U.S. Challenge of China’s Tariff-Rate Quota (TRQ) Administration System for Grains

Fred Gale

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U.S. challenge of China’s tariff-rate quota (TRQ) administration system for grains

Fred Gale
USDA, Economic Research Service

The views expressed in this presentation are those of the author and do not necessarily reflect those of the Economic Research Service or the U.S. Department of Agriculture.
USTR press release (December 2016):

• “The complaint filed by the Office of the United States Trade Representative (USTR) charges that China’s administration of its TRQs for [wheat, rice, corn] breaches China’s WTO commitments and undermines American farm exports.”

• “The United States is launching this trade enforcement challenge to hold China to its trade commitments and help level the playing field for American rice, wheat, and corn farmers.”

U.S. concerns:

• While China does announce tariff-rate quotas (TRQs) on an annual basis, China’s application criteria and its procedures for allocating the quotas to prospective importers are unclear.
• “China does not provide meaningful information on how it actually administers the tariff-rate quotas.”
• China’s administration of short- and medium-grain rice, long-grain rice, wheat, and corn TRQs is “not transparent, predictable or fair.”

ERS explanation of TRQs at the time of WTO accession in 2002:

• “Under China’s TRQ regime, a specified quantity of imports—i.e., a quota—may enter at minimal tariffs, while over-quota imports are charged much higher tariffs.”

• “The TRQ system is designed to ensure that market opportunity, not bureaucratic decree, will determine the level of imports.”

• “Producers in the U.S. are expected to gain from China’s increased imports of wheat, corn, and other agricultural products.”

• “China is still working out the details of how the TRQ regime will be implemented, and those details will determine just how open China’s market will be.”

See: “WTO Accession will Increase China’s Agricultural Imports,” USDA Agricultural Outlook magazine, April 2002
China’s tariff-rate quota commitments for grains
set by China’s December 2001 WTO accession agreement and annual announcements

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<thead>
<tr>
<th></th>
<th>Wheat</th>
<th>Corn</th>
<th>Rice</th>
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<tr>
<td><strong>Tariff-rate quota</strong></td>
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<tr>
<td>Million metric tons</td>
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<tr>
<td>2002</td>
<td>8.5</td>
<td>5.9</td>
<td>4</td>
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<td>2003</td>
<td>9.1</td>
<td>6.5</td>
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<td>2004-2018</td>
<td>9.6</td>
<td>7.2</td>
<td>5.4</td>
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<tr>
<td><strong>State-trading enterprise share</strong></td>
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<tr>
<td>Percent</td>
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<tr>
<td>2004-2018</td>
<td>90</td>
<td>60*</td>
<td>50</td>
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<tr>
<td><strong>Tariff rates</strong></td>
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<td>Percent</td>
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<td>In-quota</td>
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<td>Out of quota (MFN)</td>
<td>65</td>
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*STE share for corn was 68% in 2002, 64% in 2003, and 60% in 2004-2018.
Tariff rate quota application process

Prospective importer applies for quota

State trading enterprise (STE) applies for its share?

Municipal development and planning office

Local applications are compiled and submitted to the NDRC. Allocations are distributed to successful applicants before January 1

Each mill/plant must apply to its local office

Importers submit application in October

State Council? Other authorities?

National Development and Reform Commission

It is unclear whether authorities above NDRC have a say in the allocation process.

How does NDRC decide how much quota is awarded to applicants?

It is unclear whether STEs (COFCO) must apply for their share of quota. COFCO is both a trading company and a commercial enterprise that operates mills and processors. Lists of applicants include COFCO subsidiaries.
Hundreds of applicants for quota reflect potential demand for imported grains

National Development and Reform Commission posts spreadsheets listing applicants and a dozen items from their application. No list of successful applicants is published.

The large number of applicants suggests that quota must be rationed among the applicants. Dividing the 4.3-mmt non-STE corn quota among 1100 applicants = <4000mt per applicant. (A panamax vessel carries about 60,000 mt.)

The **wheat** quota has never filled, even when imports were highly profitable

China’s actual wheat imports exceeded 50% of the quota only two years, and never filled the entire quota.

According to prices reported by China’s Ministry of Ag, imported wheat has been at a 30-40% discount to domestic wheat from 2014 to 2016, yet the quota did not fill.
The corn quota has never filled, even when imports were highly profitable.

China’s actual corn imports never filled the entire quota and only exceeded 50% of the quota in two years.

According to prices reported by China’s Ministry of Ag, imported corn was at a discount of 15% to 35% versus domestic corn from 2014 to 2016, yet the quota did not fill.
The rice quota has never filled, even when imports were highly profitable.

According to prices reported by China’s Ministry of Ag, imported rice was at a discount of 25% to 35% versus domestic rice from 2014 to 2016, yet the quota did not fill.
Reallocation of unused quotas

• Unused quotas should be returned to NDRC in September for reallocation to other end users.
• It is unclear whether unused quotas held by state trading enterprises are reallocated
A quota is a valuable asset when imported commodities are cheaper than domestic commodities

• 2011: CEO of China’s largest feed company complained that quota is divided equally among 31 provinces; his company was allocated 3 percent of quota and had to buy quota from a state-owned company.
• 2014: news media raised concerns that small feed and flour mills were excluded from the TRQ distribution system.
• 2014: news report announcing Weihai municipality’s first receipt of a rice quota allocation implied that local offices have an active role in the allocation process.
• 2014: news media reported that NDRC was reforming the TRQ allocation system to address bribery, abuse of power, and black markets for grain quotas.
• 2015: a new allocation mechanism reportedly linked TRQ allocations to an applicant’s purchase of grain from government reserves.

• Does the volume of trade reflect “market opportunity” or “bureaucratic decree”?

• How do buyers and sellers find each other? Does the quota allocation system act as an intermediary/broker?

• Is the quota system used to manipulate the market through accumulating reserves, steering rents to state-owned companies, and orchestrating trade initiatives?

Banner celebrates first shipment of Ukrainian corn arriving at a port in 2014, the first tranche repaying a grain-for-loans agreement.
More information:
ERS web site,
China page
https://www.ers.usda.gov/topics/international-markets-trade/countries-regions/china/
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Fred Gale
fgale@ers.usda.gov