



AGRICULTURAL POLICIES IN OECD COUNTRIES

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Outline

1. The context
2. Analysis of agricultural policies by the OECD Secretariat
3. Measurement of support to agriculture
4. Main characteristics of agricultural policy reforms in selected OECD countries
5. Focus on EU Common agricultural policy (CAP)
6. Work on emerging economies



1. The context

- The contextual framework
 - Agriculture in the economy
 - Economic, social issues
 - Agriculture and environment
- The policy framework
 - Internal issues (food security, social issues, rural development, environment)
 - International issues (food security, trade conflicts, WTO, URAA)
- Importance of the international policy debate on agricultural policies – countries with comparative advantage vs. countries with comparative disadvantage



2. Agricultural policies in OECD

- WHY the OECD secretariat monitors and evaluates agricultural policies?
- HOW is the OECD secretariat doing this?
 - Agricultural policy developments
 - Measurement of support to agriculture
 - Publishing annual reports
 - Discussion among OECD countries and more recently also with non-member economies (peer reviewing, peer pressure)



History and country coverage

- Started in the mid 1980s with an OECD mandate to monitor agricultural policies and measure support to agriculture on annual basis.
- Initially focused on OECD countries.
- EU covered in the report as a single entity (but detailed information on member countries).
- 1990s focus extended to countries from Central and Eastern Europe (most of these countries became at a later stage OECD or EU members + Russia and Ukraine).
- 2000s – Going global (Brazil, China, South Africa).
- 2010s – More non-member countries added (Indonesia, Kazakhstan, Colombia, Viet-Nam, Philippines, Costa Rica).
- Forthcoming – India, Argentina.



Estimation of Support to Agriculture

- A method developed by the OECD secretariat and approved by member countries – Producer Support Estimate (PSE).
- The secretariat guarantees the transparency and consistency of the methodology as applied to countries.
- Various nominal and relative indicators use in the analysis of development of agricultural policies.
- Relative indicators enable comparability across countries and in time.
- Detailed information on the results and the methodology used to estimate support is available on the public website www.oecd.org/agriculture/PSE .



