

Domestic Support and Subsidies to Agricultural Producers

**Presentation to US/Canada Bilateral
Working Group/PSAG**

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Introduction

Outline of presentation:

- **Measures Currently Available**
- **Effects of General Economic Policies**
- **Impact of Subsidies - Canada/US - literature review**

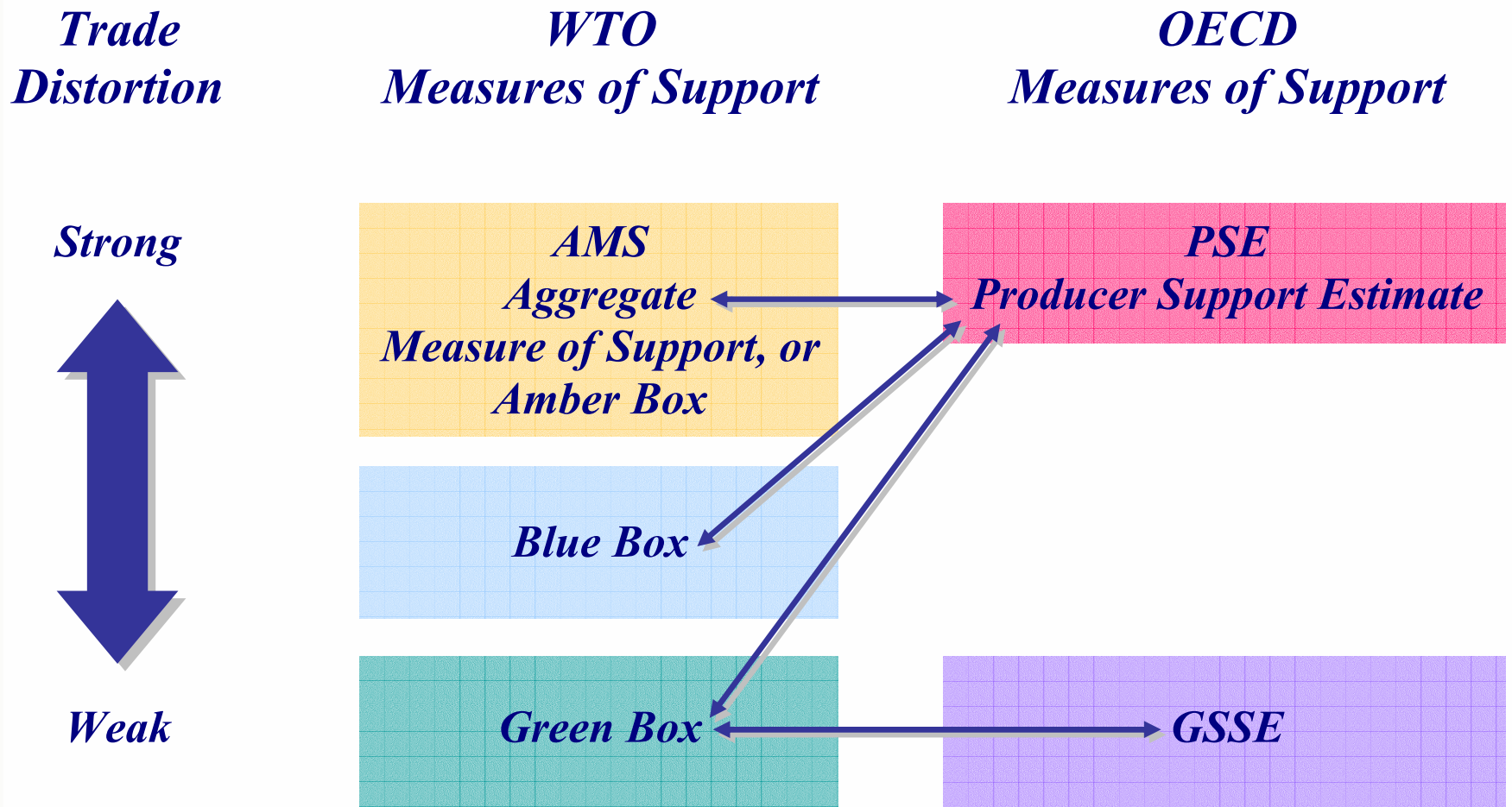
Introduction

Conclusions:

- **PSE is the best overall measure of support currently available for international comparisons**
- **Canada and the US are generally both have moderate levels of support compared to other OECD countries**
- **Support programs provide generally only a small net benefit to primary producers**
- **Differences in support have the potential to exacerbate trade friction**
- **Much of our current level of prosperity is based upon open borders**

Measures currently available

Classification system - AMS versus PSE:



Measures currently available

Government support (OECD & WTO) includes:

- **Benefits of guaranteed domestic market prices**
- **Direct payments and input subsidies received by farmers from federal or state governments**
 - Loan deficiency payments
 - Crop market loss payments
 - Crop insurance, irrigation subsidies
- **Outlays supporting agricultural production in general**
- **Research, extension, inspection services, food stamps**

Measures currently available

WTO AMS includes:

- **Administered (guaranteed) prices**
- **Direct payments related to:**
 - Recent commodity production, or
 - Recent commodity-specific resource use, or
 - Recent commodity market prices
- **Non-product specific subsidies**
 - Production input subsidies
 - Farm-based payments

Measures currently available

WTO AMS excludes:

