

OECD *Multilingual Summaries*

Guidelines for Cost-effective Agri-environmental Policy Measures

Summary in English



- Improving the environmental performance of agriculture is a high priority in OECD and many non-OECD countries. This will be of increasing concern in the future given the pressure to feed a growing world population with scarce land and water resources. Policy has an important role to play where markets for many of the environmental outcomes from agriculture are absent or poorly functioning.
- This study focuses on the design and implementation of environmental standards and regulations, taxes, payments and tradable permit schemes to address agri-environmental issues. It deals with the choice of policy instruments and the design of specific instruments, with the aim of identifying those that are most cost-effective in very different situations across OECD countries.
- Key conclusions from the study are that: there is no unique instrument that promises to achieve all agri-environmental policy goals; the cost effectiveness of payments systems could be improved by using performance-based measures; and policy mixes need to combine policy instruments that complement and not conflict with each other.

Executive Summary

The aim of the *Guidelines* study is to help policy makers with additional tools to design and implement cost-effective agri-environmental policies. It focuses on environmental standards, environmental taxes, agri-environmental payments and tradeable permit schemes to address agri-environmental concerns (externalities). It is important to note that the goal of this study is not to promote any specific policy instrument or instrument-mix in any OECD country but to improve understanding of how different types of policy instruments can be used, in what context, and which key design and implementation issues need to be considered for the success of a given instrument.

The study focuses on the design and implementation of environmental standards, environmental taxes, agri-environmental payments and tradeable permit schemes to address agri-environmental concerns. It fundamentally deals with two sets of issues. The first set addresses choices across types of policy instruments. For instance, when is an environmental tax better than a standard, or when is permit trading better than an environmental tax? The second set addresses the design of particular instruments.

On the basis of the policy analysis some important lessons for instrument choice and design can be drawn. From a general point of view, the most cost-effective measures are those: 1) designed to attain specific environmental performance goals; 2) targeted on those farmers best able to address environmental problems at the least cost; and 3) leaving farmers flexibility to choose how to meet the goals. However, given the complexity of the linkages between policies and environmental performance, the diversity of situations across and within countries with respect to farmers' compliance costs and agri-environmental conditions, the transaction costs of differentially targeted measures, and equity considerations, it is often difficult in practice to implement policy measures that fully meet these requirements.

Three key conclusions that emerge from the analysis of measures available to address agri-environmental concerns are:

1. *For standards, taxes and permits* and the informational issues that arise in their application, and design factors that influence their performance, there is no unique instrument type or design that can promise to achieve agri-environmental policy goals and to do so cost-effectively over all conditions. This conclusion derives from the physical complexity of agriculture's impacts on environmental systems, uncertainty about key economic and environmental relationships affecting environmental and economic outcomes, and the limited resources and capacities of environmental agencies. Political and equity considerations create additional complexity.

2. *For agri-environmental payment programmes*, including fixed-rate payments based on practices, differentiated payments/contracts and conservation/green auctions, the cost-effectiveness of agri-environmental payment programmes could be improved by using performance-based enrolment screens. This can be done through using proxies, like an environmental benefit index, wherever data availability allows this. However, cost-effectiveness gains achieved through performance-based measures have to be weighed against the potential increase in policy-related transaction costs.

3. *For policy instrument mixes*, these should, to the extent possible, combine instruments that complement and do not conflict with each other, in order to be cost-effective. Since no single policy instrument is likely to be unambiguously preferred over all available instruments under all conditions, the optimal strategy may involve the use of a mix of policy instruments. Instrument mixes addressing nonpoint source pollution from agriculture and the linking of income support payments and environmental performance (where practice-based measures are not feasible) are approaches that have been adopted in several OECD countries through environmental cross compliance.

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