The Economic and Environmental Impacts of Agricultural Subsidies: An Assessment of the 2002 US Farm Bill & Doha Round

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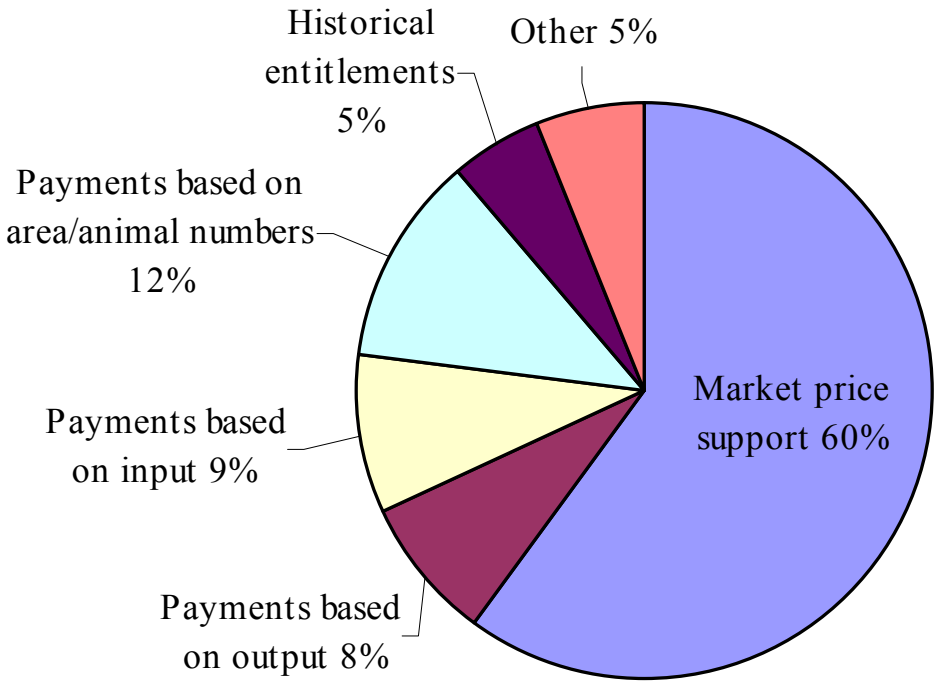
Objectives

- To assess the economic and environmental impacts of the 2002 US Farm Bill and the potential impacts of the Doha Round.
- To assess the environmental impacts of different categories of agricultural subsidies.
- To derive policy implications for the Doha Round agricultural negotiations and more generally on the formulation of agricultural policies in OECD countries.

