

**Testimony to the United States House of Representatives
Committee on Agriculture**

by

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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

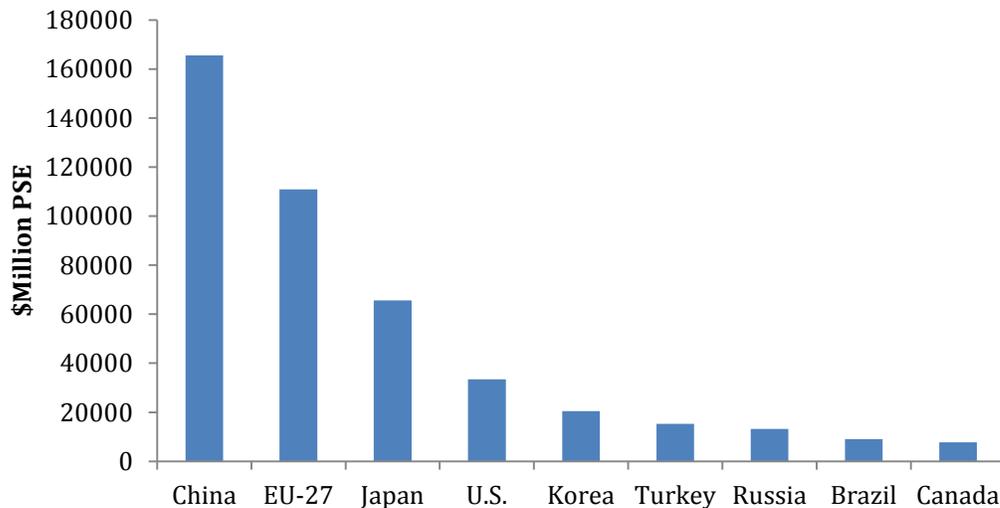


Figure 1. PSE Data for Major OECD Agricultural Producing Countries and Select Non-OECD Countries, 2012.

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.

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.

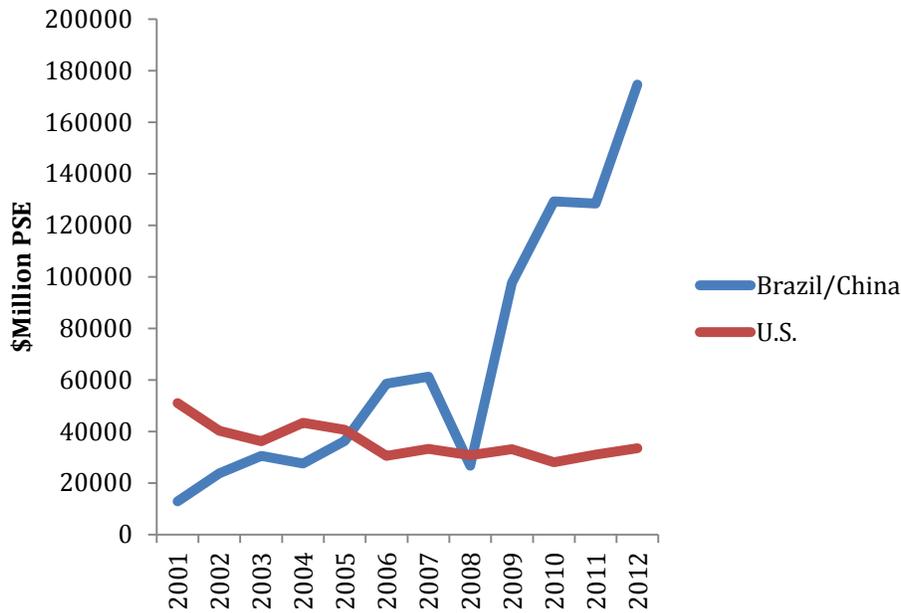


Figure 2. Trends in PSE for Brazil+China Versus the U.S., 2001-2012. Source: OECD.

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 multi-billion 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

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

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 subsidies 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

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.

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.

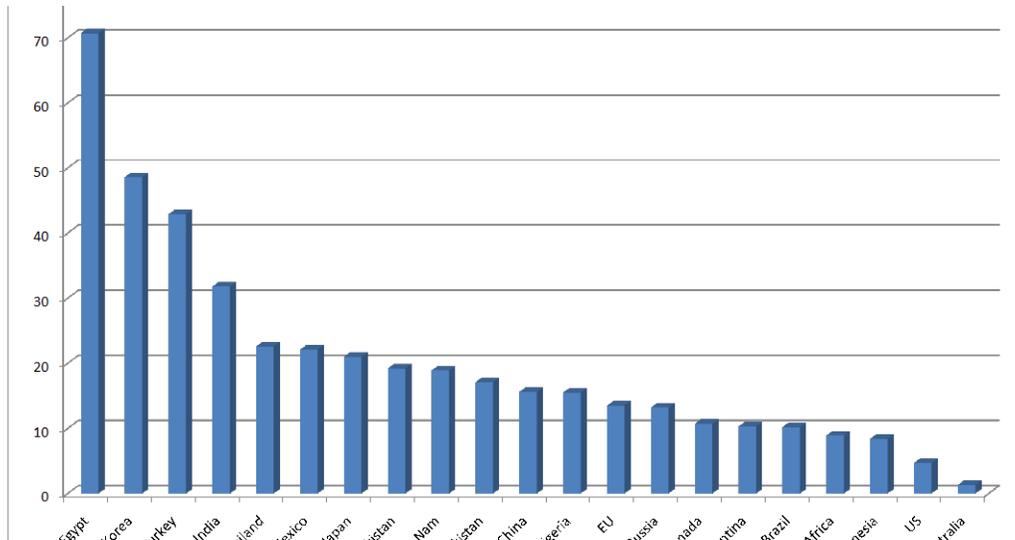


Figure 3. Average Applied Tariffs on Agricultural Products in Selected Countries, 2013. Source: World Trade Organization

