



Submission of the USA Rice Federation to President-Elect Barack Obama’s Transition Team for the Office of the U.S. Trade Representative

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ADVOCATE FOR THE U.S. RICE INDUSTRY

The USA Rice Federation is the global advocate for all segments of the U.S. rice industry with a mission to promote and protect the interests of producers, millers, merchants and allied businesses. Through the USA Rice Federation, the U.S. rice industry has a unifying forum that equips the industry with a strong voice and works to ensure rice’s voice is heard when and where it counts.

The USA Rice Producers’ Group, USA Rice Millers’ Association, USA Rice Council, and the USA Rice Merchants’ Association are all members of the USA Rice Federation. Each organization has a distinct identity and mission, overseen by its own board of directors.

USA Rice Federation Members

USA RICE PRODUCERS’ GROUP

The Rice Farmers’ Advocate

The USA Rice Producers’ Group is composed entirely of rice farmers. This representative body ensures a forum for policy development on issues that affect rice farmers, and a voice for rice farmers to advance and implement activities to address those issues.

USA RICE MILLERS’ ASSOCIATION

Representing the U.S. Rice Milling Industry Since 1899

The USA Rice Millers’ Association is one of the oldest agribusiness organizations in America. Members include farmer-owned cooperatives and privately owned mills, with mill members in Arkansas, California, Florida, Louisiana, Mississippi, Missouri, and Texas. Associate members included exporters, shippers and other businesses allied with the rice trade, representing business operations in more than 17 states.

USA RICE COUNCIL

Promoting U.S.-grown Rice at Home and Around the World

The USA Rice Council brings rice farmers, dues-paying mills and other industry members together to steer the course for domestic and international promotion. Programs are implemented through the USA Rice Federation, which conducts export market promotions in working partnership with the U.S. Department of Agriculture’s Foreign Agricultural Service.

USA RICE MERCHANTS’ ASSOCIATION

Representing Merchandisers and Associates

The USA Rice Merchants’ Association was the first organization to bring rice merchandisers and related businesses together in a representative, recognized body, and is the newest member of the USA Rice Federation. Merchants are an important component of the U.S. rice industry, providing a market outlet for thousands of farmers in all six rice-producing states.



KEY TRADE POLICY FACTS ABOUT THE U.S. RICE INDUSTRY

The United States is unique as a major exporter of all rice types – long, medium, and short grain. The major rice-producing states are: Arkansas, California, Louisiana, Texas, Mississippi, and Missouri. The U.S. rice industry is able to provide rice in whatever form demanded by the market (i.e. rough, brown, milled, or parboiled) and according to the shipment basis required (packaged, bagged, bulk, destination bagging, f.a.s., f.o.b., c.i.f., etc.).

The U.S. rice market is open to and depends on the global market. Nearly half of the U.S. rice crop is exported to over 100 countries. Mexico and Japan, the top export destinations for U.S. rice, account for \$242 million and \$167 million in exports, respectively. Exports average over \$1 billion annually and in 2007 reached \$1.4 billion. At the same time, just over 10 percent of total U.S. rice consumption is imported, reflecting the virtual absence of import protection, and consumer demand for certain aromatic rice varieties in excess of U.S. production.

The global rice market is extremely “thin,” with most production consumed where it is grown. This makes the United States, a relatively small global rice producer, a major player in the international market, supplying about 13 percent of world trade. Because of widespread cultivation in many countries and the generally high share of in-country consumption, rice is one of the most heavily protected crops in terms of domestic support and border protection. As a result, U.S. rice exports face near constant market access barriers, especially in markets in Asia, Europe, and in some Central American countries.

The key international trade objectives of the USA Rice Federation are:

- Continued expansion of meaningful market access for U.S. rice on a bilateral and multilateral basis in trade agreements that are fair and balanced and that preserve an appropriate safety net for U.S. producers.
- Aggressive enforcement by the U.S. government of existing trade agreements.
- No renegotiation of the North American Free Trade Agreement.
- Continued reform of U.S. statute and policy regarding agricultural trade sanctions, including the restoration of normal commercial relations with Cuba.
- Protection of the U.S. food supply by the application and enforcement of the same food safety standards on imported rice as applied and enforced on domestic production, and adoption of appropriate protections, in consultation with U.S. agriculture, against terrorist threats to the food supply.

These objectives are discussed in detail in the *International Trade Policies of the USA Rice Federation* and in USA Rice’s *Submission for the 2009 Annual National Trade Estimate Report on Foreign Trade Barriers*, which follow immediately below.



