

## Executive summary

**T**his report monitors and evaluates agricultural policy in OECD member countries (and the EU as a whole) and in an increasing range of emerging economies that are major players in food and agriculture markets: Brazil, China, Indonesia, Kazakhstan, Russia, South Africa and Ukraine. The 47 countries covered by this report account for almost 80% of global agricultural value added; they are also diverse in their levels of development, the characteristics of their agricultural sectors, and their choice of policy instruments and levels of policy support. But their policy interests have a great deal in common: ensuring a reliable supply of safe, nutritious and affordable food, reasonable incomes for farms and farm households, a productive and competitive food and agriculture sector, and sustainable use of natural resources.

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*Producer support increased slightly after the historical low reached in 2011 against a long term downward trend*

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On average, in the countries covered by this report, about one sixth of gross farm receipts is due to public policies that support farmers. The Producer Support Estimate has increased to 17% of gross farm receipts in 2012, compared to 15% in 2011. Despite this most recent development the level of support is following a general downward development: the average %PSE for the period 1995-97 was 21%, while for 2010-12 the average was 16%. Changes in producer support in recent years were in many countries driven by developments on international markets rather than by explicit policy changes.

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*... but these aggregates mask large variations across regions and countries.*

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Support in North America (Canada, USA and Mexico) fell from 12% to 9% over the past 15 years, and average support in “Europe” (defined here to include Western and Central Europe, Turkey and Israel) declined from 34% to 20%. Although a gradual reduction has taken place, levels of support remained well above these averages in Norway, Switzerland and Iceland. The trend is less clear for the Commonwealth of Independent States (CIS) area (Kazakhstan, Russia, Ukraine), where the average level of support was 11% in 1995-97 and 12% in 2010-12, with large variability over the intervening period. Support in Asia also fluctuates widely, though average %PSE levels remain flat at 22% in 1995-97 and 20% in 2010-12. Within this region, a marked difference persists between high but slowly falling levels of support in Korea and Japan, and low, but increasing support in China and Indonesia. Finally, countries in the Southern Hemisphere (Australia, Brazil, Chile, New

Zealand and South Africa) are characterized by consistently low and stable levels of support, with an average 4% in 2010-12.

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*In the OECD area there is a long term downward trend in support to agriculture and changes in the structure of support*

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For the OECD average, the level of support is following a downward trend, with levels of 37% of gross farm receipts in 1986-88, 30% in 1995-97 and 19% in 2010-12. In addition, the share of the potentially most production and trade distorting forms of support has been reduced from 33% of gross farm receipts in 1986-88 to 23% in 1995-97 and 11% in 2010-12. This shift in the nature of support provided is a marked improvement.

In several economies high levels of support are falling only slowly, while in others an increasing trend from relatively low levels can be seen. These developments are often linked to stated self-sufficiency targets for agricultural and food products. For instance in China, Indonesia, Japan, Norway, Russia and Turkey the reliance on import protection, market price support, and production linked payments remains high.

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*Significant shares of support in several countries are more decoupled from production but the share of those targeted to specific objectives remains relatively small*

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The gradual reduction of market price support and production specific payments have been accompanied by increased payments that are more decoupled from current production and are less distortive – a policy shift most visibly pursued over the past two decades in Switzerland and the European Union. However, most of these payments remain untargeted to specific goals and hence do not address specific market failures.

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*The importance of agri-environmental policies varies across countries*

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Due to the prominent role of the agricultural sector in the use of natural resources, notably land, water, and biodiversity, ensuring sustainable resource use remains an important challenge. Policies directly addressing environmental concerns continue to represent a small part of countries' policy settings, although in some countries cross-compliance represents a broad-based policy tool linking the provision of payments to farmers to the compliance with certain environmental standards above the legal minimum.

## **Key conclusions and recommendations**

**Trade and market restricting policies isolate domestic producers and consumers from world markets.** Countries should move further away from these policy approaches, providing more freedom for farmers and consumers to make their own production and consumption decisions, and shift towards policies that target specific market failures. Governments should credibly commit to timely and sequenced processes of unilateral, bilateral and multilateral reform. Sanitary, phytosanitary measures, which together with technical

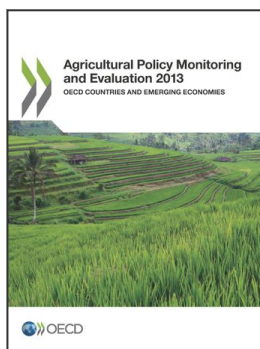
measures increasingly impact agro-food trade, should be science-based and applied in a transparent and predictable manner.

**A narrow focus on self-sufficiency has high economic and social costs.** The link between higher self-sufficiency and improved food security is weak as a number of measures unrelated to self-sufficiency can contribute much to improve populations' food security status. In particular in less developed economies access to food can be improved by widespread poverty reduction and social security schemes, but also through increased public and private investment in sustainable domestic production capacity, improved access to imports (and to export markets), and emergency food reserves. Narrow self-sufficiency targets often push countries towards high border protection and market price support, effectively taxing consumers and decreasing food affordability at least in the short term. Production linked policies such as output payments and input subsidies distort producer decisions and can lead to inefficient allocation of public resources, diverting public spending away from more productive uses.

**Production linked counter-cyclical payments can have low income transfer efficiency and add to instability on world markets.** Farmers and governments have a variety of risk management tools at their disposal that can help to stabilise farm incomes. Payments based on output or on input use that are implemented in a counter-cyclical way can contribute to reduce fluctuations in domestic farm income levels, but they also export instability on to world markets and are not an efficient means of transferring income. Payments to mitigate income risks should be limited to compensate farmers for unavoidable catastrophic events, and should not crowd out farmers own management of normal business risk and market-based risk management tools.

**Payments based on past reference levels that do not require production can be more efficient.** Payments that are more decoupled from current production decisions potentially transfer income more efficiently and are less likely to distort production and trade. However, where such payments are very large they can still significantly influence producer decisions by shaping producer expectations (of future payments) and by increasing producer wealth. Further, most of these payments remain untargeted to specific goals, including those related to low farm incomes, rural community well-being, or environmental sustainability. Since many of these more decoupled payments are based on the size of farm assets, usually land, they tend to favour larger farms. A wide range of alternative policy options, from economy-wide social-security and environmental measures to support for general services to agriculture and explicitly targeted farm policies, are available.

**Public investments in the sector overall should receive more attention.** Innovation policy is key to improving the productivity of the farm sector, and investments in research and development, technology transfer, education, and extension and advisory services have high social returns in the long run. Expenditures on other general services to the sector, such as food safety and food quality assurance systems, and strategic rural and market infrastructure, also contribute to the long term profitability, competitiveness, and sustainability of the sector.



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