Trans-Pacific Partnership: What can it mean for the U.S. rice sector?

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What is the Trans-Pacific Partnership or TPP?

TPP is a comprehensive trade and investment agreement signed by 12 Pacific Rim countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam. The agreement eliminates most tariffs, tariff-rate-quotas (TRQs), and non-tariff barriers. It seeks to harmonize and make consistent a range of regulations and rules to lower trade and investment costs among the member nations.

TPP negotiations concluded on October 2015 after more than 5 years, and it now awaits for approval by each signatory member country to be in force.

What was the negotiated outcome for rice in TPP?

While the agreement is comprehensive, intensive negotiations focused primarily on a few key sectors including rice.

Table 1 below shows the negotiated import tariff reduction schedule by country and rice product. By year 15 of the implementation period, all rice import tariffs among TPP members will be reduced to zero.

Table 1. Negotiated import tariff reduction schedule for rice by all TPP members except Japan

Country	Rice product	Current MFN Duty[2]	Elimination (Annual Staging)
Australia	All rice	0%	FDE
Brunei	All rice	0%	FDE
Canada	All rice	0%	FDE
Chile	All rice	6%	Over 8 years
Malaysia	Broken rice for feed	15%	Over 11 years
	All other rice	40%	Over 11 years
Mexico	Paddy and brown rice	0%	FDE
	Milled rice	20%	Over 10 years
	Broken rice	10%	FDE
New Zealand	All rice	0%	FDE
Peru	Paddy rice except seeds	9%	FDE
	Broken rice	10%	FDE
	All other rice	0% + PBSD	FDE[a]

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[2] MFN refers to Most Favored Nation tariff applied by a country to all other World Trade Organization (WTO) members.

Singapore	All rice	0%	FDE
U.S.	Paddy rice	1.8 cents/Kg	FDE[b]
	Brown basmati rice	0.83 cents/Kg	FDE[c]
	Other brown rice	2.1 cents/Kg	FDE[b]
	Milled parboiled rice	11.2%	FDE[d]
	Milled non-parboiled rice	1.4 cents/Kg	FDE[c]
	Broken rice	0.44 cents/kg	FDE[b]
Vietnam	Paddy rice for seed	0%	FDE
	All other rice	40%	FDE

Source: TPP Full Text available at https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text.
FDE: free on the date of entry into force of the Agreement for each member country
[a]. Price band system duties (PBSD) are excluded from the reduction scheme.
[b]. Linear elimination in 5 annual stages for Japan and Malaysia
[c]. Linear elimination in 5 annual stages for Malaysia
[d]. Linear elimination in 15 and 10 annual stages for Japan and Malaysia

Table 2 below shows the duty-free quotas granted by Japan to Australia and the U.S. These quotas are above Japan's current WTO market access commitments of 682 thousand metric tons, and represent genuine quota expansions for Australia and the U.S.

Table 2 Country-specific TRQ granted by Japan to Australia and the U.S. in TPP

	Quota Country-specific Tariff Rate Quota (metric ton)	
Year	U.S.	Australia
1	50,000	6,000
2	50,000	6,000
3	50,000	6,000
4	52,000	6,240
5	54,000	6,480
6	56,000	6,720
7	58,000	6,960
8	60,000	7,200
9	62,000	7,440
10	64,000	7,680
11	66,000	7,920
12	68,000	8,160
13	70,000	8,400

For Year 14 and for each subsequent year, the aggregate quota quantity shall remain at the level reached in Year 13

Source: TPP Full Text available at https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text.

What was the objective of this study and the methodology used?

The objective of our study was to assess the impact of the negotiated TPP agreement on the global and U.S. rice market.

We use the RiceFlow model, a spatial, supply-chain, partial equilibrium model of the global rice economy[3]. It includes more than 75 countries/regions and disaggregates rice into 9 commodities based on rice types (long grain, medium/short grain, and fragrant rice) and milling degrees (paddy, brown, and milled rice)

What are the key findings of our study?

The results suggest that the impact of TPP on the global rice market will be limited primarily for three reasons:

1. The small share currently of rice trade among TPP partners compared to global trade (only 5.1% of global rice trade is intra-TPP);
2. The already low level of trade distortions among many TPP members due to either low or zero import tariffs applied by importers or the presence of existing regional free trade agreements (e.g., U.S. Mexico, and Canada through NAFTA; Vietnam and Malaysia through ASEAN/ATIGA); and
3. The small trade concessions granted by Japan.

Total U.S. rice exports are projected to increase very slightly as a result of TPP exclusively due to an expansion of medium grain rice exports. Long grain rice exports are expected to decrease as a result of the agreement and relative to the projected exports without the TPP agreement (Business-as-Usual (BAU)). Once TPP is fully implemented, we project that:

1. Total U.S. rice exports will increase by 52 tmt a year as a result of TPP relative to BAU;
2. Medium grain exports will increase by 77 tmt a year as a result of TPP relative to BAU; and
3. Long grain exports will decrease by 25 tmt a year as a result of TPP relative to BAU.

Our results show that, as negotiated, TPP will likely have a marginal impact on the U.S. rice industry, and a slightly negative impact on the U.S. long grain sector.

TPP may represent a significant risk for the long grain sector due to the preferential treatment granted by Mexico to Vietnamese rice. Mexico is the largest market for U.S. long grain rice, accounting on average for a quarter of U.S. long grain rice exports over the last decade.

Mexico maintained a zero import tariff on rice from 2008 until December 2014, and despite the significant price-competitiveness of Vietnamese rice vis-à-vis other origins such as the U.S. during most of that period, Vietnamese rice exports to Mexico remained very small until 2014,

[3] For more information about this study, including specific questions about the methodology used and the scenarios analyzed, please contact Alvaro Durand-Morat at adurand@uark.edu, or Eric Wailes at ewailes@uark.edu.

when it exported 66 tmt of milled rice. In 2015, after Mexico reintroduced the 20% MFN import tariff on milled rice, Vietnamese rice exports to Mexico decreased sharply to only 2 tmt.

It is a fact that the U.S. rice industry is facing more competition in the Mexican market from Asian and Mercosur rice, primarily in the milled rice segment, and TPP may exacerbate such competition to the detriment of the U.S. long grain sector.

While other sectors of the U.S. economy are expected to capture substantial gains (USITC[4], May 2016), the U.S. rice sector may expect marginal benefits, but also significant risks to exports to existing rice markets. Our findings are generally similar to the recent USITC study. However using the RiceFlow model in our study allows for more specific estimates by rice type and degree of milling. We find that the medium grain rice exports may increase but long grain exports are more vulnerable to market losses.

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[4] United States International Trade Commission (USITC). *Trans-Pacific Partnership Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors.* Report Number 4607. May 2016. Accessed at: https://usitc.gov/publications/332/pub4607.pdf