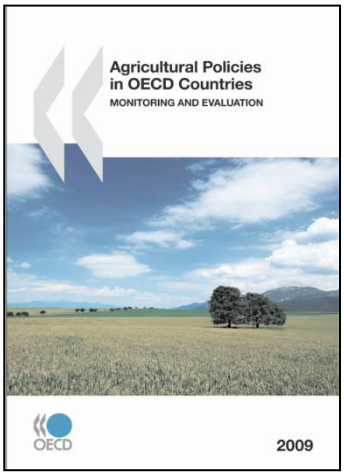
Agricultural Policies in OECD Countries 2009: Monitoring and Evaluation

Summary in English



Executive Summary

Producer support in OECD countries is at its lowest level since 1986...

In 2008, support to producers in the OECD area was estimated at USD 265 billion or EUR 182 billion, as measured by the Producer Support Estimate (PSE). This is equivalent to 21% of aggregate gross receipts of OECD farm producers, down from 22% in 2007 and 26% in 2006. The currently observed level of producer support is the lowest since the mid-1980s.

…largely reflecting strong movements in world prices

The decline in support in 2008, as in the previous year, was largely due to exceptionally high world agricultural prices, rather than explicit policy reforms decided by governments. Although falling in the second half of 2008, world prices remained on aggregate above their long-term averages. With high world prices, policies to support domestic prices and countercyclical support generated smaller transfers and the overall support to producers was reduced. However, as the past and most recent experience shows once world prices begin to decline from extremely high levels, border protection and price-related domestic support measures once again become active.

The global economy was severely hit by the crisis in 2008…

The period under review was marked by exceptional developments in the global economy. The situation in the financial markets worsened dramatically as from the second half of 2008. Business and consumer confidence and equity prices collapsed worldwide; industrial production and trade shrank and unemployment surged. Economic growth in the OECD area slowed down significantly in 2008, with real GDP declining in the second half of the year in several countries. The depth and the spread of economic difficulty are unprecedented in the last 60 years.

…when commodity prices began falling from their historic highs

The financial crisis broke out at a time when nominal commodity prices reached their historic highs. Commodity prices were increasing rapidly in 2007 and reached extremely high levels in mid-2008. The price rise has sharply underscored the social consequences of commodity market instability. Concerns have grown significantly about the negative impacts of high food prices on world hunger and poverty levels. The price trends reversed abruptly in mid-2008 with commodity prices sliding down to their early 2007 levels.

Agriculture may fare better in the crisis than other sectors

The implications of the financial and economic crisis for the agricultural sector are still evolving. To a large extent, the impact of the crisis on specific sectors in the economy will depend on their exposure to tightened credit conditions and to falling demand. In these respects, agriculture in most OECD countries should fare better than other sectors due to its relatively smaller financial exposure, demand which is less sensitive to income falls, the existing set of support policies, and, in some cases, revenues accumulated during the period of high prices. Despite its likely higher resilience, agriculture will probably undergo adjustment in the context of economy-wide adjustments and increased commodity price volatility. A larger impact on the rural economy will likely come from the loss of jobs in non-agricultural sectors, which will reduce non-agricultural employment and income opportunities for farm and other rural households.

Market instability and economic crisis prompted ad hoc policy actions

Governments in OECD countries reacted to commodity price volatility and the financial stress caused by the crisis. Some implemented tariff reductions and export barriers on agro-food items in an attempt to mitigate the effect of high world prices on consumers; some also cut import tariffs on agricultural inputs, introduced input subsidies, or provided direct support to specific farm sub-sectors. Similar actions were taken in a large number of emerging and developing economies. The actual impacts of these actions are unclear; the measures taken in many countries did not target poor consumers specifically and, in fact, could be expected to contribute to instability in global markets. In late 2008, when the severity of the financial and economic crisis became evident, some OECD countries announced or implemented special measures to ease the financial stress in the sector, including credit preferences, tax rebates and additional direct support.

Several OECD countries agreed important policy changes...

There were also important developments in agricultural policy frameworks in some countries. In the European Union the Health Check of the Common Agricultural Policy was completed and progress was made on reforming a number of sectoral regimes. The United States approved a new Farm Act for 2008-12, the Food, Conservation and Energy Act. Canada reached an agreement on the business risk management elements of the Growing Forward framework for 2008-13.

...with varied progress in policy reform

The changes in the European Union imply a further step in decoupling support from production, represented by the extension of the Single Payment Scheme (SPS). More flexibility is given to EU member states in spending some funds shifted from the SPS. This may improve policy targeting, but also creates new challenges for member states to design and implement more targeted measures. The new Farm Act in the United States does not involve a radical change in policies, but it expands the number of commodities eligible for support, increases several loan rates and target prices and adds an optional revenue-based countercyclical programme ACRE. Given the uncertainty about future prices and how the ACRE program will operate, the market effects at this stage are not clear.

Risk management receives particular policy attention...

