

Taiwan's Rice Import Market To Open With WTO Accession

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Abstract: Taiwan, under the recently negotiated provisions of its membership in the World Trade Organization (WTO), has committed to market access terms including the lifting of its ban on rice imports. Rice, a symbol of Taiwan agriculture, was the most controversial issue for Taiwan during its lengthy WTO membership negotiations, which began in 1992. With the partial opening of this once closed and highly protected sector, Taiwan has adjusted its rice policy to respond to this coming new reality.

Keywords: WTO, Minimum Access Quota, Riceland Diversion Program, rice policy, rice procurement, guaranteed price.

On November 11, 2001, the 142-member governments of the WTO formally endorsed the accession package for Chinese Taipei (the WTO's working name for Taiwan). The Taiwan legislature had already passed all WTO-related laws and on November 16 ratified its WTO accession. Taiwan is expected to formally become the WTO's 144th member on January 1, 2002.

Upon WTO accession on January 1, Taiwan will allow rice imports through a minimum market access quota set at 144,720 tons (brown rice basis), about 8 percent of domestic consumption during the base period 1990-92. Taiwan authorities will control 65 percent of the import trade, with private traders accounting for 35 percent. While the tariff rate for minimum access rice imports is zero, Taiwan is allowed to add a markup on the imported rice of up to NT\$23.26/kg (about US\$.74 per kilogram or US\$740 per ton) when it enters Taiwan. Taiwan has committed to reducing the markup every two weeks to market clearing levels. In addition, the imported rice cannot be re-exported, given away as food aid, or used as livestock feed. Restrictions which currently limit the release of the authorities' central rice stocks into retail and food processing channels will be eliminated, and rice imported by the authorities and placed in central stocks will be sold in the retail market in a timely fashion.

Taiwan has maintained an effective ban on most rice imports through the absolute control of trade in rice by the Council of Agriculture (COA), Taiwan's equivalent of the United States Department of Agriculture. When Taiwan reached an agreement over WTO entry with the United States in February 1998, Taiwan agreed to a minimum access level for rice, in the form of progressively increasing import quotas, roughly parallel to those of Japan. In essence, the schedule for Taiwan's rice minimum access quota starts in 1995 at 4 percent of domestic consumption, rising to 8 percent in 2000. Because of the delay in Taiwan's WTO accession, the minimum access quota for rice imports in 2000 (144,720 tons, brown rice basis) is the minimum access quota for rice imports upon Taiwan's WTO accession. Although Japan changed its rice imports into a tariff-rate quota system in 1999, Taiwan has not followed suit, and the final terms of rice imports will depend on the outcome of future WTO negotiations.

Evolving Rice Policy

Rice, a traditional crop with great political and social significance, has received the strongest policy intervention since the Nationalists fled to Taiwan after the Communists took power over the Mainland in 1949. Over the next several decades, Taiwan's agricultural authorities have tightly controlled every aspect of the rice economy from production through trade. Taiwan's rice policy—fairly constant over the decades in its stated goals—stressed self-sufficiency, at least until recently. This rice policy, however, has been adjusted

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from time to time as new issues and problems emerged in the course of Taiwan's rapid economic development.

Subsidization Leads to Riceland Diversion Programs

The most fundamental shift in the evolution of rice policy came in the early 1970s when Taiwan reoriented its rice policy from taxing to subsidizing farmers. Specifically, Taiwan established the Food Stabilization Fund with a budget of NT\$3 billion (\$94 million) in 1974 to purchase rice from farmers at prices exceeding world market prices. Because Taiwan's rice prices were much higher than required for self-sufficiency, a persistent rice surplus resulted. To dispose of its burdensome stocks, Taiwan used exporting as the main strategy. Eventually, the exports were effectively restricted by the signing of the 5-year (1984-88) U.S.-Taiwan rice agreement, which limited the volume and destination of Taiwan's rice exports.

As a result of this restriction, Taiwan modified its previous "more is better" policy by adopting its first full-scale Riceland Diversion Program (1984-89) to encourage farmers to divert their rice land to other crops, particularly soybeans and coarse grains which Taiwan has a low self-sufficiency ratio. In addition, in 1984 Taiwan started using large quantities of rice as feed—about 300,000 to 400,000 tons initially—by selling old rice to feed mills at prices equivalent to imported feed corn. By the time the first diversion program ended in 1989, Taiwan's rice production had decreased 26 percent, and government stocks had been substantially reduced. To prevent further oversupply in rice production, Taiwan then decided to launch its second diversion program in 1990, which lasted until July 1997. This time its focus was less on reducing rice supplies than on maintaining a supply and demand balance for rice.

Meanwhile, as negotiations for WTO membership intensified, Taiwan's agricultural policy increasingly came under pressure because of trade liberalization demands from its trading partners. In particular, Taiwan's ban on rice imports lost the political cover of Japan and South Korea when these countries agreed to a minimum access for rice imports in the Uruguay Round of the Agreement on Agriculture and partially opened their rice import market beginning in 1995. Since then, Taiwan authorities have been quietly preparing for a partial opening of its domestic market as the process moved forward.

