

# Agricultural Policy Reforms and WTO Commitments on Domestic Support in China

IFPRI-Coordinated Research Project: “Improving WTO  
Transparency: Shadow Domestic Support Notifications

Fuzhi Cheng

# Outline

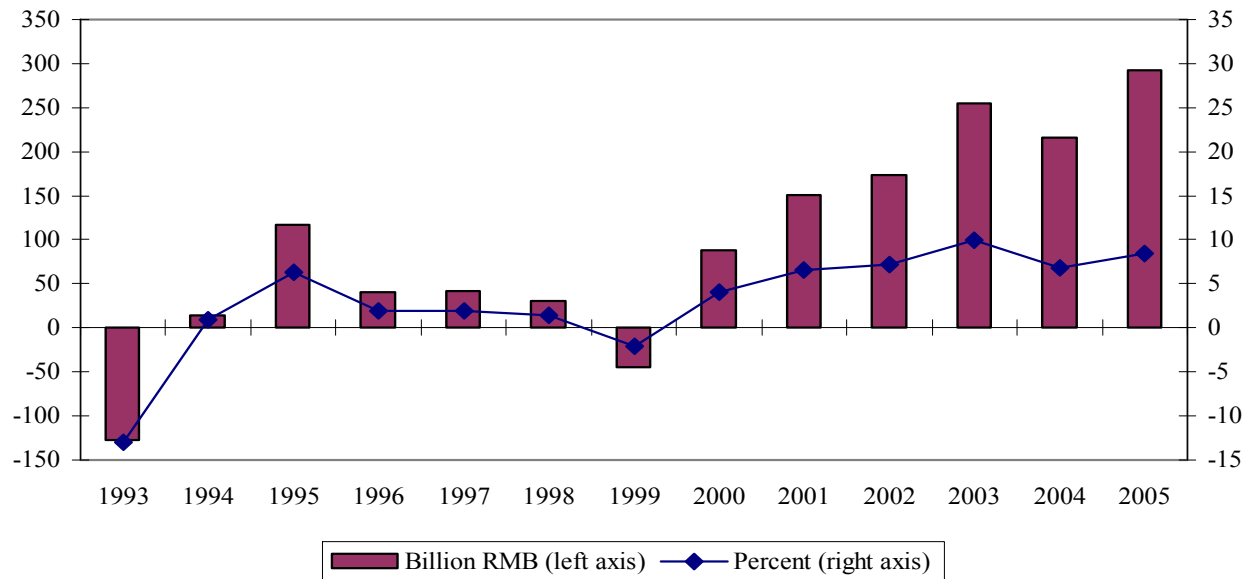
1. Introduction: trends in domestic support
2. Recent agricultural policy changes
  - Trade policies
  - Domestic policies
3. Official and shadow notifications: 1996-2005
4. Notification projection: 2006-2013
5. Impacts of a potential Doha agreement

# Introduction

- China has implemented a series of new policies that have directly favored the agricultural sector.
- These policy changes have resulted in higher support to the agricultural sector, which has been documented in various studies.
  - OECD (2007)
  - IFPRI (2007)
  - World Bank (2007)

# Producer Support Estimates

## China's Producer Support Estimate, 1993-2005



Source: OECD 2007

# Nominal Rates of Protection

## Nominal Rates of Protection to Agriculture, 1980-2005

<b>Crop</b>	<b>1980-84</b>	<b>1985-89</b>	<b>1990-94</b>	<b>1995-99</b>	<b>2000-05</b>
<b>Exportables</b>	-49.8	-45.8	-42.7	-15.8	-14.4
Rice	-54.2	-34.0	-30.4	-6.6	-7.2
Fruits	-15.2	-1.1	-14.6	-25.0	-31.2
Vegetables	-33.7	-55.4	-53.6	-18.3	-18.9
Poultry	27.1	-27.1	-38.5	-25.6	-18.0
Pork	-75.5	-48.8	-38.4	-18.9	-10.5
<b>Import-competing</b>	-18.0	15.6	-3.7	21.5	7.5
Wheat	17.6	33.5	18.3	35.3	6.2
Soybeans	-1.3	-2.7	0.5	24.4	11.6
Sugar	37.0	41.3	10.3	36.9	29.1
Milk	157.7	61.5	-6.4	13.0	19.9
<b>Mixed trade status</b>					
Maize	-33.4	-16.7	-25.5	3.4	10.8
Cotton	-30.5	-34.9	-26.5	-5.2	-0.9
<b>Weighted average of above products</b>	-46.6	-41.8	-39.4	-13.5	-12.1
<b>Coverage as % of value of total agricultural production (at undistorted prices)</b>	86.4	90.7	88.9	83.2	70.8

