

CHAPTER 3.

IDENTIFYING, DISTINGUISHING AND CLASSIFYING POLICIES

37. Before calculating the indicators for any particular country, it is important to understand fully the range of policy measures applied to support agriculture and the forms in which they are implemented.

38. The first section of Chapter 3 defines the policy measures included in the measurement of support. The following section differentiates the policies according to which of the three economic groups the transfer is made to. The third section details the various categories and labels attached to policy measures within the PSE, including definitions and worked examples. Similarly, the various GSSE and CSE categories are defined and discussed in the two final sections.

3.1. Identifying policies that support agriculture

- Policies are included in the estimates of support if agriculture is the only, or the major, beneficiary of the policy.
- It does not matter which government ministry or level of government implements the policy.

39. The range of policy measures included in the estimation of agricultural support are determined by the definitions and principles outlined in [Chapter 2](#). In all cases, which government body is responsible for the policy measure giving rise to the transfer has no impact on the decision to include it or not. In other words, policy measures supporting agriculture may be under the responsibility of many different government ministries, and not just the ministry formally responsible for agriculture, and at different levels of government, *e.g.* central, provincial, prefectural or state. Alternatively, policies implemented by a ministry responsible for agriculture but related to non-agricultural activities, *e.g.* forestry or fisheries, are not considered.

40. From the definition of the PSE, a policy measure will be included in the estimation of agricultural support if it: (a) provides a transfer whose incidence is at the farm level; and (b) is directed specifically to agricultural producers or treats agricultural producers differently from other economic agents in the economy. The support provided by the policy measure may be delivered in several different ways: an increased output price (Market Price Support); a reduced input price (*e.g.* a fertiliser subsidy) or cost share for fixed capital; a direct payment (a cheque from the government); a revenue foregone by government (*e.g.* a tax concession); a reimbursement of a tax or charge (*e.g.* as for fuel taxes in some countries); or a gratuitous service in kind to individual farmers (*e.g.* delivery of extension services).

41. Support for farm product prices, or direct payments based on agricultural production or agricultural area, are clearly agricultural and producer-specific, and are included in the PSE indicator. Similarly, a payment reducing the price of fertiliser or pesticide for application on farm land, or a payment compensating for yield loss as a result of practising organic farming, is clearly agricultural and producer specific and are also included in the PSE. On the other hand, a tax concession that is available to all small businesses or to all self-employed people in an economy would not be included

in the PSE because it is not specific to agriculture, even though it benefits farmers, perhaps substantially.

42. With respect to some measures, a degree of judgement needs to be exercised. This is illustrated in the following examples.

- A fertiliser subsidy may benefit gardeners and owners of golf courses, but the main beneficiary will usually be farmers. In this case, the policy measure is judged to be specific to farming and is included in the PSE. However, in the estimation of support, only the value of transfers going to agriculture is included.
- Many countries grant concessions on the use of fuel in machines for off-road use. All machinery-using sectors may benefit, or a limited number of sectors may be defined by the enabling regulations. In these cases, the benefit will be included in the PSE if agriculture is singled out as a target sector for the benefit or if, *de facto*, it is the major beneficiary of the measure.
- A grant for the conversion of farm buildings to self-catering accommodation for tourists will not be included unless eligibility for the grant is confined to farmers.
- Differential treatment of farmers in social security measures is not included because it has not been possible to determine whether the conferred benefits are specific to primary agriculture.
- Measures that provide support to individuals who may not be farmers to carry out actions on farms, *e.g.* a stone wall payment/environmental measure that is also available to non-farmers, may be included, although only the value of transfers going to farmers would be included.

43. The definition of the GSSE allows for a wider range of policy measures to be included in the indicator. As with the PSE, the focus is on the primary sector – agricultural production at the level of the farm. Two principal types of expenditures are included as follows:

- Expenditures associated with policy measures that are included in the PSE, but which are not received directly by farmers. For example, the costs associated with the storage and disposal of price-supported commodities by the government or an appointed agency are included in the GSSE.
- Services that benefit primary agriculture but whose initial incidence is not at the level of individual farmers: for example, agricultural education, research, marketing and promotion of agricultural goods, general infrastructural investment relating to drainage, and irrigation, and inspection services beyond the farm gate.

44. From the definition of the CSE, policy measures which provide positive transfers to first consumers of agricultural commodities, *e.g.* flour mills, meat-processing plants or fruit-packing houses, are also included when they are provided specifically to offset the higher prices that result from market price support. Domestic food aid associated with measures that support agriculture, *e.g.* distribution of government stocks acquired in the context of market interventions, are also included.

45. A continual effort is made to ensure consistency in the treatment and completeness of policy coverage. Revising the calculations and improving consistency in light of more updated data and information on policy measures is an ongoing process undertaken in conjunction with the preparation of the reports on *Agricultural Policies in OECD Countries: Monitoring and Evaluation* and *Agricultural Policies in Non-OECD Countries: Monitoring and Evaluation*.

Box 3.1. Some issues not explicitly dealt with in the PSE framework

Regulatory measures

In light of the standard division of government measures into fiscal and regulatory, a question arises about the treatment of regulations in the PSE. Generally speaking, the PSE includes policy measures that give rise to transfers. The transfers may be direct (a cheque from the government) or indirect (paid by consumers), explicit (again a cheque) or implicit (as in a tax concession). In all these cases, a recipient and a beneficiary can be clearly identified. The PSE does not capture regulations except in so far as these occur in association with transfers. For example, a production quota is captured in the estimation of Market Price Support. However sanitary or environmental regulations as such will not be reflected in the PSE unless there are transfers associated with them, e.g. if governments compensate some of the costs to comply with these regulations.

Externalities and public goods generated by agriculture

Agricultural activities not only produce commodities for food, feed, fibre or fuel, but also contribute to the preservation of ecosystems, cultural landscapes, carbon sequestration and flood management. Agriculture also generates pollution of water and air, contributes to greenhouse gas emissions, and leads to loss of habitats and biodiversity. Some farmers voluntarily treat animals (animal welfare) or provide levels of food safety that go beyond minimum legal standards. In some countries legal requirements that farmers must observe (such as banning the keeping of chicken in cages) go beyond what farmers would profitably choose to implement without support payments. Agriculture thus provides public goods and generates positive or negative externalities, which may be provided jointly with agricultural commodity production, or directly through the use of farm-based resources.

In so far as markets are absent or poorly functioning for these externalities and public goods, farmers are neither remunerated for their provision, nor charged for the pollution generated. In such cases, without some remuneration or penalty, there would tend to be an under-provision of public goods and an over-generation of environmental damage. Thus governments have put in place various agri-environmental and animal welfare policies, which involve *inter alia* payments and charges to farmers.

Consistent with the OECD definition of the PSE, the value of these (positive and negative) externalities is not explicitly captured in “gross farm receipts”. It will be recalled that gross farm receipts is the denominator of the %PSE that comprises the value of commodity production to which is added budgetary transfers from policies, some of which are to pay farmers to reduce negative externalities. Taking into account the value of these non-market public goods and externalities would mean that the denominator would represent farm receipts adjusted for externalities and public goods.