Agricultural Subsidies in OECD Countries

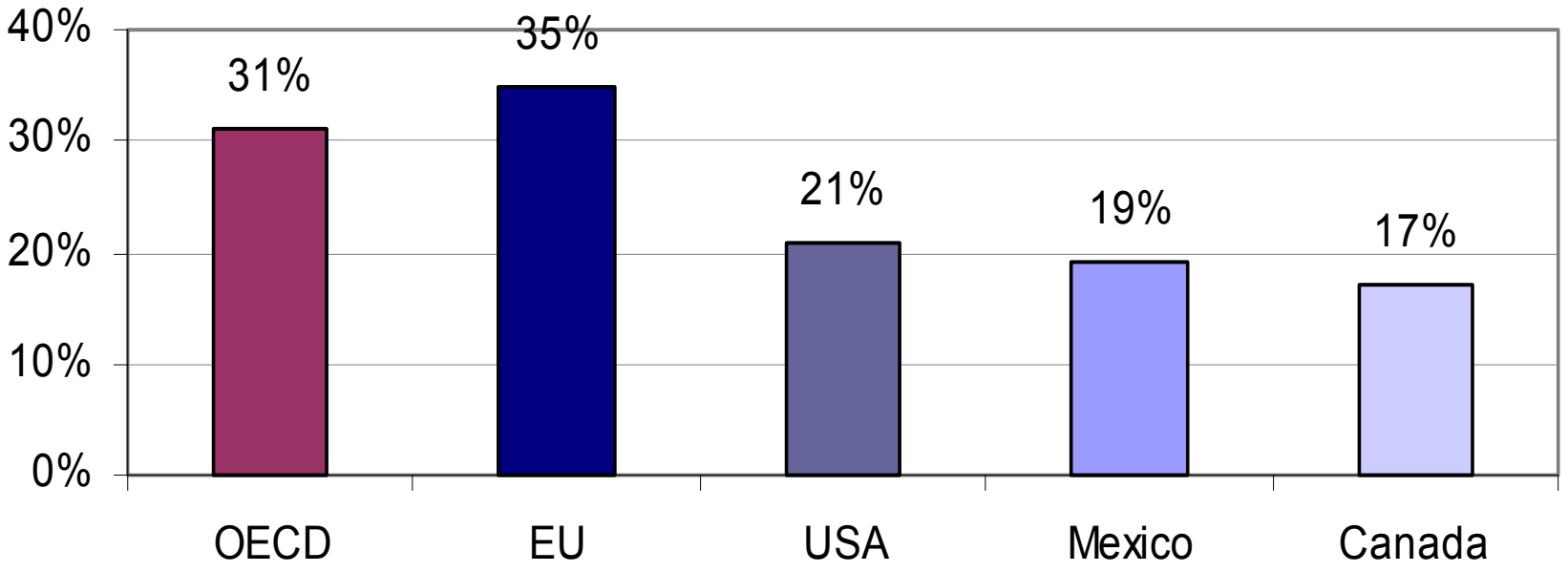
Figure 1: Composition of PSE in OECD Countries (2001)



Source: OECD

Agricultural Subsidies in OECD Countries

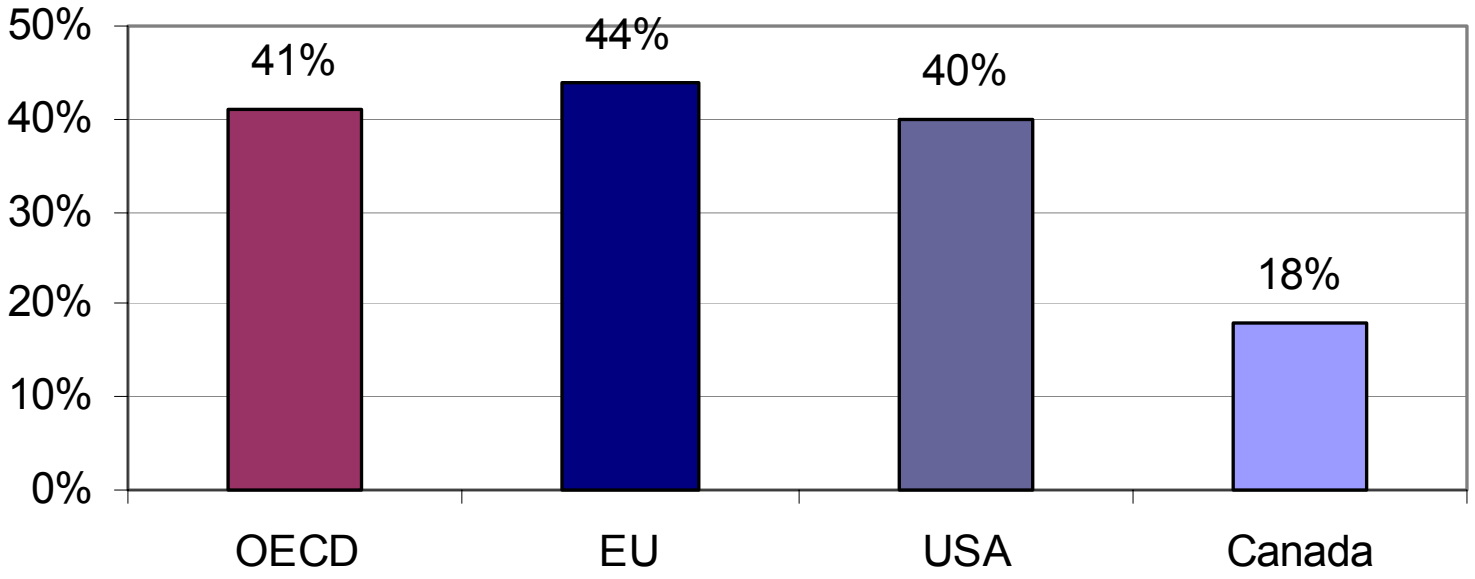
Figure 2: PSE as % of Farm Receipts in OECD Countries



