

Comments on the OECD's concepts of PSE and 'excess feed cost'

Jacques Berthelot, Solidarité, 4 July 2010

The OECD has just issued its annual report on 'Agricultural policies in OECD countries' for 2009¹. It is always the same deceit on the reality of agricultural supports, on the inconsistency of its favorite indicator – the PSE or Producers' support estimate – and on the fact to not consider feed subsidies as input subsidies to notify in the amber box. Thus the report writes:

"The monetary value of policy transfers expressed as a percentage of gross farm receipts is the percentage Producer Support Estimate (%PSE) and is a key measure of the level of support provided to the agricultural sector. By this measure, which includes both price support from border measures and budgetary payments, support to OECD agriculture has been declining modestly but steadily since it was first measured in 1986".

As the world agricultural prices are dumping prices for most products, at least for those exported by the OECD countries, to consider the gap between the domestic and world prices as a support to agriculture, and what is more, as a 'public transfer' to producers, is quite bold. Economists consider generally that public transfers are subsidies but the OECD assimilates this gap between domestic and world prices – in other words import protection – as a 'subsidy of consumers to producers', the first ones enduring a 'negative consumers' surplus' since they are deprived of their 'entitlement' to pay their food at world prices ! From this to say that it is a 'public transfer', we can't make head nor tail of it. The more so as those 'consumers' to whom the farmers are selling their products are not households but, as OECD recognizes it, they are 'the first consumers (measured at the farm gate)', that is to say traders and agro-food industries.

As the world prices are highly dumped prices, import protection is quite justified but OECD considers that the consumers, particularly the Western ones, are entitled to pay their food at these dumped prices even though they are themselves at their origin as they have subsidized their exports in their position of taxpayers !

It is this same definition of 'consumers' which is used to calculate the 'excess feed cost' (EFC) concept: *"a component accounting for the price transfers that go from livestock producers to feed producers as a result of policies which alter the domestic market price for feed crops, an important input for the former group. The Price Levies and Excess Feed Cost are accounted for in the MPS [market price support] in order to exclude from the value of price transfers to producers contributions that producers make to the transfers"*². In other words the OECD considers that the livestock producers are penalized as they have to pay their feedstuffs at the domestic prices, higher than the world prices, received by the growers of cereals, oilseeds and pulses ('COPs'): *"The EFC adjustment reduces the value of MPS for livestock commodities. Indeed this occurs because livestock producers pay higher prices for feed crops as a result of price support for these commodities"*. Let us underline in passing that about half of the cereals used in the EU feedstuffs are self produced and consumed on the farms of the livestock producers so that, according to OECD, they are the same farmers who, as cereals growers, are exploiting themselves as livestock producers.³ Now the world prices of COPs grains are those of the most dumped products, particularly in the US which are price makers of them but also in the EU which has highly reduced the prices of its cereals for which it is usually a net exporter, compensating this drop by direct payments. Therefore it is highly questionable to speak of an 'excess feed cost' since, in recognizing these largely dumped prices as the world reference prices, the OECD is eventually promoting dumping.

¹ http://www.oecd.org/document/27/0,3343,en_2649_33773_45538523_1_1_1_37401,00.html

² OECD, PSE Manual, 2010, p. 57-58,

http://www.oecd.org/document/43/0,3343,fr_2649_33773_44253755_1_1_1_1,00.html

³ FEFAC, *Feed and food, statistical yearbook 2004*.

The OECD estimates that, to the extent it has taken into account this 'excess feed cost' (EFC) in the market price support of animal products – here a negative support to livestock producers, the reason why we speak of 'excess cost', which reduces the price support for the whole agriculture –, there would be a double counting if we were to consider the direct payments to COPs as input subsidies. Thus Catherine Moreddu, of the OECD staff, had told to J. Berthelot, in an e-mails exchange in 2004: "*The excess feed cost linked to the price support of cereals is deducted from the price support of animal products. Therefore one cannot consider it a second time in input subsidies*".

Actually we are not asking to count twice the subsidies to feedstuffs but to calculate them accurately, what the OECD's sleight of hand is not doing at all when it mixes up the 'market price support' (MPS) – the gap between the domestic and world prices – with the direct payments to the COPs used in feed, and this for the following reasons:

1) First because the direct payments to COPs, of which those used as feed, have remained fixed along time – in fact they have risen from the CAP reform of 1992 to that of 1999 but have stabilized ever since –, whereas the level of the EFC changes every year as it is the gap between the domestic and world price times the COPs volume used as feed (table 1).

Table 1 – The EU excess feed cost from 1995 to 2000 according to the OECD

	1995	1996	1997	1998	1999	2000	Average 95/00
Million tonnes of cereals used in feed							
wheat	30.760	32.864	33.658	34.594	37.915	36.107	34.316
corn	23.166	24.354	27.123	30.867	30.418	31.344	27.879
barley	29.048	29.923	31.252	30.804	31.922	30.348	30.550
oats	5.427	5.223	5.649	5.141	5.127	5.024	5.265
Total	88.401	92.364	97.682	101.406	105.382	102.823	98.010
Differential between the domestic and world prices of cereals, in €/per tonne							
wheat	20	0	0	25	32	11	
corn	56	19	22	31	38	29	
barley	38	3	8	43	34	2	
oats	35	33	24	36	51	42	
The excess feed cost of EU cereals, in €million, according to OECD 2006							
wheat	606	0	2	853	1,194	402	510
corn	1,286	463	596	966	1,141	916	895
barley	1,106	76	254	1,311	1,080	74	650
oats	192	175	138	186	259	212	194
Total OCDE 2006	3,190	714	990	3,316	3,674	1,604	2,248
The excess feed cost of EU cereals, in €million, according to OECD 2010							
Total OCDE 2010	2,742	578	809	2,813	3,020	1,028	1,832

Source : OCDE 2006. We will notice the gap in EFC between OECD 2006 (€2.248 billion) and OECD 2010 reports (€1.832 billion), the first one being alone to give the volumes of cereals used as feed.

