay. Very good question. That is the way we should be thinking right now because clearly what we are doing has not had an effect yet. So we need to figure out what we can do to improve the situation. One of the things that we have been doing that we shouldn't do in the future in my opinion is wait for countries to submit their data. Countries do have that obligation, but the obligation doesn't really have teeth. We can only shame them into making the submissions. That has worked a little bit in recent months. I have seen some updating. But as I said before, even when we get those notifications, often the methodology that is used for calculating the subsidy level is not the proper methodology. So we don't really learn much in the end of the day anyway.

I think that what we need to do—there is no reason why we can't for example make a counter notification ourselves. It is not hard to get the data. We didn't have trouble getting the data that we needed to make the calculations in our paper. We found most of it as a matter of fact out of USDA reports from FAS Office in the embassies around the world. And the reporting was very good. We didn't have to dig much further than that. There's no reason in the world why the U.S. has to wait for countries to make their submissions before we have the discussion in Geneva. And then eventually if we put the data on the table and countries still aren't willing to acknowledge the facts, then you might have to take the next step and take them to dispute settlement.

Dr. HUDSON. The only thing I would add to that is going into any trade negotiation, being armed with the data that we are talking about here, to come back and say don't wait on the notification process. We can go ahead and calculate the best estimates of what these are because if we start back as if we haven't done anything since 2010, we are going to miss most of what these developing countries have done in terms of subsidization if we are going to pose disciplines in a multi-lateral setting.

Mr. THOMPSON. I thank the gentleman, Mr. Chairman, and I yield back the balance of my time.

The CHAIRMAN. The gentleman yields back. Ms. Plaskett, for 5 minutes?

Ms. PLASKETT. Yes. Good morning. Thank you Mr. Chairman. Good morning, gentlemen. I first wanted to thank Mr. Thompson for his questions because that really goes to the heart of what I was really interested in is an overall notion about what is being done properly and not.

One of the questions I had for each one of you was if we were to in fact enforce the compliance measures that are already in the agreements, do you think we would be at a level playing field or do we need to go beyond those?

Dr. HUDSON. I will start that just by saying if you do look at a lot of the disciplines that are in place for a lot of the countries that we are talking about, they have zero limits. So they shouldn't technically have any of these subsidies to begin with. They agreed to that in the Uruguay Round. And so if we were enforcing it, we would see a much different marketplace in the world today than the fact that we are not.

Now that doesn't answer your second question which is should we go one step further? I do think there are some things that we can make progress on in terms of domestic subsidies and border policies that could greatly benefit American agriculture but also benefit global agriculture in reality. The first step is understanding what we are not getting out of the process that we already are engaged in before we spend too much time worrying about what the next process is going to look like.

Ms. PLASKETT. Mr. Thorn, would you agree with that?

Mr. THORN. I would agree, yes. I said in my testimony that I do believe that U.S. agriculture would benefit from a new agreement that contained additional disciplines because, as the largest exporter in the world, the less distorted the market, the world market, the better for us.

I am not sure it is possible to get that sort of an agreement. WTO is really the only place you can negotiate disciplines on subsidies, and the WTO negotiating function just isn't working very well right now. I hope that we find a way to make it work. When we do and we need it, it would be good to get negotiation that really focuses on the current distortions we are seeing in the marketplace, and I do think we could make some improvements that lower subsidy levels and reduce distortions still further.

Ms. PLASKETT. Do our transparencies in the American market distort that as well because there are going to be transparencies that we have that the other countries don't?

Mr. THORN. Well, it is true that our system is more open than most. And so in some ways it is easier to enforce disciplines against the United States.

Ms. PLASKETT. They get to see our cards, right?

Mr. THORN. Yes, except we have found out in doing our research that it isn't difficult to get a look at the cards that other countries have as well, that the data are available. But to answer the first part of your question, I do believe that if we were effectively enforcing current disciplines that would have something resembling a level playing field.

Ms. PLASKETT. Okay. I had a second question which is a little more technical one. Dr. Hudson, in your foreign crop subsidy database, you point out that non-biotech soybean meal receives a 13 percent premium over normal soybean meal prices. Is that difference due to customer preference or legal uncertainty, both, or something completely different than either of those? And what effect does that have on planting and decision-making that farmers engage in?

Dr. HUDSON. That is an excellent question. I think the short answer to it is governments will justify it as consumer preference, but it is really a non-tariff barrier masked as some sort of preference given or expressed by domestic consumers. As an economist, obviously, if people prefer something, they are going to buy it and they will pay more for it anyway. You don't need a government intervention to do that for you.

The answer to that question is it really hasn't impacted the planting decisions on U.S. producers, but European restrictions and other restrictions on genetically modified products has altered the adoption rates at which things have occurred around the world. So it has had an impact on production. It has had an impact on profitability and even incomes in especially developing countries.

Ms. PLASKETT. Do you see that in any other crops other than soybean meal?

Dr. HUDSON. Well, we mentioned corn a moment ago, not necessarily a premium but the restrictions on, well, we are not going to import or we are not going to take this shipment because it tested positive for genetic modification. It has been a pretty heavy hammer that a lot of countries have used to regulate inflows of products.

Ms. PLASKETT. Okay. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. The gentlelady's time has expired. Mr. Newhouse, for 5 minutes.

Mr. NEWHOUSE. Thank you, Mr. Chairman, and thanks for having this hearing. I appreciate you guys being here today. This is timely as you know we are talking about trade agreements and so forth, and these are very important aspects of those.

I come from Washington State. We don't raise a lot of soybeans or cotton, certainly have wheat and corn. I used to have sugar. But we have a lot of specialty crops in our state, tree fruits, grapes, wines, certainly a lot of meat products come from our state as well.

Trade protection can take many, many forms, certainly subsidies are one but phytosanitary issues are another, tariffs, different kinds of things, inputs. So I guess the focus of my question is just generally, do you see other countries focusing on specialty crops more so than some of the other commodities? And is that a trend that you are seeing more of? And either one of you, both of you, please.

Mr. THORN. Well, I would say that specialty crops are certainly becoming a more important component of U.S. agricultural exports. When I began my career, I worked on European issues. It was all about soybeans. We were exporting—it was soybeans and then a big gap and then a few other products that we were exporting to Europe. Now the largest export crop for the U.S. to Europe is almonds. And we have seen maybe not such a dramatic shift in other markets, but specialty crops are important export crops for the United States.

And trade agreements are important for market access for specialty crops. We still have to deal with tariffs in a number of important markets for different specialty crops. And in some cases, the tariffs for those products are higher than the tariffs for basic commodities. And also, sanitary and phytosanitary barriers are—or I should say phytosanitary barriers are prominent import restrictions.

For me, one of the best illustrations of the value of trade agreements is the WTO agreement on sanitary and phytosanitary measures because that agreement, first of all, as international agreements go, it is pretty clear. It sets a pretty clear standard and it is a standard that has proved pretty durable. And it has been extremely valuable to have that standard in bilateral negotiations with our trading partners, and then when we have hit an intractable problem, it has been an agreement that is enforceable through dispute settlement. And I think that we ought to look in the future to improving on that agreement in our trade agreements.

Mr. NEWHOUSE. Thank you.

Dr. HUDSON. Yes, the only thing I would add is that the interesting thing about specialty crops in terms of the way markets function is they tend to be market window kinds of crops. There are bilateral flows. There are exports and imports coming. We export tomatoes, then import tomatoes. And it is based on a market window. So it is a much more difficult thing to administer. But a lot of people will sort of think that specialty crops aren't necessarily subsidized globally but they are. They tend to be subsidized in a different way, as you point out, either through trade restrictions like that or R&D input, subsidies on fertilizer, seeds, that sort of thing. It is an interesting high-value industry that really has a lot of impact on regions of the United States.

Mr. NEWHOUSE. Yes, and I guess I bring it up just so we don't forget about the—

Mr. THORN. Right.

Mr. NEWHOUSE.—surrounding the specialty crops. And you already answered in your first answer my second question that had to do with trade agreements and how that can help, and certainly that puts us in a better position, negotiating those and having a process to deal with the issues. So I appreciate very much again your testimony, and Mr. Chairman, thank you, and I yield back my time.

The CHAIRMAN. The gentleman yields back. Mr. LaMalfa, 5 minutes.

Mr. LAMALFA. Thank you, Mr. Chairman. With the recently-passed farm bill, the effect on U.S. growers and commodities was pretty dramatic with wiping away virtually if not all the direct payments, for good reason, were moving in a poor market direction. But with that becomes what we have seen last year or this current year is that with the insurance program in place, it does a pretty good job on ensuring against yield loss but not so great on upholding a price, especially a lot of it wasn't available in 2015 for many growers. And so what we are looking at is an even greater emphasis on price worldwide and maintaining that. And so earlier testimony—was it you, Dr. Hudson—that five percent of U.S. farm income is derived through subsidies. Were you the one that said that? Okay.

And so when we are looking at numbers that were mentioned earlier, like in China, when rice basically went 100 percent, 71 percent on wheat, 50 percent on corn, those are pretty big, distorting numbers. What percentage of income are you seeing is actually derived outside of those subsidies on Chinese crops or for Brazil for that matter? What percent of farm income is from those subsidies?

Dr. HUDSON. I don't have a direct estimate sitting in front of me, but in terms of, for example, let's just use Chinese cotton. You know, 50 or 60 percent of the revenue that they derive in that—the people that receive that subsidy in Xinjiang which is about ⅔ of the cotton production in China is not from the market. It is from a direct check from the government.

Mr. LAMALFA. *Versus* the United States' round number five percent?

Dr. HUDSON. Five, yes.

Mr. LAMALFA. And is that even reflecting current farm bill policy, that five percent?

Dr. HUDSON. No. We don't know yet exactly how that is going to play out, and we would suspect that the percentage of income is going to decline. But some of that has to do with prices as well. So, as prices get higher, the share gets smaller. But certainly it is not going to be ten percent if it goes up at all, but it is probably going to go down for the United States.

Mr. LAMALFA. A number less than five percent compared to say 60 percent——

Dr. HUDSON. Yes, say——

Mr. LAMALFA.—as one example.

Dr. HUDSON.—a rough estimate of 60.

Mr. LAMALFA. Yes. All right.

Dr. HUDSON. On that one crop.

Mr. LAMALFA. Anything on that, Mr. Thorn?

Mr. THORN. Well, yes. Let me just give you an example. I am looking at China's AMS, aggregate measure of support, for corn and aggregate measure of support is the WTO methodology for determining how much support is offered on a commodity-by-commodity basis. I am just eyeballing the figures here. It looks like our calculation for China puts support at about 80 percent of value production.

Mr. LAMALFA. There you go. Wow. Okay. A couple Members here spoke about rice a little more today as well, and bringing back some of yesterday's testimony on bringing up TPP for example, we are not seeing a whole lot of hope for rice or some of our dairy concerns as well in TPP with having the type of level of trade. For example, I gave the example on rice yesterday. If it is going to be 50,000 tons, you could grow that amongst probably six or seven farmers in California to meet that little tiny new window of TPP for rice. And so we are not going to see a lot of help perhaps unless there are some really good last-minute negotiations to come along on that.

So what are our really good, effective remedies besides complaining at WTO or something? What can we take a little further on dealing with people that are so heavily subsidizing in China, for example, or maybe Brazil or the others that are being pretty hostile towards what we are trying to do? You talked about consumer choice. At what point does consumer choice actually hurt the consumer with less available high-quality crops grown in this country? What do you see as a little stronger hammer? And then please touch on that idea of consumer choice real quickly.

Mr. THORN. Okay. Well, I am a big fan of the TPP negotiations. Of course, we will have to decide at the end of the—I think it is a good idea, a good concept. I hope that we get an adequate market access outcome so that everybody can support it. I am a little bit worried about what we are hearing about that the Japanese offer on rice and other exceptions the countries are demanding.

So for market access, bilateral and plurilateral trade negotiations are a good way to go. When you are talking about subsidy disciplines, really the only game in town is WTO. And so what we have to do is use the instruments that we already have in WTO and make sure that the current commitments are enforced and then maybe get in a position down the road a little bit that we can negotiate a new agreement that will have still tighter disciplines.

The CHAIRMAN. The gentleman's time has expired.

Mr. LAMALFA. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Moolenaar, 5 minutes.

Mr. MOOLENAAR. Thank you, Mr. Chairman. Gentlemen, thank you for being here with us today. Just so I understand, did you look at the issue of dairy at all or was that outside of the scope of your report?

Dr. HUDSON. Well, in ours what we do, we are not analyzing it. We are presenting any data that are available, and there are elements in the dairy programs where we have data on them.

Mr. MOOLENAAR. Just in the area of the United States and Canada, I know there is an issue involving dairy and maybe the structure of the dairy. Have you looked at that at all?

Dr. HUDSON. Well, I have not looked at the dairy-specific issues in Canada. Of course, Canada has a number of supply management that they have had in a number of crops that all operate very similarly. And so the level of support if you will for Canadian dairy is very high, and as my colleague alluded to a minute ago, that is likely to be an issue in the TPP negotiations as to how Canada is going to allow for market access inside of its supply management framework. Now, you may have some insight on that.

