USA Rice
2101 Wilson Boulevard • Suite 610 • Arlington, VA 22201-3040 • (703) 236-2300 • FAX (703) 236-2301

March 26, 2020

2020 GSP Annual Review
Product Removal Petition
HTS Codes: 1006.10.00, 1006.20.20, 1006.20.40, 1006.30.10, 1006.30.90, and 1006.40.00

The Honorable Robert E. Lighthizer
United States Trade Representative
600 17th Street, NW
Washington, D.C. 20508

Re: Docket Number USTR-2020-0005 – Petition to Remove GSP Benefits for Rice

Dear Ambassador Lighthizer:

USA Rice is petitioning for the removal of all rice from the list of products eligible for duty-free importation into the U.S. under the Generalized System of Preferences (GSP). The Harmonized Tariff System (HTS) codes for whole kernel and broken rice that are currently GSP-eligible include: 1006.10.00, 1006.20.20, 1006.20.40, 1006.30.10, 1006.30.90, and 1006.40.00.

I. Background

USA Rice is the global advocate for U.S. rice farmers, millers, merchants and allied businesses. The United States grows nearly 3 million acres of rice annually and exports just over 50 percent of that crop. Until recent years, U.S.-grown rice supplied more than 90 percent of the domestic market, a share that has continued to shrink with an increased flow of fragrant and specialty rice shipments over the last decade, nearing $1 billion in imports annually.

A 2010 study by Texas A&M's Agricultural and Food Policy Center found that rice was responsible for more than $34 billion of economic output nationally. More than 128,000 U.S. jobs were supported directly and indirectly by rice production in 2009 and that U.S. rice contributed more than $17.6 billion to U.S. wages, salaries, and profits. This strong, family-based industry has faced an uphill battle in recent years, with per capita consumption remaining even, our internal annual industry survey, the U.S. Rice Domestic Usage Report reveals that as of the 2015-16 marketing year, U.S. production makes up approximately 80 percent of domestic consumption. Alternatively, the 2000-01 market year survey showed that 90 percent of domestic consumption was U.S.-grown. This dangerous trend is primarily due to an influx of imports entering the U.S. at competitive or below-market pricing, often not subject to any import duties.

II. Rice Import Trends

Since 2010, rice imports have grown significantly, due in part to major world exporters, India and Thailand, but also to relatively new export players like Brazil, Bangladesh, and China. During the last ten full years of Census Bureau data (2010-2019), rice imports to the U.S. have grown from 567,333 metric tons (MT) to 986,276 MT, a whopping 74 percent increase. Looking at the same time frame, that's $594 million to $1.04 billion in import value, all of which is ultimately displacing domestic product.

While many of these imports are fragrant rice varieties, such as basmati and jasmine, they still fall within the classification for the HTS codes that are GSP-eligible. The U.S. produces many of these specialty varieties, but the domestic cost of production and subsequent retail prices are often higher than what the import origins are offering, despite hefty freight charges.

III. GSP-Eligible Rice Import Origin Trends

In the last four full years of Census Bureau data (2016-2019) there has been a 54 percent growth in value of rice imports from GSP-eligible countries and a 20 percent growth in import tonnage. Six of the top ten rice import origins are GSP-eligible countries (including India). Thirty-four of the total import origins (with any imports since 2016) are GSP-eligible countries (including India) and the top six of those thirty-four countries account for 99 percent of the annual imports.

Those top six GSP-eligible countries are primarily larger economies and inching toward graduation from GSP-eligibility as their economies become more developed. Argentina, Brazil, India and Thailand are all prime examples of GSP eligible countries with growing economies.

In looking at rice imports from the GSP list of least-developed countries (LDC), Cambodia and Myanmar are the primary origins. While imports from LDCs are just a fraction of total imports, those rice shipments are 100 percent duty-free. This has encouraged imports, leading to a tripling of annual tonnage shipped collectively from those two origins over the last decade. There is precedent for removal of developing country benefits for rice from countries in other regions. In recent years, the European Union (EU) has suspended its 'Everything but Arms' program benefits for rice due to a flood of subsidized imports threatening the bloc's domestic rice production. Additionally, in February of this year, the European Commission decided to withdraw tariff preferences granted to Cambodia under the 'Everything but Arms' trade scheme due to the country's serious and systematic violations of human rights.

IV. GSP-Eligible Import Origin Subsidies for Rice

Beyond the obvious price benefits afforded to GSP-eligible countries who produce rice and want to ship it to the U.S. duty-free, many of the top exporters are heavily subsidizing their rice production, often in excess of their World Trade Organization (WTO) limits. This practice of double-dipping is problematic for U.S. rice producers that follow the rules and get priced-out in the marketplace.

While Bangladesh's GSP eligibility is currently suspended, the government has recently started providing export subsidies to rice producers. Likewise, Cambodia has also maintained a series of domestic rice subsidies that incentivize exports, producing enough rice to displace European rice producers in their own market.

Thailand has provided many levels of subsidies to rice producers over the years, including the historic "Paddy Pledging Scheme" that resulted in the dumping of government stocks across the world. The scheme is still active, though not paying out much while their domestic prices are high. Thailand also spent approximately $600 million last year to provide direct payments for a minimum support price for rice. The U.S. Department of Agriculture's Foreign Agricultural Service announced this month that Thailand is again on track for record rice production this year and more competitive export pricing.

