

U.S. FEDERAL AND STATE AGRICULTURAL SUPPORT

EXECUTIVE SUMMARY

This study updates and expands upon the previous studies of support to U.S. agriculture, with special emphasis on dairy farming and processing, prepared by the firm Grey, Clark and Shih (GCS) in 1990 and 1998. This analysis is more comprehensive because there is now more publicly available information on state programs and estimated benefits provided at the state and local level for subsidized irrigation water are included. All support provided directly and indirectly to agricultural production and processing in the USA, from inputs at the farm or ranch level to the point of sale to retailers was reviewed. However, while the complete range of specific measures was reviewed, not all benefits flowing from these programs were included in the calculations of benefits, either because GCS did not have adequate information to estimate particular program benefits or because benefits were considered too remote from dairy.

Total Support to U.S. Dairy Production

GCS estimates that the total support to U.S. dairy production provided through U.S. Federal, State and local programs in FY 2003 was \$18.48 per hectolitre or \$8.11 per hundredweight (cwt). Expressed in Canadian dollars,¹ this support was \$25.90CAD per hectolitre in 2003.

	Summary of 2003 U.S. Subsidies to Dairy			
	Per cwt		Per hl (100 l)	
	US\$	CAD\$	US\$	CAD\$
Federal	6.21	8.71	14.15	19.83
State/Local	1.90	2.66	4.33	6.07
Total	8.11	11.37	18.48	25.90

	Farm Gate Dairy Prices (2003)			
	Per cwt		Per hl	
	US\$	CAD\$	US\$	CAD\$
Canada	19.17	26.86	43.90	61.52
USA	12.86	18.02	29.30	41.06

The study finds that in 2003:

- Total value of U.S. Federal Government subsidies and support to agriculture is the aggregate of the USDA program levels, irrigation infrastructure support and the biomass energy incentive is U.S.\$113,523,800,000.
- Total value of state and local government support, including irrigation water subsidies is U.S.\$24,806,191,561.
- Total federal financial support to dairy production is U.S. \$10,578,907,216.
- Total value of support to dairy production provided by state and local governments is U.S. \$3,237,374,346.

¹ using the Bank of Canada average exchange rate for 2003

In order to understand the dynamics and pervasive influence of undisciplined domestic support, we have compared it to costs of production and the farm gate prices for milk in the USA.

U.S. cost of production for milk² was:

2002	\$18.87 cwt
2003	\$19.22 cwt

U.S. revenue per cwt for milk was:

2002	\$12.47 cwt
2003	\$12.86 cwt

The estimated \$8.11/cwt support to U.S. dairy production in 2003 was equivalent to 42.2% of cost of production.

These subsidies nearly double the shortfall in revenue from the marketplace. They allow U.S. producers to sell below their fully absorbed cost of production, insulating them from the need to earn a profit from the market and from international price pressures. Supplemented by Dairy Export Incentive Program (DEIP) benefits this support facilitates exports.

Clearly, it is Government support and not market forces which influence production decisions and farm income in the USA. This analysis suggests that, the amount of support that U.S. producers receive from government amount \$US 2.00 per kg for butter. The question then becomes, what would be the additional tariff needed if U.S. dairy farmers were to receive all their returns from the market, as do their Canadian counterparts? GCS attempts to estimate this in the following table:

Estimated <i>ad valorem</i> tariff equivalent of payments received by U.S. dairy producers			
U.S. Butter	US \$/kg	<i>Level of Protection in ad valorem terms</i>	
		Assuming a world price of \$1 US/kg (August 2002)	Assuming a world price of \$2 US/kg (2005)
U.S. Tariff	1.54/kg	154%	77%
Estimated direct payments	2.00/kg	200%	100%
Equivalent tariff required without direct payments	3.24/kg	354%	177%

As illustrated in this table an additional tariff of between 100 and 200% for butter would be required to achieve a level of tariff that would allow U.S. producer get all of their returns from the marketplace rather than through subsidies. In order to make comparisons with Canadian butter, the specific tariffs were converted to *ad valorem* tariffs. The Canadian tariff for butter is 298% and falls close to mid-way between the estimated levels of tariffs that would be required by the U.S. to ensure producers obtain 100% of their income from the market place.

² Source for all 2002-2003 U.S. data analyzed here is www.ers.usda.gov/Data/CostsandReturns/data/current/c-milk.xls

GCS also completed a similar analysis with cotton and rice and a number of other products, concluding that subsidies allow for a country to have lower tariffs.

Conclusions

This study suggests that:

1. The single undertaking or “one size fits all” approach, urged by the biggest subsidizer, is far from suitable for all countries.
2. Wealthier countries can through generous subsidies and other forms of support insulate their farm sectors from market access liberalization.
3. There are interlinkages between subsidies and tariff /tariff quota which cannot be ignored. Failure to take these linkages into account will result in perpetuating and exacerbating imbalances in the WTO rules and conditions of competition relating to agricultural trade.
4. The use of green or *de minimis* domestic support tends to be very production and trade distorting.