Mr. THORN. We have done a little bit of looking at dairy subsidies. The report that was the subject of my testimony here focuses primarily on wheat, corn, and rye so we didn't do a lot of digging on dairy. For a previous report we looked at dairy subsidies in some markets, and they exist. There is no question about it, and a more common form of support for dairy producers is import restrictions. Those are common throughout the world. But the subsidy disciplines are definitely relevant. And I am sure that there are some important enforcement issues for dairy subsidies.

Dr. HUDSON. And I would say that from a historical perspective if we look back at most of the major trade agreements we have been engaged in CAFTA and now TPP, a lot of dairy was a singular issue because most of these countries protect their dairy through trade restrictions. So historically speaking, this has been an issue, and it will continue to be an issue. But yes, it is going to have to be one addressed because Canada is part of that.

Mr. MOOLENAAR. And just from a structural standpoint in terms of our policy here in the United States it strikes me; you have different agencies kind of working in this sphere with respect to other nations and different organizations who are negotiating different agreements. You mentioned that some of those are difficult to enforce and sometimes it is cumbersome to work in that arena. Do you have any recommendations on either structural improvements that would help facilitate a policy by our country that would be more effective perhaps than we are doing now?

Mr. THORN. Actually, I think that our trade policy structure in the United States is a very good one. And some countries have taken it for their model when they reorganize the way they handle trade issues. USTR is a very good agency. A lot of talented people. They are very efficient, probably under-resourced, but they are effective. And the interagency process for the most part works well. USDA on agricultural issues is an active participant in that interagency process and helps to set priorities, helps to gather data. There is always room for improvement, but I don't think structural changes are necessary.

Dr. HUDSON. Yes, he has a lot of inside experience coming from FAS. The only thing I would add as an outside observer is probably our trade negotiating apparatus, if you will, might be one of the best examples of inter-agency cooperation in the government. So there is a lot of cross-pollination of experts in different areas that they are called or borrowed to work on that process. So it does work fairly well.

Mr. THORN. Can I add one thing on that? That one potential improvement is one that already has a legislative basis that it was the previous farm bill that mandated the creation of an Under Secretary for Trade in USDA. Once you finally get that Under Secretary for Trade, that will be an improvement because they will get good focus on trade issues at the sub-cabinet level.

Mr. MOOLENAAR. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. The gentleman's time has expired. I want to thank our witnesses for being here today. Terrific information highlighting an issue of great importance. All the new trade deals that are being negotiated, all the drama associated with those sometimes causes us to lose sight of the previous agreements. It is my sense that those previous agreements were full of compromises and negotiations made on behalf of American farmers where they gave up concessions, where they gave into some things with the anticipation that the agreement would give them certain other things. If we don't enforce those other things, then they have been *schnitzled,* to borrow a West, Texas phrase.

Highlighting the importance of holding our trading partners to their agreements, there is nothing mean-spirited about that. Those agreements were negotiated in good faith, and they simply need to live up to their share of the deal just as we are going to live up to our side of the COOL issue. The WTO ruled against us, and we are going to take the steps necessary to fix that and come into compliance. We need to be holding our trading partners to their commitments across the board.

I know those decisions aren't necessarily made in a vacuum, but having you highlight the impact that has and the facts available allows us to be able to then highlight that with the bully pulpits each of us have. It will be helpful as we look at new trade deals, because if you are not going to enforce the current ones, then the folks who had to take a haircut under those current deals will not be too excited about future concessions that they might be asked to make in order to get to a broader deal.

So gentlemen, thank you very much for being here this morning. I appreciate both of you and your testimony. I appreciate my colleagues as well.

Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional materials as supplementary written responses from the witnesses to any questions posed by a Member. This hearing of the Committee on Agriculture is adjourned. Thank you.

[Whereupon, at 11:41 a.m., the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL SUBMITTED BY CRAIG A. THORN, PARTNER, DTB ASSOCIATES, LLP

Insert

> Mr. THORN. Yes. As a matter of fact, the United States just submitted a new notification to WTO covering the 2012 marketing year, and in that notification they broke out on a commodity-by-commodity basis crop insurance subsidies. So if I had that in front of me, I could answer your question.
>
> Mr. KING. I want to ask you if you could produce that document for our review. I would appreciate it, and it would help our understanding of this. And in the perfect world or let me just say that we are where we are with this. . . .

Congressman King requested a copy of the latest U.S. domestic support notification to the WTO. I've attached it to this message. Could you please pass it on to him?

Note that crop insurance premium subsidies are broken out beginning on page 53.

ATTACHMENT

World Trade Organization G/AG/N/USA/100

8 December 2104

14–7139

Notification

The following submission, dated 4 December 2014, is being circulated at the request of the Delegation of the United States. The revised notification concerns domestic support commitments (Table DS:1 and the relevant Supporting Tables) for the marketing year 2012.

Offset PP 3–23

Table DS:1

Domestic Support: United States

Reporting Period: Marketing Year 2012

Current Total Aggregate Measurement of Support

Total AMS commitment level for period in question (from Section 1 of Part IV of the Schedule)	Currency (from Section 1 of Part IV of the Schedule)	Current Total AMS (from attached Supporting Tables)
19,103.29	2 Millions of U.S. dollars	3 6,863.273

Supporting Table DS:1

Domestic Support: United States

Reporting Period: Fiscal Year 2012 (except as noted)

Measures Exempt from the Reduction Commitment—"Green Box"

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars)[1]	Description of program
(a) General services:	**10,252**	
Agricultural Research Service (ARS)		Research and advisory function. Acquires, maintains, and disseminates information.
Agricultural Research	1,095	Includes National Agricultural Library functions.
Buildings & Facilities	58	Conducts research on a wide variety of topics, including soil and water conservation,
Misc. Contributed Funds	23	plant and animal sciences, human nutrition, and integrated agricultural systems.
National Institute for Food and Agriculture (NIFA)		Formerly Cooperative State Research, Extension, and Education Service (CSREES). Renamed National Institute for Food and Agriculture (NIFA) beginning FY 2009 by 2008 Farm [Bill] (P.L. 110–246).
Research and Education Activities	729	Research function. Provides grants to state agricultural researchestablishments. Participates in cooperative planning with state research institutions.
Integrated Activities	100	Funds integrated research, education, and extension grants programs.

Extension Activities	527	Advisory function. Participates with state cooperative extension system on applied education, information, and technology transfer.
Biomass Research and Development	20	Funds research and development projects leading to the production of biobased industrial products. Jointly managed by USDA and the Department of Energy. Authorized by the Biomass Research and Development Act of 2000 (Title III, P.L. 106–224); extended under the 2008 Farm [Bill] (P.L. 110–246). (Previously administered by Rural Cooperative—Business Service.)
Rural Bus. and Coop. Development Ser. (RBCD)		
Rural Cooperative Development Grants	27	Provides grants to nonprofit corporations and institutions of higher learning to fund centers for development of new cooperatives and improve operations of existing cooperatives (P.L. 104–127); also provides grants for value-added marketing for cooperatives reauthorized by the 2008 Farm [Bill] (P.L. 110–246).
Animal & Plant Health Inspection Service (APHIS)		
Salaries & Expenses [2]	1,115	Inspection/pest and disease control function.
Buildings & Facilities	7	Protects animal and plant resources from destructive pests and diseases.
Miscellaneous Trust Funds	11	
State programs for agriculture		
Regular annual outlays by states, net of fees and taxes	2,447	State governments provide a number of generally available services. Includes extension, marketing, and research. Amount reported is net of producer fees and taxes paid for various services.
Grain Inspection, Packers and Stockyard Administration (GIPSA)		Marketing/inspection functions. Establishes standards.
Salaries & Expenses	37	Provides for official inspection and implementation of the system of standards for marketing and
Limitation on Inspection and Weighing Services Expenses	3	conducts surveillance and investigatory activities to protect producers and consumers from unfair trade practices.
Food Safety Inspection Service (FSIS)		Safety/inspection function.
Salaries & Expenses	986	Provides in-plant inspection to assure quality of meat and poultry and the accuracy of labeling.
Inspec. & Grading of Farm Products	10	
Agricultural Marketing Service (AMS)		Marketing function.
Marketing Services	89	Develops marketing standards and provides news and inspection services.
Payments to States & Possessions	47	Grants to states for projects, such as improving marketing information, and developing grading standards.
Perishable Agricultural Commodity Act Fund	10	Uses license fees to take legal actions against unfair buyer trade practices.
Expenses and Refunds, Inspection and Grading of Farm Products (formerly called Miscellaneous Trust Funds)	154	Grading and certification services are provided on a fee-for-service basis.
Risk Management Agency (RMA)		
Agency administrative and operating expenses	77	Funds for management of the Federal Crop Insurance Program.
Administrative & operating reimbursements to insurers	1,411	Reimbursements for certain administrative and operating expenses of insurance companies delivering Federal crop insurance.
Underwriting gains to insurers	0	Underwriting gains provided to insurance companies under the Standard Reinsurance Agreement.
Office of the Chief Economist		
World Agricultural Outlook Board (WAOB)	5	Research and advisory function. Provides economic information about current outlook and situation for commodity supply and price.
Economic Research Service (ERS)		
Economic Research Service	80	Research and advisory function. Performs economic research and analysis for the public, Congress, and the Executive Branch.
National Agricultural Statistics Service (NASS)		
National Agricultural Statistics Service	164	Research and advisory function. Provides official estimates of resource utilization, production, and prices of agricultural products.
Farm Service Agency (FSA) [3]		
Conservation Reserve Program Technical Assistance	144	Extension, advisory, and training service functions. USDA agencies provide various technical services to help producers participate in Conservation Reserve Program (CRP)
Natural Resource Conservation Service (NRCS)		
Conservation Operations [3]	835	Extension, advisory, and training service functions. To promote conservation of soil and water, NRCS provides technical assistance, conducts soil surveys, and assesses erosion factors (formerly activity of "SCS").

Supporting Table DS:1—Continued
Domestic Support: United States
Reporting Period: Fiscal Year 2012 (except as noted)
Measures Exempt from the Reduction Commitment—"Green Box"

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars) [1]	Description of program
Resource Conservation and Development	0	Assists individuals and localities to develop area-wide plans for resource conservation and development.
Foreign Agriculture Service (FAS)		
Trade Adjustment Assistance for Farmers (TAA for Farmers)	41	The American Recovery and Reinvestment Act (ARRA) of 2009 reauthorized and modified the TAA for Farmers program. Producers of groups of commodities certified as suffering losses from import competition during the period Oct. 1, 2008 through December 31, 2010, could apply to receive free information, technical assistance, and support to develop and implement Business Adjustment Plans.
(b) Public Stockholding for Food Security:	**0**	
(c) Domestic food aid:	**106,781**	
Food & Consumer Services (FCS)		
Nutrition Programs Administration (formerly Food Program Administration)	138	For administration of food programs providing access to more nutritious diets for low income people and children.
Supplemental Nutrition Assistance Program (SNAP) (formerly Food Stamp Program)	80,401	Low income people receive financial assistance to help purchase nutritious food. (Renamed Supplemental Nutrition Assistance Program (SNAP) beginning FY 2009 by the 2008 Farm [Bill] (P.L. 110–246)).
Child Nutrition Programs	18,309	Cash and commodities to assist children to attain adequate diets. Includes special milk, school lunch and breakfast, homeless children, and other programs.
Special Supplemental Nutrition program for Women, Infants, and Children (WIC)	6,837	Food supplements to improve health of low income mothers, infants, and young children.
Commodity Assistance Program (CAP)	259	CAP include previously separate programs: Commodity Supplemental Food, Emergency Food, assistance to Indian Reservations and to Pacific Islands and Nutrition for the Elderly.
Agricultural Marketing Service (AMS) Section 32	837	Funds purchases of commodities distributed to low-income, children, and elderly people through the FNS food programs described above.
(d) Decoupled income support:	**4,790**	
Farm Service Agency (FSA)		
Direct Payments	3,837	Payments made to producers and landowners based on acreage and production in a prior base period, as specified in the 2002 Farm [Bill] (P.L. 107–171) and reauthorized in the 2008 Farm [Bill] (P.L. 110–246).
Tobacco quota buyout	953	Buyout of marketing quota under tobacco price support program, terminated under provisions of the Fair and Equitable Tobacco Reform Act of 2004 (Title VI, P.L. 108–357). Payments are funded through assessments on tobacco product manufacturers and importers. The legislation also terminated the tobacco price and income support program at the end of the 2004 marketing year.
(e) Income insurance and safety-net programs:	**0**	Note: All revenue and income insurance program support to producers is included in Supporting Tables DS:7 and DS:9, under the entry for USDA Crop Insurance programs.
(f) Payments for relief from natural disasters:	**344**	
Farm Service Agency (FSA)		
Noninsured Crop Disaster Assistance Program (NAP, crop year)	342	Under the 1994 Federal Crop Insurance Reform Act (P.L. 103–354), producers of crops not currently insurable under other programs received benefits if it was determined by the USDA that there had been yield losses greater than 35 percent for the area, and greater than 50 percent for the individual farm. The area loss requirement was eliminated per Section 109 of the Agricultural Risk Protection Act of 2000 (P.L. 106–224). The 50 percent loss requirement for each producer has been continued.