Transfers from policies that pay farmers for the *extra* costs incurred or profits foregone (from reduced commodity production) for investments or practices - such as for conserving land with high environmental value, preserving biodiversity, improving the treatment of animals, or reducing pollution - are included in both the numerator and denominator in the %PSE calculation. As the denominator of the %PSE includes the value of the transfers associated with such policies, the transfers could be considered as a proxy for the value of the relevant public goods and externalities, as measured by the additional costs of their provision. It could be argued that the *total social value* of non-market goods generated by agriculture, both positive and negative, should be included in the denominator (*i.e.* gross farm receipts adjusted for those goods). Three points need to be stressed in this regard: first, in so far as those non-market goods are provided jointly with marketed commodities (which is also partly dependent on the overall level of support from all sources), there is no additional *cost* incurred by farmers in their provision, while additional non-market goods will generally only be provided if there is additional remuneration (as outlined above); second, at present there is no consistent and non-contested set of *demand* valuations by society for non-market public goods (or of the value of negative externalities) across and within OECD countries which could be accounted for in the value of farm receipts; and third, some of the transfers in the “General Services Support Estimate” (GSSE) are for the provision of public goods or mitigation of negative externalities, but are not included (by definition) in the value of gross farm receipts in the %PSE calculation. Those elements in the GSSE would need to be taken into account in any overall accounting of the externalities associated with agriculture.

Other work in the OECD is currently examining the valuation of environmental externalities (in the Environment Directorate), and the measurement (and classification) of transfers associated with “agri-environmental” policies, and indicators of environmental performance in the agricultural sector (in the Trade and Agriculture Directorate). *The Environmental Performance of Agriculture in OECD Countries Since 1990* (OECD, 2008a) and the Internet-based *Inventory of Policies Addressing Environmental Issues in Agriculture* (www.oecd.org/tad/env/inventory) are useful sources of information.

3.2. Distinguishing between policies according to economic group

- Policy measures are attributed to three economic groups on the basis of who is the intended recipient of the transfer, *i.e.* producers individually, producers collectively, or consumers of agricultural commodities.
- A series of questions helps to determine to which recipient group a policy transfer should be classified.

46. Identifying the full range of policies supporting agriculture is also largely a process of distinguishing between policy measures on the basis of which economic group receives the transfer. Three economic groups are identified, according to whether the policy measure provides transfers to producers individually (PSE) or collectively as general services to agriculture (GSSE), or whether it provides transfers to consumers individually (CSE). Appropriately distinguishing between policies is important for correctly calculating the indicators that measure the level and composition of support. This process can be aided by the following sequence of questions.

Question 1: Does the policy create a transfer to producers collectively through general services?

47. For the answer to be positive, such transfers should not depend on the actions of individual farmers or consumers, are not received by individual producers or consumers, and do not affect directly farm receipts or consumption expenditure. In answering this question, it would be useful to bear in mind the categories for classifying policies within the GSSE ([section 3.4](#)). If the answer is yes, consider the policy under the GSSE. If no, proceed to the next question.

Question 2: Does the policy measure create a transfer to producers individually based on goods or services produced, on inputs used, or on the fact of being a farming enterprise or farmer?

48. For a policy measure to be included in the PSE, it is necessary that an individual farmer takes actions to produce goods or services, to use factors of production, or to be defined as an eligible farming enterprise or farmer, in order to receive the transfer. If yes, consider it under the PSE and proceed to the following question. If no, also proceed to the following question.

Question 3: Does the policy create a transfer to or from consumers of agricultural commodities?

49. In the case of the CSE, it is necessary for individual consumers to take actions to consume agricultural commodities in order to receive (provide) a transfer. Examples of policies grouped in the CSE include transfers to processors (first consumers) to compensate them for higher domestic prices and consumption subsidies in cash or in kind to support consumption levels. Note also that some policies that are grouped in the PSE also constitute the CSE. These relate to the policies that create output price-based transfers. For example, a border tariff creates a price gap between domestic and world prices, resulting in consumers paying a higher price for that product. This policy measure results in transfers from consumers to producers and from consumers to government revenue ([sections 4.2](#) and [4.3](#) explain this in greater detail). If yes, consider it under the CSE.

50. The TSE represents the sum of all three components, adjusted for double-counting given that the transfers associated with market price support policies appear in both the PSE and CSE calculation.

3.3. Classifying and labelling policies that support producers individually (PSE)

- Policy measures included in the PSE are classified according to specific implementation criteria. These identify the economic features of policy measures, which are important for the consequent analysis of potential impacts of policies on production, income, consumption, trade, and the environment.
- Policy measures are classified into seven categories which identify the transfer basis for the policy, whether the basis is current or non-current, and whether production is required or not.
- Policy measures in each category are further distinguished according to whether constraints are placed on output levels or input use, whether the payment rate is variable or fixed, and whether the policy transfer is specific or not as to commodities covered or excluded.
- Policy measures may be classified by category by label, or by both, according to intended use.

3.3.1. Definition of categories and sub-categories

51. The impact of policy measures on variables such as production, consumption, trade, income, employment and the environment depend, among other factors, on the way policy measures are implemented. Therefore, to be helpful for policy analysis, policy measures to be included in the PSE are classified according to implementation criteria. For a given policy measure, the **implementation criteria** are defined as *the conditions under which the associated transfers are provided to farmers, or the conditions of eligibility for the payment*. However, these conditions are often multiple. Thus, the criteria used to classify payments to producers are defined in a way that facilitates: the analysis of policies in the light of the “operational criteria” defined by OECD Ministers of Agriculture in 1998; the assessment in subsequent analysis of their impacts on production, consumption, income, employment, etc., through, for example, the [Policy Evaluation Model](#) (PEM); and the classification of policy measures in a consistent way across countries, policy measures and over time.

52. Policy measures with an environmental focus illustrate the role of implementation criteria in the PSE classification. Possible agri-environmental payments include cost-sharing for the installation of conservation practices, or alternatively the provision of a per hectare payment to motivate an above-standard level of environmental condition. Although in both cases the payments may have the same environmental objective, their main implementation criteria are not the same, and the incentives provided to farmers in terms of resource use and production decisions may differ. Hence, the two cases should not be considered within the same category since support is implemented differently in each case.

53. As a result of several policy developments, including policy reform initiatives and new measures of support, a new PSE classification was introduced in 2007. The key underlying principle remains that policy measures are classified according to the way they are *implemented*. The various categories and sub-categories listed in Box 3.2 have been constructed to identify the implementation criteria that are considered to be the most significant from an economic perspective and reflecting policies applied in OECD countries (the PSE categories, as they are presented in the PSE database are also shown in Table 3.1). The categories identify:

- The **transfer basis** for support: output (category A), input (category B), area/animal numbers/receipts/incomes (categories C, D and E), non-commodity criteria (category F);
- Whether the support is based on a **current** (categories A, B, C, F) or **non-current** (historical or fixed) basis (categories D and E);
- Whether **production** is **required** (categories C and D) or **not** (category E).

Box 3.2. Names and definitions of the PSE categories and sub-categories

A. Support based on commodity output

A.1. Market price support (MPS) - transfers from consumers and taxpayers to agricultural producers arising from policy measures that create a gap between domestic market prices and border prices of a specific agricultural commodity, measured at the farm gate level.

A.2. Payments based on output - transfers from taxpayers to agricultural producers from policy measures based on current output of a specific agricultural commodity.

B. Payments based on input use: transfers from taxpayers to agricultural producers arising from policy measures based on on-farm use of inputs:

B.1. Variable input use – transfers reducing the on-farm cost of a specific variable input or a mix of variable inputs.

B.2. Fixed capital formation - transfers reducing the on-farm investment cost of farm buildings, equipment, plantations, irrigation, drainage and soil improvements.

B.3. On-farm services - transfers reducing the cost of technical, accounting, commercial, sanitary and phyto-sanitary assistance, and training provided to individual farmers.