INTERNATIONAL TRADE POLICIES OF THE USA RICE FEDERATION, 2009

Trade sanctions reform

- We support continued trade sanctions reform, especially improving the U.S. government's procedures for approving export licenses for agricultural products, in addition to that signed into law by the President on October 28, 2000.
- We support restoration of normal commercial relations and travel between the United States and Cuba.
- We support removal of the OFAC cash payment in advance rule for agricultural sales to Cuba.

Imports

- We support having the same standards applied and enforced on imported rice as those imposed on domestic rice, including government efforts to regulate the safety of imported food.

Protection of the U.S Food Supply

- We support the administration's efforts to respond to possible terrorist actions against the safety of the U.S. food supply. U.S. actions should be developed in consultation with U.S. agriculture; be transparent and targeted; and apply to imported as well as domestic foods.

Trade Promotion Authority

- Support a conditional extension and reauthorization of Trade Promotion Authority contingent upon maintaining a strong farm safety net for rice, commitments from U.S. trade officials not to unilaterally disarm U.S. agriculture in trade negotiations and to provide a strong defense to any potential WTO cases brought against rice.

Multilateral trade negotiations

- Maintain support for a multilateral trade agreement that provides for real, meaningful and significant improvements in market access for U.S. rice in foreign markets while maintaining the appropriate safety net for U.S. producers. Any reductions in trade-distorting domestic support programs must be balanced and offset by actual gains in market access and within equivalent time periods.
- We do not support multilateral disciplines on non-trade distorting domestic supports.
- Support aggressive enforcement by U.S. Government of existing trade agreements.
- Support regional and bilateral free trade agreements that advance market access for U.S. rice.
- Support and direct the effort to prevent initiation of a WTO legal complaint against U.S. rice program. If a legal complaint is issued, encourage and support a vigorous defense by the U.S. government.

Overall, we support:



- Equal market access for all types and forms of rice;
- Immediate and substantial reductions, leading to eventual elimination, of import tariffs;
- Elimination of export subsidies;
- Tighter disciplines on trade-distorting domestic subsidies;
- Reliance on scientific standards and an assessment of commercial impact when evaluating new technologies;
- Reliance on scientific standards when implementing sanitary and phytosanitary measures;
- Enforcement of SPS import restrictions on the basis of sound science only;
- Tighter disciplines on the administration of tariffs and tariff-rate quotas to eliminate the discriminatory effect of price bands, import licensing regimes, and reference price regimes;
- Tighter disciplines on the operation of state-trading enterprises, particularly import STEs, in order to increase transparency; increase participation by the private sector in import and export transactions; and ensure that importing STEs provide access to all segments of commercial demand in a market;
- Increased food security for importing nations by obtaining a commitment among WTO members not to restrict or prohibit the export of agricultural products.
- Negotiation of export credit disciplines that preserve a GSM program supportive of U.S. rice exports.
- Preservation of existing U.S. government food aid programs, including the continuation of in-kind food aid and government-to-government food assistance.

With regard to trade policies of specific countries or regions, we support the following:

European Union

- Concentrated effort by the U.S. government to assist in the restoration of competitiveness and marketability of U.S. long grain rice in the EU following the Liberty Link rice crisis.
- Continued engagement with the U.S. government and European Commission towards the establishment of a low level presence policy for unapproved GE traits in all markets for U.S. rice, especially in the European Union.
- EU import duties on rice should be reduced to zero
- EU import duties should be uniform across all types and forms of rice
- EU export subsidies must be eliminated
- Maintain full market access concessions from the Uruguay Round
- The EU's zero-duty tariff-rate quota for export to Turkey should be terminated
- Efforts should be undertaken to remove OCT/ACP preferential access
- U.S. negotiators must ensure that the EU's Everything But Arms policy for imported products from developing countries does not effectively diminish access for U.S. rice
- The 2005 bilateral agreement between the EU and the United States concerning EU brown rice import duties must be renegotiated and replaced with a fixed duty import regime. In the meantime, market access benefits for U.S. brown rice in the 2005 bilateral agreement must not be impaired by subsequent EU agreements with other rice suppliers.



Taiwan and Korea

- Reform of Taiwan's ceiling price policy for rice imported by the public sector so that this policy reflects commercial realities of the global rice market and operates in such a way as to facilitate U.S. sales of rice to Taiwan.
- Increase over time the share of private sector rice imports (within the country-specific quota for the United States) by Taiwan to 100 percent.
- Full and accelerated implementation of Korea's headnote for rice as a result of the extension of WTO Special Treatment negotiated between Korea, the United States and major rice suppliers.
- Seek and obtain compensation for the U.S. rice industry due to the exclusion of rice market access from the U.S.-Korea Free Trade Agreement.

