Lessons learned from quantifying support in agriculture

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How did OECD get involved?

• Crisis in international agricultural trade in late 1970s and early 1980s...

• ...although beggar my neighbour policies were costly there was no incentive for unilateral action...

• ...yet no agreed way to measure, compare and evaluate the trade effects of support
What was OECD asked to do?

• In 1982 OECD was given a mandate by OECD meeting of Finance and Trade ministers...

• “...to analyse the approaches and methods for a balanced and gradual reduction of protection for agriculture and the fuller integration of agriculture within the open multilateral trading system”
How did the OECD respond?

• Adopted Tim Josling’s *Producer Subsidy Equivalent*, which was renamed as the *Producer Support Estimate* in 1998

• 1\textsuperscript{st} results in 1987 led to the OECD Ministerial principles for agricultural policy reform

• Subsequent Ministerial meetings have mandated OECD to continue measuring and using PSEs in analysis
The OECD Producer Support Estimate

**The PSE is the monetary value of gross transfers to farmers, measured at the farm gate, arising from policy measures that support farmers, regardless of their nature, objectives or impacts.**

The PSE was developed, has evolved, data are provided and calculations are made in close cooperation with governments.

PSEs are expressed in monetary terms (national currencies, $ and €) and as % of farm receipts.
PSE covers three categories of policy:

- **market price support** - policies (usually) maintaining domestic market prices for farm goods above those at the border (paid by consumers)
- **Budgetary payments** - policies providing direct payments to farmers (paid by taxpayers)
- **budget revenue foregone** – through tax exemptions
Other indicators based on PSE

- **NPC** – nominal protection coefficient (domestic-border price ratios)
- **NAC** – nominal assistance coefficient (value of production at domestic prices relative to production at border prices)
- **CSE** – consumer support estimate (market price support + consumer food subsidies)
PSEs reflect policy developments

• PSEs reflect the changing mix of policies and ways that support is delivered

• In the mid-1980s policies were largely market price support and direct production support...

• ... then more use of supply control measures...

• ... and greater focus on decoupling support and producer flexibility...

• ... to address a wider range of policy goals
Support to farm producers (PSE)
Composition of farm support (OECD)

- Support based on commodity output
- Payments, production required
- Payments, production not required

Yearly percentages from 1986 to 2009.
PSE classification

• Reflects policy changes – the basis on which support is provided, whether on current or historical production, and if production is required as an entitlement for support
• Helps measure impacts of policy change – production, trade, farm incomes, environmental performance
• Not all support is welfare reducing – poor farmers, income variability, externalities...
Applications: use of PSE

• Monitoring and evaluating agricultural policy reform in OECD countries, annually since 1988, and increasingly in non-OECD countries

• Reviews of agricultural policies undertaken before they appear in the regular M+E reports

• OECD and non-OECD countries to track progress in meeting policy targets

• Analytical studies on impacts of policy change

• AMS – in GATT/WTO based on PSE method
Challenges in developing the PSE

• **Conceptual** – measuring market price support means calculating a price gap between domestic supported and world reference prices – but should the latter be the actual or assumed free trade price?

• **Data** – are not always available or consistent across countries and adjustments are made

• **Interpretation** – Care in explaining changes in PSEs or its composition in relation to policy
Lessons learned

• Keep it simple - the PSE is accounting, is updated in a timely fashion, and easy to understand by policy makers
• Adapt to changing policies – the PSE is an indicator and its level and composition needs to reflect policy change to be useful
• Get governments engaged – the PSE uses data provided by public authorities and governments need some ownership
• Don’t overload what the PSE can do!
Thank You

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