- **Benefits of tariffs not also related to administered prices**
- **Outlays & benefits contingent on export performance such as EEP, export credits, etc.**
- **Tariffs and export subsidies are disciplined elsewhere**
- **Widely available export promotion and advisory services (Green Box)**
- **Non-agricultural support (forestry, etc.)**

Measures currently available

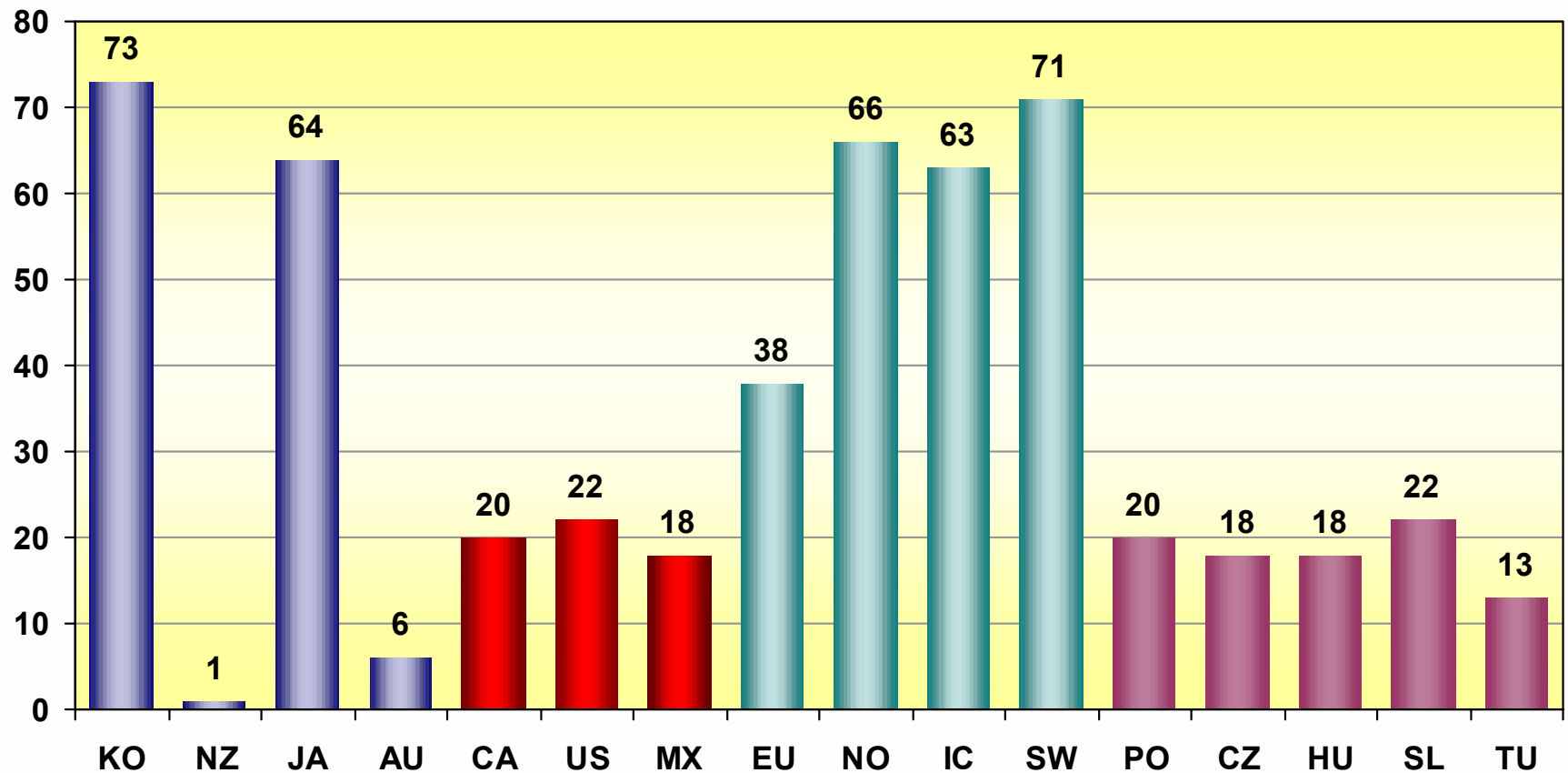
Interpreting Percentage PSE:

Subsidy	$\frac{\text{Subsidy}}{\text{Market Returns}}$	Percentage PSE
\$5	5%	5%
\$50	50%	33%
\$100	100%	50%
\$200	200%	67%