Source: OECD

Agricultural Subsidies in OECD Countries

Figure 3: PSE for Wheat in OECD Countries (1999-2001)



Source: OECD

An Overview of the 2002 US Farm Bill

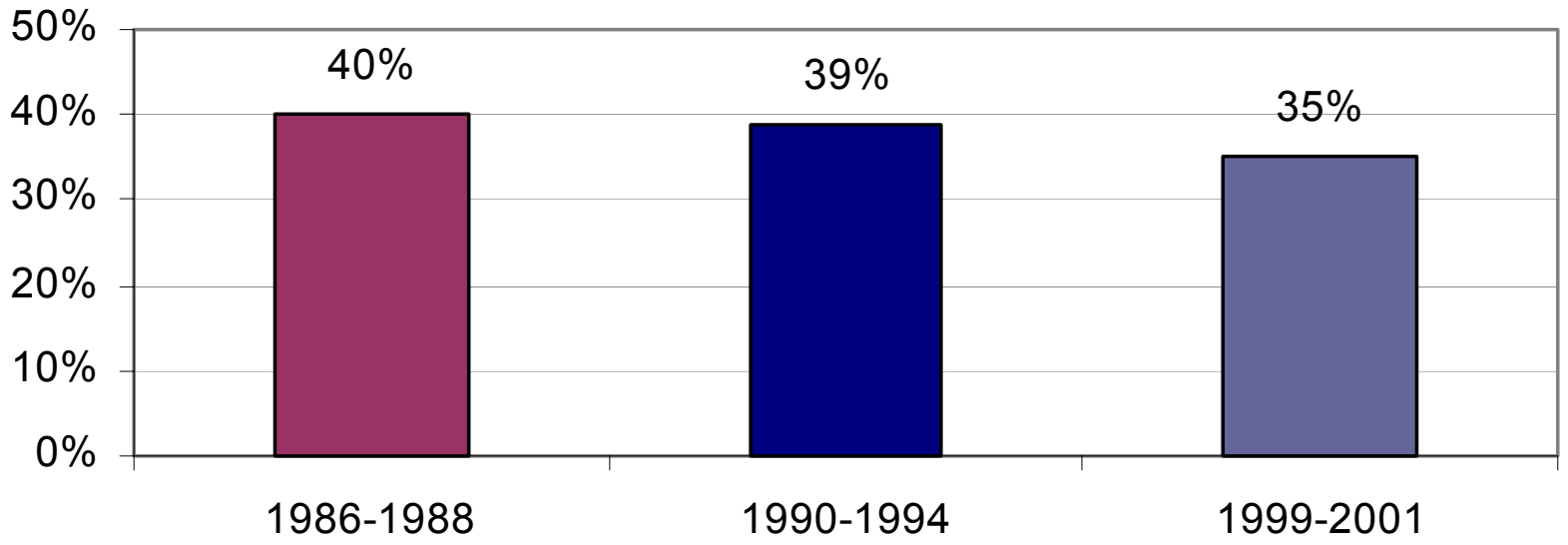
- $180 billion over 10 years
- Estimated increase: $73.5 billion – 78%
- 65% increase in commodities programmes
- 23% increase in conservation programmes
- Increases the use of coupled payments

The Impacts of the 2002 US Farm Bill

- Coupled payments likely to impact more on the environment
- Magnitude of support likely to distort production decisions
  - Incentives for intensification of production
  - Crop flexibility limiting measures
- Higher agricultural outputs
- Impacts on world price and markets
- Positive impacts of conservation programmes