Emergency loans [5]	2	Emergency loans provides emergency funding and technical assistance for farmers and ranchers to rehabilitate farmland damaged by natural disasters and for carrying out emergency water conservation measures in periods of severe drought.
(g) Structural adjustment through producer retirement programs:	**0**	
(h) Structural adjustment through resource retirement programs:	**0**	
(i) Structural adjustment through investment aids:	**135**	
Farm Service Agency (FSA)		
Farm Credit Programs [4]	131	Program includes (i) short-term and long-term loans made at preferential interest rates and (ii) guarantees of private loans. Eligibility (clearly defined in regulations) determined by status as owner-operator of a family-sized farm in situations of structural disadvantage (cannot obtain credit elsewhere).
State Mediation Grants	4	Grants provided to states to assist producers having problems meeting credit obligations. Assistance must be provided through certified agricultural loan mediation program.
(j) Environmental payments:	**5,139**	
Farm Service Agency (FSA)		
Conservation Reserve Program	1,824	Soil erosion reduction and other environmental benefits are addressed through 10 year rental agreements to establish permanent cover crops on cropland.
Emergency Conservation Program	56	Assists in funding emergency conservation measures necessary to restore farmland damaged by natural disasters.
Conservation loans	0	Loans are made to cover costs of implementing qualifying conservation projects. Reported expenditure is interest subsidy for direct and guaranteed loans. Authorized under the 2008 Farm [Bill] and implemented in 2010.
Voluntary Public Access and Wildlife Habitat Incentives (VPA–WHIP)	0	Provides grants to State and Tribal governments to implement programs to encourage farmers and ranchers to develop enhanced wildlife habitat and allow public access on their lands for wildlife dependent recreation. Authorized under the 2008 Farm [Bill] and first implemented in 2010.
Natural Resource Conservation Service (NRCS)		
Agricultural Management Assistance Program	2	Provides cost-share assistance for conservation practices that improve water management, water quality, and erosion control. Reauthorized under 2008 Farm [Bill] (P.L. 110–246).
Conservation Stewardship Program [5]	930	Provides payments for structural and land management practices that address resource concerns. Authorized by 2008 Farm [Bill] (P.L. 110–246).
Grassland Reserve Program	65	Long-term contracts or easements to restore and conserve grassland. Reauthorized under 2008 Farm [Bill] (P.L. 110–246).
Wetland Reserve Program	588	Conservation and restoration of wetlands through long-term agreements. Producers must implement a conservation plan and retire crop acreage base. Funding transferred to NRCS under 2002 Farm [Bill] (P.L. 107–171).
Wildlife Habitat Incentives Program	47	Provides technical assistance and cost-share assistance to landowners to develop habitat for upland wildlife, wetlands wildlife, endangered species, fish, and other wildlife. Funds come from CCC under 5–10 year contracts (Title III, Public Law 104–127).
Farmland Protection Program	145	Conservation plans are made and easements purchased through State, Tribe, or local government agencies to protect topsoil by limiting conversion to nonagricultural uses. Conservation plans must be carried out over the 30 years or more of the easement term. Authorized by the 1996 Farm [Bill] (Public Law 104–127); renamed under 2008 Farm [Bill] (P.L. 110–246).
Environmental Quality Incentives Program (EQIP)	1,373	Encourages farmers and ranchers to adopt practices that reduce environmental and resource problems. Half of the funds are targeted to livestock production practices. Authorized by the 1996 Farm [Bill] (P.L. 104–127) and reauthorized under the 2002 Farm [Bill] (P.L. 107–171) and 2008 Farm [Bill] (P.L. 110–246).

Supporting Table DS:1—Continued

Domestic Support: United States

Reporting Period: Fiscal Year 2012 (except as noted)

Measures Exempt from the Reduction Commitment—"Green Box"

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars)[1]	Description of program
Agricultural Water Enhancement Program	59	The Agricultural Water Enhancement Program (AWEP) is a voluntary conservation initiative that provides financial and technical assistance to agricultural producers to implement agricultural water enhancement activities on agricultural land for the purposes of conserving surface and ground water and improving water quality. Authorized by 2008 Farm [Bill] (P.L. 110–246), the program supersedes the Ground and Surface Water Protection Program.
Chesapeake Bay Watershed Initiative	50	The program assists producers in implementing activities to improve water quality and quantity, and restore, enhance and preserve soil, air, and related resources in the Chesapeake Bay Watershed. Authorized by 2008 Farm [Bill] (P.L. 110–246).
(k) Payments Under Regional Assistance Programs:	**0**	
(l) Other:	**0**	
Grand Total	**127,441**	

Footnotes

[1] Unless otherwise specified, data are outlays for fiscal years. Outlays were excluded from domestic U.S. tables if not related directly to internal support of production agriculture. Wages and salaries and administrative expenses were excluded except where such outlays reflect the level of services provided to agriculture.

[2] Includes an estimated $402 million for pest and disease management programs.

[3] In providing technical assistance, USDA agencies explain and determine eligibility for conservation programs, help develop individual conservation plans, help install approved practices, provide information and educational assistance, and consult with universities and other government agencies. Beginning in 2002, expenditures for technical assistance under most farm programs transitioned from FSA to NRCS, leading to a change in accounting for technical assistance that was not immediately reflected in reporting of NRCS technical assistance. Estimates of NRCS technical assistance have continued to be included under FSA/NRCS CTA, as well as under NRCS Conservation Operations and as part of NRCS program payments under Environmental Payments, leading to double-counting of NRCS technical assistance. Beginning in 2009, CRP technical assistance is reported separately under FSA, while NRCS general conservation technical assistance continues to be reported as part of Conservation Operations, and NRCS program payments continue to include some technical assistance expenditures.

[4] Derived as the difference between FSA farm loans and commercial interest rates times the value of loans made during the year. Data also include budget outlays for recognized losses on FSA loan guarantees.

[5] The Conservation Stewardship Program (CStP) superseded the Conservation Security Program (CSP) under the 2008 Farm [Bill]. The total reported for CStP includes expenditures on remaining CSP contracts.

Public Law References

Public Law 103–354, Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (October 4, 1994).
Public Law 104–127, The Federal Agriculture Improvement and Reform Act of 1996 (April 4, 1996).
Public Law 106–224, Agricultural Risk Protection Act of 2000, Title I, Crop Insurance, Section 109, and Title III, Biomass Research and Development Act (June 22, 2000).
Public Law 107–171, Farm Security and Rural Investment Act of 2002 (May 13, 2002).
Public Law 108–357, American Jobs Creation Act of 2004, Title II, Fair and Equitable Tobacco Reform Act of 2004 (October 22, 2004).
Public Law 110–28, U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007 (May 25, 2007).
Public Law 110–246, Food, Conservation, and Energy Act of 2008 (June 18, 2008).
Public Law 111–5, American Recovery and Reinvestment Act of 2009 (February 17, 2009)

Supporting Table DS:4
Domestic Support: United States
Reporting Period: Marketing Year 2012
Calculation of the Current Total Aggregate Measurement of Support

Description of basic products including non-product specific (AMS)	Calculated AMS	Value of Production		Current total AMS Aggregate
		Amount [1]	5 percent of value	
1	2 Mil. dol.	3 Mil. dol.	4 Mil. dol.	5 Mil. dol.
Product-specific AMS (from Supporting Tables DS:5 to DS:7)				
Almonds	32.307	4,816.860	240.843	[2]
Apples	52.385	3,088.915	154.446	[2]
Apricots	1.165	40.879	2.044	[2]
Avocados	9.016	406.047	20.302	[2]
Banana	0.073	11.310	0.566	[2]
Barley	54.488	1,379.172	68.959	[2]
Beans (fresh & processing)	3.201	546.904	27.345	[2]
Blueberries	8.314	850.883	42.544	[2]
Buckwheat	0.312	3.394	0.170	0.312
Cabbage	1.143	388.600	19.430	[2]
Camelina	0.004	1.118	0.056	[2]
Canola	42.454	644.726	32.236	42.454
Carambola	0.014	18.000	0.900	[2]
Cattle	0.627	49,213.753	2,460.688	[2]
Cherries	19.118	893.831	44.692	[2]
Chile peppers	0.070	175.145	8.757	[2]
Coffee	0.175	41.300	2.065	[2]
Corn	2,719.601	74,330.610	3,716.531	[2]
Cotton	636.148	7,748.402	387.420	636.148
Cranberries	0.384	385.506	19.275	[2]
Dairy	3,335.000	37,229.654	1,861.483	3,335.000
Dry beans	57.896	1,121.613	56.081	57.896
Dry Peas (includes chickpeas & lentils)	19.125	228.662	11.433	19.125
Figs	0.123	20.336	1.017	[2]
Flaxseed	4.899	78.699	3.935	4.899
Grapefruit	5.009	279.033	13.952	[2]
Grapes/raisins	39.022	4,911.335	245.567	[2]
Grass seed	0.279	248.639	12.432	[2]
Green peas	4.177	168.658	8.433	[2]
Hay and forage	125.914	19,144.676	957.234	[2]
Hogs and pigs	0.037	21,408.909	1,070.445	[2]
Honey	1.552	289.642	14.482	[2]
Lemons/limes	3.312	448.698	22.435	[2]
Macadamia nuts	0.766	35.200	1.760	[2]
Mango	0.006	2.100	0.105	[2]
Millet	2.848	47.100	2.355	2.848
Mint	0.836	205.463	10.273	[2]
Mustard	0.835	10.718	0.536	0.835

Supporting Table DS:4—Continued
Domestic Support: United States
Reporting Period: Marketing Year 2012
Calculation of the Current Total Aggregate Measurement of Support

Description of basic products including non-product specific (AMS)	Calculated AMS	Value of Production		Current total AMS Aggregate
		Amount [1]	5 percent of value	
1	2 Mil. dol.	3 Mil. dol.	4 Mil. dol.	5 Mil. dol.
Nectarines	1.265	144.906	7.245	[2]
Nursery	34.808	12,052.222	602.611	[2]
Oats	5.210	253.991	12.700	[2]
Olives	1.995	130.038	6.502	[2]
Onions	17.036	944.029	47.201	[2]
Oranges	34.959	2,621.620	131.081	[2]
Papaya	0.006	9.722	0.486	[2]
Peaches	12.496	631.223	31.561	[2]
Peanuts	65.189	2,029.567	101.478	[2]
Pears	1.154	437.113	21.856	[2]
Pecans	7.824	476.781	23.839	[2]
Peppers	2.301	627.540	31.377	[2]
Pistachios	5.684	1,113.020	55.651	[2]
Plums/prunes	9.286	242.742	12.137	[2]
Popcorn	4.773	125.710	6.285	[2]
Potatoes	64.618	3,993.815	199.691	[2]
Pumpkins	0.196	148.908	7.445	[2]
Rice	45.780	3,060.558	153.028	[2]
Rye	0.238	53.250	2.663	[2]
Safflower	1.760	49.353	2.468	[2]
Sesame	0.141	1.371	0.069	0.141
Sheep and lamb	0.640	641.481	32.074	[2]
Sorghum	142.098	1,600.825	80.041	142.098
Soybeans	1,479.264	43,602.041	2,180.102	[2]
Strawberries	0.126	2,405.478	120.274	[2]
Sugar	1,454.286	3,696.961	184.848	1,454.286
Sunflower	51.281	713.184	35.659	51.281
Sweet corn	5.989	1,195.055	59.753	[2]
Sweet potatoes	1.241	461.861	23.093	[2]
Tangelos/tangerines/mandarins	7.283	363.466	18.173	[2]
Tobacco	41.783	1,577.857	78.893	[2]
Tomatoes	21.314	1,874.527	93.726	[2]
Walnuts	5.192	1,203.200	60.160	[2]
Wheat	1,115.951	17,491.304	874.565	1,115.951
Total			11,825.799	6,863.273
Non-product-specific AMS (from Supporting Table DS:9 below)	309.304	396,605.969	19,830.298	[2]

Total: Current total AMS					**6,863.273**

[1] Value of production reported by National Agricultural Statistics Service (NASS), in general. Cash receipts from the Economic Research Service Farm Income Data were used for fruits and nuts, vegetables, horses and mules, other livestock, and "other crops," excluding cash receipts for some specific crops that are available as actual value of production in NASS reports.
[2] **AMS is not subject to reduction or inclusion in the current total AMS because the calculated AMS is less than 5 percent of value of production (*de minimis* exclusion).**

Supporting Table DS:5

Domestic Support: United States

Reporting Period: Marketing Year 2012

Product-specific Aggregate Measure of Support: Market Price Support

Description of product	Marketing year starting—	Measure type	Applied administered price	External reference price	Eligible production	Associated fees	Total market price support	New notes, data sources
1	2	3	4 Dol./ton	5 Dol./ton	6 Mil. tons	7 Mil. tons	8 ((4 − 5)*6) − 7 Mil. tons	9
Butter	Oct. 1, 2012	Price support/ quota	2,314.85	1,279.000	0.844		873.952	1
Nonfat dry milk	Oct. 1, 2012	Price support/ quota	1,763.70	1,342.000	0.809		341.178	1
Cheddar cheese	Oct. 1, 2012	Price support/ quota	2,491.22	1,283.000	1.413		1,707.512	1
Total Dairy							**2,922.642**	
Sugar	Oct. 1, 2012	Price support/ quota	413.367	230.824	7.701		**1,405.843**	2
Total all Commodities (before *de minimis*)							**4,328.486**	

[1] External reference price is 1986–88 average price from FAS/USDA reported prices, FOB Northern Europe and other world ports.
[2] Reference price based on 1986–88 average Caribbean price adjusted to include transportation costs of $28.66/ton (28.66 + 202.164 = 230.824).
Annual Caribbean price is the simple average of 12 monthly prices. Applied administered price is the announced loan rate for cane sugar (18.75¢ per lb.).
Eligible production for market price support is the smaller of either actual production or the Overall Allotment Quantity (OAQ), as provided for in the 2002 Farm [Bill] (P.L. 107–171) and continued under the 2008 Farm [Bill] (P.L. 110–246). The OAQ sets the amount of sugar that may be marketed during any year, thereby determining the maximum amount of production eligible for price support. Eligible production for 2012 is actual sugar production.