3. How OECD measures support to agriculture

Components of the support

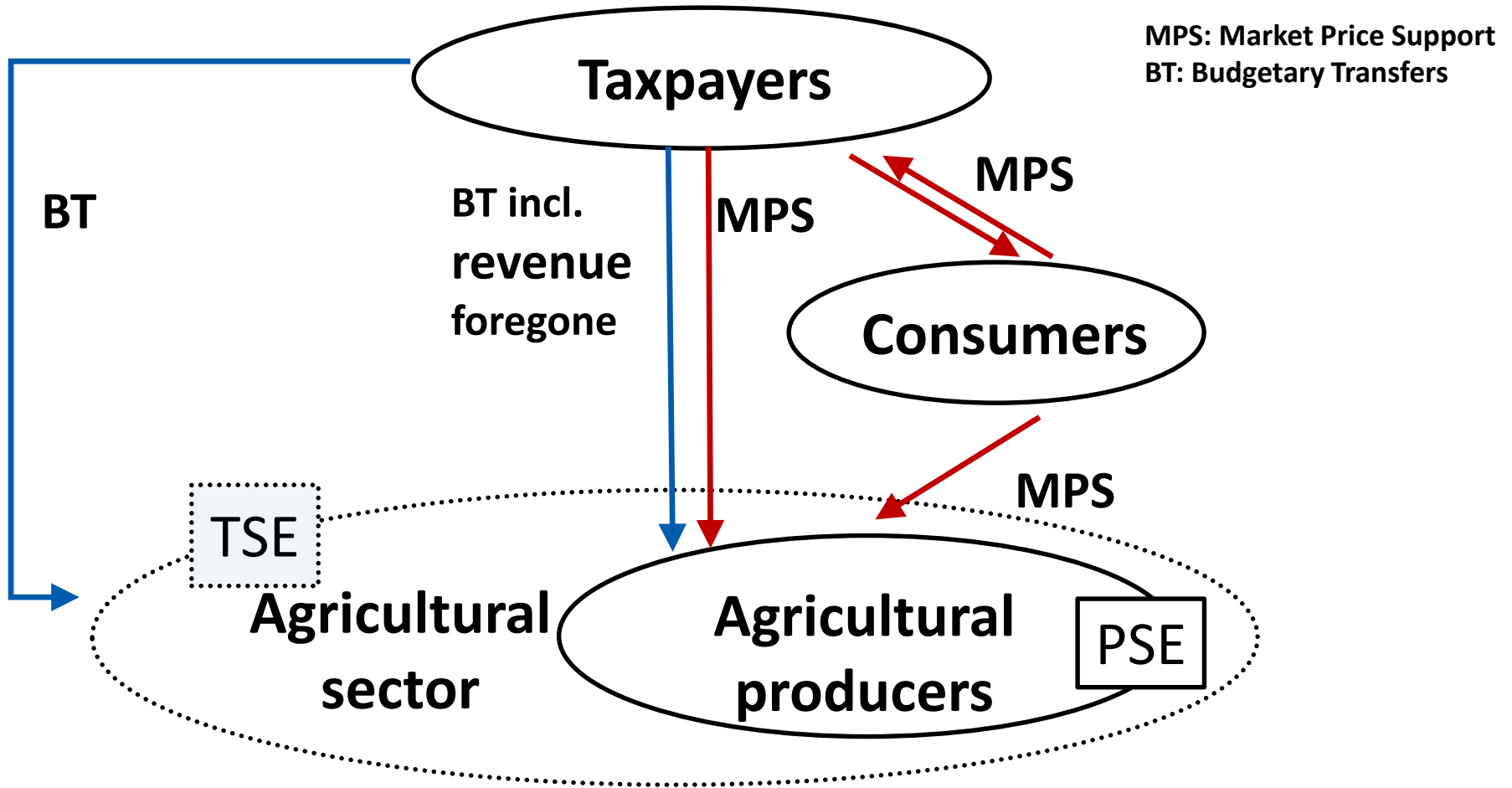
- Market price support (Transfers from consumers to agricultural producers – opportunity cost to consumers);
- Direct budgetary payments (transfers from taxpayers to agricultural producers).

What policies are considered in the calculations?