C. Payments based on current A/An/R/I¹, production required: transfers from taxpayers to agricultural producers arising from policy measures based on current area, animal numbers, receipts or income, and requiring production. Category C is further Broken down to two sub-categories:

C.1. Based on current receipts/income – including transfers through policy measures based on receipts or income.

C.2. Based on current area/animal numbers – including transfers through policy measures based area/animal numbers.

D. Payments based on non-current A/An/R/I, production required: transfers from taxpayers to agricultural producers arising from policy measures based on non-current (*i.e.* historical or fixed) area, animal numbers, receipts or income, with current production of any commodity required.

E. Payments based on non-current A/An/R/I, production not required: transfers from taxpayers to agricultural producers arising from policy measures based on non-current (*i.e.* historical or fixed) area, animal numbers, receipts or income, with current production of any commodity not required but optional. Category E is further divided in two sub-categories according to the nature of payment rates used:

E.1. Variable rates - transfers using payment rates which vary with respect to levels of current output or input prices, or production/yields and/or area.

E.2. Fixed rates - transfers using payment rates which do not vary with respect to these parameters.

F. Payments based on non-commodity criteria: transfers from taxpayers to agricultural producers arising from policy measures based on:

F.1. Long-term resource retirement - transfers for the long-term retirement of factors of production from commodity production. The payments in this subcategory are distinguished from those requiring short-term resource retirement, which are based on commodity production criteria.

F.2. A specific non-commodity output - transfers for the use of farm resources to produce specific non-commodity outputs of goods and services, which are not required by regulations.

F.3. Other non-commodity criteria - transfers provided equally to all farmers, such as a flat-rate or lump-sum payment.

G. Miscellaneous payments: transfers from taxpayers to farmers for which there is insufficient information to allocate them to the appropriate categories.

1. The abbreviations represent: A – Area; An – Animal numbers; R – Receipts; and I - Income

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Table 3.1. PSE categories and labels

PSE CATEGORIES ↓	PSE LABELS														Value of transfers, LC million			
	Current commodity production and payment limits		Payment rates		Input constraints			Payment eligibility based on						Production exceptions				
	Limit	No limit	Fixed	Variable	With (mandatory)	With (voluntary)	Without	Area	Animal number	Receipts	Income	Commodity(ies)					With	Without
											Single	Group	All			Year 1	Year n	
A. Support based on commodity outputs																		
<i>A1. Market Price Support</i>																		
commodity <i>n</i>					na	na	na	na	na	na	*	na	na	na	na	na	na	na
commodity <i>m</i> , etc					na	na	na	na	na	na	*	na	na	na	na	na	na	na
<i>A2. Payments based on output</i>																		
commodity <i>k</i>					na	na	na	na	na	na	*	na	na	na	na	na	na	na
commodity <i>l</i> , etc.					na	na	na	na	na	na	*	na	na	na	na	na	na	na
B. Payments based on input use																		
<i>B1. Variable input use</i>																		
policy measure <i>b₁₁</i>								na	na	na	na					na	na	
policy measure <i>b_{1n}</i>								na	na	na	na					na	na	
<i>B2. Fixed capital formation</i>																		
policy measure <i>b₂₁</i>								na	na	na	na					na	na	
policy measure <i>b_{2n}</i>								na	na	na	na					na	na	
<i>B3. On-farm services</i>																		
policy measure <i>b₃₁</i>								na	na	na	na					na	na	
policy measure <i>b_{3n}</i>								na	na	na	na					na	na	
C. Payments based on current A/An/R/I, production required																		
<i>C1. Based on current receipts/income</i>																		
policy measure <i>c₁₁</i>																na	na	
policy measure <i>c_{1n}</i>																na	na	
<i>C2. Based on current area/animal numbers</i>																		
policy measure <i>c₂₁</i>																na	na	
policy measure <i>c_{2n}</i>																na	na	
D. Payments based on non-current A/An/R/I, production required																		
policy measure <i>d₁</i>																na	na	
policy measure <i>d_n</i>																na	na	
E. Payments based on non-current A/An/R/I, production not required																		
<i>E1. Variable rates</i>														na	na	na		
policy measure <i>e₁₁</i>														na	na	na		
policy measure <i>e_{1n}</i>														na	na	na		
<i>E2. Fixed rates</i>																		
policy measure <i>e₂₁</i>														na	na	na		
policy measure <i>e_{2n}</i>														na	na	na		
F. Payments based on non-commodity criteria																		
<i>F1. Long-term resource retirement</i>																		
policy measure <i>f₁₁</i>			na	na	na	*	na	na	na	na	na	na	na	na	na	na	na	na
policy measure <i>f_{1n}</i>			na	na	na	*	na	na	na	na	na	na	na	na	na	na	na	na
<i>F2. A specific non-commodity output</i>																		
policy measure <i>f₂₁</i>			na	na	na	*	na	na	na	na	na	na	na	na	na	na	na	na
policy measure <i>f_{2n}</i>			na	na	na	*	na	na	na	na	na	na	na	na	na	na	na	na
<i>F3. Other non-commodity criteria</i>																		
policy measure <i>f₃₁</i>			na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
policy measure <i>f_{3n}</i>			na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na
G. Miscellaneous payments	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na	na

Symbols: “na” – PSE label not applicable to policy measures in a given category; “*” – PSE label applicable to policy measures in a given category by definition; LC – local currency.

3.3.2. Classification criteria

54. The *criteria* for classifying each of the policy measures included in the PSE into a specific category, as defined in the PSE classification, are expressed through the following sequence of questions. These criteria are mutually exclusive and are applied to each policy measure sequentially. Diagram 3.1 below illustrates this procedure. Although a given policy measure may be conditional on several of the criteria, it is classified under the first applicable criterion. If a transfer to agricultural producers provided through two (or more) policy measures is available only as an aggregate amount, a suitable allocation key is used to allocate it to the appropriate categories.

3.3.3. Definition of labels

55. In addition to classification into a category, each policy measure is assigned several “labels” that provide additional details on policy implementation (Box 3.3). The six labels contain information on the constraints placed by policies on output and payment levels or input use, further specify the basis of transfer, its commodity specificity and variability of payment rates. The alternatives offered by each label are exhaustive, so that only one of the available options can be attributed to a payment.

56. Distinction between the terms “PSE category” and “PSE label” is a matter of presentation convention. [Table 3.1](#) shows that the PSE classification is a matrix of various policy implementation criteria where PSE categories are presented along the vertical axis and PSE labels along the horizontal axis. Labels only represent additional dimensions in which the PSE can be broken down and, like the PSE categories, are defined in terms of implementation criteria rather than policy objectives. Labels could be used as an alternative presentation of policy implementation; they also could theoretically be presented as PSE sub-categories or sub-sub-categories. For example, in PSE category E, the “with variable or fixed payment rates” label is used to create sub-categories E.1 and E.2. However, not all labels are applicable to all PSE categories (A to F). For example, the label specifying whether a payment is based on a single, group or all commodities is not applicable to policies in category E. *Payments based on non-current A/An/R/I, production not required*, or F. *Payments based on non-commodity criteria*. A label distinguishing payments based on area, animal numbers, receipts or income is by definition redundant for policies in categories A. *Support based on commodity output* and B. *Payments based on input use*. Other labels could in the future be introduced and presented as sub-categories if policy developments warrant the change. In designing the structure of the PSE database, the choice between treating a particular implementation criterion as a sub-category or a label is one of relative importance and pragmatism, rather than a conceptual difference between these two options.

