



## **The misleading Worldwatch Institute's paper<sup>1</sup> on agricultural subsidies**

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March 17, 2014

Why? Because it interprets incorrectly the already absurd OECD indicators. First we must distinguish the concepts of *support* and *subsidy*, although OECD and free-traders prefer to blur it. If a subsidy – a public expense financed by taxpayers – is a support, the reverse is not true: support is a broader concept encompassing '*market price support*' (MPS) through import protection increasing the gap between domestic and world prices.

For OECD, free traders and the WTO for which "market access" is the first objective of the Doha Round, import protection deprives consumers to buy their food (and other goods) at world prices to which they think to be entitled so that they suffer a negative *consumer's surplus*, the gap between the domestic and world prices considered as a *distortion*. OECD considers this gap as a 'transfer from consumers to producers', translated as a "consumers' *subsidy* to farmers".

The two main OECD indicators of agricultural supports are the TSE (*total support estimate*) and the PSE (*producer support estimate*) whose amounts were in 2012 of respectively \$415 bn and \$258.6 bn. The TSE is equal to the PSE plus the GSSE (*general services support estimate*), which groups together the subsidies granted to farmers collectively and in kind (agricultural education, research, extension, infrastructures, etc.). As the 'market price support' (MPS), almost identical to the 'transfer from consumers to producers', was of \$116 bn, or 28% of the TSE and 44.9% of the PSE, the actual subsidies were much lower than these OECD and World Watch Institute's figures: \$299 bn and \$142.6 bn respectively.

Furthermore this OECD concept of 'market price support' is totally flawed since it implies that farmers are selling their products directly to consumers, which happens for less than 10% of their products, the rest being sold to agri-food industries which are pocketing the *surplus* without almost any transfer to the actual end consumers. The European Court of Auditors has underlined that the high reductions in the prices of cereals and bovine meat since 1992 had not been transmitted to consumers. Furthermore it is totally incoherent to consider world prices, which OECD recognizes as hugely dumped prices, as the true prices on which each country should align its domestic prices.

For the quoted emerging countries, the share of this fake MPS in the PSE was even much higher than in OECD countries in 2012: 68.8% on average, of which 93.3% in Indonesia, 69.3% in China, 68.2% in Kazakhstan, 63% in South Africa, 44.5% in Russia, 39.5% in Brazil but 328% in Ukraine where consumers are subsidized (domestic prices were lower than world prices). And the average share of the MPS in the TSE is of 58.6%, from 32.5% in Brazil to 81.7% in Indonesia, with again the specific case of Ukraine.

Therefore it is erroneous to write that "*China pays farmers an unparalleled \$165 billion*": no! Chinese taxpayers (or the Government) pays only \$78.5 bn to farmers, of which \$50.7 bn in

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<sup>1</sup> <http://vitalsigns.worldwatch.org/vs-trend/agricultural-subsidies-remain-staple-industrial-world>

cash to farmers and \$27.8 bn in collective services in kind (the GSSE: general services support estimate).

#### Main components of the agricultural support in emerging countries in 2012

\$ million	China	Brazil	Russia	Indonesia	South Africa	Ukraine	Kazakhstan	Total
Exchange rate	6,308	1,953	31,0483	9355	8,202	7,991	149,68	
PSE	165602	9001	13247	28038	637	485	1985	218995
MPS	114842	3557	5896	26155	401	-1591	1354	150614
MPS/PSE	69.3%	39.5%	44.5%	93.3%	63%	328%	68.2%	68.8%
TSE	193387	10932	16035	32002	978	1260	2444	257038
TSE-MPS	78545	7375	10139	5847	577	2851	1090	106424
MPS/TSE	59.4%	32.5%	36.8%	81.7%	41%	-126%	55.4%	58.6%

Source: <http://www.oecd.org/fr/tad/politiques-agricoles/estimationsdusoutienauxproducteursetconsommateursbasededonnees.htm>

The larger share of agricultural support taken by the MPS in developing countries shows that they ensure farmers' incomes essentially through remunerative prices rather than through direct payments, that they cannot afford anyway given the larger share of the population engaged in farming. A type of agricultural policy that the EU gave up since the CAP reform of 1992 and to which it should return on the condition to distribute better the access to farm land so as to increase agricultural employment, the contrary to the present and next CAP where farmers' incomes rest on per hectare direct payments which foster an ever growing concentration of farms and acceleration of EU unemployment. Without forgetting the detrimental impacts on the environment and the dumping to the rest of the world permitted by these alleged fully decoupled direct payments unduly notified in the WTO green box.