**In all cases, market returns=\$100*

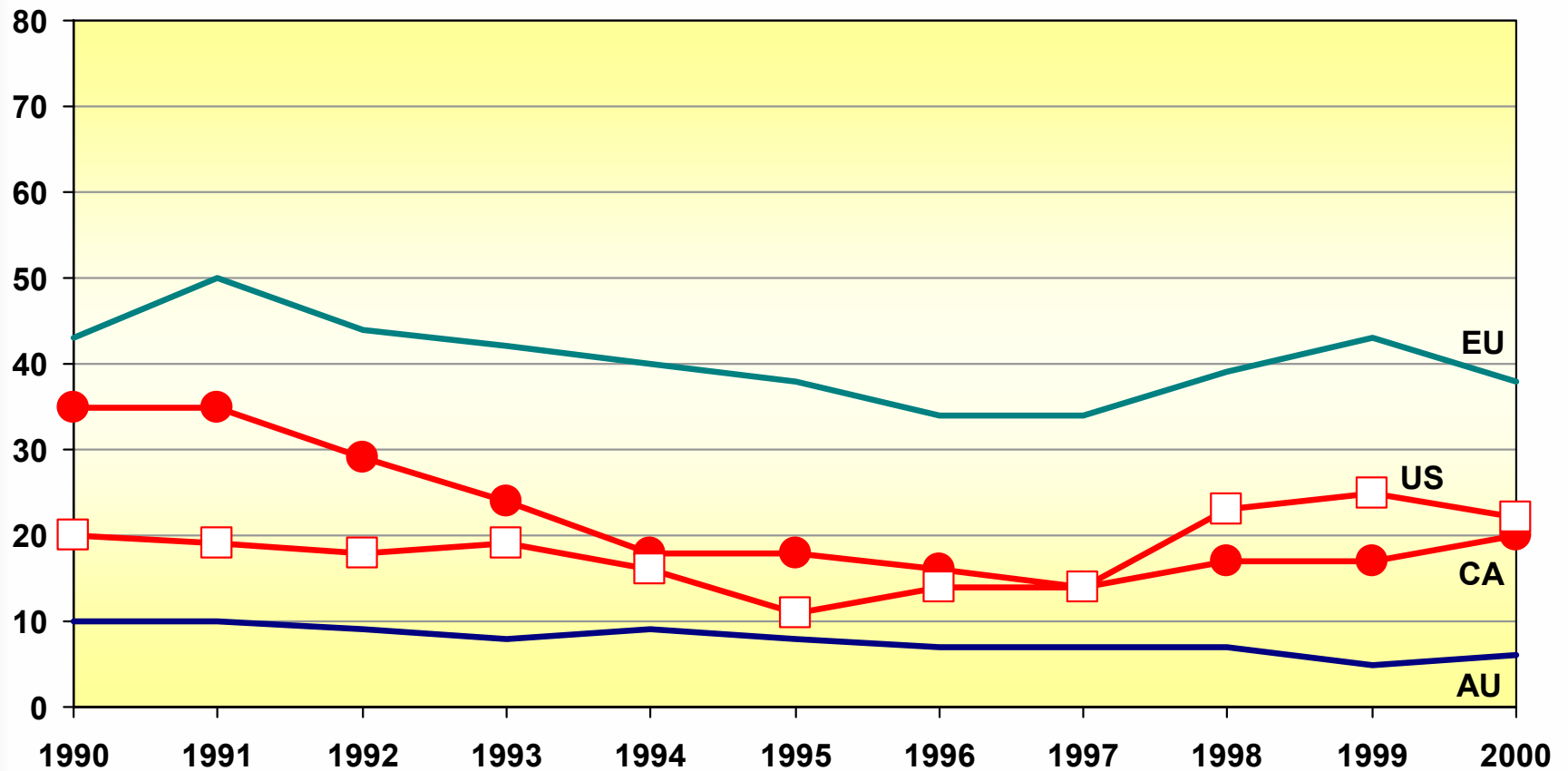
Measures currently available

Percentage PSE for all commodities, 2000:



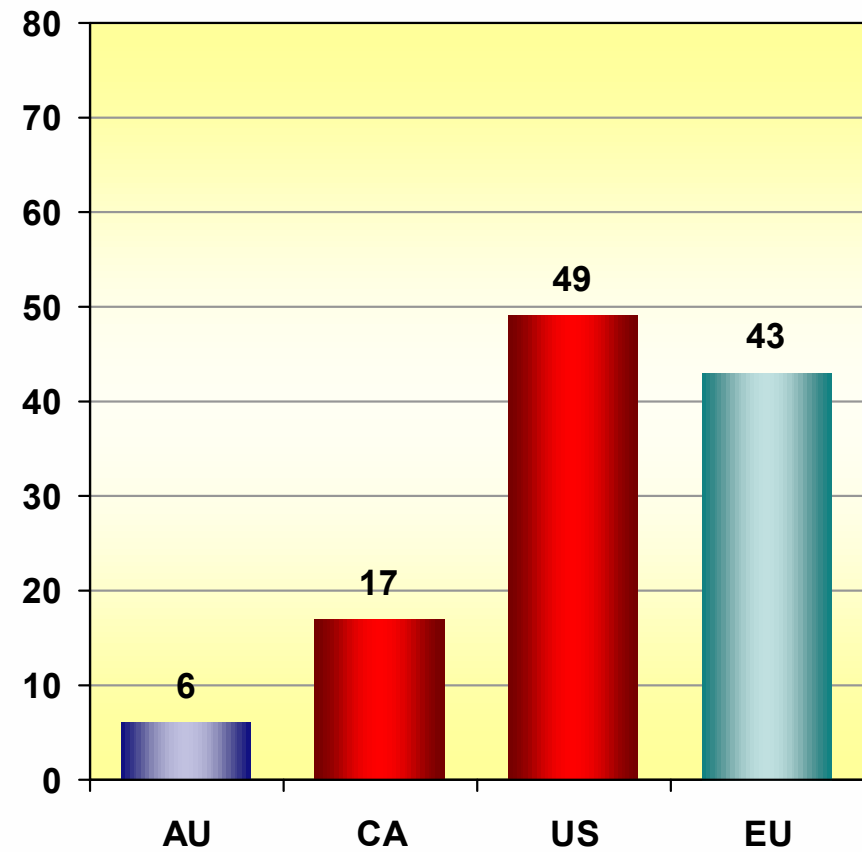
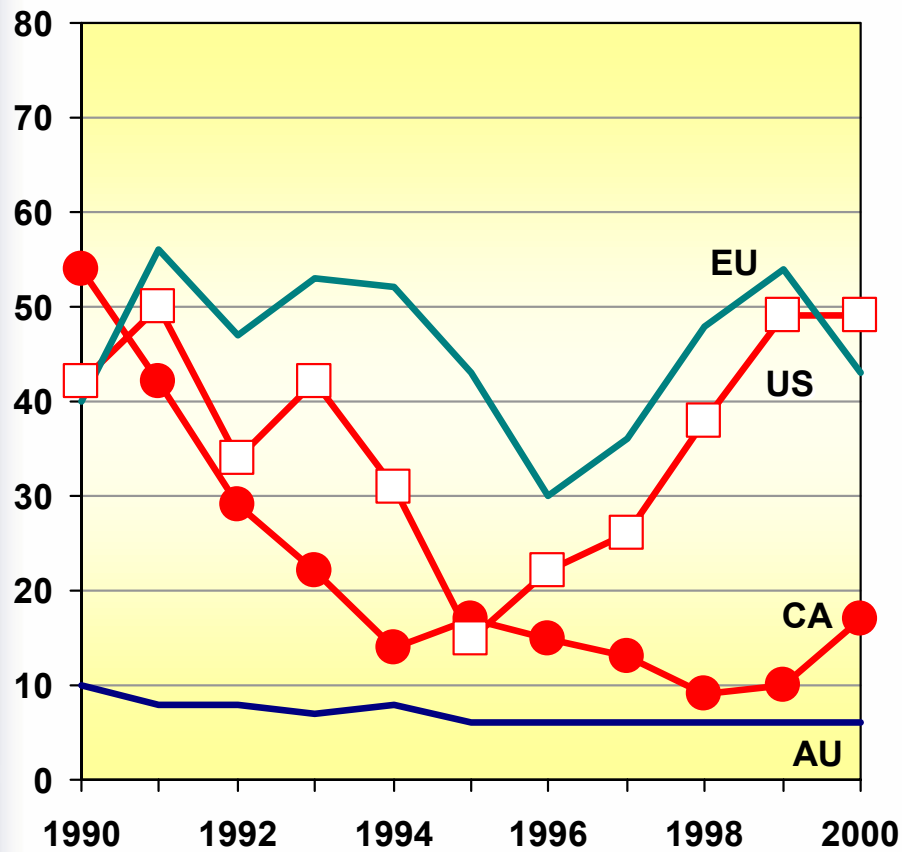
Measures currently available

Percentage PSE for all commodities, 1990-2000:



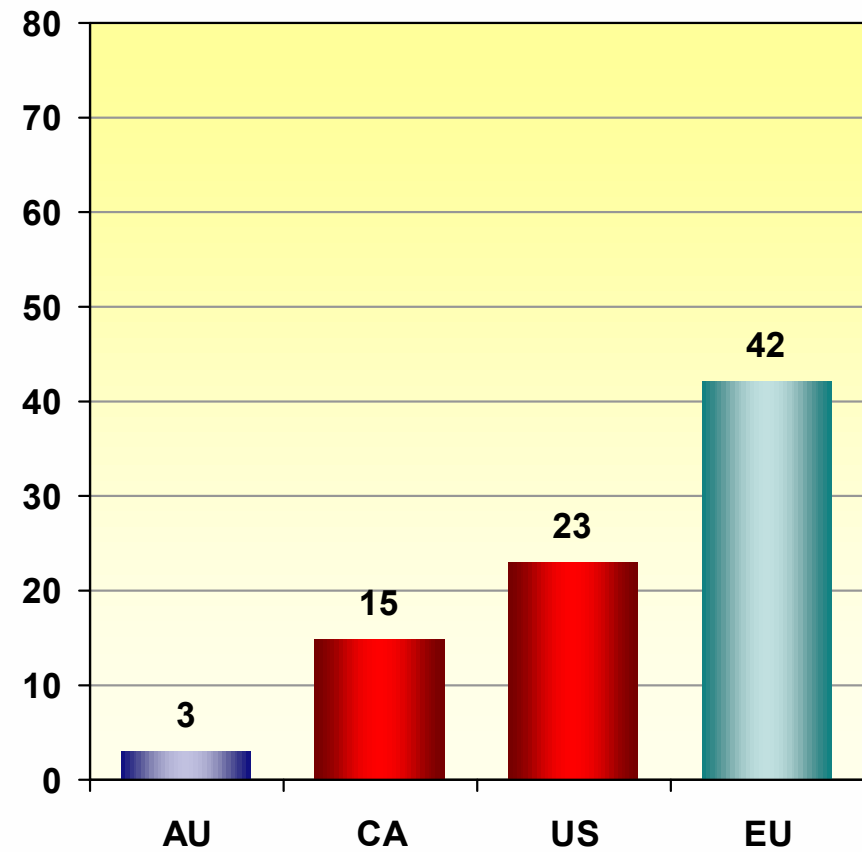
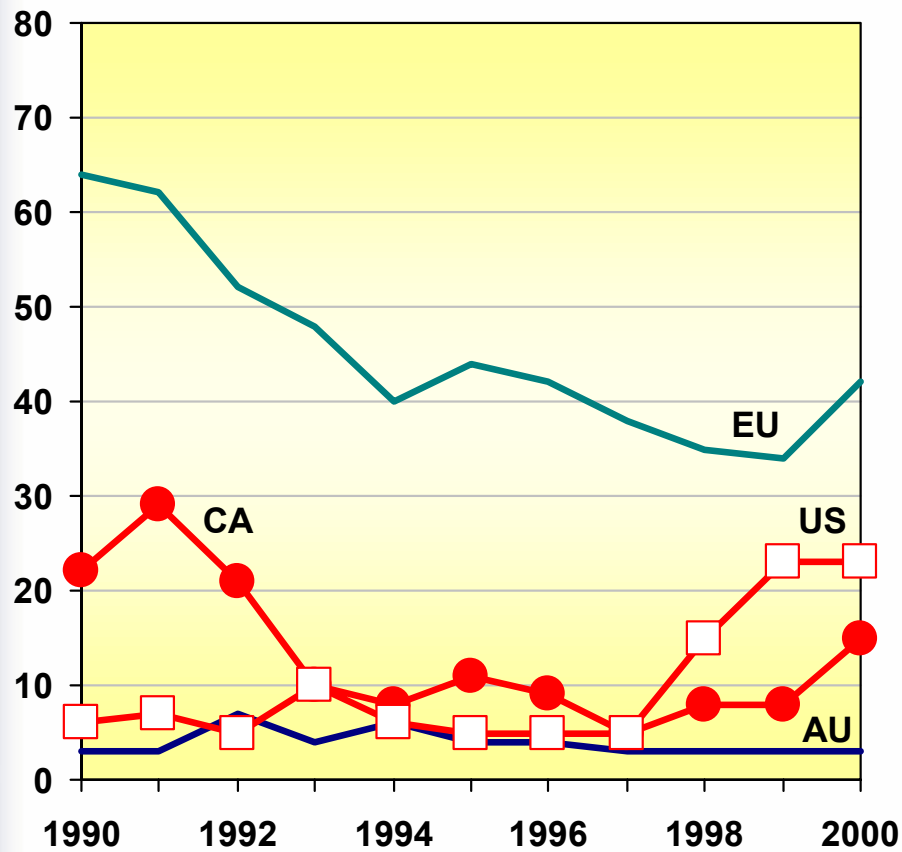
Measures currently available