57. The label “with/without current commodity production limits and/or limits to payments” relates, for example, to a production quota associated with policy measures in category A, or land set-aside associated with policy measures in category C. The label also applies to policy measures that restrict the payment as such, either by explicitly setting a maximum amount of payment, or by limiting the number of animals or land units that may receive payment. For example, a programme that provides an area payment for at the most 10 hectares is labelled as having a payment limit since payments cease beyond that area limit.

58. The label “with or without input constraints” serves to distinguish all PSE transfers (except those in category A.1) that can be provided under the condition that farmers respect certain production practices considered as environmentally or animal-welfare friendly, or which address food safety or other societal concerns. There is a further distinction between mandatory and voluntary input constraints. The former include requirements that relate to a generally applicable regulation, while the latter go beyond general regulations and are adopted by farmers voluntarily. An example below illustrates these distinctions.

59. An interest concession or capital grant can be provided: (a) for any on-farm production investment for any purpose; (b) for an environmental purpose (e.g. for on-farm manure treatment facilities), or to improve the conditions in which animals are kept. In all of these cases, the concessions or grants are linked to investment associated with commodity production, and are all classified in category *B.2. Payments based on fixed capital formation*, despite the fact that such payments are made to achieve different objectives. However, in the case of (a) the concession or grant it is generally applied and is without constraints, while in the case of (b) there are constraints as to the specific use of inputs/farming practices. The measures under (b) can be further distinguished between those which imply mandatory constraints (i.e. installation of manure treatment facilities) and those involving voluntary constraints (i.e. improving the conditions for animals beyond the legal minimum).

Box 3.3. Names and definitions of the PSE labels

With or without current commodity production limits and/or limits to payments (with/without L): defines whether or not there is a specific limitation on current commodity production (output) associated with a policy providing transfers to agriculture and whether or not there are limits to payments in the form of limits to area or animal numbers eligible for those payments. Applied in categories A – F.

With variable or fixed payment rates (with V/F rates): a payment is defined as subject to a variable rate where the formula determining the level of payment is triggered by a change in price, yield, net revenue or income or a change in production cost. Applied in categories A – E.

With or without input constraints (with/without C): defines whether or not there are specific requirements concerning farming practices related to the programme in terms of the reduction, replacement, or withdrawal in the use of inputs or a restriction of farming practices allowed. Applied in categories A – F.

- Payments conditional on compliance with basic requirements that are mandatory (*with mandatory*);
- Payments requiring specific practices going beyond basic requirements and voluntary (*with voluntary*).

Based on area, animal numbers, receipts or income (based on A/An/R/I): defines the specific attribute (i.e. area, animal numbers, receipts or income) on which the payment is based. Applied in categories C – E.

Based on a single commodity, a group of commodities or all commodities (based on SC/GC/AC): defines whether the payment is granted for production of a single commodity, a group of commodities or all commodities. Applied in categories A – D.

With or without commodity exceptions (with/without E): defines whether or not there are prohibitions upon the production of certain commodities as a condition of eligibility for payments based on non-current A/An/R/I of commodity(ies). Applied in Category E.

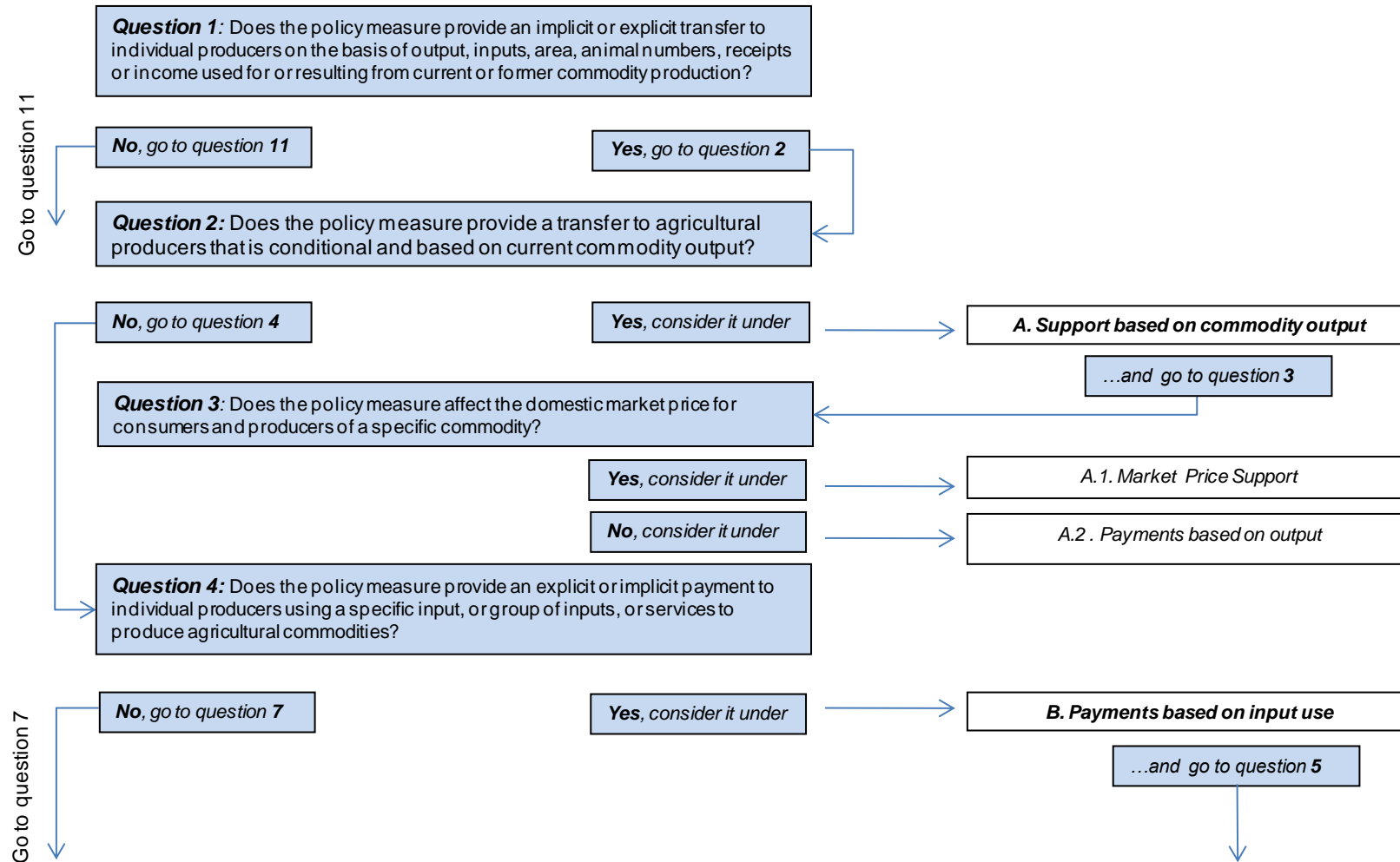
3.3.4. Work examples

60. The examples presented in Diagram 3.1 illustrate how the criteria in sub-sections 3.3.1 and 3.3.2 are used to classify policy measures into the various PSE categories and sub-categories, and which labels are attached to the policy (sub-section 3.3.3).⁸ The examples start with category *A.2. Payments based on output*, since market price support policies (category *A.1. Market Price Support*) are explained in [Chapter 4](#) in considerable detail.