Latin America

- Support the U.S.-Colombia Free Trade Agreement.
- Ensure effective and full implementation of the free trade agreements with Colombia and Peru.
- Support implementation of the tariff rate quota for U.S. rice in the U.S.-Colombia FTA in a manner that maximized the return of quota rents to members of the U.S. rice industry.
- Support the negotiation of bilateral and regional free trade agreements that lead in a timely fashion to the elimination of duties on all types and forms of rice imported from the United States, and which provides equal access and tariff treatment to all types and forms of U.S. rice.
- Support the elimination of price bands
- Improve operation and transparency of TRQ administration and licensing, including the administration of sanitary and phytosanitary (SPS) import certificates.
- Increase U.S. government trade policy action to counter the use of SPS-based actions by countries in the region as a non-tariff trade barrier.
- Support continued reform of U.S. laws regarding trade with Cuba with the goal of obtaining normal commercial relations between the United States and Cuba.

Japan

- Substantial reduction in Japan's within quota mark-up and out of quota duty on rice.
- Improved access for rice exporters to end users in Japan
- Substantial reductions in Japan's allowable levels of trade-distorting domestic supports.
- Continue historical level of U.S. rice exports to Japan (50 percent).
- Seek continual liberalization of the SBS component of minimum access to assure free market and commercial objectives are met.
- Establish a country-specific TRQ for U.S. rice.
- Urge the U.S. government to counter policies of the Japanese government that result in import substitution of any U.S. rice-containing export.
- Require an increase in Japan's total rice imports in exchange for Japan requesting sensitive designation for rice in the Doha Round negotiations.



SUBMISSION OF THE USA RICE FEDERATION FOR THE 2009 ANNUAL NATIONAL TRADE ESTIMATE REPORT ON FOREIGN TRADE BARRIERS

EUROPEAN UNION

Zero Tolerance for Genetically Engineered Rice

Trade has not yet resumed to normal levels between the EU and the U.S. since the U.S. long-grain rice supply was contaminated with the unapproved genetically engineered Liberty Link 601 trait in 2006. In an effort to resume trade, the U.S. rice industry has successfully established a standard seed testing protocol to eliminate the presence of LL601 from the U.S. long-grain rice supply. This protocol has been adopted in late 2006 for all crop years going forward.

Despite the significant efforts to date of the U.S. rice industry to comply with EU regulations on unapproved GE events, true market recovery will be nearly impossible to achieve absent establishment in the EU of a low level presence (LLP) policy for GM traits that are approved in other countries but not in the EU. Adopting an LLP standard would allow for the resumption of trade, the interruption of which has been costly to both the U.S. and EU rice industries. The organization representing EU rice importers, the Federation of European Rice Millers (FERM), supports the establishment of an LLP policy.

The interruption in trade has been costly to the U.S. rice industry. According to USDA data, total 2007 U.S. rice exports to the EU-27 were 98,000 mt (a decrease of 47% from 2006) valued at \$44.1 million (a 35% decrease). The UK (52,000 mt valued at \$21.5 million) and Germany (17,000 mt valued at \$9.4 million) accounted for the majority of U.S. exports to the EU.

The EU rice industry has also lost between 50 and 110 million Euros according to the *Economic impacts of low level presence of not yet approved GMOs on the EU food sector*, an independent study by GBC Ltd conducted in May 2008. In addition to the monetary loss, there are other consequences including legal uncertainty for importers and processors, disruption to EU processing, and income and employment concerns for the EU food industry.

Import Policies

U.S. brown rice exports to the EU are subject to a complex variable levy system that provides for one of three applied duties -- €30, €42.5, or €60/mt – depending on brown rice imports in a preceding 6- or 12-month period. Duties are reset every six months. The current import regime for brown rice, negotiated in 2005, resulted from the revocation of an existing trade concession by the EU called the margin of preference (MOP). The U.S. rice industry believes that the current regime has not replicated the benefits of the MOP and that, therefore, the EU has failed in its WTO obligation when it withdrew the MOP. The current brown rice import regime should be replaced by a straight duty system that would reflect the very low duties that U.S. brown rice would face under current market conditions were the MOP still in place.



Additionally, the current U.S.-EU agreement on the brown rice regime called for establishment of a new “reference level” at the beginning of the 2008-2009 EU rice marketing year (September 1, 2008). This new reference has yet to be renegotiated. It is critical that a new reference level be established at a significantly higher level than currently exists to reflect the substantial increase in EU rice consumption. The reference level is the benchmark against which current imports are measured to establish the applied duty rate for each 6-month period. A too low reference level relative to EU consumption has resulted in the applied duty setting at the maximum level of €60/mt for more than half the time since the current regime was implemented. This situation was clearly not the expectation of the U.S. or EU rice industries when the agreement was put in place.