Impacts of the URAA on Agricultural Support

Figure 4: PSE in OECD Countries (1988-2001)



Source: OECD

Impacts of the URAA on Agricultural Support

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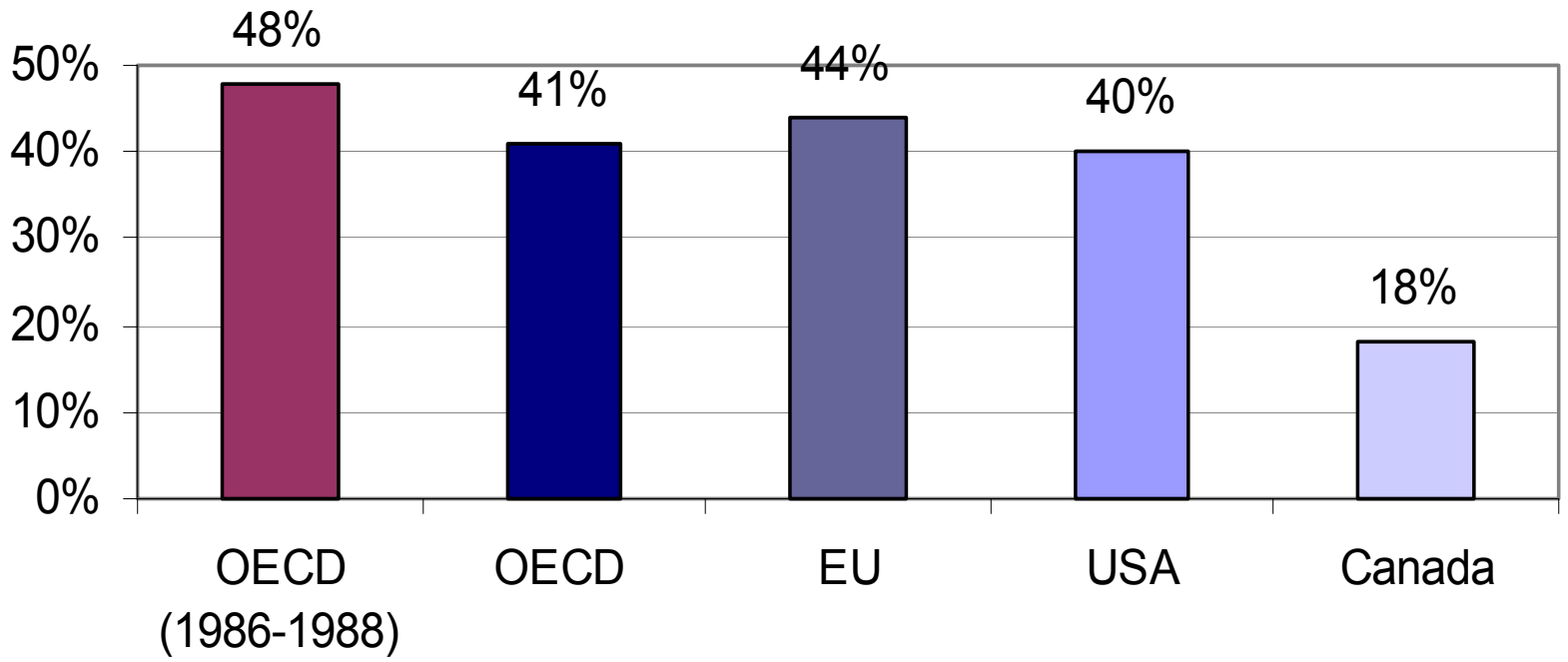