Percentage PSE for wheat:



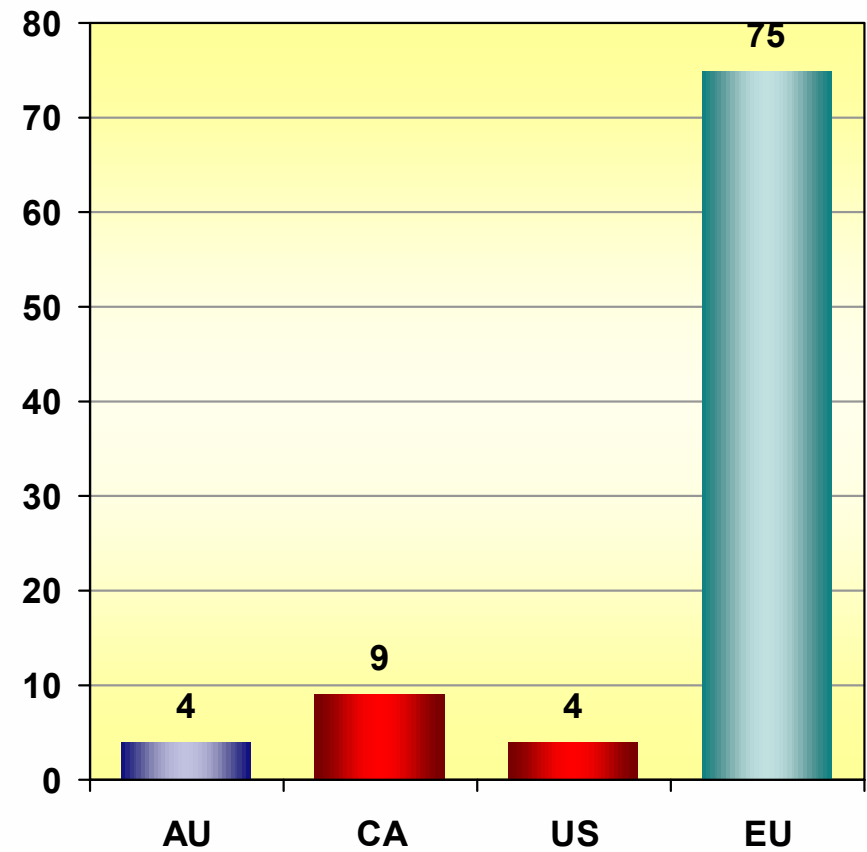
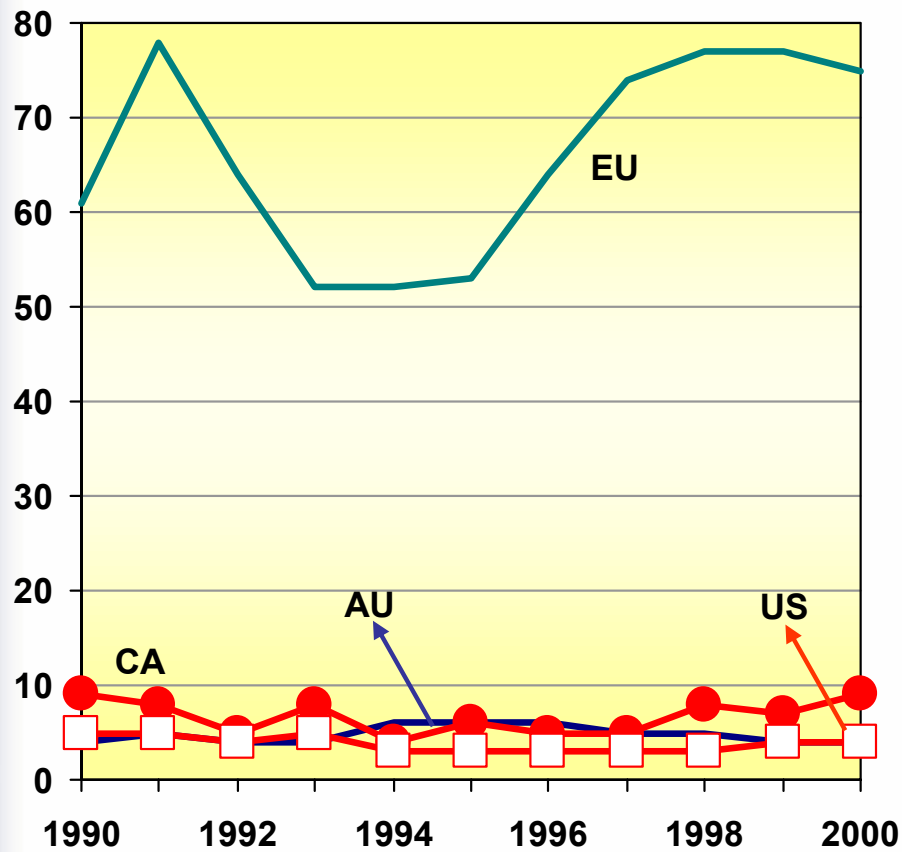
Measures currently available