Supporting Table DS:6
Domestic Support: United States
Reporting Period: Marketing Year 2012
Product-Specific Aggregate Measure of Support: Non-Exempt Direct Payments [1–2]

Description of product	Marketing year starting—	Measure type	Applied administered price	External reference price	Eligible production	Total price-related direct payments	Other non-exempt payments	Fees/Levies	Total direct payments	Adjustment factor	New notes, data sources
1	2	3	4 Dol./ton	5 Dol./ton	6 Mil. tons	7 ((4 – 5)*6) Mil. tons	8 Mil. tons	9 Mil. tons	10 (7+8 – 9) Mil. tons	11 Ratio	12
Dairy	Oct. 1, 2012	Dairy indemnities					0.287				
		Dairy market loss payment (MILC)					403.204				
		Subtotal other payments					403.491		403.491		
Dairy	Oct. 1, 2012	Subtotal all direct payments	....	....	....	....	....	....	**403.491**		
Lentils	Sept. 1, 2012	ACRE program payments					0.800	[3]			
		Subtotal other payments					0.800		0.800		
Lentils	Sept. 1, 2012	Subtotal all direct payments	....	....	....	....	....	....	**0.800**		
Soybeans	Sept. 1, 2012	ACRE program payments					2.581	[3]			
		Subtotal other payments					2.581		2.581		
Soybeans	Sept. 1, 2012	Subtotal all direct payments	....	....	....	....	....	....	**2.581**		
All Commodities (before *de minimis*)	2012	Subtotal all direct payments	....	....	....	....	406.872	....	**406.872**		

Footnotes

[1] Marketing loan gains, loan deficiency payments, and forfeitures constitute benefits under the Marketing Assistance Loan Program (certificate exchange gains were discontinued after 2009). Covered commodities include corn, soybeans, wheat, rice (both medium and long-grain), upland cotton, barley, grain sorghum, oats, peanuts, oilseeds (which include canola, crambe, flaxseed, mustard seed, rapeseed, safflower, sesame seed, and sunflower seed), dry peas, honey, lentils, mohair, small and large chickpeas, and wool. No benefits were paid under this program during the 2012 marketing year.

[2] Four supplemental disaster programs, the Livestock Indemnity Program (LIP), the Livestock Forage Disaster Program (LFP), the Emergency Livestock Assistance Program (ELAP), and the Tree Assistance Program (TAP), were authorized by the 2008 Farm [Bill]. LIP provides payments to eligible producers for livestock death losses in excess of normal mortality due to adverse weather. LFP provides payments to eligible producers of covered livestock for grazing losses. ELAP provides emergency relief to eligible producers of livestock, honey bees, and farm-raised fish for losses due to disease, adverse weather, or other conditions not covered by other programs under Supplemental Agricultural Disaster Assistance. TAP provides assistance to eligible orchardists and nursery tree growers to replant or rehabilitate eligible trees, bushes and vines damaged by natural disasters. These programs terminated at the end of FY 2011 under provisions of the 2008 Farm [Bill]. They were extended through FY 2013 under the American Taxpayer Relief Act of 2012 but were not funded. The programs were restored under the 2014 Farm [Bill] and will cover eligible losses beginning Oct. 1, 2011.

[3] The Average Crop Revenue Election (ACRE) program was authorized by the 2008 Farm [Bill]. Producers on a farm with covered commodities and/or peanuts who elect to participate in the ACRE program must enroll for all covered commodities and peanut acreage on the farm. Producers may elect to enroll in ACRE anytime beginning with the 2009 crop year through the duration of the 2008 Farm [Bill], but once enrolled in ACRE, the farm remains in the program through 2012. Direct payments are reduced by 20% and marketing assistance loan rates are reduced by 30% on enrolled farms. Covered commodities include corn, soybeans, wheat, rice (both medium and long-grain), upland cotton, barley, grain sorghum, oats, peanuts, oilseeds (which include canola, crambe, flaxseed, mustard seed, rapeseed, safflower, sesame seed, and sunflower seed), dry peas, lentils, and small and large chickpeas. Only commodities for which there were payments in the reporting year are included in the notification.

Public Law References

Public Law 110–246, Food, Conservation, and Energy Act of 2008 (2008 Farm [Bill]) (June 18, 2008).
Public Law 112–240, American Taxpayer Relief Act of 2012 (January 2, 2013).
Public Law 113–79, Agricultural Act of 2014 (2014 Farm [Bill]) (February 7, 2014).

Supporting Table DS:7
Domestic Support: United States
Reporting Period: Marketing Year 2012
Product-Specific Aggregate Measure of Support: Other Product-Specific Support and Total Product-Specific Support

Description of product	Marketing year starting—	Measure type	Other product-specific budget outlays/ support	Other product-specific support	Fees/Levies	Total other support	Market price support (from ST DS:5)	Non-exempt direct payments (from ST DS:6)	Total AMS	New notes, data sources
1	2	3	4 Mil. dol.	5 Mil. dol.	6 Mil. dol.	7 (4+5−6) Mil. dol.	8 Mil. dol.	9 Mil. dol.	10 (7+8+9) Mil. dol.	11
				Almonds to Carambola						
Almonds	Aug. 1, 2012	Crop insurance premium subsidy	32.307							1
		Subtotal other support	32.307			32.307				
Almonds	Aug. 1, 2012	**Total AMS**				32.307			**32.307**	
Apples	Aug. 1, 2012	Crop insurance premium subsidy	52.385							1
		Subtotal other support	52.385			52.385				
Apples	Aug. 1, 2012	**Total AMS**				52.385			**52.385**	
Apricots	Jan. 1, 2012	Crop insurance premium subsidy	1.165							1
		Subtotal other support	1.165			1.165				
Apricots	Jan. 1, 2012	**Total AMS**				1.165			**1.165**	
Avocados	June 1, 2012	Crop insurance premium subsidy	9.016							1
		Subtotal other support	9.016			9.016				
Avocados	June 1, 2012	**Total AMS**				9.016			**9.016**	
Banana	Jan. 1, 2012	Crop insurance premium subsidy	0.073							1
		Subtotal other support	0.073			0.073				
Banana	Jan. 1, 2012	**Total AMS**				0.073			**0.073**	
Barley	June 1, 2012	Commodity loan interest subsidy	0.121							2
		Crop insurance premium subsidy	54.394							1
		Subtotal other support	54.515		0.027	54.488				3
Barley	June 1, 2012	**Total AMS**				54.488			**54.488**	
Beans (fresh & processing)	Jan. 1, 2012	Crop insurance premium subsidy	3.201							1
		Subtotal other support	3.201			3.201				
Beans (fresh & processing)	Jan. 1, 2012	**Total AMS**				3.201			**3.201**	
Blueberries	Jan. 1, 2012	Crop insurance premium subsidy	8.314							1
		Subtotal other support	8.314			8.314				
Blueberries	Jan. 1, 2012	**Total AMS**				8.314			**8.314**	
Buckwheat	Sept. 1, 2012	Crop insurance premium subsidy	0.312							1
		Subtotal other support	0.312			0.312				
Buckwheat	Sept. 1, 2012	**Total AMS**				0.312			**0.312**	
Cabbage	Jan. 1, 2012	Crop insurance premium subsidy	1.143							1
		Subtotal other support	1.143			1.143				
Cabbage	Jan. 1, 2012	**Total AMS**				1.143			**1.143**	
Camelina	July 1, 2012	Crop insurance premium subsidy	0.004							1
		Subtotal other support	0.004			0.004				
Camelina	July 1, 2012	**Total AMS**				0.004			**0.004**	

Supporting Table DS:7—Continued
Domestic Support: United States
Reporting Period: Marketing Year 2012
Product-Specific Aggregate Measure of Support: Other Product-Specific Support and Total Product-Specific Support

Description of product	Marketing year starting—	Measure type	Other product-specific budget outlays/ support	Other product-specific support	Fees/Levies	Total other support	Market price support (from ST DS:5)	Non-exempt direct payments (from ST DS:6)	Total AMS	New notes, data sources
1	2	3	4 Mil. dol.	5 Mil. dol.	6 Mil. dol.	7 (4+5 − 6) Mil. dol.	8 Mil. dol.	9 Mil. dol.	10 (7+8+9) Mil. dol.	11
Canola	July 1, 2012	Commodity loan interest subsidy	0.062							2
		Crop insurance premium subsidy	42.411							1
		Subtotal other support	42.473		0.019	42.454				3
Canola	July 1, 2012	**Total AMS**	....	....	....	42.454	....	....	**42.454**	
Carambola	Jan. 1, 2012	Crop insurance premium subsidy	0.014							1
		Subtotal other support	0.014			0.014				
Carambola	Jan. 1, 2012	**Total AMS**	....	....	....	0.014	....	....	**0.014**	
Cattle to Flaxseed										
Cattle	Jan. 1, 2012	Livestock insurance premium subsidy	0.627							1
		Subtotal other support	0.627			0.627				
Cattle	Jan. 1, 2012	**Total AMS**	....	....	....	0.627	....	....	**0.627**	
Cherries	Jan. 1, 2012	Crop insurance premium subsidy	19.118							1
		Subtotal other support	19.118			19.118				
Cherries	Jan. 1, 2012	**Total AMS**	....	....	....	19.118	....	....	**19.118**	
Chile peppers	Jan. 1, 2012	Crop insurance premium subsidy	0.070							1
		Subtotal other support	0.070			0.070				
Chile peppers	Jan. 1, 2012	**Total AMS**	....	....	....	0.070	....	....	**0.070**	
Coffee	Sept. 1, 2012	Crop insurance premium subsidy	0.175							1
		Subtotal other support	0.175			0.175				
Coffee	Sept. 1, 2012	**Total AMS**	....	....	....	0.175	....	....	**0.175**	
Corn	Sept. 1, 2012	Commodity loan interest subsidy	11.965							2
		Crop insurance premium subsidy	2,711.011							1
		Subtotal other support	2,722.976		3.375	2,719.601				3
Corn	Sept. 1, 2012	**Total AMS**	....	....	....	2,719.601	....	....	**2,719.601**	
Cotton	Aug. 1, 2012	Commodity loan interest subsidy	24.715							2
		Crop insurance premium subsidy	562.955							1
		Upland cotton EAA	60.186							
		Subtotal other support	647.856		11.708	636.148				3
Cotton	Aug. 1, 2012	**Total AMS**	....	....	....	636.148	....	....	**636.148**	
Cranberries	Jan. 1, 2012	Crop insurance premium subsidy	0.384							1
		Subtotal other support	0.384			0.384				
Cranberries	Jan. 1, 2012	**Total AMS**	....	....	....	0.384	....	....	**0.384**	

Dairy	Oct. 1, 2012	Livestock insurance premium subsidy	8.867							1
		Subtotal other support	8.867			8.867				
Dairy	Oct. 1, 2012	**Total AMS**				8.867	2,922.642	403.491	**3,335.000**	
Dry Beans	June 1, 2012	Crop insurance subsidy	57.897							1
		Subtotal other support	57.897		0.001	57.896				
Dry Beans	June 1, 2012	**Total AMS**				57.896			**57.896**	
Dry Peas	July 1, 2012	Commodity loan interest subsidy	0.066							2
		Crop insurance premium subsidy	19.063							1
		Subtotal other support	19.129		0.004	19.125				3
Dry Peas	July 1, 2012	**Total AMS**				19.125			**19.125**	
Figs	Jan. 1, 2012	Crop insurance premium subsidy	0.123							1
Figs	Jan. 1, 2012	**Total AMS**				0.123			**0.123**	
Flaxseed	July 1, 2012	Commodity loan interest subsidy	0.002							2
		Crop insurance premium subsidy	4.898							1
		Subtotal other support	4.900		0.001	4.899				3
Flaxseed	July 1, 2012	**Total AMS**				4.899			**4.899**	
				Grapefruit to Oranges						
Grapefruit	Sept. 1, 2012	Crop insurance premium subsidy	5.009							1
		Subtotal other support	5.009			5.009				
Grapefruit	Sept. 1, 2012	**Total AMS**				5.009			**5.009**	
Grapes/raisins	May 1, 2012	Crop insurance premium subsidy	39.022							1
		Subtotal other support	39.022			39.022				
Grapes/raisins	May 1, 2012	**Total AMS**				39.022			**39.022**	
Grass seed	June 1, 2012	Crop insurance premium subsidy	0.279							1
		Subtotal other support	0.279			0.279				
Grass seed	June 1, 2012	**Total AMS**				0.279			**0.279**	
Green peas	Jan. 1, 2012	Crop insurance premium subsidy	4.177							1
		Subtotal other support	4.177			4.177				
Green peas	Jan. 1, 2012	**Total AMS**				4.177			**4.177**	
Hay and forage	May 1, 2012	Crop insurance premium subsidy	125.914							1
		Subtotal other support	125.914			125.914				
Hay and forage	May 1, 2012	**Total AMS**				125.914			**125.914**	
Hogs and pigs	Jan. 1, 2012	Livestock insurance premium subsidy	0.037							1
		Subtotal other support	0.037			0.037				
Hogs and pigs	Jan. 1, 2012	**Total AMS**				0.037			**0.037**	
Honey	Jan. 1, 2012	Commodity loan interest subsidy	0.086							2
		Crop insurance premium subsidy	1.484							1
		Subtotal other support	1.570		0.018	1.552				3
Honey	Jan. 1, 2012	**Total AMS**				1.552			**1.552**	
Lemons/limes	Aug. 1, 2012	Crop insurance premium subsidy	3.312							1
		Subtotal other support	3.312			3.312				
Lemons/limes	Aug. 1, 2012	**Total AMS**				3.312			**3.312**	
Macadamia nuts	July 1, 2012	Crop insurance premium subsidy	0.766							1
		Subtotal other support	0.766			0.766				
Macadamia nuts	July 1, 2012	**Total AMS**				0.766			**0.766**	
Mango	Jan. 1, 2012	Crop insurance premium subsidy	0.006							1
		Subtotal other support	0.006			0.006				
Mango	Jan. 1, 2012	**Total AMS**				0.006			**0.006**	
Millet	Oct. 1, 2012	Crop insurance premium subsidy	2.848							1
		Subtotal other support	2.848			2.848				