Source: OECD

The Potential Impacts of the Doha Round

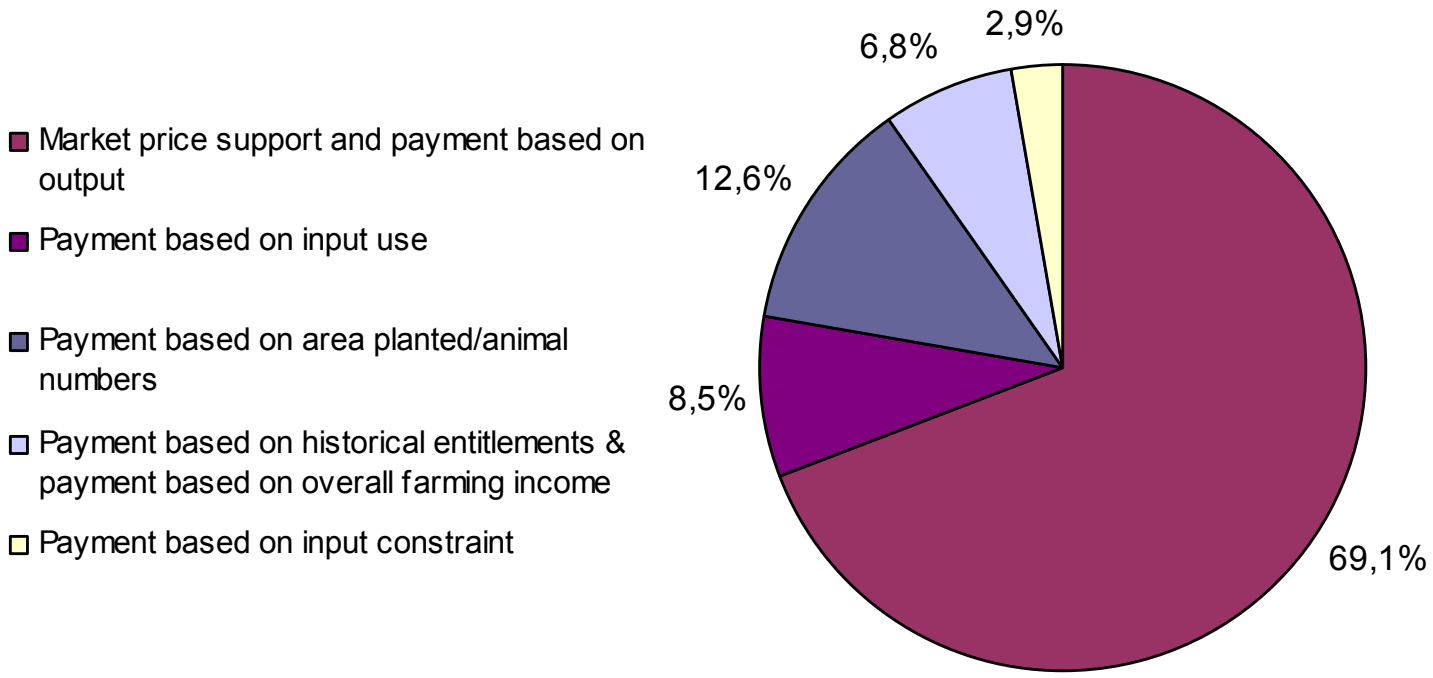
- Reengineering of domestic support policies
- Continued decrease in PSE levels
- Increase in world commodities prices
- Relocation of production favouring developing countries (wheat)

An Overview of Environmental Impacts of Agricultural Subsidies

- The scale effect
- The product effect
- The technology effect
- The structural effect
- The equity effect

Classifying Agricultural Subsidies According to their Environmental Impacts

Figure 6: PSE Classification vs Environmental Impacts



Source: OECD

The Potential of Agro-environmental Programmes

- Agro-environmental programmes: 5% of total Green Box expenditure in OECD countries (1995-1998)
- Increased rapidly in recent years
- Until recently North America lagged behind
  - 0.5% of PSE in USA (1997)
  - 0.8% of PSE in Canada (1996)

Conclusion

- Higher subsidies lead to production intensification and environmental impacts
- The phasing out of Amber Box policies would benefit both trade and the environment
- OECD agricultural support remains largely concentrated in the most environmentally harmful categories of subsidies

Policy Recommendations

- A multilateral sustainability assessment of domestic support programmes in OECD countries should be undertaken
- The conclusions of this process could orient the redeployment of agricultural domestic support in OECD countries
- Canada, Mexico and the United States should instruct the Secretariat of the CEC to develop and refine a methodology