For over two decades, Brazil has operated two subsidy programs which the U.S. rice industry believes provide WTO illegal subsidies for the export of rice and other grains. The *Product Outflow Award* (PEP) program where the subsidy is paid to the grain merchandiser and the *Equalizer Award Paid to Producer* (PEPRO) program where the subsidy is paid to the producers have resulted in the displacement of U.S. grain exports in third country markets around the world. Based on Brazilian provincial supply and demand and the unanimous accounts of grain merchandisers, virtually all the rice purchased under these programs was exported.

India is another example of a bad actor that benefited for many years under GSP provisions, continuing to rank second for rice imports to the U.S. India maintains a series of input subsidies to rice growers as well as export subsidies, encouraging shipments, and misreporting to the WTO and leading USTR to counter-notify to the WTO against India in 2018 for rice subsidies.

V. Petition by USA Rice

In contrast, the United States continues to abide by WTO rules in support for its rice industry, which provide tens of billions of dollars to the U.S. economy and thousands of jobs. Over time, the industry has worked hard to become more efficient in using natural resources, meeting food safety standards, and keeping domestic retail prices low. The industry has also worked hard to build overseas markets to export what's not used domestically (approximately 50 percent of production), with a projected increase in overall exports in 2020. However, underpriced imports continue to threaten the domestic rice market as their share grows to more than 20 percent of what's consumed domestically, transitioning U.S. rice over the last two decades into an import-sensitive commodity.

The President is authorized to withdraw, suspend or limit preferences at any time with respect to GSP beneficiary countries. Specifically, the GSP statute refers to "the extent to which a country has assured the United States it will provide equitable and reasonable access to its markets." India maintains a 77.5 percent tariff on rice while conversely, their imports into the U.S. faced a very low Most Favored Nation (MFN) tariff and in some cases, duty-free access. The GSP statute also requires that countries "refrain from unreasonable export practices". India and many others previously referenced serve as egregious examples where unreasonable export practices, not limited to export subsidies, input subsidies, and other incentive payments have been provided to make export prices more competitive.

The 2019 removal of GSP benefits for tart cherries imported from Turkey is a recent example of commodity-specific import sensitivity that the rice industry sees as reassuring. It is important that the U.S. government does not inadvertently provide opportunities to our competitors to double-dip through illegal domestic subsidies and duty-free access to our market. We acknowledge that MFN duties for rice are not import-prohibiting, but they would certainly help make U.S.-grown rice more competitive and put our product on closer-to-equal footing.

U.S. rice continues to face adversity in export markets where the domestic industries claim import-sensitivity and use tariffs and non-tariff barriers to entry. Often when the U.S. has sought market access through trade deals, U.S. rice still faces in-quota tariffs from 1 to 5 percent (i.e. China, Japan, and Korea). However, our trading partners are not the only origins that can claim historical sensitivity, rice production in the U.S. dates to the late 1600's, providing a substantial domestic history and outdating many other modern American-grown crops like wheat and soybeans. Thousands of farm families across the six major rice-growing states have cultivated rice as their livelihood for many generations with an intimate connection to the crop. It is time to acknowledge that U.S.-grown rice is also import-sensitive and therefore we respectfully request the removal of GSP benefits for rice imports.

VI. Primary GSP Import Origin Value (in millions of dollars)

	2016	2017	2018	2019
Thailand	$ 389	$ 394	$ 549	$ 644
India*	$ 158	$ 178	$ 216	$ 230
Pakistan	$ 27	$ 27	$ 31	$ 38
Brazil	$ 18	$ 13	$ 22	$ 19
Vietnam	$ 20	$ 12	$ 12	$ 12
Argentina	$ 5	$ 4	$ 5	$ 6
Cambodia	$ 1	$ 1	$ 1	$ 2
Total	**$ 618**	**$ 629**	**$ 836**	**$ 951**

**Lost GSP eligibility in June 2019*

Data Source: U.S. Census Bureau Trade Data

VII. Primary Import Origin Value (in millions of dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Thailand**	405	419	436	457	449	431	389	394	549	644
India*	110	125	140	167	177	165	158	178	216	230
Pakistan**	22	17	19	33	38	37	27	27	31	38
China	4	5	4	4	4	6	5	9	29	23
Brazil**	2	17	7	5	11	14	18	13	22	19
Canada	12	14	12	14	15	11	11	12	18	17
Italy	10	15	12	11	15	15	17	15	14	15
Vietnam**	8	11	27	29	36	26	20	12	12	12
Spain	2	5	3	2	2	3	2	3	6	9
Argentina**	2	2	3	5	4	5	5	4	5	6
Total Top 10 Importers	**577**	**630**	**663**	**727**	**751**	**713**	**652**	**667**	**902**	**1,013**
Total Imports	594	652	679	757	788	741	672	688	927	1,037

**Lost GSP eligibility in June 2019*
***Currently GSP-eligible*

Data Source: U.S. Census Bureau Trade Data