Supporting Table DS:7—Continued
Domestic Support: United States
Reporting Period: Marketing Year 2012
Product-Specific Aggregate Measure of Support: Other Product-Specific Support and Total Product-Specific Support

Description of product	Marketing year starting—	Measure type	Other product-specific budget outlays/ support	Other product-specific support	Fees/Levies	Total other support	Market price support (from ST DS:5)	Non-exempt direct payments (from ST DS:6)	Total AMS	New notes, data sources
1	2	3	4 Mil. dol.	5 Mil. dol.	6 Mil. dol.	7 (4+5 − 6) Mil. dol.	8 Mil. dol.	9 Mil. dol.	10 (7+8+9) Mil. dol.	11
Millet	Oct. 1, 2012	**Total AMS**				2.848			**2.848**	
Mint	June 1, 2012	Crop insurance premium subsidy	0.836							1
		Subtotal other support	0.836			0.836				
Mint	June 1, 2012	**Total AMS**				0.836			**0.836**	
Mustard	June 1, 2012	Crop insurance premium subsidy	0.835							1
		Subtotal other support	0.835			0.835				
Mustard	June 1, 2012	**Total AMS**				0.835			**0.835**	
Nectarines	Jan. 1, 2012	Crop insurance premium subsidy	1.265							1
		Subtotal other support	1.265			1.265				
Nectarines	Jan. 1, 2012	**Total AMS**				1.265			**1.265**	
Nursery	Jan. 1, 2012	Crop insurance premium subsidy	34.808							1
		Subtotal other support	34.808			34.808				
Nursery	Jan. 1, 2012	**Total AMS**				34.808			**34.808**	
Oats	June 1, 2012	Commodity loan interest subsidy	0.012							2
		Crop insurance premium subsidy	5.200							1
		Subtotal other support	5.212		0.002	5.210				3
Oats	June 1, 2012	**Total AMS**				5.210			**5.210**	
Olives	Jan. 1, 2012	Crop insurance premium subsidy	1.995							1
		Subtotal other support	1.995			1.995				
Olives	Jan. 1, 2012	**Total AMS**				1.995			**1.995**	
Onions	Jan. 1, 2012	Crop insurance premium subsidy	17.036							1
		Subtotal other support	17.036			17.036				
Onions	Jan. 1, 2012	**Total AMS**				17.036			**17.036**	
Oranges	Nov. 1, 2012	Crop insurance premium subsidy	34.959							1
		Subtotal other support	34.959			34.959				
Oranges	Nov. 1, 2012	**Total AMS**				34.959			**34.959**	
				Papaya to Sugar						
Papaya	Jan. 1, 2012	Crop insurance premium subsidy	0.006							1
		Subtotal other support	0.006			0.006				
Papaya	Jan. 1, 2012	**Total AMS**				0.006			**0.006**	
Peaches	Jan. 1, 2012	Crop insurance premium subsidy	12.496							1
		Subtotal other support	12.496			12.496				
Peaches	Jan. 1, 2012	**Total AMS**				12.496			**12.496**	
Peanuts	Aug. 1, 2012	Commodity loan interest subsidy	17.911							2

		Forfeiture benefits	0.020							1
		Crop insurance premium subsidy	52.008							3
		Subtotal other support	69.939		4.750	65.189				
Peanuts	Aug. 1, 2012	**Total AMS**	......	......	......	65.189	......	......	**65.189**	
Pears	July 1, 2012	Crop insurance premium subsidy	1.154							1
		Subtotal other support	1.154			1.154				
Pears	July 1, 2012	**Total AMS**	......	......	......	1.154	......	......	**1.154**	
Pecans	Oct. 1, 2012	Crop insurance premium subsidy	7.824							1
		Subtotal other support	7.824			7.824				
Pecans	Oct. 1, 2012	**Total AMS**	......	......	......	7.824	......	......	**7.824**	
Peppers	Jan. 1, 2012	Crop insurance premium subsidy	2.301							1
		Subtotal other support	2.301			2.301				
Peppers	Jan. 1, 2012	**Total AMS**	......	......	......	2.301	......	......	**2.301**	
Pistachios	Sept. 1, 2012	Crop insurance premium subsidy	5.684							1
		Subtotal other support	5.684			5.684				
Pistachios	Sept. 1, 2012	**Total AMS**	......	......	......	5.684	......	......	**5.684**	
Plums/prunes	Jan. 1, 2012	Crop insurance premium subsidy	9.286							1
		Subtotal other support	9.286			9.286				
Plums/prunes	Jan. 1, 2012	**Total AMS**	......	......	......	9.286	......	......	**9.286**	
Popcorn	Sept. 1, 2012	Crop insurance premium subsidy	4.773							1
		Subtotal other support	4.773			4.773				
Popcorn	Sept. 1, 2012	**Total AMS**	......	......	......	4.773	......	......	**4.773**	
Potatoes	Sept. 1, 2012	Crop insurance premium subsidy	64.618							1
		Subtotal other support	64.618			64.618				
Potatoes	Sept. 1, 2012	**Total AMS**	......	......	......	64.618	......	......	**64.618**	
Pumpkins	Jan. 1, 2012	Crop insurance premium subsidy	0.196							1
		Subtotal other support	0.196			0.196				
Pumpkins	Jan. 1, 2012	**Total AMS**	......	......	......	0.196	......	......	**0.196**	
Rice	Aug. 1, 2012	Commodity loan interest subsidy	9.151							2
		Crop insurance premium subsidy	38.724							1
		Subtotal other support	47.875		2.095	45.780				3
Rice	Aug. 1, 2012	**Total AMS**	......	......	......	45.780	......	......	**45.780**	
Rye	June 1, 2012	Crop insurance premium subsidy	0.238							1
		Subtotal other support	0.238			0.238				
Rye	June 1, 2012	**Total AMS**	......	......	......	0.238	......	......	**0.238**	
Safflower	Sept. 1, 2012	Crop insurance premium subsidy	1.760							1
		Subtotal other support	1.760			1.760				
Safflower	Sept. 1, 2012	**Total AMS**	......	......	......	1.760	......	......	**1.760**	
Sesame	Sept. 1, 2012	Crop insurance premium subsidy	0.141							1
		Subtotal other support	0.141			0.141				
Sesame	Sept. 1, 2012	**Total AMS**	......	......	......	0.141	......	......	**0.141**	
Sheep and lamb	Jan. 1, 2012	Livestock insurance premium subsidy	0.640							1
		Subtotal other support	0.640			0.640				
Sheep and lamb	Jan. 1, 2012	**Total AMS**	......	......	......	0.640	......	......	**0.640**	
Sorghum	Sept. 1, 2012	Commodity loan interest subsidy	0.011							2
		Crop insurance premium subsidy	142.090							1
		Subtotal other support	142.101		0.003	142.098				3
Sorghum	Sept. 1, 2012	**Total AMS**	......	......	......	142.098	......	......	**142.098**	
Soybeans	Sept. 1, 2012	Commodity loan interest subsidy	4.671							2
		Crop insurance premium subsidy	1,473.432							1
		Subtotal other support	1,478.103		1.420	1,476.683				3
Soybeans	Sept. 1, 2012	**Total AMS**	......	......	......	1,476.683	......	2.581	**1,479.264**	
Strawberries	Jan. 1, 2012	Crop insurance premium subsidy	0.126							1

Supporting Table DS:7—Continued
Domestic Support: United States
Reporting Period: Marketing Year 2012

Product-Specific Aggregate Measure of Support: Other Product-Specific Support and Total Product-Specific Support

Description of product	Marketing year starting—	Measure type	Other product-specific budget outlays/ support	Other product-specific support	Fees/Levies	Total other support	Market price support (from ST DS:5)	Non-exempt direct payments (from ST DS:6)	Total AMS	New notes, data sources
1	2	3	4 Mil. dol.	5 Mil. dol.	6 Mil. dol.	7 (4+5−6) Mil. dol.	8 Mil. dol.	9 Mil. dol.	10 (7+8+9) Mil. dol.	11
		Subtotal other support	0.126			0.126				
Strawberries	Jan. 1, 2012	**Total AMS**	....	....	....	0.126	....	....	**0.126**	
Sugar	Oct. 1, 2012	Commodity loan interest subsidy	16.110							2
		Crop insurance premium subsidy	38.352							1
		Subtotal other support	54.462		6.019	48.443				3
Sugar	Oct. 1, 2012	**Total AMS**	....	....	....	48.443	1,405.843	....	**1,454.286**	
				Sunflower to Wheat						
Sunflower	Sept. 1, 2012	Commodity loan interest subsidy	0.060							2
		Crop insurance premium subsidy	51.240							1
		Subtotal other support	51.300		0.019	51.281				3
Sunflower	Sept. 1, 2012	**Total AMS**	....	....	....	51.281	....	....	**51.281**	
Sweet corn	Jan. 1, 2012	Crop insurance premium subsidy	5.989							1
		Subtotal other support	5.989			5.989				
Sweet corn	Jan. 1, 2012	**Total AMS**	....	....	....	5.989	....	....	**5.989**	
Sweet potatoes	July 1, 2012	Crop insurance premium subsidy	1.241							1
		Subtotal other support	1.241			1.241				
Sweet potatoes	July 1, 2012	**Total AMS**	....	....	....	1.241	....	....	**1.241**	
Tangelos/tangerines/mandarins	Oct. 1, 2012	Crop insurance premium subsidy	7.283							1
		Subtotal other support	7.283			7.283				
Tangelos/tangerines/mandarins	Oct. 1, 2012	**Total AMS**	....	....	....	7.283	....	....	**7.283**	
Tobacco	Oct. 1, 2012	Crop insurance premium subsidy	41.783							1
		Subtotal other support	41.783			41.783				
Tobacco	Oct. 1, 2012	**Total AMS**	....	....	....	41.783	....	....	**41.783**	
Tomatoes	Jan. 1, 2012	Crop insurance premium subsidy	21.314							1
		Subtotal other support	21.314			21.314				
Tomatoes	Jan. 1, 2012	**Total AMS**	....	....	....	21.314	....	....	**21.314**	
Walnuts	Sept. 1, 2012	Crop insurance premium subsidy	5.192							1
		Subtotal other support	5.192			5.192				
Walnuts	Sept. 1, 2012	**Total AMS**	....	....	....	5.192	....	....	**5.192**	
Wheat	June 1, 2012	Commodity loan interest subsidy	1.656							2
		Crop insurance premium subsidy	1,114.664							1
		Subtotal other support	1,116.320		0.369	1,115.951				3

Wheat	June 1, 2012	**Total AMS**	....	....	....	1,115.951	....	....	**1,115.951**
All commodities (before *de minimis*)	2012	**Total AMS**	7,121.072	0.000	29.830	7,091.242	4,328.486	406.072	**11,825.799**

Footnotes

[1] Producers may choose one of the various types of crop yield or revenue insurance plans made available each year. The contracted-for insurance premiums are subsidized. The chosen guarantee (coverage) level commonly ranges from 50% to 85% of the historical average yield or expected revenue.

[2] Interest subsidies constitute a benefit under the Marketing Assistance Loan Program. Covered commodities include corn, soybeans, wheat, rice (both medium and long-grain), upland cotton, barley, grain sorghum, oats, peanuts, oilseeds (which include canola, crambe, flaxseed, mustard seed, rapeseed, safflower, sesame seed, and sunflower seed), dry peas, honey, lentils, mohair, small and large chickpeas, and wool. Only commodities for which there were benefits in the reporting year are included in the notification, unless the commodity is included on the basis of other support.

[3] Fees/levies include loan origination and related fees for most loan commodities.

