

## Leaflet 7. Rice and the World Trade Organization

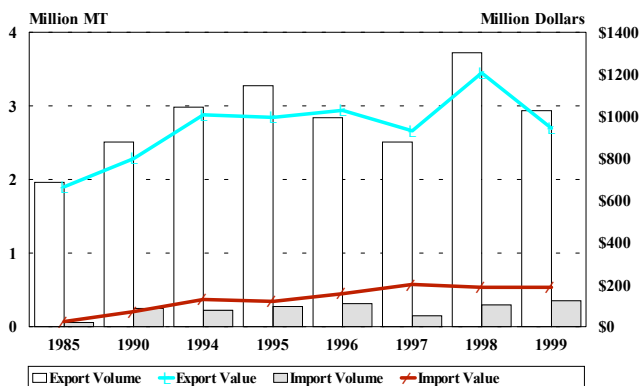
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### Trade Situation and Outlook

Increased market access is especially important for rice as the international rice market is characterized by a high level of government intervention compared with other grains and oilseeds. The bulk of this intervention is in the form of state control of trade, including state trading enterprises. The trade volume for rice comprises only about 6 percent of global production compared to 12 percent for coarse grains, 20 percent for wheat, and 25 percent for soybeans.

Increased market access has been the most significant impact of the Uruguay Round Agreement on Agriculture (URAA) for rice following the implementation of minimum access (MA) commitments for Japan and South Korea. Both countries had maintained virtual bans on rice imports prior to the URAA. The U.S. currently supplies about half of Japan's rice imports. Both countries are also committed by the URAA to gradual tariffication over time. Japan instituted tariffication in April 1999. The new export trade with Japan and South Korea has increased total world rice trade by about 5 percent including over 30 percent more trade in high quality medium grain rice.

U.S. Rice Trade, 1985 - 1999



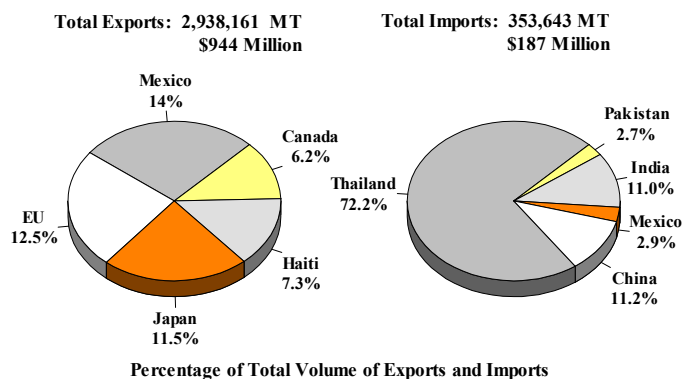
Source: FATUS

In addition to the URAA, other regional free trade arrangements have also contributed to

increased world rice trade in the 1990s. NAFTA was an important reason for increased rice imports by Mexico while the MERCOSUR increased imports by Brazil.

Despite the progress in improving market access with the URAA and regional trade agreements, world rice trade in 2000 is projected to decline about 4 percent below 1999 and 15 percent below the 1998 record. A record 397 million mt (milled basis) world rice production is projected for 1999/2000 due to record or near-record crops in China, India, Indonesia, Bangladesh, Vietnam and Thailand. This

U.S. Rice Exports and Imports, 1999



Source: FATUS

increased Asia production will more than offset smaller crops in Latin America and the Middle East. International prices have declined sharply since 1998 when Indonesia and the Philippines were importing at record levels. Ending stocks are forecast to increase 4 percent to a record 59.8 million mt in 1999/2000.

Trade projections for major rice exporters in 2000 include Thailand (5.8 million mt), Vietnam (4.0 million mt), the U.S. (3.0 million mt), Pakistan (2.0 million mt), India (1.5 million mt), and China (2.75 million mt). China has been a net rice exporter since 1997 and will increase exports by 0.25 million mt above 1998/99 exports. Thailand competes strongly with the U.S. in high quality long grain rice

markets such as the EU, the Middle East, and South Africa. Pakistan, India, and Vietnam typically sell lower quality rice. Indonesia is projected to be the dominant importer in 2000, taking 3.0 million mt, down from 6.1 million in 1995. Other import projections for 2000 are the Philippines (0.9 million mt), Bangladesh (1.0 million mt), the Middle East (3.6 million mt), Latin America (3.0 million mt), Nigeria (0.8 million mt), South Africa (0.6 million mt), and China (0.4 million mt).

### **Major Rice Trade Issues**

WTO Accession. The Japanese and South Korean rice markets for high quality japonica rice are still highly protected. Until a new agreement is reached, Japan's tariff-rate quota (TRQ) will be limited to 682,000 mt. South Korea's market access will be constrained at about 205,000 mt in 2004. Increased market access in Japan and South Korea will be important issues in further trade negotiations. Accession of Taiwan into the WTO will open an additional rice import market of about 145,000 mt high quality japonica rice.

In the WTO accession agreement with the U.S., China committed to a 2.66 million mt TRQ for rice in 2000, rising to 5.32 million mt in 2004 including half japonica and half indica rice. China is currently a net rice exporter, exporting high quality japonica and importing lower quality indica.

The EU agreed to convert variable levies to fixed tariffs and reduce tariffs by 36 percent by 2000. This commitment should improve market access to the EU over time.

Price Volatility. The international rice market exhibits greater price volatility than other grain or oilseed markets because of the small volume traded, the importance of rain fed monsoon rice production, and the segmentation of rice into different types and qualities. The GMO (biotechnology) issue is another recent development in world trade that may cause further segmentation. Japan, South Korea, and the EU are currently drafting new regulations for GMO

imports. Both Japan and the EU have proposed new labeling regulations.

Domestic Support. Although the U.S. government income payments to rice producers are currently in compliance with the URAA AGreen Box® regulations, the current rice marketing loan program is not in compliance. Low world prices in 1999/2000 have triggered large market loan payments for most U.S. crops. To be in compliance, the U.S. must reduce aggregate measures of support (AMS) on many domestic policies that provide producers with direct economic incentives to increase production. All AMS in the Amber Box category must be reduced by 20 percent over 6 years starting from 1995.

Sanitary/Phytosanitary Issues. U.S. rice exports to Latin America have been indirectly protected by SPS bans on Asian rice imports, particularly by Mexico and Central America. The URAA stipulates that the SPS measures be applied in a consistent manner and not used as arbitrary trade barriers.

Free Trade Area of the Americas. NAFTA has been highly beneficial for U.S. agricultural trade including rice. The U.S. currently supplies most of the rice imported by Canada and Mexico. However, the U.S. has not participated in other regional trade groups. The U.S. has the broad goal of fostering economic and political stability in Latin America and the Caribbean. There is a strong desire to secure more open and transparent rules for U.S. trade and investment in the rapidly growing Latin American markets. To achieve this goal, the U.S. is actively seeking to establish a Free Trade Area of the Americas (FTAA) to turn the multitude of current regional trade agreements into one comprehensive agreement. Proximity to the Latin American markets can provide U.S. rice exports with a strong competitive edge if market access can be improved.