Adjusting Rice Policy as WTO Accession Draws Near

Taiwan's implementation of the 4-year Rice Paddy Utilization Adjustment Program (RPUAP) in July 1997, which replaced the second Riceland Diversion Program, was the main measure used to address compliance with WTO accession commitments, including the reduction of domestic production subsidies. Although Taiwan was not yet a WTO member, Taiwan followed its previously scheduled pace to annually reduce its domestic production subsidies. Under this program, farmers were paid to set rice land aside to fallow, to plant green manure crops, or to rotate the rice crop to other crops. In addition, the program's guaranteed purchase of sorghum, corn, and soybeans diverted from rice production was adjusted from two- or three-crops-a-year coverage to only one-crop-a-year coverage.

Currently, a new 4-year program is in place after the RPUAP ended. The new program is a continuation of the RPUAP with some variations. One special feature in this new program is to enlarge the fallow area to match Taiwan's minimum access quota to avoid an oversupply of rice on the domestic market. For example, Taiwan is preparing to enlarge the fallow area to at least 32,000 hectares in the first year of its WTO accession. The 32,000-hectares are equivalent to the area required to produce 144,720 metric tons of brown rice, which is the amount Taiwan has agreed to import under the minimum access quota in the year of its WTO accession.

Taiwan's rice procurement policy also underwent adjustments over the years. The unlimited rice procurements in the early years were replaced by limited quantities per hectare in 1977, while nominal purchase prices were changed only twice. Currently, if a farmer were to sell the maximum per-hectare quantities allowable under the authorities' two rice procurement programs—the guaranteed purchase program and the price guidance program—the quantity sold would equal about half of total production. From 1996 to 2000, authorities purchased about 22 percent of Taiwan's total rice production. The rice from these purchases was put into the central stocks maintained for food security purposes in accordance with Taiwan's Food Administration Law. Central stocks of new-crop rice can be auctioned and then released in the domestic market when retail prices exceed preset limits. In addition, stocks are managed by selling new crop rice to schools, the army, and prisons, while old-crop rice is

sold to food processors, feed mills, or exported. Food aid is also an option.

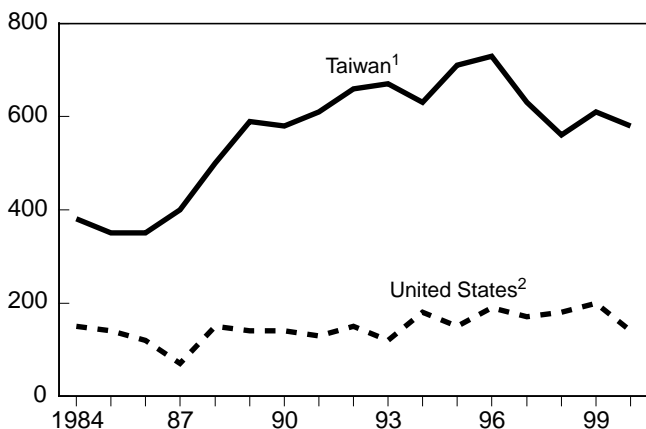
The nominal pre-established prices under these two purchase programs have been revised only two times since 1982—in 1989 and in 1995. The nominal prices paid under the guaranteed purchase program were frozen from 1982 to 1988, and frozen again from 1990 to 1994 after a 1-percent increase in 1989. The 9-percent price increase in 1995 was the last price increase.

Despite policy adjustments, Taiwan authorities have paid a substantial price to protect the rice sector. After more than a quarter century of operation, the Food Stabilization Fund had accumulated a debt of NT\$201.47 billion (\$6.28 billion) as of June 1999. These rice operation programs, in general, required authorities to buy high and sell low. In particular, rice for export or feed costs the authorities the difference between the farm procurement price and the world market price. For example, the guaranteed price for rice was \$981 per ton (japonica rice, milled basis, using a conversion factor of 0.69 to convert from paddy to milled rice) in 2000, while the average f.o.b. price for Taiwan's rice exports was \$144 per ton. Taiwan has exported an average of 100,000 tons of old crop rice from the authorities' central stocks annually over the past 3 years, mostly to African countries that have diplomatic ties with Taiwan.

Figure A-1

Producer prices for rice: Taiwan and United States

\$/ton (rough rice)



¹Japonica rice only. ²Season-average farm price for California rice.

Source: Taiwan prices, *Agricultural Statistics Yearbook*, Council of Agriculture, U.S. prices, NASS, USDA.

Rice—Still the Dominant Crop

Taiwan's rice economy changed dramatically during the past five decades. The rice sector, once a major tool for the authorities to achieve the multiple policy objectives of tax revenue, self-sufficiency, foreign exchange, and price stabilization, has increasingly depended for its survival on protective policy intervention. By Taiwan's estimates, the support for rice amounts to 30 to 40 percent of Taiwan's total Aggregate Measure of Support to agriculture. Due to its high level of protection, rice remains the dominant crop; it is grown on the largest number of farms and occupies a large share of farmland.