Percentage PSE for oilseeds:



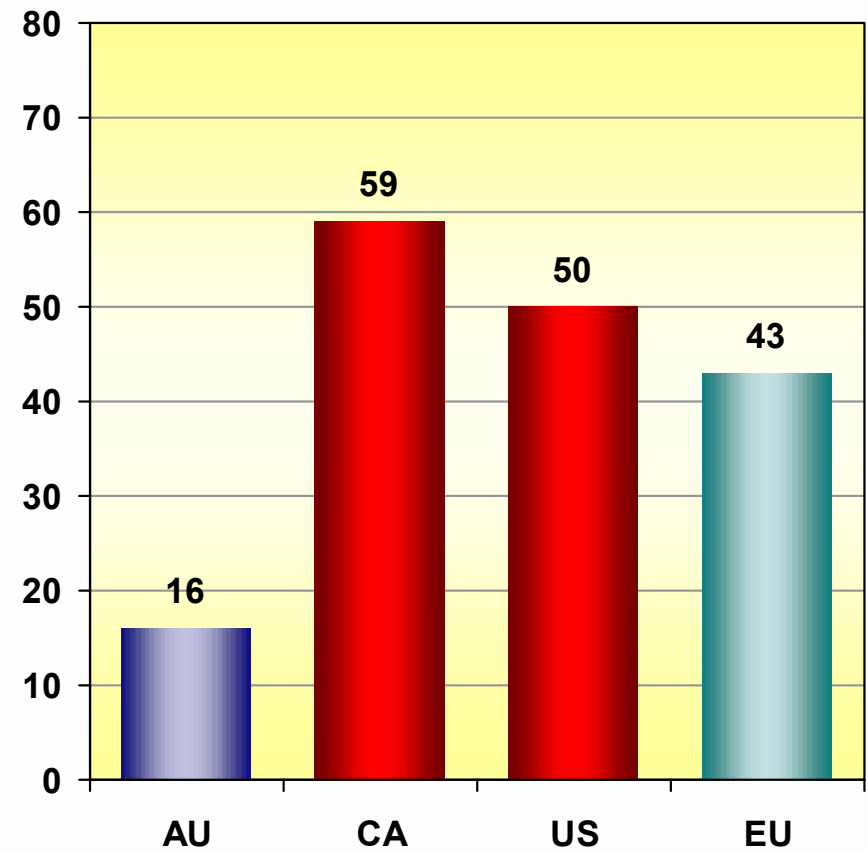
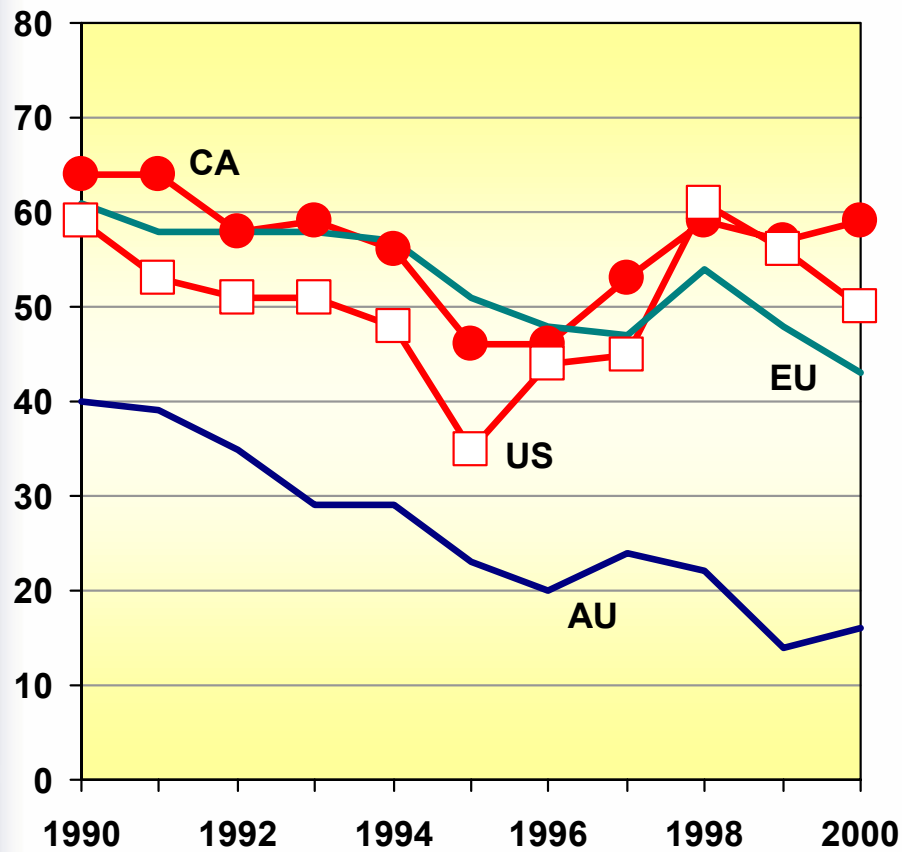
Measures currently available