Import Licenses

In late 2006, the EU adopted, over the objection of the United States, Commission Regulation No. 2019/2006 which provided that any TRQ amounts not covered by import licenses issued by the European Commission through the month of September would be made available to all origins during the October period for issuing licenses. In effect, the U.S. country specific TRQ for milled rice, which was originally negotiated and agreed to as an annual concession, was cut to 9 months.

U.S. rice sales to the EU fell dramatically following the announcement in 2006 of the presence of Liberty Link 601 GM trait in the commercial U.S. long grain supply. It was not until the rice industry’s successful efforts to remove LL601 from the 2007 crop became apparent in the fall of 2007 did U.S. exporters and their EU customers feel confident to resume trade.

Because of this reduced trade, EU member states issued duty-free import licenses for U.S. rice through the month of September for less than the full 38,721-ton TRQ amount, even though export licenses for the full amount had been issued by the Association for the Allocation of Rice Quotas (AARQ), the U.S.-industry sponsored administrator of this TRQ, earlier in the year. In October 2007 the shortfall was made available to all origins and was oversubscribed. In the end, holders of export certificates issued by AARQ in the amount of 13,046 tons were unable to import this rice into the EU in 2007.

The European Commission allowed holders of these export certificates to exchange them for import licenses in 2008 (even though the certificates expired on December 31, 2007). These import licenses count against the 2008 U.S. TRQ, and the U.S. will permanently lose 13,046 tons of access unless the EU grants a one-time TRQ increase to the United States.

The European Commission has changed the administration of a country-specific tariff rate quota for milled rice from the United States, Australia, and Thailand in a manner that has denied the full benefit of this concession to the United States. This is harming attempts by U.S. exporters to restore market access in the wake of the Liberty Link crisis. Because of the EU action, duty-free access in 2007 for U.S. milled rice under this annual TRQ dropped from 38,721 tons to 25,675 tons. The resulting loss of 13,046 tons represents the withdrawal of a trade concession by the EU, and has caused economic harm to the U.S. rice industry.



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This TRQ is administered in the United States by the Association for the Allocation of Rice Quotas (AARQ). AARQ auctions the rights to ship U.S. milled rice duty-free under this TRQ and splits the revenues between exporters and the industry for research activities. The current EU duty on milled rice is 175 euros/ton, and the value of the TRQ concession is substantial. Most recently, for example, the USA Rice Foundation received approximately \$135,000 from AARQ. These funds go directly to national and state rice research projects.

JAPAN

Import Policies

Anticompetitive Practices

Despite Japan's Uruguay Round commitments, U.S. rice does not enjoy meaningful market access. U.S. rice faces several obstacles in the Japanese market. In Japan Fiscal Year 2007 (April 2007-March 2008), Japan failed to meet the minimum rice access commitment set out under the Uruguay Round by approximately 10 percent.

The Japan Food Department (JFD) manages imports within the TRQ through periodic tenders for imported rice and by imports through the simultaneous-buy-sell (SBS) system. The activities of the JFD lack transparency and less than one-half of one percent of rice imported from the United States reaches Japanese consumers as an identifiable product of the United States. Imports of U.S. rice under the periodic tenders, for example, are destined almost exclusively for government stocks or re-exported as food aid. A small share of U.S. rice imported under these tenders is released from Japan Food Department stocks and permitted to enter the industrial food-processing sector.

The SBS system was designed to allow exporters access to final consumers in Japan in order to engage in consumer market development. The SBS system, which provides a substantial mark-up to the JFD (equal to the difference between the import price of rice and the wholesale price in Japan), has not allowed U.S. exporters to develop markets in Japan for high-quality short grain U.S. rice used for the table market. Only a few types of companies (Japanese trading companies and rice mills) are permitted to access rice through SBS. In order for U.S. rice to reach end users, direct participation by all levels of distribution (i.e., retail food service and food processors) in the SBS system must be facilitated. The lost value to U.S. exporters is the inability to reach Japanese consumers and develop a market for rice identified as U.S. origin. Such market access is critical to maximizing the benefits of Japan's import commitment.

Maximum Residue Levels (MRLs)

Japan currently requires that maximum residue levels (MRLs) be determined for approximately 700 chemicals on U.S. rice as a condition of entry. The testing protocols differ for regular MA rice and SBS rice with the practical result that the tests are prohibitively expensive for SBS rice. MAFF pays for the cost of testing MA rice while the Japanese and U.S. trade must bear the testing cost for SBS rice.