The table 2 shows that this excess feed cost of EU cereals has almost collapsed since the CAP reform of 1992, accentuated by that of 1999, so that the domestic prices have become much closer to the world prices.

Table 2 – The EU excess feed cost (EFC) according to the OECD from 1986 to 2009, in €million

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
EFC	7,580	7,993	5,119	3,527	4,667	6,628	5,035	3,999	3,554	2,742	578	809
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
EFC	2,813	3,020	1,028	294	0	775	692	645	346	1,276	0	292

Source: Producer and Consumer Support Estimates, OECD Database 1986-2009: http://www.oecd.org/document/59/0,3343,en_2649_33797_39551355_1_1_1_37401,00&en=USS_01DBC.html

2) To the contrary the subsidies to EU COP used in feed have increased with the CAP reform of 1999 and then have stabilized, hence have been independent of the world prices fluctuations. As 60% of the EU COPs have been used as feed on average from 1995 to 2000 (table 3), 60% of the corresponding subsidies should have been deducted from the blue box and attributed to the animal products to which

they have conferred product specific 'aggregate measurements of support' (PS AMSs). And now that these payments to COPs have been almost entirely hidden in the 'single payment rights' (SPRs) allegedly fully decoupled, hence not trade distorting – no effect on production or prices –, the OECD thinks that it has become much easier to get its sleight of hands through. But this is impossible since the EFC has only be on average of €2.248 billion from 1995 to 2000 while the direct payments to the COPs used as feed have reached on average €9.743 billion in the same period.

Table 3 – The EU direct payments (DP) to COPs used as feed, of which to proteins, from 1995 to 2001

€billion	1995	1996	1997	1998	1999	2000	2001	Average 95/00
DP to cereals in feed	6.981	7.284	8.209	8.707	8.308	8.086	8.572	7.929
DP to proteins in feed	1.899	1.843	1.849	1.846	1.897	1.547	1.601	1.814
Total DP to COPs in feed	8.880	9.127	10.058	10.553	10.205	9.633	10.173	9.743
DP to all COPs	15.648	17.193	16.191	15.978	15.128	16.825	18.144	16.161
DP to COPs feed/DP COPs	56.75%	53.09%	62.12%	66.05%	67.46%	57.25%	56.07%	60.29%

Source: J. Berthelot, *Thorough review of the EU trade distorting domestic supports*, 21 August 2006, Solidarité.

One part of the gap is due by the fact that the OECD cannot count any EFC for oilseeds and pulses as the EU did not protect them at the import level since the beginning of the CAP in the early 1960s, so that their domestic price has remained the world price. However the direct payments to the EU oilseeds and pulses have been on average of €1.814 billion from 1995 to 2000.

3) The fact to consider the feed subsidies as input subsidies does not end up in a double counting since, if they are attributed to the PS AMSs of the animal products derived from them, they are at the same time deducted from the blue box for the period 1995-2004 and from the SPRs since 2005. The OCDE is cheating with the Agreement on agriculture's rules because, according to the paragraph 2 of article 6 on the Domestic Support Commitments, *"agricultural input subsidies generally available to low-income or resource-poor producers in developing country Members shall be exempt from domestic support reduction commitments that would otherwise be applicable to such measures"*. Which clearly means that, *a contrario*, the inputs subsidies granted to the developed countries' farmers (and to large farmers of DCs) must be included in the AMS, that is in the amber bow of supports subject to reduction. And the OECD has been obliged to admit that *"Input subsidies are typically explicit or implicit payments reducing the price paid by farmers for variable inputs (for example, fertilisers, feed, seeds, energy, water, transportation, insurance), which are provided to farmers through policy instruments, including interest concessions, tax rebates and budgetary transfers to input industries to provide lower input prices paid by farmers"*⁴.

4) Finally the OECD cheats on the working of the SPS (single payment scheme) in the chapter 3 of its PSE manual, page 46, when it says: *"Single payment scheme is subject to cross-compliance conditions (the amount of payment is reduced if the farmer does not comply), and so is labelled "with mandatory" input constraints. Production is not required but producers may produce any commodity (with the exception of fruits and vegetables). It is therefore labelled as "with" commodity exceptions. From 1 January 2008, with the fruit and vegetable reform entering into force, the commodity exception ceases to be binding, but a Member State may choose to keep the commodity exemption for a transitory period until 1 January 2011"*. However in writing that *"Production is not required but producers may produce any commodity (with the exception of fruits and vegetables)"*, the OECD forgets the other interdictions to produce – milk and sugar without quotas, wine without plantation rights – and the production caps: milk, sugar and wine beyond the quotas or plantation rights, cotton and tobacco beyond the ceilings fixed in 2004. It is likely that a proceeding would be instituted sooner or later at the WTO against the EU and would denounce that deceit, which has become obvious since March 2005, when the WTO Appellate Body has ruled that the US fixed direct payments, also allegedly fully decoupled, are not in the green box as not decoupled since farmers who get them are not allowed to grow fruits, vegetables and wild rice.

⁴ OECD, *Methodology for the measurement of support and use in policy evaluation*, 2002.