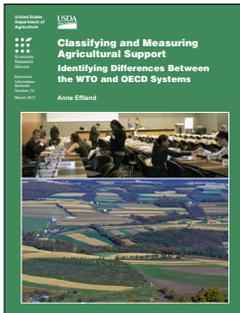


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Classifying and Measuring Agricultural Support: Identifying Differences Between the WTO and OECD Systems

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What Is the Issue?

Most nations provide some level of support to their agricultural sectors. Different types of support can affect producers and consumers both in the supporting country and in other countries. As such, measures of domestic agricultural support are highly contested in the negotiation of trade agreements. Two key systems have emerged for classifying and comparing agricultural support levels across countries. The World Trade Organization's (WTO) notification system produces the Aggregate Measurement of Support (AMS); member governments, in adherence to a formal trade agreement, submit their own data, though such notifications may be submitted irregularly due to lack of capacity or lack of timely and complete data. The Organization for Economic Cooperation and Development's (OECD) Producer Support Estimate (PSE) is also a consensus framework among member nations, but its purpose is to facilitate dialogue on policy reform and effective policy design. The OECD measure relies on data provided by members, supplemented with other sources by OECD experts in order to make annual estimates of transfers across sectors of the economy.

Governments, nongovernmental organizations, researchers, and journalists use both measures regularly to compare the levels and types of support to agriculture across countries. Since both systems produce measures based on the same support programs, some users may attempt to use the OECD measure as a proxy for the WTO measure, which is more narrowly focused and more irregularly reported. But because these two systems were developed for different purposes, they are not identical in their classification schemes, their policy inclusiveness, and their methodologies. These differences can result in surprisingly different results.

What Did the Study Find?

- The WTO classification system requires members to categorize their programs according to rules regarding their expected trade-distorting impacts, which determines whether those programs are subject to each member's maximum support commitments under the Uruguay Round Agreement on Agriculture. The OECD system classifies programs based on criteria related to program implementation, rather than expected impacts, and programs are separated based on whether support is to producers, consumers, or the agriculture sector generally.

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- For the United States, these classification and measurement differences are reflected in a higher level of domestic agricultural support reported under the OECD system compared to the WTO system. From 1995 to 2007, average annual domestic support reported under the WTO system ranged from 68 percent to 90 percent of that reported under the OECD system.
- In some cases the two systems employ different methods to measure the same type of support; for example, the methods used by the WTO and OECD systems to calculate market price support (MPS) yield strikingly different results. Because the OECD method uses the gap between two current (domestic and world) prices to calculate MPS, the amount of MPS may vary widely from year to year. When world prices are high, the gap between a supported domestic price and world price will likely be small, reducing MPS; when world prices fall, that gap will likely increase and MPS will be higher. In contrast, the MPS calculated under the WTO system compares the same fixed world reference price (the 1986-88 average) with a domestic administered price, so when the domestic administered price is stable, the WTO's MPS method will result in only slight variation from year to year based on changes in eligible production.
- For the United States, the difference in methodology for calculating MPS results in reported support differences ranging from \$3 billion to \$16 billion over 1995-2007. Combined with significantly different methods for classifying direct support to producers, these MPS results contribute to the OECD producer support estimate (PSE) ranging from \$13 billion to \$40 billion higher than the WTO aggregate measurement of support (AMS) over the same period.
- It may be possible to translate from one system to the other, perhaps to recreate a missing year of data or to develop new composite indicators, but the task requires a detailed knowledge of the methodologies used by both systems, a detailed understanding of country policies, sufficient reporting transparency to identify individual programs, and some choices about how to recalculate unique measures, like MPS.

How Was the Study Conducted?

A comparative framework for analyzing the two domestic support measurement systems was built by examining the origins, purposes, and classification schemes of both through published documentation and their use in reports and databases since the mid-1990s. This framework allows for juxtaposing the detailed classification and measurement methods of each system and making direct comparisons of how they would be applied across a set of country policies. The impacts the differing categorization and measurement methods could have on domestic support reporting are demonstrated by analyzing their application to U.S. programs and data reporting from 1995 to 2007. The U.S. examples also provide an opportunity to clarify some common misconceptions about comparability between the WTO and OECD systems.