

## Mainstreaming the Environment in Aggregate Agricultural Support Measures

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### Abstract

*This paper attempts to adjust an OECD indicator that aggregates agricultural public support given to farmers, the Producer Support Estimate (PSE), for the external costs that arise from agricultural activities in OECD member countries. This exercise was supported by the rationale that external costs, like overuse of natural resources or environmental pollution, can be seen as an additional subsidy given by society/taxpayers to farmers for the external costs that result from farming but for which they are not asked to pay for. Society/taxpayers do it on their behalf. A conservative estimate of the external costs rising from OECD agriculture showed that they amount for about 37% (\$94 million) of the PSE figure (\$256 million). The external costs' figure is, indeed, considerable high and supports those that argue that agricultural policy reform should concentrate on measures to reduce the environmental burden from the sector.*

**Keywords:** OECD countries; agriculture external costs; PSE; externalities adjusted PSE.

### 1. INTRODUCTION

Agriculture generates negative environmental impacts like soil erosion, water pollution and loss of biodiversity, but also provides environmental services like landscapes, recreation and amenity (Stoate *et al.* 2009). OECD (Organisation for Economic Co-operation and Development) promotes highly intensive agriculture, strongly encouraging production-enhancement through support policies. These measures can be considered as aggressive and harmful to the environment because it accentuates the overuse of natural resources (mainly soil and water), while an excessive use of agricultural inputs, like fertiliser and pesticides may result in the contamination of water resources and the harming of wildlife (Pearce *et al.* 1993; OECD 2001). Pollution costs arising from agricultural activities are paid neither by farmers nor by consumers, but are borne by society/taxpayers (Pretty *et al.* 2000).

The Producer Support Estimate (PSE) is an OECD indicator that aggregates agricultural support given by the public sector to farmers (OECD 2008). A pertinent thought might be that a more accurate figure of the total support received by farmers from taxpayers should be the PSE plus agricultural pollution costs, since farmers are not asked to pay for them, and society/taxpayers do it on their behalf. A PSE indicator accounting for the agricultural external costs (and benefits) would certainly provide better insights to policy-makers on the urgent need for agricultural policy reform.

The objective of this study is to give an estimate of the external costs rising from agricultural practices in OECD member countries and subsequently add them to the most updated PSE figure. In order to achieve this, an integrated accounting framework is proposed to internalise the costs of natural resources exploitation, aiming to get a more accurate figure for the total support given by the public sector/taxpayers/society to farmers within OECD.

### 2. METHODOLOGY

The methodology used in this paper was based on a previous study (Vilela 2003) that estimated the external costs rising from agriculture for OECD member countries. A literature review on the main impacts, and its consequent costs, was undertaken for the UK,