Source: Huang, et al. 2007

# Recent Agricultural Policy Changes

- Trade policies
  - Applied tariffs on agricultural products fell from 23.1% in 2001 to 15.3% in 2005 (overall average applied rate is 9.7% in 2005).
  - Tariff rate quotas (TRQs) have been gradually increased with out-of-quota tariff rates reduced.
  - The role of state trading enterprises (STEs) has diminished even though the government still retains some influence on imports and exports of key commodities (e.g., grains, oilseeds, sugar and cotton).
  - Temporary tariff reductions, quota policies and export taxes have been implemented since 2007 following surges in world commodity prices and high domestic inflation.

# Recent Agricultural Policy Changes

- Domestic policies
  - Mandatory procurement prices and quotas were gradually phased out.
  - Protective and minimum prices are implemented (rice and wheat).
  - Subsidies for agricultural inputs include machinery, fertilizers, pesticides, electricity, fuels, water, and transportation.
  - Direct payments are provided to grain farmers starting in 2004.
  - Agricultural taxes are eliminated (2004-2006).
  - Barriers of private entry into agricultural marketing channels are dismantled.
  - Spending on rural infrastructure, research and development are increased.

# Official and Shadow Notifications

## China's Domestic Support, 1996-2005 (million RMB)

Policy Category	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Green Box <sup>1</sup>										
Total	112,178	131,254	210,815	184,335	207,899	242,331	215,696	247,361	291,312	289,358
Selected Categories										
General Services	66,648	74,542	135,949	109,110	121,230	145,045	115,284	124,829	140,616	137,021
Public Stockholding	28,773	35,335	51,027	47,596	53,799	59,685	48,172	52,264	62,079	53,746
Domestic Food Aid	2,012	1,875	1,766	2,640	2,360	683	160	128	128	93
Environmental Programs	4,954	5,460	5,620	7,097	12,700	17,475	33,346	46,862	51,994	55,386
Product-Specific Support										
Market Price Support <sup>2</sup>	-34,980	-22,053	-18,622	-99,354	-97,159	-77,867	-65,152	-50,207	-42,986	-57,017
Other PS Support <sup>3</sup>	0	0	0	2,854	3,503	1,790	0	330	2,850	3,870
Total (before <i>de minimis</i> )	-34,980	-22,053	-18,622	-96,500	-93,656	-76,077	-65,152	-49,877	-40,136	-53,147
Total (after <i>de minimis</i> )	0	0	0	0	0	0	0	0	0	0
Non-Product-Specific Support										
Total (before <i>de minimis</i> )	28,027	26,059	34,122	700	745	748	10,391	6,370	15,739	45,364
Total (after <i>de minimis</i> )	0	0	0	0	0	0	0	0	0	0
8.5% of Value of Production <sup>4</sup>	166,258	175,640	180,562	186,916	188,727	198,599	198,783	207,476	257,653	279,855
Current Total AMS	0	0	0	0	0	0	0	0	0	0

Note: 1. Green Box includes direct payments made in 2004 and 2005.

2. In calculating the Market Price Support, actual border prices and fixed, 1996-98 average border prices are used for 1996-98 and 1999-2005, respectively.

3. According to official notification, other PS support was provided to cotton through interest subsidies for national cotton stockholdings during 1999-2001. From 2003-2005, this support include seed subsidies.

4. Value of production is based on producer prices.

# Several Features of Domestic Support

- Growing green-box support as a result of increased public investment in the agricultural sector.
- No “special and differential treatment” (measures are to be reported in the amber-box).
- No “blue-box” support (although China is entitled to).
- No total AMS commitments; domestic support is subject to *de minimis* limit (8.5% of Value of Production (VOP)).
- Zero current total Aggregate Measure of Support (AMS) during the period examined because of negative Market Price Support (MPS) and large VOP.

# Problems with MPS

- Eligible production: total production or actual amount procured?
- Fixed reference price (1996-98 average): higher reference price (as compared to 1986-88 average); changes in actual border prices as a result of changes in world prices and exchange rate fluctuation.
- Mis-counting: over-counting or under-counting.