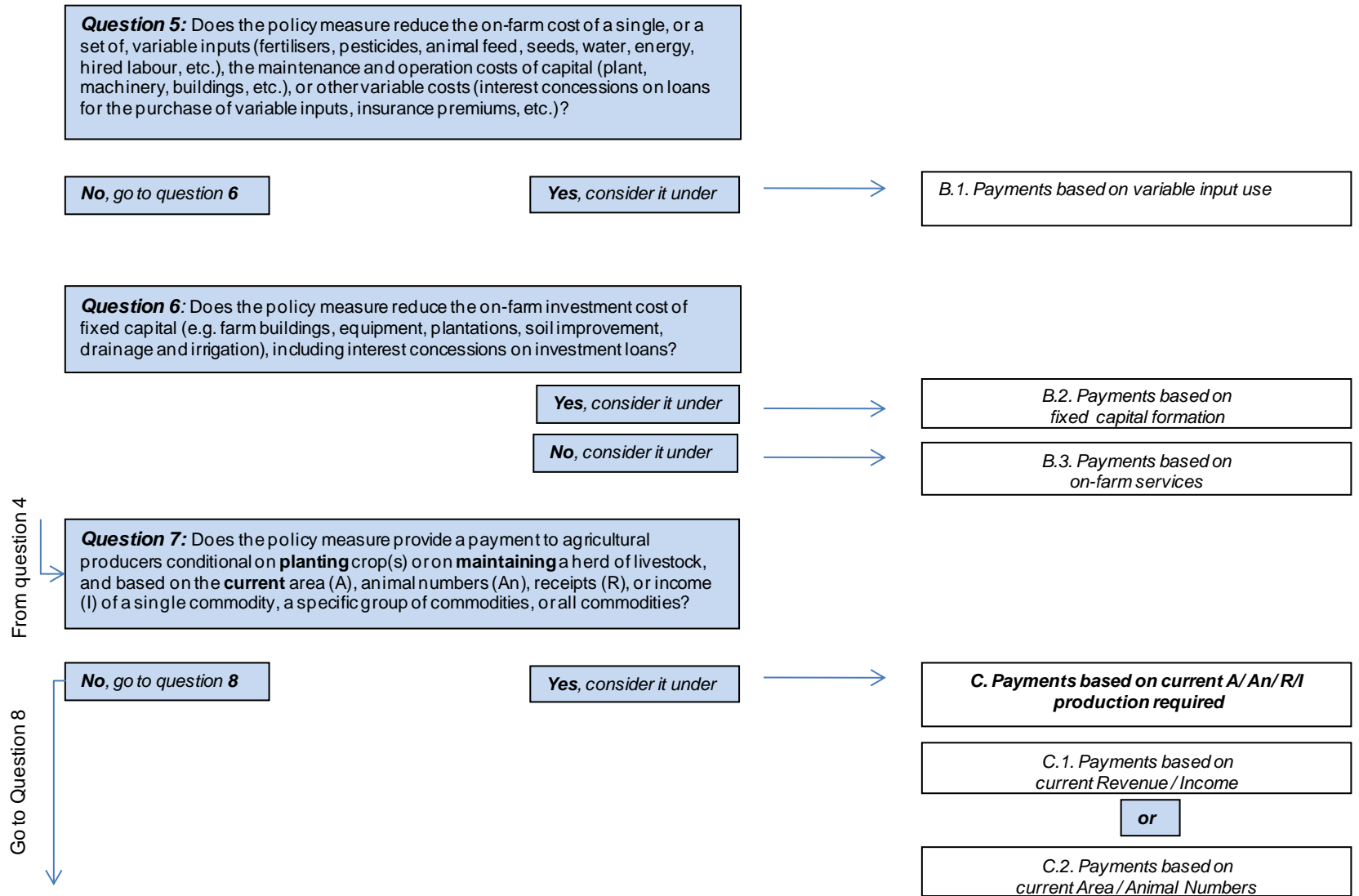
61. For each policy measure, it is understood that the questions preceding its assignment to that category are answered consistently with its assignment. So, for example, a policy measure classified in category *B.1. Payments based on variable input use* entails answering “yes” to question 5 (Diagram 3.1), but to reach question 5 one must answer “yes” to questions 1, “no” to question 2, and “yes” to questions 4 and 5. For reasons of space, the answers to each preceding question are not listed for the examples; however, where necessary, comments on classification are introduced.

8. A full information on how each policy measure is classified in individual OECD and non-OECD countries is contained in the document entitled *Definitions and Sources*, which together with country PSE excel files is available on www.oecd.org/tad/support/psecse

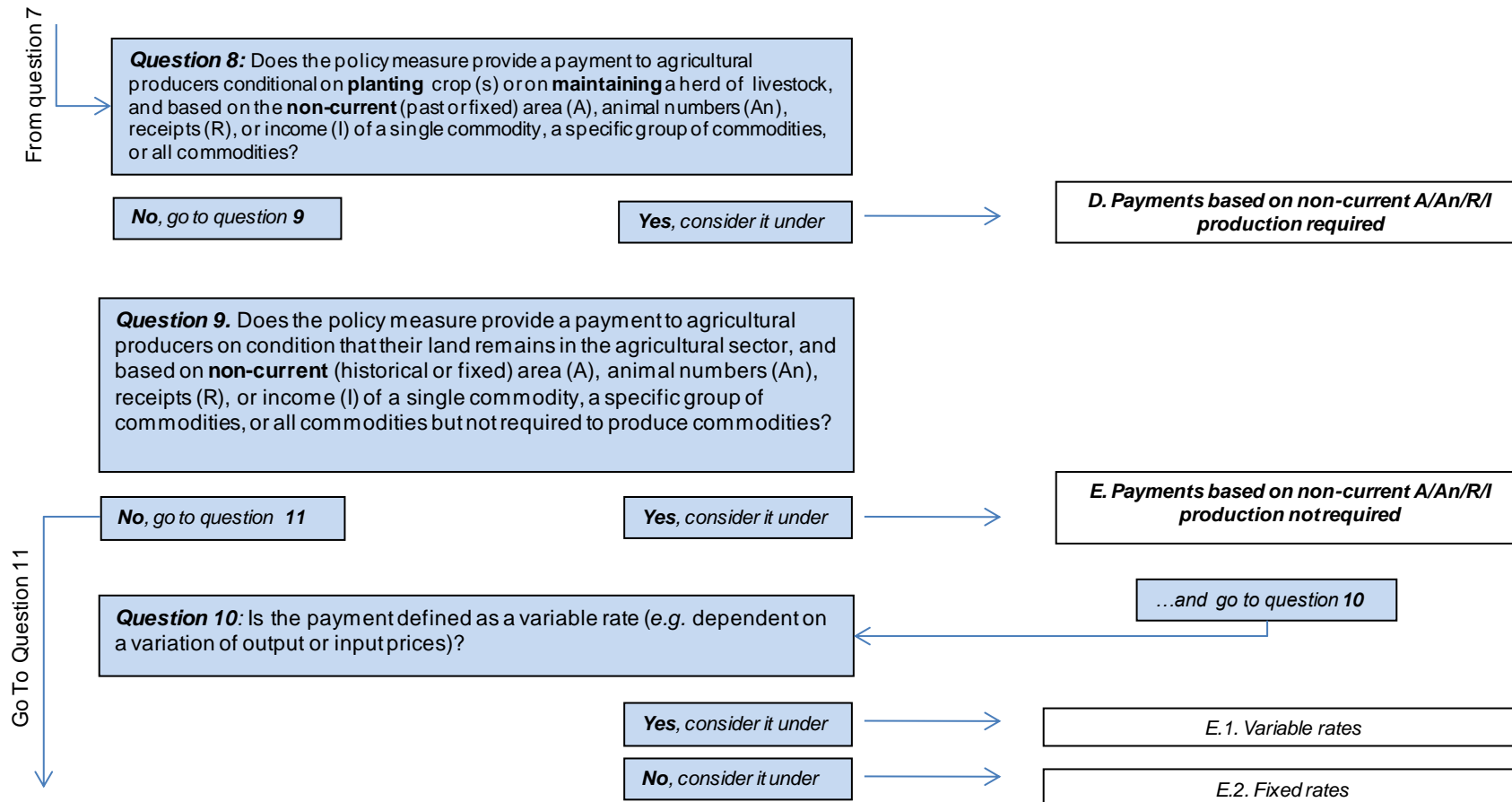
Diagram 3.1. PSE Classification Decision Tree