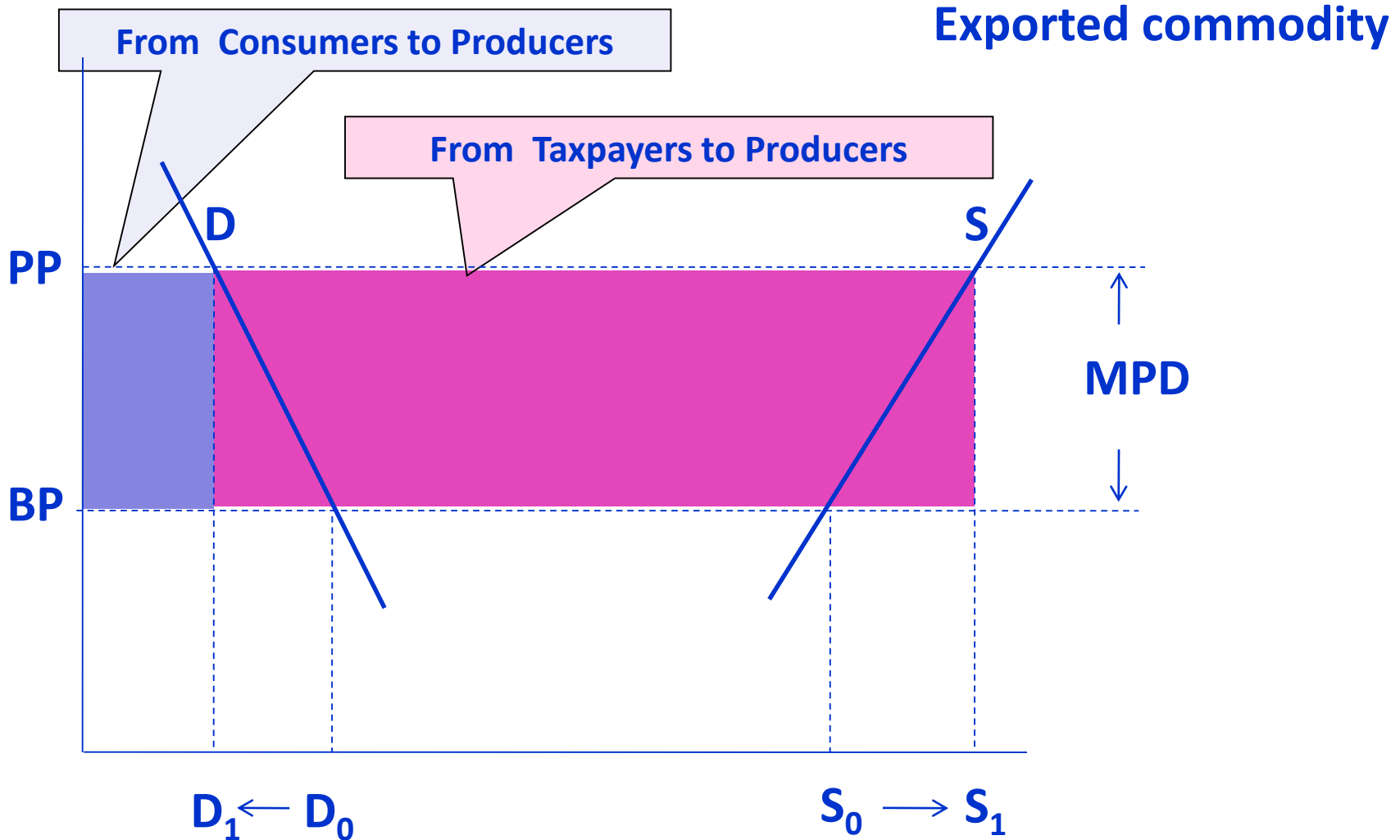
- only those policies that are specific to agriculture; general policies not considered;
- policy objectives are not considered;
- It is the policy implementation criteria that determines the classification of policies in pre-define categories.



Measuring support to agriculture: Building blocks



Market Price Support – the concept



PP: producer price

BP: Border price MPD: market price differential



Key support indicators – nominal values

- **Producer Support Estimate (PSE):** transfers from consumers and taxpayers to producers;

$$\text{PSE} = \text{Market Price Support} + \text{Budgetary payments} + \text{Budgetary revenue foregone};$$

- **Market Price Support (MPS):** transfers from (primary) consumers to agricultural producers:

$$\text{MPS} = \text{Quantity of domestic production} * \text{Price gap (domestic – world pr.)};$$

- **Consumer Support Estimate (CSE):** transfers from (to) consumers:
 $\text{CSE} = (\text{Quantity of domestic consumption} * \text{price gap}) + \text{consumer subsidies};$

- **General Services Support Estimate (GSSE):** budgetary transfers to general services for the farming sector;

- **Total support Estimate (TSE):** transfers to agriculture
 $\text{TSE} = \text{PSE} + \text{GSSE} + \text{consumer subsidies (transfers from taxpayers)}.$



Relative indicators

Percentage PSE (%PSE): Transfers to individual producers as a share of gross farm receipts (**this indicator will be used in the figures in this presentation**);

Percentage CSE (%CSE): Transfers to (from) consumers as a share of consumption expenditure;

Nominal Protection Coefficient (NPC): ratio between producer price and border (world) price;

Nominal Assistance Coefficient (NAC): ratio between gross farm receipts incl. support and gross farm receipts valued at border prices (without any support);

Percentage GSSE (%GSSE): Nominal GSSE as a share of Total Support Estimate;

Percentage TSE (%TSE): Nominal TSE as a share of GDP.



