

Crop subsidies in foreign countries: Different Paths to Common Goals Cotton Economics Research Institute (CERI), April 2009

Outlook

The report presented here is an update of the 2007 report on international crop policies conducted by the Cotton Economics Research Institute (Ceri) - United States of America. As US agriculture has been openly criticized by international organizations for its subsidies and protection programs, this study aims to present information on agricultural subsidies and protection currently applied to seven major crops (corn, cotton, rice, sorghum, soybeans, sugar and wheat) by 21 countries representing both developed and developing countries. It mainly shows that (i) all countries, both industrialized and developing, support their agriculture sectors, but use vastly divergent policy tools and combinations of tools. Most use guaranteed minimum prices and import tariffs to protect domestic producers; (ii) industrialized country governments are moving from price supports toward decoupled direct income payments; (iii) developing countries supplement their price support programs with input subsidies, which are excluded from calculations of the Aggregate Measure of Support (AMS) by the World Trade Organization (WTO), but are nonetheless trade distorting; (iv) developing countries' tariff protection is higher than that of industrialized countries.

Executive summary of the report

This is an update of CERI-SR07-01, our report on international crop policies conducted in February of 2007. Since then, the landscape for agricultural products has undergone changes due to developments related to the use of ethanol and the recent economic recession. Also, in most of the world, both developed economies such as the EU, Australia, and the U.S., and developing countries such as China and Brazil, have increased their domestic agricultural supports and/or altered the types of support. It is uncertain if this increase is permanent or transitory.

U.S. agriculture and its related industries account for about 5% of GDP and about 12% of total U.S. employment. On the world front, the U.S. is a dominant force with more exports of wheat, corn, soybeans, sorghum, and cotton than any other nation. U.S. agriculture is the only sector in the U.S. economy with a trade surplus.

U.S. agriculture has been openly criticized by international organizations and eminent academicians for its subsidies and protection programs. The news media have linked low farm incomes in the developing world to the subsidies and protection given by the U.S. and other industrialized countries to their farming sectors. As a result, an impression has been created that agricultural subsidies and protection are confined to the U.S. and other developed/industrialized nations.

This study refutes these perceptions by presenting information on agricultural subsidies and protection currently applied to seven major crops—corn, cotton, rice, sorghum, soybeans, sugar, and wheat—by a group of 21 countries representing both developing and developed nations. Overall, the study concludes that agriculture has a special status in both developed and developing countries with a wide variety of subsidy and protection instruments in place. Developed countries certainly subsidize and protect their agricultural sectors. But at the same time, developing countries are equally, if not more, prone to protect their agriculture sectors.

Specifically, we find that:

1. All countries, both industrialized and developing, support their agriculture sectors, but use vastly divergent policy tools and combinations of tools. Most use guaranteed minimum prices and import tariffs to protect domestic producers.
2. Industrialized country governments are moving from price supports toward decoupled direct income payments.
3. Developing countries supplement their price support programs with input subsidies, which are excluded from calculations of the Aggregate Measure of Support (AMS) by the World Trade Organization (WTO), but are nonetheless trade distorting.
4. Developing countries' tariff protection is higher than that of industrialized countries.
5. The use of sanitary and phytosanitary (SPS) measures to restrict imports are more frequent among developing countries than in developed countries.