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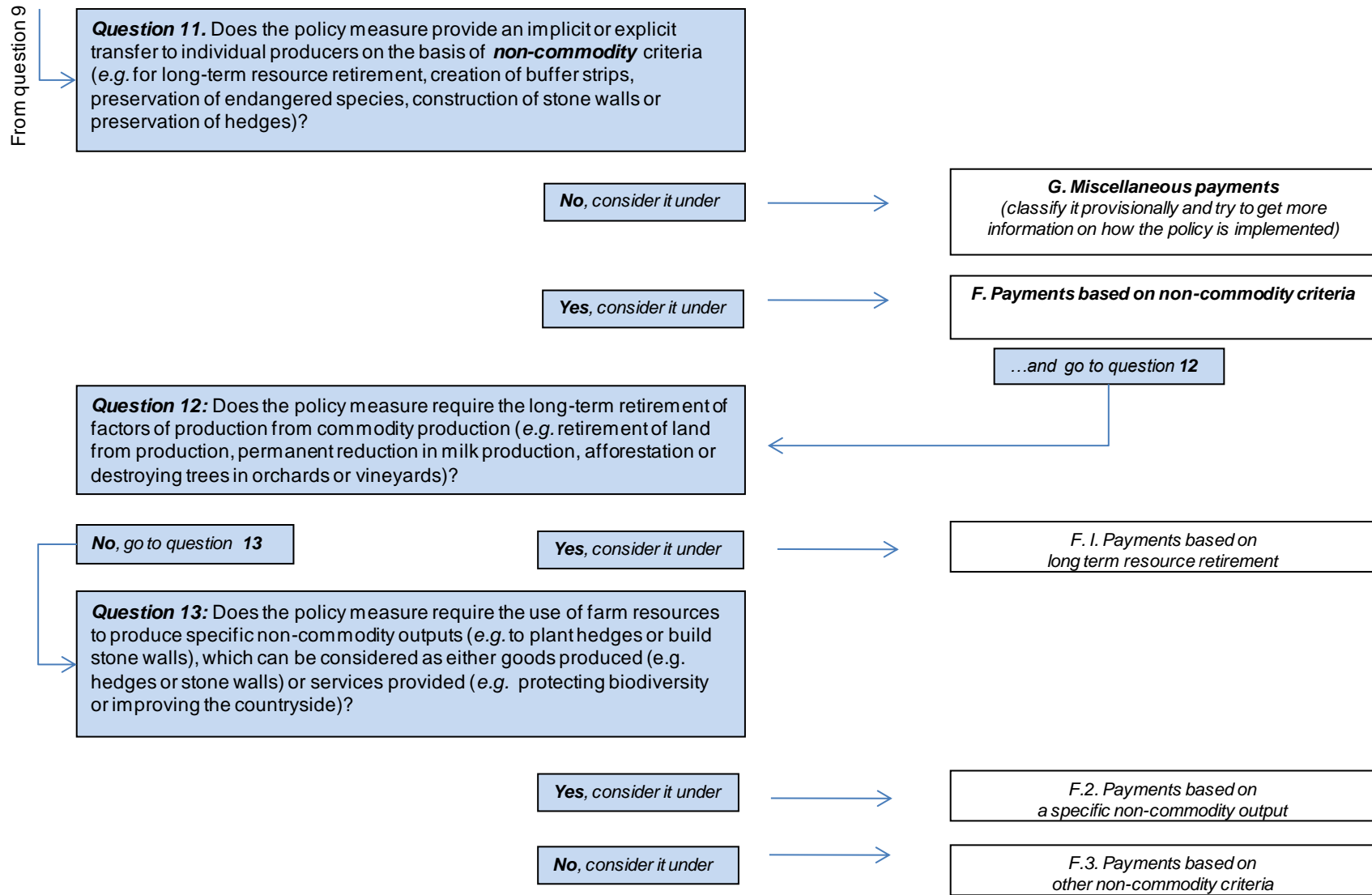


Table 3.2. Work examples of PSE categories and labels

Categories	Labels					
	With or without current commodity production limits	With variable or fixed payment rates	With or without input constraints	Based on area, animal numbers, receipts or income	Based on a single commodity, a group of commodities or all commodities	With or without commodity production exceptions
	<i>with/without L</i>	<i>with V/F rates</i>	<i>without C/with mandatory C/with voluntary C</i>	<i>A/An/R/I</i>	<i>SC/GC/AC</i>	<i>with/without E</i>
A.2. Payments based on output						
<i>Loan deficiency payments (US)</i>	without L	V	with mandatory C	na¹	SC	na
	Payments are made on a per tonne basis to producers eligible for price support loans who agree to forego the loan. The payment is the difference between the loan rate and the domestic market price, multiplied by the quantity of each specific commodity for which the loan deficiency payment is requested, or otherwise eligible for on a crop year basis. It is labelled a “variable” payment rate as the level of payment is determined by fluctuations of market price. Payments are subject to input constraints under the conservation compliance.					
<i>Milk Price Supplement for Cheese Production² (Switzerland)</i>	with L	F	without C	na	SC	na
	Payment per tonne of milk granted to farmers delivering milk to cheese producers. As this payment is made for milk within a production quota, it is labelled with current production limits.					
B.1. Payments based on variable input use						
<i>Fuel tax concessions³</i>	without L	V or F	without C	na	AC	na
	Tax concession on diesel fuel for farmers relative to the standard tax rate. The policy is labelled as being “without” input constraints. To be labelled as “with” input constraints, a limit on total fuel use on farm would have to be in place. Labelling of the policy measure with respect to variable or fixed payment rate depends on whether the amount of concession changes when the price of fuel changes. If yes, it is labelled as “variable” rate; if not, it is labelled as “fixed” rate. Since it is available to all producers, it is labelled as supporting all commodities.					
<i>Irrigation subsidy (Mexico)</i>	without L	F	without C	na	GC	na
	Reduced electricity rates are set for groundwater pumping in agriculture. As the discount is fixed, the subsidy is labelled as “fixed” rate. No limits on current production or constraints on water use are set as eligibility conditions. All farmers are eligible for preferential electricity tariffs, and so the subsidy is labelled as being available for all crop commodities.					