# MPS under Different Assumptions

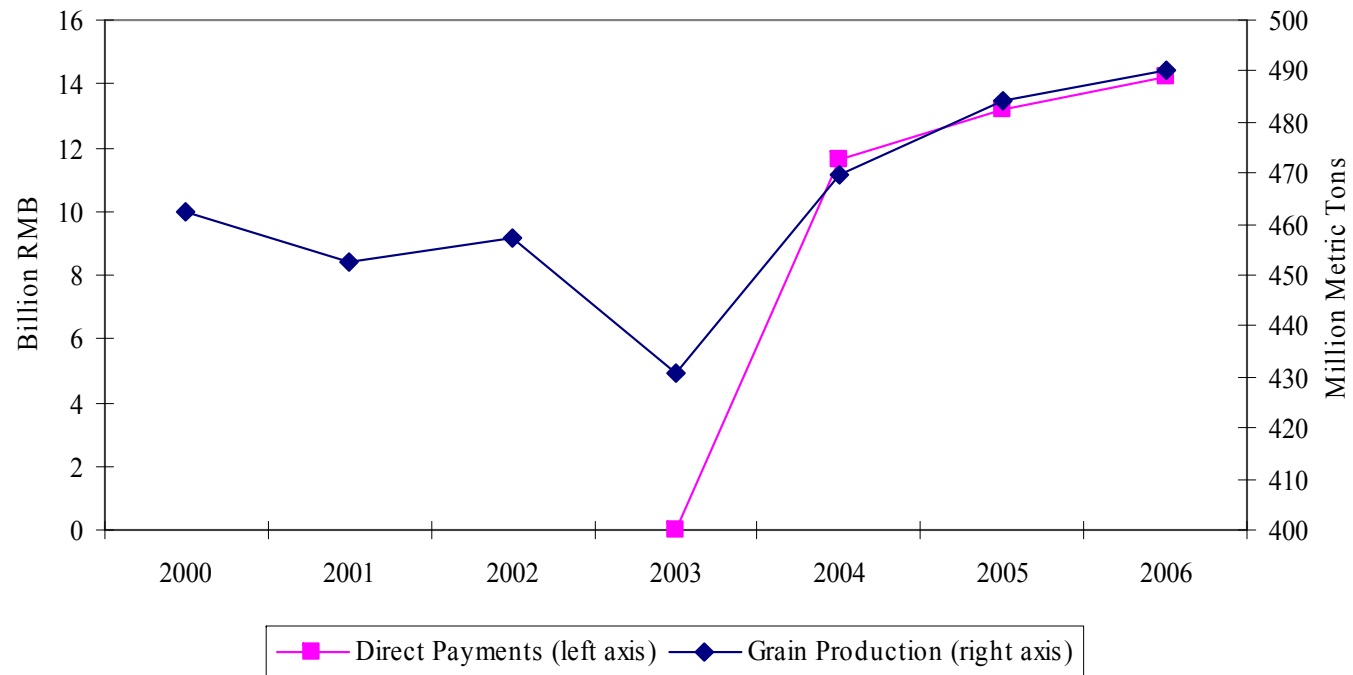
## MPS under Different Assumptions (million RMB)

	Market Price Support					
	Actual Purchase			Total Production		
	Fixed Base Ref. Price	Actual Ref. Price	Mis- counting	Fixed Base Ref. Price	Actual Ref. Price	Mis- Counting
1999	-99,354	-32,949	-66,405	-384,650	-165,073	-219,577
2000	-97,159	-11,251	-85,908	-367,050	-58,686	-308,364
2001	-77,867	-4,605	-73,262	-358,527	-24,889	-333,638
2002	-65,153	6,230	-71,383	-295,141	36,387	-331,528
2003	-50,207	6,427	-56,634	-225,202	40,057	-265,259
2004	-42,986	-17,455	-25,531	-281,263	-122,490	-158,773
2005	-57,017	-16,049	-40,968	-297,491	-108,513	-188,978

Source: Author's calculation

# The Nature of Direct Payments

## Direct Payments and Grain Production



Source: Author's calculation.

# Non-exempt Direct Payments

## Non-exempt Direct Payments to Farmers and Product Specific Support

	Payment Rate	Eligible Production	Non-exempt payments	MPS	PS Support (before <i>de minimis</i> )	8.5 % of VOP	PS Support (after <i>de minimis</i> )
	<i>RMB/ton</i>	<i>000' tons</i>			<i>---- Million RMB ----</i>		
<b>2004</b>							
Wheat	48.0	91,952	4,416	-7,193	-2,777	11,641	0
Rice	27.3	179,088	4,893	-26,919	-22,025	24,301	0
Corn	17.4	130,287	2,265	-8,874	-6,609	10,997	0
<b>Total</b>	--	401,327	11,574	-42,986	-31,411	46,939	0
<b>2005</b>							
Wheat	50.5	97,445	4,922	-11,902	-6,980	11,432	0
Rice	29.8	180,588	5,383	-32,385	-27,002	23,842	0
Corn	20.7	139,365	2,885	-12,729	-9,844	12,154	0
<b>Total</b>	--	417,398	13,190	-57,016	-43,826	47,428	0

Note: Other non-exempt PS support is not reported.