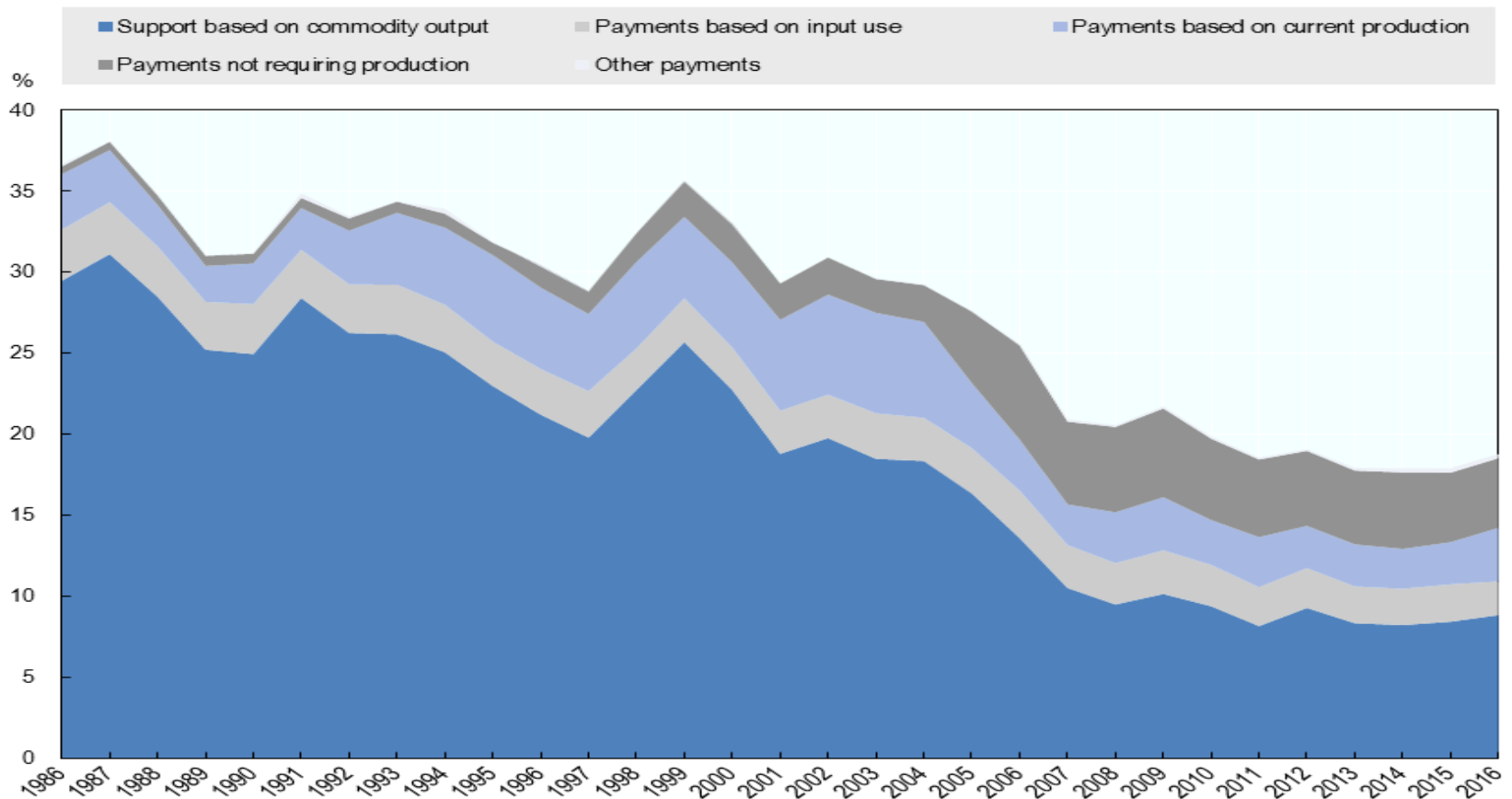
4. Main characteristics of agricultural policies in selected OECD countries

- OECD area
- Japan
- Switzerland
- New Zealand
- United States
- European Union



Support in OECD area – Downward trend of the level and change in the structure of support