The European Union opened the possibility of co-financed subsidies to insurance and mutual funds and some new EU member states introduced nationally-financed subsidised insurance programmes. Other countries also enhanced risk related measures, including the revisions and additions to countercyclical programmes in the new US Farm Act, and expansion of disaster insurance in Korea. Many OECD countries, particularly Canada, are developing more stable frameworks for disaster assistance, although some *ad hoc* emergency relief measures remain. The efficiency of the new risk management policies in terms of frequency, amount of support implied, distortion to production, and potential crowding out of other risk management strategies needs systematic in-depth evaluation.

...as do climate change and agri-environmental sustainability

Climate change and water availability are growing areas of concern in OECD countries. Some countries increased public funds for research and monitoring of climate change or introduced strategies and actions for adaptation of agriculture. Many countries continued to use a range of policies to boost renewable energy from agricultural feed stocks, despite the uncertainties concerning the impacts on commodity demand, water use and mitigation of greenhouse gas emissions. Land protection and conservation remains another priority for policy. Some new agri-environmental measures also concern better water management, pollution reduction, biodiversity and landscape conservation.

Many countries pursued bilateral and regional arrangements

Intensive work on the modalities for further commitments in agriculture in the WTO Doha Development Agenda negotiations continued throughout 2008. No multilateral agreement has been reached to date. However, at the G20 summit in March 2009 country leaders confirmed their commitment to an ambitious and balanced conclusion of the WTO Doha Development Agenda. Amid the slow-moving multilateral process, many OECD countries are pursuing new bilateral and regional trade agreements.

The overall burden of agricultural support has declined across all OECD countries...

Total support to the agricultural sector, combining producer support (the PSE), support for general services to agriculture such as research, infrastructure, inspection, marketing and promotion, as well as subsidies to consumers, was estimated at USD 368 billion (EUR 271 billion) in 2006-08. This is equivalent to 0.9% of OECD GDP, down from 2.5% in 1986-88. The reduced burden of agricultural support on the overall economy is characteristic of all OECD countries and primarily is a reflection of the falling share of agriculture in their GDP.

...less support is linked to current production...

Along with the decline in the relative support level, the ways in which support is provided are changing as well. Less support is being provided on the basis of commodity output or variable inputs used and increasingly, on the basis of other parameters, such as area or animal numbers, and with respect to historical or fixed levels of these parameters. A reduction in output-based support is clearly evident in the narrowing of the gap between domestic and border prices – falling from 50% in 1986-88 (on average for the OECD area) to 16% in 2006-08, although high world prices also played a large role in most recent years.

…and more payments are giving greater flexibility to farmers, including no obligation to produce

Some recent programmes go even further in decoupling support from production. Payments to farmers are less tied to producing a specific commodity, either by allowing a group of commodities or any commodity to be eligible for a payment. Furthermore, in 2006-08 around one quarter of total support to producers in the OECD area was arising from policies that did not oblige farmers to produce any commodity in order to receive support, in particular direct payments in the United States or single payments in the European Union. However, commodity-specific support is significant for rice, sugar, and some livestock products. In the case of rice, such support amounted to 60% of total producer rice receipts in 2006-08.

Support policies increasingly require farmers to adopt certain production practices

Support is becoming increasingly conditioned by requirements on producers to follow certain production practices in pursuit of broader objectives, such as preservation of the environment, animal welfare or food safety. Payments involving the fulfilment of such requirements comprised 4% of OECD aggregate PSE in 1986-88, a share which had increased to 32% by 2006-08, with the majority of such payments currently provided in the European Union. Among OECD countries, the European Union, the United States and Switzerland provide the highest shares (nearly 50%) of total support to producers with some type of input constraints.

Despite the reduction, most distorting support is still dominant and reform is uneven across countries

Despite a visible reduction in both the level of support and the share of potentially most distorting forms of support, policies considered to be most distorting continue to dominate in the majority of OECD countries. Support based on output (which also includes border protection) and support based on unconstrained use of variable inputs accounted for 56% of the OECD aggregate PSE in 2006-08. And reform has been uneven: while some countries are more advanced in implementing more decoupled support, others are only at the very beginning of the process. The level of producer support in OECD countries in

2006-08 ranged widely: it was 1% in New Zealand, 6% in Australia, 10% in the United States, 13% in Mexico, 18% in Canada, 21% in Turkey, 27% in the European Union, 49% in Japan, 58% in Iceland, 60% in Switzerland, 61% in Korea and 62% in Norway.

Current economic and market conditions create new challenges...

The global economic crisis, tighter competition for scarce resources, increased price volatility, and growing concerns about food security worldwide, all present new challenges for policy makers. Current government efforts to stimulate economic activity are also drawing heavily on the fiscal capacity of many countries. As countries move out of recession, governments will confront more difficult fiscal situations, likely prompting further review of sectoral policies in many areas, including agriculture.

...and new opportunities for policy reform

Looking ahead, these conditions could represent an opportunity for governments to ensure that their policy actions are adapted to address their evolving economic, social, and environmental policy goals.

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