Supporting Table DS:9
Domestic Support: United States
Reporting Period: Fiscal Year 2012 (except as noted)

Non-Product-Specific AMS

Measure type	Non-product-specific budgetary outlays	Other non-product-specific support	Associated fees/levies	Total non-prod. specific support	Data sources and comments
1	2	3 Million dollars	4	5	
Irrigation on Bureau of Reclamation Projects in 17 Western States		167.314		167.314	Based on a "debt financing method." A long term interest rate is applied to the outstanding unpaid balance of capital investment by the Government in irrigation facilities to obtain the subsidy. Irrigators repay the principal but not the interest on the project debt.
Net Federal budget outlays for grazing livestock on Federal Land	72.290		18.450	53.840	The data are net budget outlays for livestock grazing on public range land in 16 Western States operated by the Forest Service (FS) and Bureau of Land Management (BLM). The net budget outlays include (as negative outlays) the receipts for fees paid by livestock producers, but do not include other "non-fee" costs paid by the producers, such as for building and maintaining water supplies and fences. Including the other non-fee costs could reduce the net outlay figure, perhaps to zero.
Adjusted gross revenue insurance (premium subsidies)	9.251			9.251	Adjusted Gross Revenue (AGR) and AGR-Lite policies insure revenue of the entire farm rather than an individual crop by guaranteeing a percentage of average gross farm revenue, including a small amount of livestock revenue. The policies use information from a producer's Schedule F tax forms, and current year expected farm revenue, to calculate policy revenue guarantee.
Supplemental Crop Revenue Assurance (SURE) (crop year)	0.000			0.000	SURE payments are made to eligible producers on farms in disaster counties that incurred crop production or crop-quality losses or both during crop year. Provides payments at 60% of difference between disaster assistance program guarantee and total farm revenue, where revenue includes all crops produced on farm plus government payments. Authorized by the 2008 Farm [Bill] (P.L. 110–246). The SURE program expired after crop year 2011.
Countercyclical payments (crop year)	0.000			0.000	Provides payments when prices of program commodities fall below a target price. Payments are based on historical acres and yields and do not require current production of the historically produced commodity. Authorized by the 2002 Farm [Bill] (P.L. 107–171).
Farm storage facility loans	8.435			8.435	Provides low-cost financing for farmers to build or upgrade on-farm grain storage and handling facilities. The program is authorized under the Commodity Credit Corporation Charter Act of 1949. It was discontinued in the early 1980s and reestablished in FY 2000.

Supporting Table DS:9—Continued
Domestic Support: United States
Reporting Period: Fiscal Year 2012 (except as noted)
Non-Product-Specific AMS

Measure type	Non-product-specific budgetary outlays	Other non-product-specific support	Associated fees/levies	Total non-prod. specific support	Data sources and comments
1	2	3 Million dollars	4	5	
Biomass crop assistance program:	0.465			0.465	Provides financial assistance to producers or entities that deliver eligible biomass material to designated biomass conversion facilities for use as heat, power, biobased products or biofuels. Assistance is for costs of collection, harvest, storage and transportation associated with delivery of eligible materials. Authorized by the 2008 Farm [Bill] (P.L. 110–246).
Rural Energy for American Program (formerly Renewable Energy Program)	68.000			68.000	Provides direct loans, loan guarantees, and grants to farmers, ranchers, and small rural businesses to purchase renewable energy systems and make energy efficiency improvements. Reauthorized by the 2008 Farm [Bill] (P.L. 110–246).
Reimbursement Transportation Cost Payment for Geographically Disadvantaged Farmers and Ranchers (RTCP)	2.000			2.000	Provides payments to reimburse higher costs for transportation of agricultural inputs and commodities faced by geographically disadvantaged producers in Hawaii, Alaska, Puerto Rico, Guam, American Samoa, the Northern Mariana Islands, Micronesia, the Marshall Islands, Palau, and the U.S. Virgin Islands. Authorized under the 2008 Farm [Bill] (P.L. 110–246) and first implemented in 2010. **AMS is not subject to reduction because the total is less than 5 percent of value of production of U.S. agriculture**
Total non-product specific support	**160.440**	**167.314**	**18.450**	**309.304**	**(.05 * $396,606 mil. = $19,830 mil. in 2012)**

Public Law References
Public Law 107–171, Farm Security and Rural Investment Act of 2002 (May 13, 2002).
Public Law 110–246, Food, Conservation, and Energy Act of 2008 (June 18, 2008).

SUBMITTED STATEMENT BY KIMBERLY HOULDING, EXECUTIVE DIRECTOR, AMERICAN OLIVE OIL PRODUCERS ASSOCIATION

On behalf of the growers, processors and affiliate members of the American Olive Oil Producers Association (AOOPA), we appreciate the opportunity to submit comments on agricultural subsidies in foreign countries.

AOOPA is an organization comprised of growers, processors and state olive oil associations that develops sound governmental policies to promote a fair and honest market in order to protect the U.S. olive oil consumers from fraudulent olive oil.

The domestic olive oil industry in the United States is still in its early stages of development, but has great potential for growth. Recent increases in the popularity of olive oil has U.S. consumption at 0.95 kg per capita. Despite this, the U.S. has one of the lowest consumption rates among the largest producers and importers of olive oil. Greece is one of the largest consumer, at 15.5 kg per capita, while Italy's consumption rate is 10.36 kg per capita. Spain, the largest producer of olive oil, has a consumption rate of 11.22 kg per capita. As these numbers show, there is a great growth potential for the U.S. olive oil industry for both importers and domestic producers.

The U.S. currently has approximately 40,000 acres of olive trees dedicated to producing olive oil. If the domestic industry supplied the amount of olive oil currently consumed in the U.S. it would take over 425,000 acres of olive orchards and an investment of over $5 billion. AOOPA believes that the subsidization level of foreign countries impedes the U.S. olive oil producer's ability to expand due to price suppression in the U.S.

In September 2012, the Committee on Ways and Means (Committee) of the House of Representatives requested the United States International Trade Commission (USITC) to examine and report on the conditions of competition between U.S. and major foreign olive oil supplier industries. The report, entitled "Olive Oil: Conditions of Competition between U.S. and Major Foreign Supplier Industries," gives an indepth description of the current challenges facing the U.S. olive oil industry. The report highlights how foreign agricultural subsidies retard the growth of the domestic industry.

Europe is the largest producer of olive oil; unfortunately, it contributes to U.S. price suppression through their numerous government support programs. These programs provide aid to the olive oil sector in the EU, offering European producers unfair advantages. European olive oil producers receive direct support through Europe's system of agricultural subsidies called the Common Agricultural Policy (CAP). CAP includes several programs such as basic payment schemes, green payments, and storage aid. USITC found that "the income received from CAP payments enables producers to operate at margins that would be unsustainable without this source of support."[1] USITC further noted that "[b]ecause some of these producers would likely cease production in the absence of income support from the EU, the CAP has the indirect effect of increasing total global olive oil supply."[2] An over production of olive oil causes the olive oil price to drop, thereby diminishing the already small margin in which U.S. olive oil producers operate.

The European Commission (EC) understands the damaging effects of an oversupply of olive oil. To balance the supply/demand, the EC has a program to fund the storage of olive oil when prices drop below a certain threshold in order to artificially maintain prices. In short, EC removes olive oil supplies from the market. USITC concluded that subsidization "puts U.S. growers at a delivered cost disadvantage compared to producers abroad who receive government support through direct payments."[3]

Various changes in the EC's CAP makes it difficult to determine the current level of subsidization olive oil producers receive. The Spanish Minister of Agriculture made a statement in 2012 that the EU's CAP payments to Spanish olive oil producers were approximately $1.38 billion per year.[4] The USITC report found that "[t]ypical payments to olive growers vary significantly . . . Payments may be as high as €690 ($924) per ha in certain olive-intensive regions, although this rate is

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[1] U.S. International Trade Commission. (2013). *Olive Oil: Conditions of Competition between U.S. and Major Foreign Supplier Industries* (Investigation No. 332–537, USITC Publication 4419). Washington, D.C., p. 6–20. Retrieved from *http://www.usitc.gov/publications/332/pub4419.pdf*.

[2] *Ibid,* at p. 6–2.

[3] *Ibid,* at p. 5–15.

[4] Government of Spain, Ministry of Agriculture, "Arias Cañete subraya," February 22, 2012; Butler, "Olive Regions Work on Joint Strategy to Maintain EU Subsidies," April 2, 2012.

region-wide and not specific to olive farms." [5] A report from the Directorate-General for Agriculture and Rural Development of the European Commission stated that from 2006 to 2009, the average annual direct payment supports represented a large percentage of the income for the European olive oil industry (growers & processors): 22% in Spain; 28% in Greece; and a range of 22% to 50% of table olive and olive oil producers in Italy.[6]

The level of subsidization encourages increases in production and a decrease in olive oil prices. Subsidies have caused olive oil production to outpace olive oil consumption, which causes global olive oil prices to drop. U.S. olive oil producers suffer more than their EU counterparts when olive oil prices drop, as we do not have support programs such as direct payments and storage aid.

Europe is not the only producer whose programs support the production of olive oil. Since 2008 Morocco has provided various subsidy and support programs to bolster its olive oil industry through the construct new irrigation projects and direct advertising marketing expenditures for the sale of olive oil to the U.S. market.[7] This is coupled with the monies made available through the Millennium Challenge Corporation (MCC).[8] The MCC program which was initiated in August 2007, made available nearly $700 million to stimulate economic growth in Morocco. Approximately $320 million was used toward a fruit tree productivity project, with olives being the major recipient. Some $200 million was exclusively for the rehabilitation of existing olive orchards and also provided for nearly 200,000 new acres of olives.[9]

U.S. domestic olive oil producer have the potential to become an important player in the international olive oil community. While several global industry issues affect its growth potential, such as mislabeling, fraudulent olive oil and discriminatory grade standards, AOOPA believes that foreign agricultural subsidies greatly suppresses the development of the U.S. industry. The collection of these issues impedes the natural economic development of the domestic industry. Matters of subsidization are typically addressed in multilateral discussions. The World Trade Organization's Doha Development Agenda, however, has languished and will continue to do so for the foreseeable future. We ask the House Agriculture Committee and Congress to look for new avenues to reduce and/or eliminate foreign domestic support programs that distort and suppress the development of the U.S. olive oil industry.

SUBMITTED STATEMENT BY AMERICAN SUGAR ALLIANCE

Global Sugar Subsidies on the Rise

Summary

American sugar producers are among the world's most efficient, and most socially and environmentally responsible, but they cannot compete in a world sugar market badly distorted by foreign subsidies. So called "world market" prices are running barely ½ the world average cost of producing sugar. Foreign sugar subsidies are expanding as governments seek to protect their industries against the low world prices.

American sugar producers support the goal of multilateral elimination of global sugar subsidies. Absent government intervention, the world sugar price would rise to reflect the cost of producing sugar, and American producers could compete well on a level playing field. We have endorsed a Congressional resolution to eliminate U.S. sugar policy when foreign countries eliminate theirs.

But unilateral elimination of U.S. sugar policy, as some policy critics suggest, would sacrifice jobs in an efficient, dynamic American industry in favor of foreign jobs in countries that are likely less efficient, but continue to subsidize.

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[5] USITC 332 Report, at p. 6–20.

[6] Directorate-General for Agriculture and Rural Development, "Economic Analysis of the Olive Sector," *European Commission,* July 2012, at p. 10, available at *http://ec.europa.eu/agriculture/olive-oil/economic-analysis_en.pdf.*

[7] *Ibid,* at p. 7–23.

[8] The Millennium Challenge Corporation is a bilateral United States foreign aid agency established by the U.S. Congress in 2004, applying a new philosophy toward foreign aid. Its goal is to provide foreign aid to help fight against global poverty.

[9] A provision in U.S. law, the Bumpers Amendment, prohibits U.S. Government support for agricultural production in a foreign country if said production would compete with U.S. agricultural exports to third-country markets. However, the Bumpers Amendment does not apply to support for foreign agricultural production that may compete with U.S. producers in the U.S. domestic market (USITC 332 Report, at p. 7–24).

Background

The American Sugar Alliance (ASA) is the national coalition of sugarbeet and sugarcane growers, processors, and refiners. The U.S. sugar-producing industry generates 142,000 jobs in 22 states and $20 billion in annual economic activity.[1]

The U.S. sugar industry is a major player in the world sugar market. The United States is the world's fifth largest sugar producer and is among the most efficient.

The U.S. is the 20th lowest cost among the 95 largest sugar-producing nations. Most of these are developing countries with far lower government-imposed costs for worker, consumer, and environmental protections. U.S. beet sugar producers, mostly in northern-tier states, are the lowest-cost beet producers in the world; Florida cane sugar producers are fourth lowest cost of all sugar producers in the world.[2]

The United States is also the world's fourth largest sugar consumer and, year after year, the first, second, or third largest sugar importer. We provided guaranteed, essentially duty-free access to 41 countries. This makes the U.S. one of the world's most open markets to foreign sugar.

Justification for U.S. Sugar Policy

Since U.S. sugar producers are among the lowest cost in the world, one might ask why the industry requires a sugar policy at all. The answer is in the distorted, dump nature of the world sugar market.