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 barriers⁴ 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 2 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.

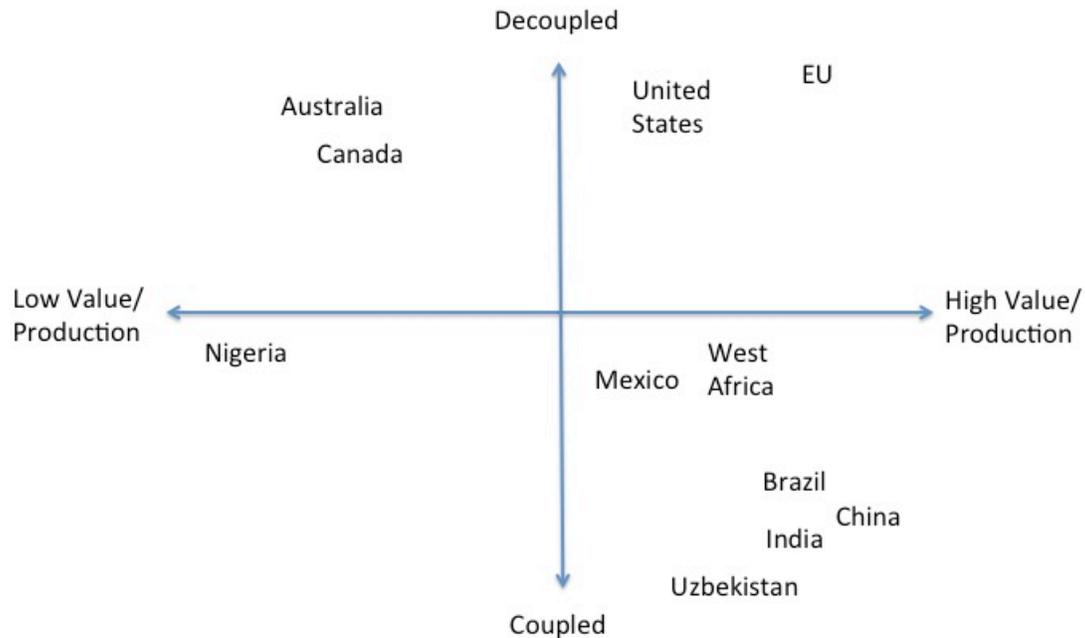


Figure 4. Author's Representation of Subsidy Differences on a Couple/Value 2 Dimensional View.

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.

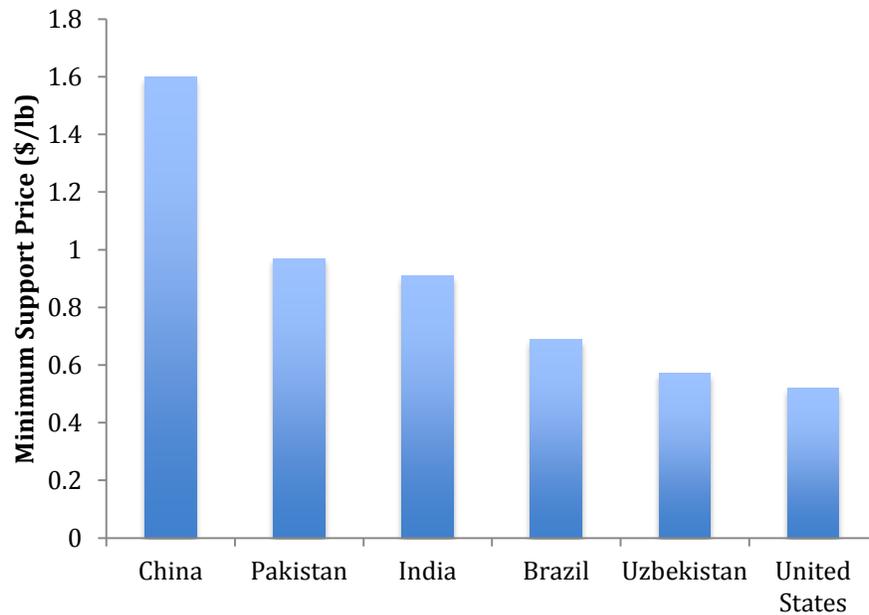


Figure 5. Minimum Stated Support Prices for Major Cotton Producing Countries, 2015.⁵

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 3 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 a 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.

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\$/US\$ exchange rate as of December 2014.

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/cei/index.aspx> for more information. This database is 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 is 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
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.