To reduce costs for SBS rice, the larger lot size (13,000 mt) in use for testing MA rice should also be the required lot size for rice to be tested under the SBS tenders. The lot size for SBS rice is currently 2,500 mt. Additionally, the validity date of the testing certificates issued on each lot of SBS and MA rice should be extended from the current 6 months to one year after issuance.

Many of the chemicals for which MRLs have been established are not used, or are not permitted to be used by regulation, on rice in California. By state regulation, only 31 chemicals are registered for use on rice in California. Japan should consider a certification or affidavit from California marketers that these chemicals are not used on rice. Such a step would reduce the cost and complexity of inspection.

The Ministry of Agriculture, Forestry and Fisheries (MAFF) is considering changes in procedures covering the import of rice in response to the unfortunate issue of “tainted” imported rice in Japan (September 2008). Sales of rice from the United States to Japan occur only after rigorous testing for chemical residues, with actual shipments occurring under normal commercial practices accepted by the global grain trade. In October 2008, MAFF changed contract terms for imported rice to prohibit the entry of rice from any origin that may exhibit upon arrival sweat, sea water or other type of conditional damage incurred during transit. Such a policy would override the widely accepted commercial and legal principal of mitigating loss by segregating damaged cargo and seeking redress through claims on insurance. MAFF’s proposal has the potential of destroying the value of a rice cargo, and is contrary to the accepted commercial practice of salvaging damaged shipments.

TAIWAN

Import Policies

Taiwan exercised its WTO rights in 2003 to forego special treatment for rice in favor of tariffication. Negotiations with WTO members were not completed formally until early 2007, when Taiwan notified the establishment of an annual tariff rate quota for rice of 144,720 mt, brown basis. Of this amount, 50,650 mt would be imported annually by the Taiwan private sector and 64,068 mt would be imported by Taiwan authorities as country specific quotas (CSQ) to the United States, Australia, Thailand and Egypt. Future quota growth shall be consistent with commitments undertaken by WTO Members in connection with negotiations conducted pursuant to the outcome of negotiations under the Doha Development Agenda.

Taiwan is in substantive violation of its WTO obligations because it has not fulfilled its CY 2007 obligations as regards imports of rice from the United States and other WTO members. Under Taiwan’s final tariffication notification to the WTO (March 2007), Taiwan committed to a series of CSQs for the annual import of rice by the government. The U.S. share is 64,634 mt, (brown rice basis) out of a total of 94,068 mt. Taiwan also agreed to a private sector TRQ of 50,650 mt, brown basis, annually. As of October 24, Taiwan has imported only 46% (29,795 mt) of its 2007 commitment to the United States, and only 64% (60,880 mt) of its commitment to all WTO members.



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Taiwan sets a price ceiling for public sector rice imports that effectively allows import authorities to reject tender offers and force bidders into a price negotiation. The U.S. rice

industry and AIT have repeatedly protested this anti-commercial policy and have offered technical assistance to Taiwan. The practical impact is to force exporters to lower their competitive bids in order to win tenders and to significantly delay Taiwan's purchases. The use of price ceilings may be responsible for the 2007 shortfall and has put Taiwan in substantive violation of its WTO obligations.

Taiwan's purchases are similarly delayed for 2008. As of late August, only 26% (24,300 mt) of the annual import requirement had been confirmed, of which purchases of U.S. rice (3,500 mt) were just 5% of the U.S. CSQ.

S. Korea Import Policies

South Korea, through negotiation with the United States and other WTO members, extended Special Treatment for rice in November 2005. The extension will run through 2014, and includes a country specific quota for U.S.-origin rice. South Korea's minimum access commitment runs on a calendar year basis, and the late implementation in 2005 has set a pattern of late rice tenders in each subsequent year that is not supportive of timely completion of Korea's rice import obligation. Specifically, tendering generally starts in the late summer and fall and deliveries are not finished until the middle of the following year.

Because of continuous prodding by the U.S. government and USA Rice, South Korean authorities advanced the beginning of 2008 tendering by two months, and delivery dates for global quota allocations have been moved up as well and are scheduled to finish by January 2009, which is several months ahead of last year. However, if the yet to be announced table rice delivery period extends into late summer 2009, it will be difficult for Korea to complete the country's 2009 import commitment within the calendar year.

Korea needs to tender consistently throughout the calendar year, with tendering beginning in August. Tendering consistently and beginning in a timely fashion are two of the most important determinants to compliance with Korea's WTO obligations. Korea's obligation to import is absolute, and budget constraints or the global price level for rice do not trump Korea's obligation.