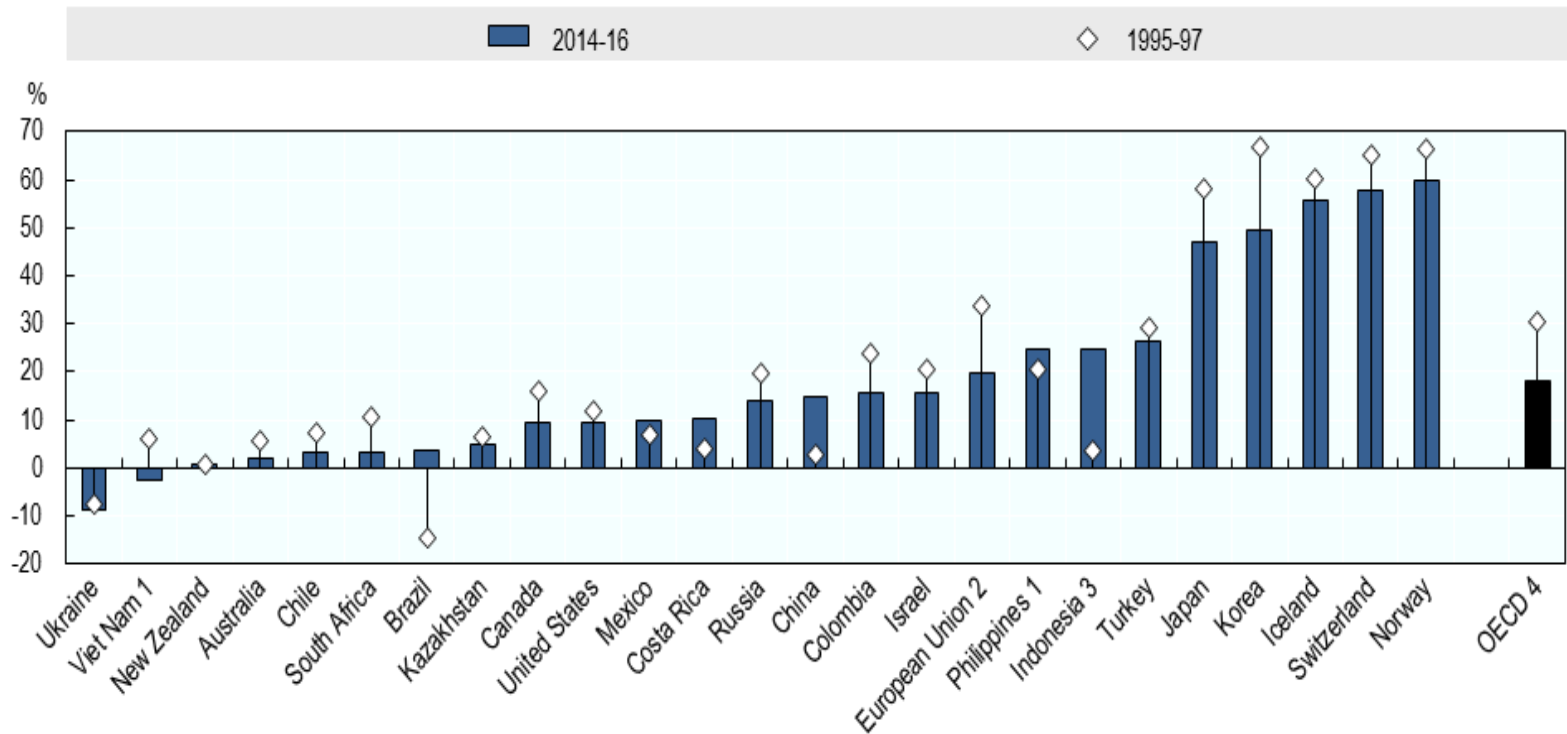
Agricultural producer support as a share of gross farm receipts