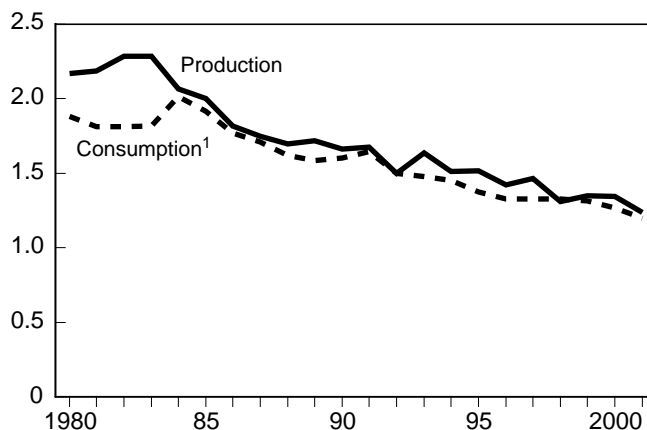
Over the past 25 years, Taiwan's rice sector has declined substantially. Rice production, after reaching its peak of 2.7 million tons (brown rice basis) in 1976, decreased almost continuously to 1.5 million tons in 2000. The termination of unlimited purchases in 1977 was a major factor behind declining acreage prior to the adoption of the first Riceland Diversion Program in 1984.

Although rice remains the most important crop in Taiwan, it has been knocked from the number one position in farm production since 1986 due to rapid growth in certain high-value products, notably hogs. Meanwhile, rice consumption, the staple food of Taiwan, has declined over the decades, a result of a strong economic growth and resulting diet diversification. Average per capita rice consumption in 1999,

Figure A-2

Rice production and consumption in Taiwan

Mil. tons (milled basis)



¹Direct food use, processed foods, industrial use, seed, and residual.

Source: FAS, USDA.

estimated at 54.9 kilograms (mainly short grain rice), was about half of the level of two decades earlier. The role of rice exports has long switched from earning foreign exchange to that of stock reductions with heavy financial costs. Rice exports have been relatively small since the signing of the rice agreement with the United States in 1984 due to uncompetitive prices and concern over the reaction from the U.S. rice industry, even though the agreement was not renewed after expiration in December 1988.

In fact, rice farming has become less attractive because of the lack of new incentives to growers. And the average age of rice farmers is rising. In addition, production costs have increased rapidly as land prices and labor costs have risen. Taiwan has lost the competitive advantages it once held in rice production, including low labor costs, land availability, and easy accessibility of water. Currently, producer prices on Taiwan are about three times that of U.S. prices.

However, farmers can still produce two crops of rice a year even in the northern-most regions of Taiwan. Many farmers are reluctant to give up rice production—the basis of Taiwan's agriculture. Taiwan's farmers have grown rice for centuries, and their irrigation systems are designed for rice production. Rice in Taiwan is much less affected than other crops by natural disasters such as typhoons. In addition, insects and diseases are effectively controlled, and machinery and equipment for rice production are well developed. And most important of all, without import competition, guaranteed purchase prices ensure rice farmers of at least some viable income level. As a result, rice area as a percentage of total crop area has declined only modestly. It accounted for 38 percent of total crop area during 1998-2000, down from 49 percent from 1960 to 1962. Rice farms still account for more than 40 percent of Taiwan's farms, although most of them are operated by part-time farmers. Rice production is still the dominant crop, accounting for more than 20 percent of the total value of crop production.

The Prospects

In general, Taiwan's agricultural policy has been cast in anticipation of membership in the WTO, and rice policy is no exception. Taiwan's rice policy, however, undoubtedly will enter a new phase after its WTO accession. So far, Taiwan's protective rice policy, in

addition to causing costly budgetary expenditures, has in fact benefited mostly part-time farmers who use rice as a cash crop that fits their needs for adequate returns with low labor requirements. Because of high labor costs, mechanized rice production in Taiwan makes rice farming easier for part-time farmers. This is ironic given the authorities' stated policy of promoting the full-time entrepreneurial type of farmers.

To chart a new course for the rice sector in the 21st century, the authorities have focused on evaluating the potential impacts of trade liberalization and structural adjustments to improve the sector's long-term competitiveness and to better utilize resources. The scope of policy options for the rice sector, however, is narrow. The old measures for reducing stocks by exporting or feed use are no longer options not only because of their financial costs but also because of restrictions under the terms of Taiwan's WTO accession. Riceland diversion to other crops is not a viable option due to high costs and concern over the WTO restriction on production subsidies. In fact, there are few crops in Taiwan that could be planted to compete with imported products under trade liberalization.

Taiwan's authorities are well aware that their rice production costs are high, which makes Taiwan vulnerable to import competition. Rice production as well as rice purchases under the current guaranteed price and guidance price purchase programs are expected to decrease. Low yielding farmland will be released for non-farm uses. The authorities estimate that up to 50,000 hectares of paddy fields will no longer be worked in the next few years. Final rice policy, including import relaxation, is still pending the outcome of future WTO consultations. For the United States, the opening of Taiwan's rice market provides a potential export market for high-quality japonica rice.

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