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THE DOMESTIC EFFICIENCY AND THE TRADE EFFECTS OF FARM SUPPORT

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The Domestic Efficiency & The Trade Effects of Farm Support

Joe Dewbre

The ‘OECD’ *View*?

‘Farm policies should achieve their domestic objectives with least international spillover.’

What we do:

- Monitor farm support with PSE.
- Classify according to implementation.
- Measure welfare and trade effects with a model.

How Do Governments Help Farmers?

- Market price support (via trade measures)
- Budgetary direct payments based on:
 - Output (*deficiency payments*)
 - Land (*both tied and untied to planting*)
 - Non-land inputs (*e.g. interest subsidies*)

OECD  3 OCDE

How Much Does Govt Help?

Crop support in US and EU in 1998 (for example)

<u>Category:</u>	<u>US</u>	<u>EU</u>
	<i>~ billion \$US~</i>	
Area payments	9	16
Market price support	-	5
Input subsidies	1	7
Output payments	2	-

NB: US PSE for crops is around 20%, for EU around 40%.

OECD  4 OCDE

Do Policy Effects Differ (Much) Among Support Measures?

- Should we ignore all but trade policy measures in trade negotiations?
- Are there big differences among different kinds of payments based on area (green versus blue)?
- What are the implications for domestic agricultural policy?

Estimating Policy Effects

Model:

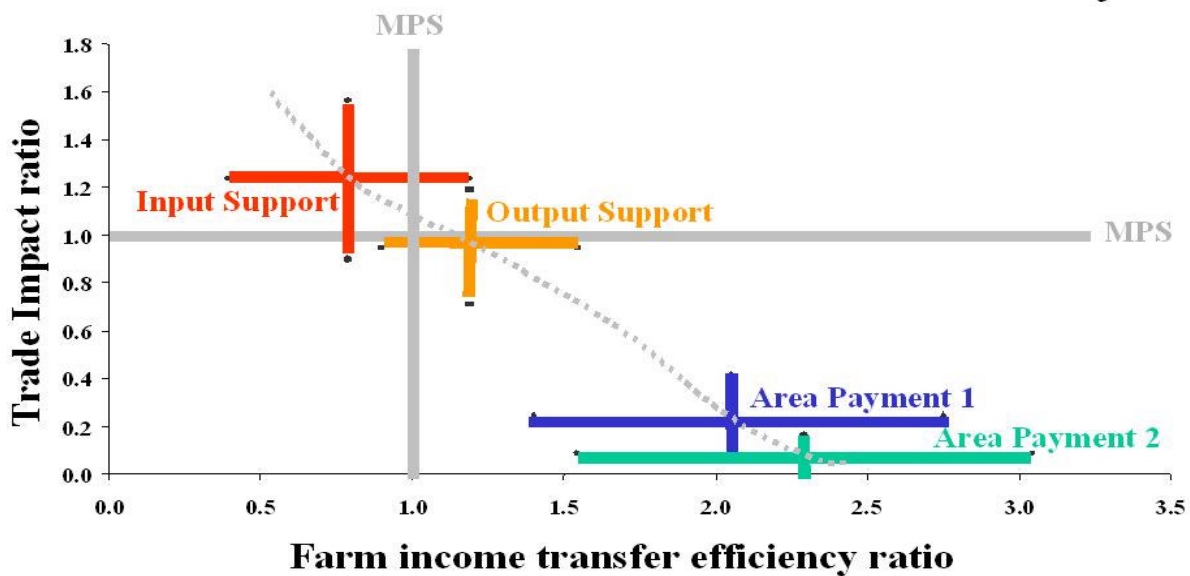
- Partial equilibrium farm sector
- Factor markets explicit (land, non-land)
- Trade in output but not factors

Indicators:

- Trade volume impact ratios
- Farm income impact ratios

Impact ratio is defined as ... with MPS as base

Trade distortion and transfer efficiency



OECD 7 OCDE

Summary of Findings

- Trade effects of payments based on output or variable input use similar to market price support
- Trade effects of area payments (either kind) significantly less than other kinds of support
- Completely decoupled area payments may not be all that much *greener*
- Strong inverse relationship between trade effects and farm income transfer efficiency

OECD 8 OCDE

Conclusions

- *Support measures delivering the least income benefit per dollar of costs distort trade the most (and vice versa).*
- *Some support for the ‘Sumner’ view that trade negotiations should focus on trade measures.*
- *However, nearly 100% of benefits of ‘most efficient’ support goes to land owners.*

References:

*‘Market Effects of Crop Support Measures’
OECD 2001*

*Dewbre, Anton & Thompson (2001) ‘The
Trade Effects and Transfer Efficiency of
Direct Payments’ AJAE, forthcoming*