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	<i>with/without L</i>	<i>with V/F rates</i>	<i>without C/with mandatory C/with voluntary C</i>	<i>A/An/R/I</i>	<i>SC/GC/AC</i>	<i>with/without E</i>
B.2. Payments based on fixed capital formation						
<i>Interest concessions on investment loans (e.g. Brazil)</i>	without L	V	without C	na	AC	na
	Subsidising interest rates provides support to producers for building up their capital stock. The preferential interest rate is fixed below the market rate and the subsidy rate changes as a result of movements in market interest rate (the reference interest rate for calculating the level of the concession provided) and so it is labelled as a “variable” payment rate. There are no input constraints conditioning the eligibility for concession. Since it is available to all producers, it is labelled as supporting all commodities.					
<i>Capital grants for on-farm infrastructure (Japan)</i>	without L	F	without C	na	AC	na
	Budgetary allocations for the on-farm infrastructure improvement scheme, including construction of irrigation and drainage facilities and land re-parcelling. The assistance is provided without production limits or constraints on input use. As the amount of payment does not change with the variation of current output, prices, or current production costs, it is labelled as a “fixed” payment rate. Since the payment available to all producers, it is labelled as supporting all commodities.					
<i>Property tax exemptions (Canada – provincial governments)</i>	without L	F	without C	na	AC	na
	Provides an implicit payment to producers proportional to the value of their property, intended as agricultural capital. As the implicit payment depends on the amount of land only, it is labelled as having a “fixed” payment rate. Since it is available to all producers, it is labelled as supporting all commodities.					
B.3 Payments based on on-farm services						
<i>Extension and advisory services (e.g. Australia, Iceland, Japan, Korea, Mexico)</i>	without L	F	without C	na	GC or AC	na
	Federal and provincial expenditures for the activities related to the provision of information, training and services directly to farmers. This category may also include the technical assistance component of other programmes, such as conservation programmes.					
<i>Pest and disease control</i>	without L	F	without C	na	GC or AC	na
	The slaughtering of animals for disease-related concerns falls into this category, for example. Such payment is labelled as “without” input constraints, since the destruction of livestock is not a constraint on the amount of or use to which (non-slaughtered) animals may be put.					
<i>AAA Farm Business Improvement Programme (FarmBis) (Australia)</i>	without L	F	without C	na	AC	na
	Provides financial support to assist farmer participation in learning activities to improve the management of their business, natural and human resources. It is available to eligible farmers independently of the commodities they produce and so is labelled as supporting all commodities.					

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C.1. Payments based on current R/I , production required						
<i>Income tax concessions (US)</i>	without L	F	without C	I	AC	na
	Income tax concessions to agriculture relative to the standard income tax provisions include: deductions from taxable incomes from farming; farmers' marketing and purchasing co-operatives; and export transactions of agricultural commodities. The implicit transfer to producers is based on farming income, and so is labelled as based on "income". Since it is available to all producers, it is labelled as supporting all commodities.					
C.2. Payments based on current A/An, production required						
<i>Crop insurance payments (Canada)</i>	without L	V	without C	A	SC	na
	Government contribution to a voluntary crop insurance scheme which covers between 70% and 90% of average yield (depending on the crop and province) over a 10 to 15-year period. Farmers finance one half of the scheme but over the years government contributions have amounted to 56% of indemnities paid. It is labelled as SCT, even though many different commodities are covered by the programme, because the programme is administered on a commodity-specific basis, each eligible commodity having a particular reference yield and payment being based on the actual yields of specific commodities. In this sense, it is like a single-commodity policy repeated for many different commodities. A "variable" rate is attributed to the payment because it is a function of current yield as compared with a reference yield and not simply area. This programme is labelled as a payment based on "area" because payments are made on a per-hectare basis. Had it been a subsidy to purchase crop insurance from a private insurance company, it would be classified under B.1 as a subsidy to a variable cost: insurance.					
<i>Payments to organic crop farming (EU)⁴</i>	without L	F	with voluntary C	A	GC	na
	Provides payments per hectare for a subset of commodities. Since, in order to receive the payment, organic producers have to use specific production methods going beyond basic requirements, it is labelled as "with voluntary" input constraints. Transfers are allocated to commodity group "All crops".					
<i>Agri-environmental grass premium (EU – France)⁵</i>	without L	F	with voluntary C	A	GC	na
	Provides a payment per hectare of grassland farmed extensively. Farmers have to fulfil specific obligations for five years. These obligations are defined at the local level and include a maximum stocking density, a minimum share of grass land in total agricultural area, the maintenance of permanent and temporary pastures, the requirement to cut the grass (if not used as pasture), limits on fertiliser application, the preservation of fixed landscape features, strong restrictions on pesticide use, and registration of practices. There are input constraints to satisfy but the level of payment is not affected by the level of input use (as in the Grassland Reserve Program classified in B.2). There is no limit on how much grass can be produced and thus no production limits.					

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	<i>with/without L</i>	<i>with V/F rates</i>	<i>without C/with mandatory C/with voluntary C</i>	<i>A/An/R/I</i>	<i>SC/GC/AC</i>	<i>with/without E</i>
D. Payments based on non-current A/An/R/I, production required						
<i>Structural income support for milk production (Norway)</i>	With L	F	without C	R	SC	na
	Provides a lump sum payment to all farms with five or more cows. Since 99.85% of farms exceed the minimum in terms of animal units, this policy is classified as a transfer not dependent on current commodity parameters but requiring production. As this payment is made for milk within a production quota, it is labelled “with” current production limits. The payment does not vary with prices, income or cost, and so is labelled as having a fixed payment rate.					
E.1. Payments based on non-current A/An/R/I, production not required, variable rates						
<i>Counter cyclical payments (US)</i>	with L	V	with mandatory C	A	na	with E
	Payment for wheat, feed grains, upland cotton, rice, oilseeds and peanuts defined as the national payment rate per tonne for each specific crop times the producer’s payment base yield and multiplied by 85% of the producer’s payment eligible base area. Base area and yields may be those from the 1996 Farm Act or the 1998-2001 averages. For each commodity, the national payment rate per tonne is the difference between the <i>target price</i> and the <i>trigger level</i> , which is the return per tonne (<i>i.e.</i> the higher the market price or loan rate) plus the <i>Direct Payment</i> per tonne, and so is labelled as having a variable payment rate. The payment is labelled “with” input constraints because eligible producers are required to comply with certain conservation and wetland provisions. The land must be kept in agricultural uses (which includes fallow) and producers are permitted to plant all cropland acreage on the farm to any crop, except for limitations on planting fruits and vegetables, and so is labelled “with” commodity exceptions.					
E.2. Payments based on non-current A/An/R/I, production not required, fixed rates						
<i>Single payment scheme (historic) (EU)</i>	with L	F	with mandatory C	R	na	with E
	Payment entitlements per farm based on the farm’s historic reference amounts of premiums for most crop and livestock commodities received during the period 2000-02. The value of entitlements is the total reference amount of the farm divided by the number of hectares that gave right to payments in the reference period. Single payment scheme is subject to cross-compliance conditions (the amount of payment is reduced if the farmer does not comply), and so is labelled “with mandatory” input constraints. Production is not required but producers may produce any commodity (with the exception of fruits and vegetables). It is therefore labelled as “with” commodity exceptions. From 1 January 2008, with the fruit and vegetable reform entering into force, the commodity exception ceases to be binding, but a Member State may choose to keep the commodity exemption for a transitory period until 1 January 2011.					