Source: Author's calculation

# Adjustments in NPS Support

- Current calculation is based on government budgetary subsidies made to the state-owned agricultural input manufacturers (consisting of fertilizer, pesticide and mulching film producers). Only part of the subsidies go to farmers.
- According to AoA, specific agricultural levies or fees paid by producers should be deducted from the AMS (Annex 3).
- Irrigation, electricity and fuel subsidies are important but not included in the calculation.

# Agricultural Taxes

**Agricultural Taxes in China, 1990-2005 (million RMB)**

Year	Total	Agricultural tax and animal husbandry tax	Contract tax	Tax on special agricultural products	Tax on use of cultivated land
1990	8,786	5,962	118	1,249	1,457
1991	9,065	5,665	189	1,425	1,786
1992	11,917	7,010	361	1,624	2,922
1993	12,574	7,265	621	1,753	2,935
1994	23,149	11,951	1,182	6,369	3,647
1995	27,809	12,812	1,826	9,717	3,454
1996	36,946	18,206	2,520	13,100	3,120
1997	39,748	18,238	3,234	15,027	3,249
1998	39,880	17,867	5,899	12,779	3,335
1999	42,350	16,308	9,596	13,143	3,303
2000	46,531	16,817	13,108	13,074	3,532
2001	48,170	16,432	15,708	12,197	3,833
2002	71,785	32,149	23,907	9,995	5,734
2003	87,177	33,422	35,805	8,960	8,990
2004	90,219	24,200	54,010	0	12,009
2005	93,640	5,941	73,514	0	14,185

Source: NBS, 2006

# Irrigation Subsidies

## Estimated Subsidies to Irrigation in China 1996-2005

Year	Annual increase in irrigated land	Annual capital investment	Annual O&M costs	Total annual costs	Annual irrigation subsidies
	<i>000' ha</i>		<i>--- mil. RMB ---</i>		
1996	1,262	55,533	5,553	61,086	57,477
1997	857	37,704	3,770	41,474	39,023
1998	1,058	46,519	4,652	51,171	48,148
1999	862	37,937	3,794	41,731	39,265
2000	662	29,117	2,912	32,029	30,136
2001	429	18,876	1,888	20,764	19,537
2002	105	4,637	464	5,100	4,799
2003	--	--	--	--	--
2004	465	20,442	2,044	22,486	21,158
2005	551	24,221	2,422	26,643	25,069
Average	695	30,554	3,055	33,609	31,624

Note: O&M costs are assumed to be 10 percent of annual capital investments and cost recovery is 65 percent of O&M costs. Estimates for 2003 are not available due to decrease in irrigated land.

Source: Author's Calculation

# Electricity Subsidies

## Electricity Subsidies 1996-2005

	Ag. Usage	Electricity Price		Price Wedge	Subsidies
		Agriculture	Average		
	<i>bil. kw</i>	<i>--- RMB/kw ---</i>			<i>mil. RMB</i>
1996	168	0.51	0.41	0.10	16,765
1997	198	0.49	0.39	0.10	19,024
1998	204	0.48	0.39	0.09	19,220
1999	217	0.46	0.37	0.09	19,603
2000	242	0.45	0.36	0.09	21,364
2001	261	0.45	0.36	0.09	23,030
2002	299	0.43	0.35	0.08	25,238
2003	343	0.43	0.35	0.08	28,944
2004	393	0.4	0.32	0.08	30,847
2005	438	0.35	0.28	0.07	30,029
Average	276	0.45	0.36	0.09	23,407

Source: NBS, various years and author's calculation

# Notification projection: 2006-2013

- Assumptions
  - Domestic price scenarios (high, medium and low)
  - Commodity coverage scenarios (two-commodity and four-commodity)
  - Direct payments to farmers are notified in the green-box
  - Subsidies related to irrigation, electricity and fuels are not included
  - Applicable Agreement: Uruguay Round Agreement