Foreign governments subsidize their producers so egregiously that many of these countries produce far more sugar than they can consume. Rather than store these surpluses, or close mills and reduce production and jobs, which would harm their industry, these countries dump their sugar on the world market for whatever price it will bring, which threatens to harm our industry.

As a result of these dumped surpluses, the so-called "world price" for sugar has been rendered essentially meaningless. Rarely in the past few decades has the world price reflected the actual cost of producing sugar—a minimal criterion for a meaningful market price.

The world price is so depressed by subsidies and dumping that, over the past 25 years, the world average cost of producing sugar has averaged fully 50% higher than the world price.[3] (See *Figure 1*.)

The world sugar price has dropped by more than ½ since 2010/11—from more than 32¢ per pound to less than 13¢—and is now barely ½ of the current estimated world average cost of production. One would expect such low prices to put many producers out of business, and signal planting reductions to all. Yet, despite the price collapse, world sugar production has actually risen, up 6% in the past 5 years.[4]

Sugar producers are responding not to world market signals but rather to domestic market prices and the government programs that sustain those prices.

One European market expert summarizes: "The world market price is a 'dump' price . . . (it) should never be used as a yardstick to measure what benefits or costs may accrue from free trade in sugar."[5]

But how can a world sugar industry exist if the price received for the product is just a fraction of the cost of producing it? The answer is twofold:

1. Only about 20–25% of the sugar produced each year is actually traded at the so-called "world price."
2. The other 75–80% of sugar is consumed in the countries where it is produced, at prices considerably higher than the world price, and higher than production costs.

The International Sugar Organization (ISO) records actual wholesale prices among the world's largest consuming countries—the price producers in those countries receive for their sugar. The ISO documents that actual wholesale refined sugar prices have averaged 45% higher than the world price over the past dozen years. (See *Figure 2*.)

This, then, explains how we can have a robust world sugar industry: Governments shield their producers from the world dump market sugar and maintain prices high

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[1] LMC International, "*The Economic Importance of the Sugar Industry to the U.S. Economy—Jobs and Revenues,*" Oxford, England, August 2011.

[2] LMC International, "*Sugar & HFCS Production Costs: Global Benchmarking,*" Oxford, England, August 2011.

[3] LMC International, "*Sugar & HFCS Production Costs: Global Benchmarking,*" Oxford, England, July 2014.

[4] U.S. Department of Agriculture, *http://apps.fas.usda.gov/psdonline/*.

[5] Patrick Chatenay, "*Government Support and the Brazilian Sugar Industry,*" Canterbury, England, April 2013.

enough—above the dump market and above production costs—to sustain a domestic industry and generate and defend jobs.

Further, this explains why we require a U.S. sugar policy—even with American sugar producers among the lowest cost, and most responsible, in the world.

Zero-for-Zero

U.S. sugar producers recognize that subsidies and other market-distorting polices must be addressed in order for the world dump market to recover and better reflect free market principals. Therefore, American producers have publicly pledged to give up U.S. sugar policy when foreign producers agree to eliminate their subsidies.

The American Sugar Alliance has endorsed a resolution introduced in Congress by Representative Ted Yoho of Florida. This "zero-for-zero" resolution explicitly calls for the U.S. to surrender its sugar policy when other major producers have done the same.[6]

However, to give up sugar policy without any foreign concessions, as some critics of U.S. sugar policy have called for, would amount to foolish unilateral disarmament. We would be sacrificing good American jobs in a dynamic, efficient industry in favor of foreign jobs in the countries that continue to subsidize.

The Nature of Foreign Sugar Subsidies

The sugar futures markets, particularly the raw sugar #11 ICE contract, are mathematically the most volatile of commodity markets. This is because it is relatively thinly traded and, historically, has been a dumping ground for surplus sugar. It is also the market to which consumers turn for residual supplies when weather problems have left world sugar supplies tight.

Over the past 40 years, monthly average prices have ranged from less than 3¢ per pound to more than 57¢. Just in the past 4 years, prices have dropped to less than 13¢ from a temporary peak above 32¢. (See *Figure 3*.)

Approximately 120 countries produce sugar, and the governments in all these countries intervene in their markets in some way, to defend their producers, or their consumers, or sometimes both. A world market this volatile necessitates some buffer for domestic sugar sellers and buyers.

Government interventions among the largest producers and exporters have the most profoundly distorting effects on the world market. LMC International, in a 2008 study, examined market-distorting practices among eleven of the largest players in the world sugar market. LMC discovered a wide range of trade-distorting practices and categorized them as "transparent"—fitting into recognized World Trade Organization (WTO) categories of intervention; and, "non-transparent"—less obvious interventions not specifically subject to WTO disciplines, but still trade distorting.[7]

Figure 4 provides a snapshot of government interventions in the world sugar market in 2008. Since that time, the extent of government intervention has increased considerably.

Countries that have long intervened in their sugar markets have, for the most part, continued to do so, with many expanding their programs. Other countries, including advanced developing countries that are becoming larger players in the world sugar market, have achieved their expansion largely through government intervention.

Major Exporters, Major Subsidizers

Figure 5 provides examples of some of the elaborate forms of government intervention that enable major producers to continue to export sugar, even when world prices are running ½ the world average cost of production—as they are now.

The following provides some more detail on the trade-distorting practices of some of the biggest exporters, and subsidizers—Brazil, Thailand, India, and Mexico. Developing countries are not subject to the same WTO disciplines as developed countries, and some take advantage of this special treatment to perpetuate subsidies that developed countries are committed to reducing or avoiding.

Brazil. Brazil is a prime example of a "developing" country with an advanced, modern, and, in this case, massive agricultural industry. Brazil is the largest sugar exporter by a huge margin, dominating with nearly ½ of all sugar exports. But the Brazilian sugar industry would be a fraction of that size were it not for a Brazilian Government decision in the early 1970s to fund a huge sugarcane ethanol industry.

[6] *https://www.congress.gov/bill/114th-congress/house-concurrent-resolution/20/text?q=%7B%22search%22%3A%5B%22%5C%22zero+for+zero%5C%22%22%5D%7D.*

[7] LMC International, "*Review of Sugar Policies in Major Sugar Industries: Transparent and Non-Transparent or Indirect Policies,*" Oxford, England, 2008.

With subsidies to plant more sugarcane and build mill/distilleries that could convert the cane to sugar or ethanol, with ethanol consumption mandates and ethanol and gasoline price controls, the Brazilian cane industry exploded. Brazil came to be the world's largest cane ethanol producer, and sugar exporter, by far.

After its "Pro-Alcool" program was unleashed in 1975, Brazilian cane ethanol production soared from small amounts to 28 billion liters, sugar production from 6 million tons to 38 million, and sugar exports from 1 million tons to 28 million. Cane planting decisions have been driven primarily by government ethanol policies, with more than ½ of cane going to ethanol, and the remainder to sugar.

With the cane industry propped up by ethanol subsidies, Brazil could continue its reckless sugar export expansion, even as world sugar prices dipped as low as 3¢ per pound in 1985.

The value of this indirect subsidy of the Brazilian cane sugar industry, by way of the subsidy of the cane ethanol industry, along with related government benefits, has been placed at $2.5–$3.0 billion per year. Unfortunately, since these subsidies do not fit neatly into WTO subsidy categories—direct supports, import tariffs and direct export subsidies—they are largely immune to WTO disciplines.

Sugar market expert Patrick Chatenay has noted that, in addition to direct payments, the government aids Brazil's cane industry with low-interest loans, debt forgiveness, ethanol usage mandates and reduced tax rates. He estimates the value of these subsidies alone at $2.5 billion per year, and notes that unreported debt restructuring probably puts the actual total much higher.[8]

Since Chatenay published his $2.5 billion per year Brazilian sugar subsidy estimate in 2013, the government has provided an additional $450 million in tax relief and made available $3 billion in soft loans.[9]

Unfortunately, because most of Brazil's sugar subsidies are considered indirect, they are not subject to the WTO disciplines to which most developed countries adhere.

Thailand. Thailand is the world's second largest sugar exporter. It surged into that position by quadrupling its exports within the past decade—from 2 million metric tons in 2006/07 to 8 million tons this year.

Thailand is not a particularly efficient sugar producer. But government programs enabled its stunning expansion, oblivious to remarkably low world prices.

In a newly released study, Antoine Meriot estimates the value of government subsidies to the Thai industry at no less than $1.3 billion per year. The $1.3 billion includes direct payments and indirect export subsidies, but does *not* include Thai sugar producers' substantial benefit from soft loans and input subsidies the Thai Government makes available to all its farmers.[10]

Meriot points out that world sugar prices dropped by 40% from 2010 to 2014, yet Thai sugar exports rose by 70% during that same period. He explains that Thai sugar producers were cushioned from the world price drop by much higher guaranteed prices for sugar sold within Thailand. This is the type of indirect export subsidy that the WTO found to be illegal in a 2005 ruling against European Union sugar exports.

Meriot reveals a number of other ways the Thai Government assists its sugar industry, including: Direct payments and input subsidies to cane growers; soft loans, at a fraction of market interest rates; guaranteed prices for growers and millers; sales limits; import tariffs; and cane ethanol subsidies.

Even with low world sugar prices, the Thai Government is showing no signs of letting up. It is switching from encouraging rice production to encouraging sugar production. Its goal: a 50% increase in sugarcane production in just the next 5 years.

Meanwhile, Brazil and Australia, which had successfully challenged the European Union's similar indirect export subsidy scheme, are questioning the WTO on Thailand's similar scheme.

India. In 2010, world sugar prices were approaching a 30 year high and India was one of the world's largest sugar importers, with net imports of 2.2 million metric tons. Since that time, world prices have dropped in ½, but India has become a significant net exporter.

How has India achieved the transformation from sugar importer to exporter, though world sugar prices were declining? Government decisions to encourage production and to flaunt WTO rules with blatant export subsidies.

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[8] Patrick Chatenay, *op. cit.*

[9] *http://www.sugaralliance.org/brazils-sugar-subsidies-expand-as-global-prices-fall-4399/.*

[10] Antoine Meriot, Sugar Expertise, "*Thailand's sugar policy: Government drives production and export expansion,*" Bethesda, Maryland, June 2015.

India has blatantly ignored complaints from other WTO members that these export subsidies violate their WTO obligations and, in the face of such criticism, has actually increased them. Generous Federal, and even state, subsidies have enabled India to export an estimated 2 million tons of sugar last year and this year—contributing to the global surplus and the sharp decline in world sugar prices.

A recent article summarized the most recent Indian Federal and state government support for its sugar industry with these points:

- $90 million in WTO-illegal export subsidies from the Federal Government;
- $22 million in WTO-illegal export subsidies from a state government;
- $320 million in additional interest free loans to sugar mills and $140 million in tax debt forgiveness from a state government;
- A doubling of import taxes to block foreign sugar;
- Elimination of an excise tax on ethanol to promote sugar-based fuels.[11]

Thailand, though currently under WTO scrutiny for its own sugar subsidies, is questioning the WTO about the legality of India's export subsidy programs.

Mexico. When the NAFTA went into effect in 1994, Mexico was an occasional exporter of small volumes of sugar. Since that time, Mexican sugarcane area has exploded by 66%; the government expropriated ½ of all Mexican sugar mills, rather than allowing them to go out of business; and, Mexico became one of the world's largest sugar exporters. Virtually all those exports have been aimed at the U.S. market—fully open to Mexican sugar since 2008 under NAFTA rules.

The Mexican Government is still Mexico's largest sugar producer and exporter, accounting for ⅕ of production and mills. In addition to government ownership, Mexican producers benefit from Federal and state cash infusions, debt restructuring and forgiveness, and government grant programs to finance inventory, exports, and inputs.[12]

In 2012/13, Mexican sugar production soared to an all-time high, a stunning 38% higher than the previous year's production. Yet, despite the huge domestic market surplus, Mexico was able to sustain sugar prices higher than in the U.S. How did they manage to balance their market? By dumping their subsidized surplus on the U.S.

The subsidized and dumped Mexican surpluses collapsed the U.S. sugar market and caused the first government cost for U.S. sugar policy in a dozen years, as USDA took steps to remove the excess Mexican sugar from our market.

The U.S. sugar industry last year filed unfair trade petitions. In response, the U.S. Department of Commerce imposed countervailing and antidumping duties on Mexican sugar averaging 56% in 2014. Late last year the U.S. and Mexican Governments negotiated suspension agreements to eliminate the injury caused by dumped and subsidized Mexican sugar. The U.S. International Trade Commission is now proceeding with its final injury investigation, and a final decision is expected in October of this year.

Conclusion

In a world awash in subsidized foreign sugar, the U.S. is one of the world's leading importers. We are obligated to import sugar from 41 countries under WTO and free-trade agreement concessions. All of these countries subsidize their producers in some way, but there are limits on how much sugar we must take from all except one—Mexico. When Mexico used its subsidies to damage the market, the U.S. Government responded, and we are hopeful the reasonable solution the U.S. and Mexican Governments negotiated will stay in place.

Meanwhile, the rest of the world continues to subsidize its sugar producers, and at growing volumes. The U.S. sugar industry supports elimination of all these direct and indirect subsidies, multilaterally. We are among the lowest cost producers and could compete in a world free of subsidies, where the world price for sugar reflects the cost of producing it.

We cannot, however, endorse efforts to modify U.S. sugar policy without any foreign concessions. This would amount to unilateral disarmament and the sacrifice of American jobs in favor of foreign countries where governments continue to subsidize.