Percentage PSE for beef:



Measures currently available

Percentage PSE for dairy:



General economic policies

Measuring general economic policies:

- **Taxes**
 - Federal, state and local
- **Healthcare**
- **Infrastructure**
 - Transportation, irrigation, etc.
- **Regulatory Environment**
 - Producer and consumer regulations

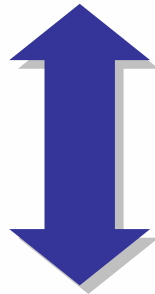
General economic policies

Impact of general economic policy:

Trade Distortion

Program Type

Strong



Weak

Negligible?

Subsidy programs which are tied to inputs or output (e.g. fertiliser subsidies, deficiency payments or MPS)

Green Box/GSSE expenditure (e.g. research)

General economic policies (e.g. payroll tax rates)

General economic policies

Do the policies increase resources in agriculture or agricultural production?

Example 1: *Farmers get a rebate on property taxes that other businesses pay*

Example 2: *Unprocessed food is exempt from a Canadian sales tax*

- *Increases the demand for food products*
- *But, this also increased demand for imports*

General economic policies

Do the policies increase resources in agriculture or agricultural production?

Example 3: *U.S. food stamps*

- *Increases the demand for food products*
- *However, also increases demand for imports*

Example 4: *Extension and research*

- *Benefits not confined to domestic sector*

General economic policies

Income taxes:

- Progressive (higher income, higher rate)
- Many farmers report farm losses for tax purposes
- Federal income taxes average about 16% of assessed income in the US and 14% in Canada
- State and Provincial income taxes vary but average about 4% in the US and over 7% in Canada

Assessed income

- wages and salaries
- business income
- dividends
- interest
- other (pensions, etc.)
- capital gains

General economic policies

Property taxes:

- In both countries property taxes are levied by the State, Province or local authorities
- There is tremendous variation in how property is assessed as well as the mill rate
- Average rates are about US\$ 6 per acre in the US

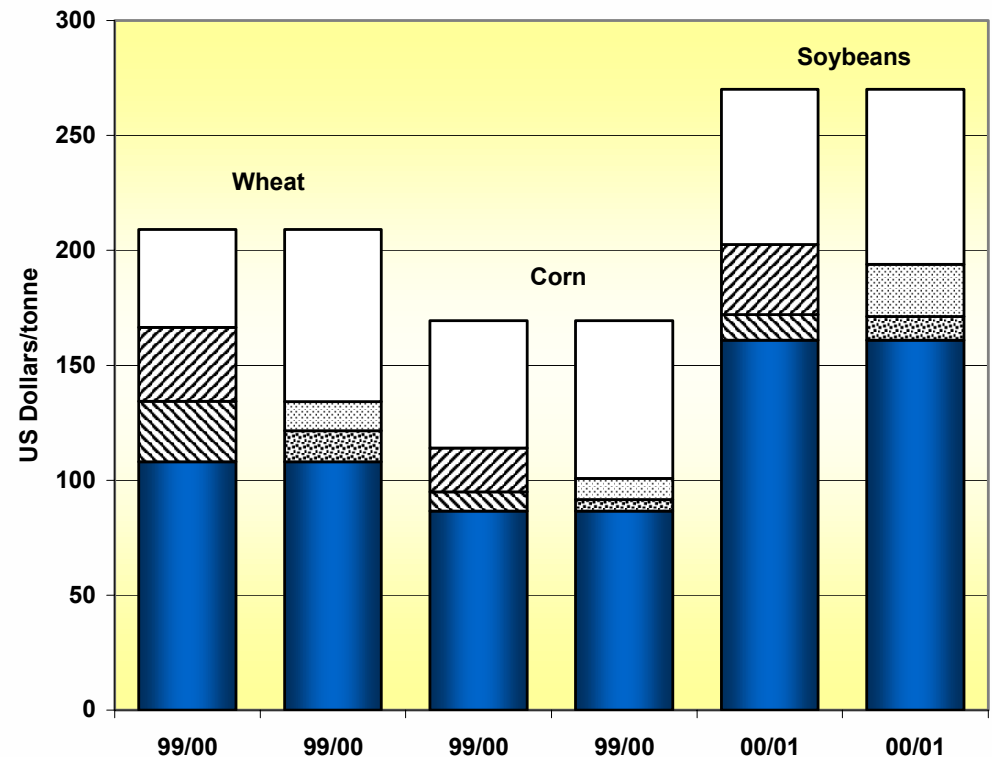
Assessed value

- Definition of real property
- How value is assessed (base year, valuation method, property classes)
- Exemptions
- Reliefs and Rebates