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	<i>with/without L</i>	<i>with V/F rates</i>	<i>without C/with mandatory C/with voluntary C</i>	<i>A/An/R/I</i>	<i>SC/GC/AC</i>	<i>with/without E</i>
	with L	F	with mandatory C	A	na	without E
<i>Single payment scheme (regional) (EU)</i>	Payment entitlements per hectare based on the regional, historic reference amounts of premiums for most crop and livestock commodities received during the period 2000-02. The value of the per hectare entitlement is the total reference amount of the region divided by the number of eligible hectares. Production is not required and there are no restrictions on the commodities that can be produced, and so it is labelled "without" commodity exceptions.					
F.1. Payments based on non-commodity criteria: long-term resource retirement						
	without L	na	with voluntary C	na	na	na
<i>Afforestation (EU)⁴</i>	Payments per hectare to encourage the alternative use of agricultural land for forestry or activities related to forestry in farm holdings. Land is retired from agricultural production, and therefore, following a negative response to question 1 (sub-section 3.3.2), the classification leads directly to question 11 and then 12. Policies in category F.1 are automatically labelled as being "with" input constraints.					
	nawithout L	na	with voluntary C	na	na	na
<i>Conservation Reserve Program (US)</i>	Provides annual rental payments and cost-sharing assistance to establish long-term, resource-conserving cover on eligible farmland. It is classified in F.1 because of the long-term nature of the Program, involving 10-15 year agreements. The payment is classified as "with" input constraints because the land is taken out of production.					
F.2. Payments based on non-commodity criteria: a specific non-commodity output						
	nawithout L	na	with voluntary C	Na	na	na
<i>Payments for Hedges and Rustic Groves (Switzerland)</i>	Payment per hectare of hedge and rustic grove (including 3-metre-wide compulsory grass strips along them), cultivated without fertilisers and plant protection products. Payment is limited to 50% of the cultivated area on farms of more than 3 hectares and the rate of payment decreases with the altitude of the farming location. The payment is classified as "with" input constraints because the land is taken out of production and the grass strips are cultivated without fertilisers and chemicals.					
	nawithout L	na	with voluntary C	na	na	na
<i>Payments for Floral Fallow (Switzerland)</i>	Payment per hectare of floral fallow cultivated with wild indigenous species without fertilisers and plant protection products, and for which harvest is authorised once every two years and which cannot be used for fodder (to protect nesting birds). Payment is limited to 50% of the cultivated area on farms of more than 3 hectares and the rate of payment is fixed. Harvest cannot be used for fodder, so the answer to the question 1 of the classification criteria is negative, and a negative response is given to question 12 and positive to question 13. The payment is classified as "with" input constraints because it implies a constraint on the production method.					

Notes to Table 3.2

1. The abbreviation “na” indicates that the particular label is not applicable to the respective PSE category.
2. *Supplément de prix pour le lait transformé en fromage.*
3. Countries providing fuel tax rebates include Australia, Canada, Japan, Mexico, Norway, Switzerland, the US, and the majority of EU countries.
4. Policy measure provided for under European Commission Regulation 2078/92 and the Rural Development Regulation (RDR).
5. *Prime herbagère agro-environnementale.*

3.4. Classifying policies that support producers collectively (GSSE)

- Policy measures included in the General Services Support Estimate (GSSE) are classified into one of seven categories according to the nature of the services provided to agriculture generally (and not to individual producers or consumers).

3.4.1. Definition of categories and classification criteria

62. The transfers in the GSSE are payments to eligible private or public services provided to agriculture generally. Unlike the PSE and CSE, the GSSE transfers are not destined to individual producers or consumers, and do not directly affect farm receipts (revenue) or consumption expenditure, although they may affect production or consumption of agricultural commodities in the longer term.

63. While implementation criteria are used to distinguish whether the transfer is allocated to PSE or GSSE ([sections 3.1](#) and [3.2](#)), the definition of the categories in the GSSE and the allocation of policy measures to these categories is according to the nature of the service. These categories are named and defined in Box 3.4.

Box 3.4. Names and definitions of the GSSE categories

H. Research and development: budgetary payments financing research and development activities improving agricultural production.

I. Agricultural schools: budgetary payments financing agricultural training and education.

J. Inspection services: budgetary payments financing control of quality and safety of food, agricultural inputs and the environment.

K. Infrastructure: budgetary payments financing improvement of off-farm collective infrastructure.

L. Marketing and promotion: budgetary payments financing assistance to marketing and promotion of agro-food products.

M. Public stockholding: budgetary payments meeting the costs of storage, depreciation and disposal of public storage of agricultural products.

N. Miscellaneous: budgetary payments financing other general services that cannot be disaggregated and allocated to the above categories due, for example, to a lack of information.

3.4.2. Discussion

64. The *Research and development* category includes payments to institutions for research related to agricultural technologies and production methods. In most cases, these payments include the financing of public research institutions (mostly through the budget of the ministry of agriculture), as well as grants financed by public funding provided to private research institutions and agricultural universities.

65. The *Agricultural schools* category includes the public funding of education and training targeted specifically on the agricultural sector. These payments do not include public expenditure which finances basic school education. They cover public expenditure on agricultural vocational schools and training for farmers. Where educational establishments provide training beyond primary agriculture, a suitable estimation method should be sought in order to include only services provided to farming.

66. The *Inspection services* category includes payments to finance institutions for the control of food quality, animal health, and agricultural inputs. In most cases, these services are financed by

public (governmental) organisations, and hence the budgets of these organisations are included in the GSSE. Should these services be provided by private institutions, the GSSE should account only for the amount of public finance granted to these institutions. If the unpaid services are provided on farms (e.g. animal vaccinations), the corresponding costs should be allocated to the PSE (category *B.3 Payments based on on-farm services*). However, expenditures with respect to quarantine systems, even if applied at the farm level, are included in the GSSE.

67. The **Infrastructure** category includes public expenditure financing the development of production-related infrastructure in rural areas. Special care should be given to distinguish support between on- and off-farm infrastructures. For example, structural improvement measures such as farm consolidation, construction of irrigation and drainage installations on farms are included in the PSE, as direct investment assistance. The physical on-farm (PSE) and off-farm (GSSE) principle for classification of infrastructural expenditures in the PSE or GSSE is a matter of convention, required for consistent treatment of various infrastructural programmes across countries.

68. **Marketing and promotion** covers publicly (co)financed investments in development of agricultural marketing and processing, typically carried out within projects related to the structural adjustment and competitiveness of the agricultural sector. This category also includes forms of government assistance to increase sales of primary agricultural commodities, such as agricultural exhibitions, fairs, promotional campaigns, advertising, and publications.

3.5. Classifying policies that support consumers (CSE)

- The CSE includes price transfers from consumers, which is the inverse value of Market Price Support, adjusted to apply to quantities consumed (rather than quantities produced).
- Other policies classified in the CSE are budgetary transfers to first-stage consumers to compensate for their contribution to market price support, as well as consumption subsidies based on the disposal of intervention stocks.

69. As described in Section 3.2 (Question 3), a component of the CSE is transfers associated with market price support for the production of commodities that are consumed domestically; these are called **price transfers from (to) consumers**. These transfers are the same as those included in the PSE under *category A.1 Market Price Support*, but they are given an opposite sign in the CSE and adjusted to apply to quantities consumed (as opposed to quantities produced in the PSE). The concept is explained in detail in Chapter 4.

70. Another type of payment classified under the CSE is **budgetary transfers to first consumers** of agricultural commodities, e.g. flour mills, meat processing plants, or fruit packing plants, where these are provided specifically to offset the higher prices resulting from market price support. An example is payments made to processors who pay the guaranteed minimum price to producers of potato starch and cotton in the European Union. Another example is a “premium for commercial buyers” in Brazil, whereby the government compensates to commercial buyers of agricultural commodities – processors or other downstream agents – the difference between the minimum guaranteed price for the product and the price the buyer is actually willing to pay. Receipt of the premium is contingent on paying agricultural producers the minimum guaranteed price.

71. Finally, **consumption subsidies** in cash or in kind (their monetary equivalent) associated with programmes of market price support for domestic producers are also included in the CSE. This component includes, for example, domestic food aid programmes which are based on the distribution of government stocks acquired in the context of market interventions.