[11] *http://www.sugaralliance.org/living-off-subsidies-and-still-3-billion-in-the-hole-5293/.*

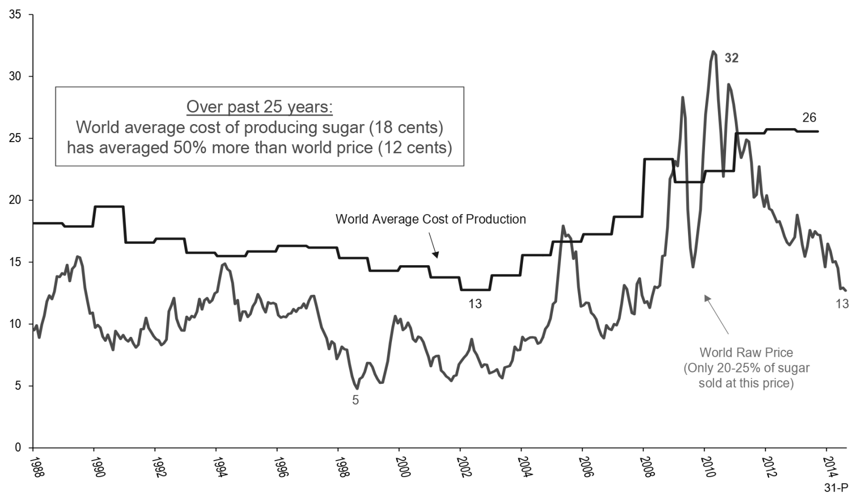
[12] *http://www.sugaralliance.org/mexican-export-subsidies-injuring-u-s-sugar-producers-4990/.*

CHARTS

Figure 1

World Raw Sugar Dump Market Price: Historically Does Not Reflect Actual Cost of Producing Sugar

Cents per Pound



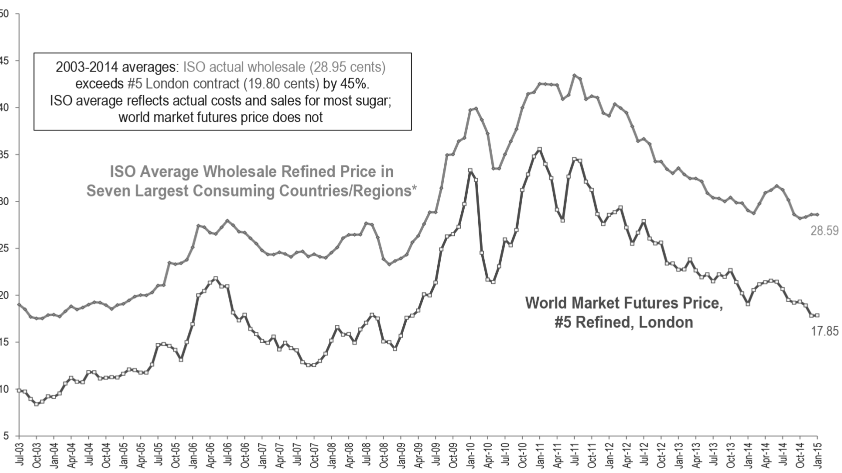
Sources: World Price: USDA, #11 raw contract, Caribbean ports. monthly average prices, 1970–2015.

Cost of Production: "Sugar Production Cost, Global Benchmarking Report," LMC International, Oxford, England, July 2014.

Figure 2

Actual Wholesale Sugar Prices in Major Consuming Countries Much Greater than World Dump Market Price

Cents per pound of refined sugar, 2003–2015



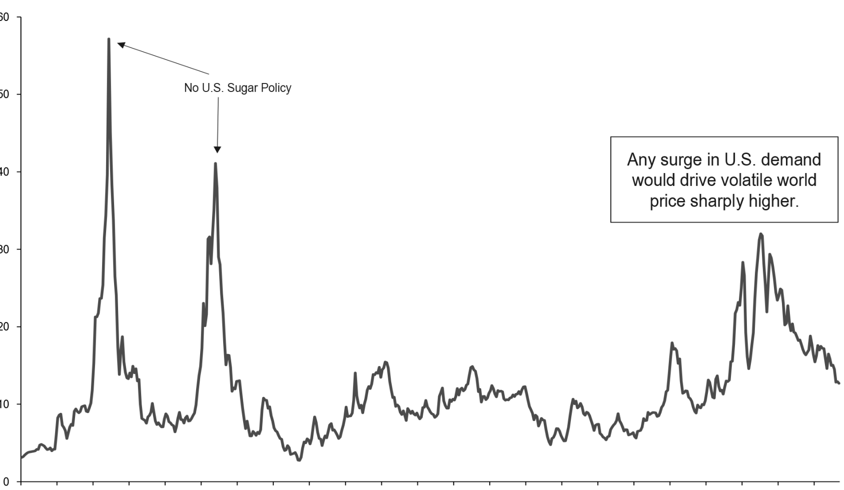
Data Sources: International Sugar Organization, U.S. Department of Agriculture. Monthly average prices through January 2015; except the EU through November 2014.

* Brazil, China, European Union, India, Mexico, Russia, United States—represent approximately ½ of world sugar consumption.

Figure 3

World Sugar Dump Market Price, 1970–2015: World's Most Volatile Commodity Market

Cents per Pound



Source: USDA, #11 raw contract, Caribbean ports. Monthly Average prices, 1970–2015.

Figure 4

Table SUM. 1: Summary of Support for Sugar Industry in Selected Countries, 2008

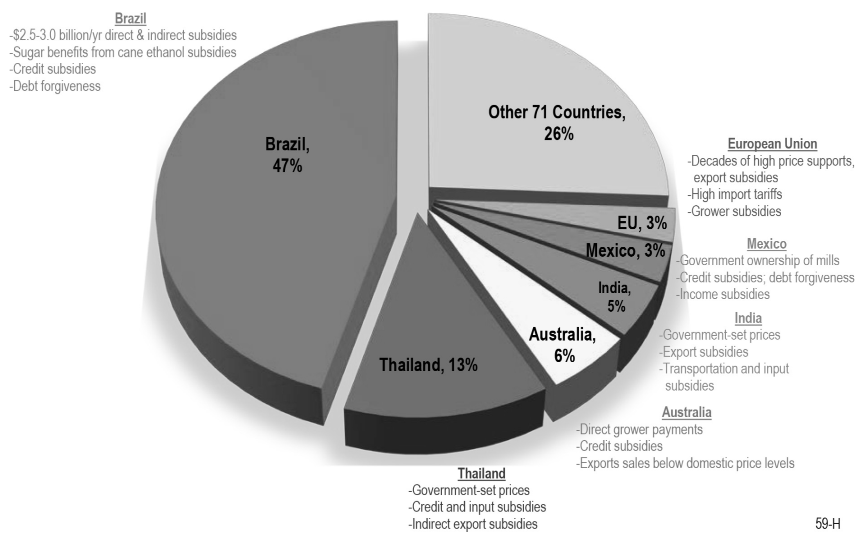
	Australia	Brazil	China	Colombia	EU	Guate-mala	India	Indonesia	Mexico	S. Africa	Thailand
Transparent Support											
Domestic Market Controls											
Guaranteed Support Prices			✔		✔		✔	✔			✔
Supply Management/Controls			✔		✔		✔				
Market Sharing/Sales Quotas						✔			✔		✔
Domestic/Export Revenue Equalization Measures				✔						✔	
Import Controls											
Import Quota/TRQ			✔		✔			✔		✔	✔
Import Tariff		✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Import Licenses			✔					✔			✔
Quality Restrictions						✔					
Export Support											
Export Subsidies						✔		✔			
Single Desk Selling							✔			✔	
Non-Transparent Support											
Direct Financial Aid											
State Ownership								✔	✔		
Income Support	✔				✔						✔
Debt Financing	✔	✔					✔				
Input Subsidies							✔	✔	✔		
Indirect Long Term Support											
Programs to Improve Efficiency	✔							✔			
Ethanol Programs (mandates/tax breaks)		✔		✔	✔						
Consumer Demand Support			✔								

LMC International, 2008.

Figure 5

World's Largest Sugar Exporters: All Subsidize

2010/11–2014/15 Average



Sources: Export data—USDA, FAS May 2015; Subsidies—FAS attaché reports, press reports, country studies.

SUBMITTED QUESTIONS

Response from Darren Hudson, Ph.D., Professor and Larry Combest Chair for Agricultural Competitiveness, Department of Agricultural and Applied Economics, Texas Tech University

Questions Submitted by Hon. Alma S. Adams, a Representative in Congress from North Carolina

Question 1. Many Americans do not have the knowledge of programs like the Price Loss Coverage program that you all possess and often assume that PLC and other USDA safety net programs are the same as what is done by our foreign competitors. Can you explain how the Price Loss Coverage program works and why it is less distorting to the market than foreign price support regimes?

Answer. The Price Loss Coverage (PLC) program is a price-centered safety net program designed to provide a minimum price for producers should market prices fall below pre-defined, legislated levels. Specifically, if the marketing year average (MYA) price as determined by USDA falls below the pre-determined price ("reference price"), producers receive a payment equal to the difference between the MYA and reference price multiplied by their base acres and yield (times the 85% base adjustment factor).

What makes the PLC program less distorting than programs used by many of our competitors is that these payments are "decoupled." That is, the base acres and yield are determined by historical plantings and yields, not current production. Thus, the potential for a PLC payment is not tied to current production decisions and, therefore, should not affect current planting decisions. By contrast, target prices used in, for example, China, are designed specifically to stimulate current production and, therefore, influence current production and trade. The lack of influence over current production is what makes the PLC less distorting than these other policies, both from a practical, economic point of view as well as the legal, World Trade Organization (WTO) point of view.

Question 2. If countries that compete with the U.S. are often late in reporting their domestic support regime to the World Trade Organization, what is the enforcement mechanism at the WTO for notification requirements?

Answer. There is little to no "teeth" in any enforcement mechanism for failure to report or being late on notification. Some will point to a "shame factor" or other moral suasion techniques, but for all practical purposes there is no real way for the WTO to force notification.

Question 3. In your Foreign Crop Subsidy Database, you point out that non-biotech soybean meal receives a 13% premium over normal soybean meal prices. What has been the effect on planting decisions?

Answer. In some countries/regions, the market does offer some premiums for non-biotech soybean meal (Europe, for example). This has generated interest in planting of non-biotech soybeans in some areas (including limited acreage in the U.S.), but the economic advantages of the biotech soybeans often outweigh the 13% premium, leading to little or no additional plantings of those varieties. In some cases, Brazil for example, the government has in the past certified the entire crop as non-biotech thereby making it eligible for import into Europe when, in fact, significant acreage of biotech soybeans were planted. Overall, however, the premiums offered have not induced much acreage change globally or the U.S.

Response from Craig A. Thorn, Partner, DTB Associates, LLP

Question 1. Many Americans do not have the knowledge of programs like the Price Loss Coverage program that you all possess and often assume that PLC and other USDA safety net programs are the same as what is done by our foreign competitors. Can you explain how the Price Loss Coverage program works and why it is less distorting to the market than foreign price support regimes?

Answer. Price support programs of the type we examined in our study are among the most production- and trade-distorting forms of subsidization. Governments using such programs ensure that returns to producers do not fall below the support price level—either by making government purchases to prop up domestic prices, or by making payments to producers that make up the difference between the market price and the support price. In either case, the support price acts as the incentive price to producers and has a direct effect on planting decisions. Such programs insulate producers from price signals from the world market.

The U.S. PLC and ARC programs are comparatively less production- and trade-distorting for two reasons. First, the U.S. reference price is significantly lower than most of the support prices in the countries we examined (see table below). Second, the U.S. programs incorporate significant elements of decoupling. The payment a producer receives is linked to a fixed acreage base rather than to current year plantings. Producers eligible to receive a payment for corn, for example, receive the same payment whether they plant corn, wheat, or nothing at all. Producers cannot increase the amount of support they receive by increasing production. These policy features make U.S. producers more responsive to world price signals and reduce the effects of U.S. programs on trade.

Support Prices

(2013/14, unless otherwise noted)

Country	Wheat	Corn	Long-grain Rice
China	* $384	$361	$438
India	$232	$217	$332
Brazil	* $231	$128	$224
Turkey	$351	$310	$648
Thailand	N/A	N/A	$450
United States	$201	$146	$308

* 2014/15 support price levels.

Question 2. If countries that compete with the U.S. are often late in reporting their domestic support regime to the World Trade Organization, what is the enforcement mechanism at the WTO for notification requirements?

Answer. The notification requirements under the WTO Agreement on Agriculture are not enforceable through the dispute settlement process. However, the lack of notifications does not affect the ability of the U.S., or any other WTO member, to enforce the disciplines on subsidies under the Agreement. Information on foreign subsidy programs is readily available, and WTO Members are free to draw information from any credible source in support of a dispute settlement challenge. In fact, waiting for notifications is foolish, since in most cases those notifications are incomplete or inaccurate.

Question 3. In your Foreign Crop Subsidy Database, you point out that non-biotech soybean meal receives a 13% premium over normal soybean meal prices. What has been the effect on planting decisions?

Answer. I think this question is better directed to Dr. Hudson. His university maintains that database.

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