Impact of subsidies

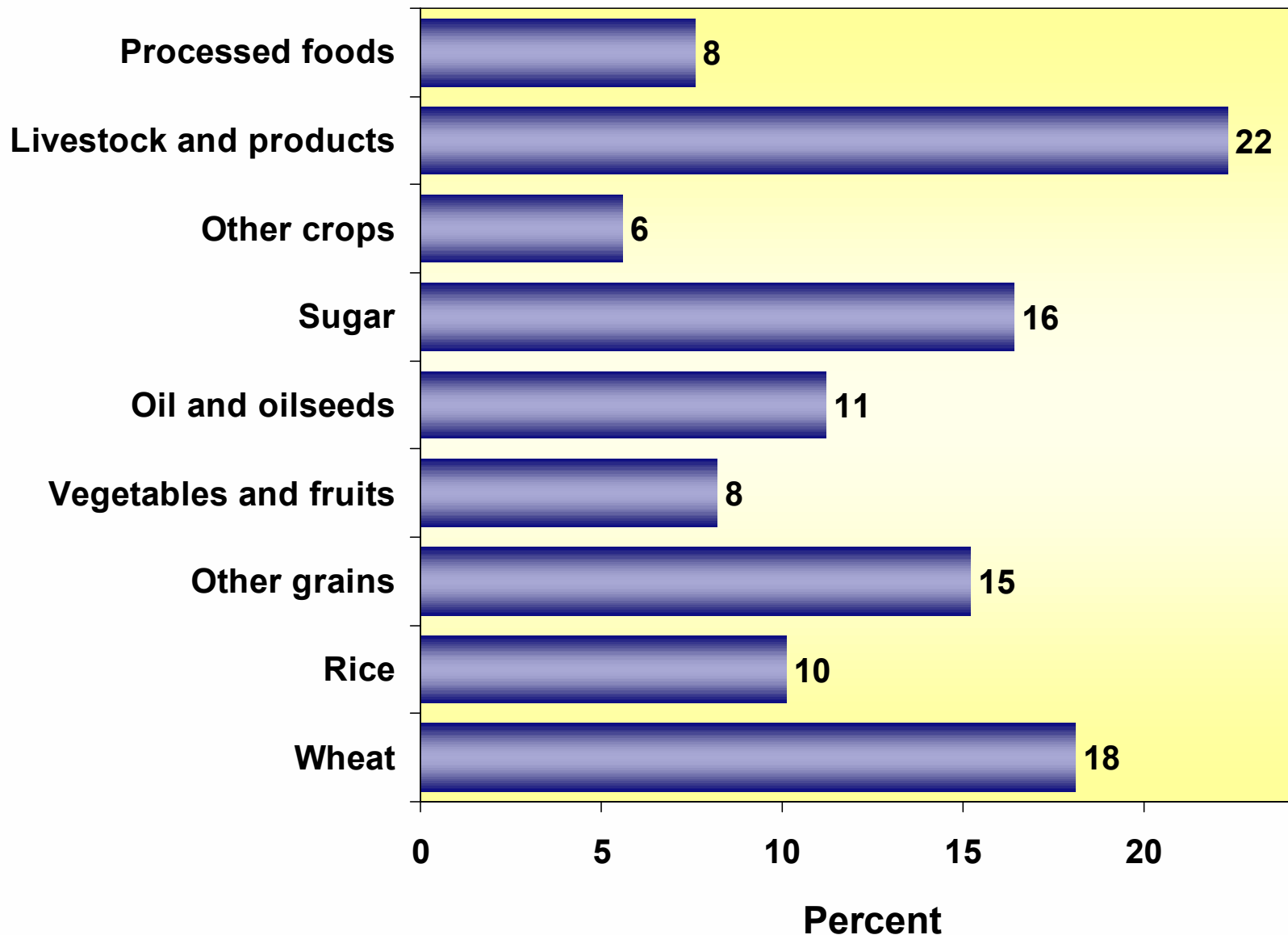
AAFC evaluation:

- The height of the bars shows the price at their peak in the last cycle. The shaded part shows prices at their trough
- The effect of the fall in NIS and Asian demand is shown by the cross-hatched areas
- The effect of eliminating US and EU direct payments is shown by the shaded areas



Impact of subsidies

US-ERS Price effects of policy elimination:



Impact of subsidies

OECD analysis:

Effects of 10% reduction in all support rates*	
	(%)
Wheat	3.0
Coarse grains	2.5
Oilseeds	1.3
Rice	1.9
Prince index	2.2

* In Canada, the United States, the European Union, Japan, Mexico and Switzerland based upon "OECD Report on the Policy Evaluation Matrix of Crop Analysis," AGR/CA/APM92001)5.

Impact of subsidies

Conclusions:

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