

U.S. Challenges to China's Farm Policies

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In 2019, the World Trade Organization (WTO) ruled in favor of the United States in two cases that the Office of the United States Trade Representative (USTR) filed against China, alleging that China's agricultural policies were inconsistent with its WTO obligations. The United States and China disagree about whether China has changed its policies sufficiently to conform to the WTO rulings, and the two cases have been referred to arbitration.

China's Farm Support Spending

In the first case ([DS511](#)), USTR contended that China's support policies for growers of wheat, rice, and corn exceeded the support limit it agreed to in 2001, when it joined the WTO, by nearly \$100 billion from 2012 through 2015. USTR asserted that these policies created an incentive for Chinese farmers to increase production of the subsidized crops, displacing imports and distorting international trade. On February 28, 2019, the WTO [dispute settlement body agreed](#) with major parts of the U.S. complaint, and recommended changes to bring Chinese rice and wheat policies into compliance with China's WTO commitments. China did not appeal the ruling but committed to abide by it. China restated that commitment in [its Phase One trade agreement with the United States in January 2020](#).

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

In 2016, [China reported that it had purchased 28.5 million metric tons \(MMT\) of wheat](#), representing 6.6% of the total value of national wheat production. Under the prior system, the [dispute settlement body found this to violate China's WTO commitments](#) because there was no cap on government procurement, and the price support could have led to greater domestic production. Under the new system, the eligible quantity is announced in advance, so the policy can be perceived as not encouraging production beyond that cap. With the flexibility to set these amounts annually, China can alter the quantity of subsidized

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commodities to remain within the allowable limit of 8.5% of the value of production, but purchase domestic rice and wheat at existing or higher levels than it previously did. China's new policy thus provides the government flexibility to determine the quantity of production it would like to support, possibly influencing the amount of rice and wheat that the country imports.

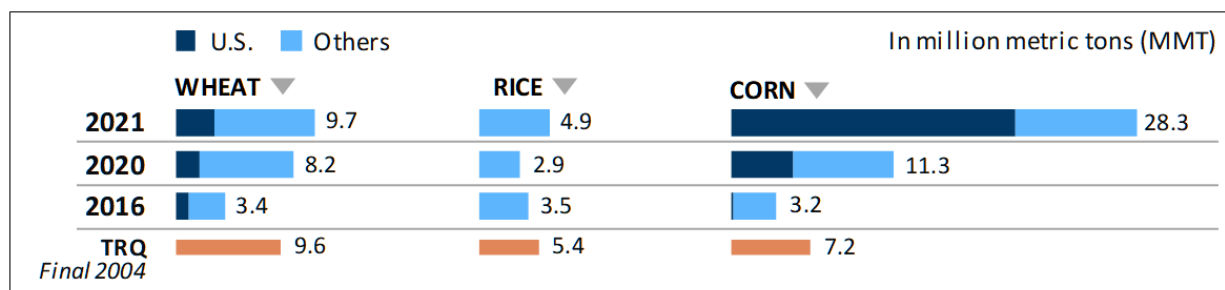
The United States did not consider the Chinese policy changes sufficient. In July 2020, the United States requested the WTO authorize it to take retaliatory actions on the ground that China had failed to bring its measures into compliance with its WTO obligations. China objected to U.S. action and requested the establishment of a WTO panel to review its compliance. On September 28, 2020, a review panel was established, but it has not yet issued any rulings.

China's Market Access Policy

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

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

Figure 1. China's Tariff-Rate Quotas (TRQs) and Grain Imports
2016 versus 2020 and 2021, in million metric tons (MMT)



Source: China Customs Data, via Trade Data Monitor, accessed February 2022. TRQ volumes are unchanged since 2004.

As China's rice imports in 2020 were below the 5.4 MMT allowed under its TRQ at a 1% tariff rate, on July 16, 2021, USTR requested WTO approval to retaliate, stating that China failed to comply with its WTO obligations. China objected to U.S. statements and requested the establishment of a WTO panel that would review its compliance. On August 30, 2021, the WTO agreed to establish the review panel. The panel has not yet issued a ruling. China's imports of wheat, corn, and rice increased significantly in 2021, although its rice imports continue to be less than allowed under its TRQ (Figure 1).

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