### Projection of China's Notification under Current WTO Commitments, 2006-2013 (million RMB)

Policy Category	2006	2007	2008	2009	2010	2011	2012	2013
Green Box	317,235	337,809	358,383	378,957	399,531	420,105	440,679	461,253
Product-Specific Support								
<i>High Price</i>								
A: Total (before <i>de minimis</i> )	-62,665	-62,802	-21,486	-20,793	-20,099	33,331	35,022	36,713
Total (after <i>de minimis</i> )	0	0	7,874	8,107	8,341	40,099	41,134	42,168
B: Total (before <i>de minimis</i> )	-44,294	-43,778	-24,504	-23,875	-23,246	296	1,060	1,823
Total (after <i>de minimis</i> )	0	0	0	0	0	13,832	14,152	14,472
<i>Medium Price</i>								
A: Total (before <i>de minimis</i> )	-62,665	-62,802	-42,213	-41,935	-41,657	-17,208	-16,473	-15,738
Total (after <i>de minimis</i> )	0	0	0	0	0	9,311	9,564	9,818
B: Total (before <i>de minimis</i> )	-44,294	-43,778	-33,882	-33,310	-32,737	-21,662	-21,028	-20,393
Total (after <i>de minimis</i> )	0	0	0	0	0	0	0	0
Non-Product-Specific Support								
Total (before <i>de minimis</i> )	10,751	10,373	10,355	13,624	13,350	13,816	13,803	13,420
Total (after <i>de minimis</i> )	0	0	0	0	0	0	0	0
8.5% of Value of Production	261,635	272,525	283,416	294,306	305,197	316,087	326,977	337,868
Current Total AMS								
High Price: A	0	0	7,874	8,107	8,341	40,099	41,134	42,168
High Price: B	0	0	0	0	0	13,832	14,152	14,472
Medium Price: A	0	0	0	0	0	9,311	9,564	9,818
Medium Price: B	0	0	0	0	0	0	0	0
OTDS (High Price: A)	-51,914	-52,429	-11,131	-7,168	-6,749	47,147	48,825	50,133

Note: 1. High price: administered price increases 20 percent in 2008-2010 and 2011-2013, respectively. Medium price: administer price increases 10 percent in 2008-2010 and 2011-2013, respectively.

2. A: program covered commodities include wheat, rice, corn and cotton. B: program covered commodities include wheat and rice.

3. PS support only includes Market Price Support.

4. Projection of Green Box, NPS support and production is based on linear regression.

# WTO Commitments

- China will comply with its WTO commitments if the current commodity programs are continued and there are no dramatic increases in support prices. (Medium Price: B).
- In High Price: A, China's AMS can exceed its de minimis ceiling as early as 2008.
- Violations of WTO commitments will occur at a later date (2011) if prices are low or current commodity program coverage is maintained (Medium Price: A or High Price: B).
- Failure for China to comply with its commitments either in high price or extended commodity coverage scenario results from over-de minimis product-specific payments. NPS support will remain under its de minimis levels despite steady growth.

# Effects of A Potential Doha Agreement

- Limited effects on China because of its developing country status with no AMS commitments.
- The de minimis (8.5% of VOP) will continue to be the binding constraint on domestic support (in addition to the new OTDS: 22% of VOP).
- Because of China's large value of production (an average of RMB2,150 billion during 1996-2001), the limit on OTDS for China is RMB473 billion, which will hardly become a constraint for the country even under the highest support scenario (high administered price with four covered commodity).
- The new blue box implies that China can extend domestic support up to RMB108 billion overall and RMB11 billion for a specific product, providing that such support satisfies the criteria for blue box set out in the new agreement.

## Main Provisions of Draft Modalities and China's Commitments

Categories	Draft Modalities	China's Commitments
<b>OTDS</b>		
Base Level	Final bound total AMS +10% (or 20%) VOP + higher of average Blue Box payment or 5% VOP	22% VOP
Reduction	Tiered reduction	No reduction
<b>Total AMS</b>		
Base Level	Final bound values in 2000	0
Reduction	Tiered reduction	No reduction
<b>PS AMS</b>		
Cap	Base period average PS AMS	<i>de minimis</i> in monetary terms
<b>De Minimis</b>		
Reduction	50 or 60%	No reduction
<b>Blue Box</b>		
Overall Cap	2.5% or 5% VOP	5% VOP
PS Cap	Base period average PS support	10% of overall Blue Box ceiling
<b>Cotton</b>		
AMS	Formula reduction	No reduction
Blue Box	1/3 of PS Blue Box cap	1/3 of PS Blue Box cap
<b>VOP</b>		
Base Period	1995-2000 average	1996-2001 average

Source: TN/AG/W/4 and author's compilation