OECD average hides large variations of support among countries

Producer support as a share of gross farm receipts

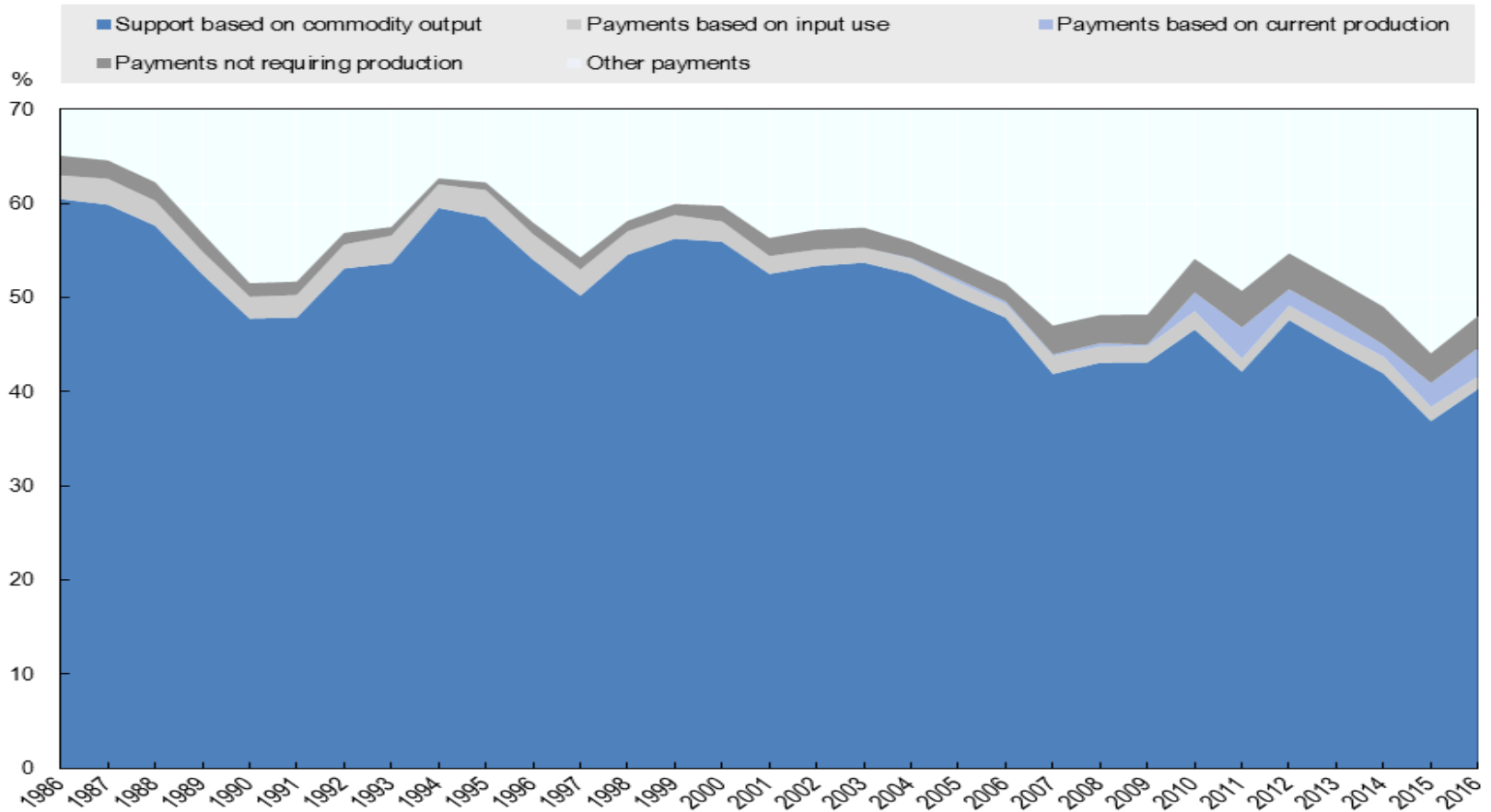


- Developed and relatively rich country; net food importer;
- High levels of support despite some reduction;
- High tariff barriers and resulting high level of Market price support;
- No important changes in the structure of support indicates lack of reforms;
- More transfers to farmers from consumers than from taxpayers.



Japan: Level and structure of support

Producer support as a share of gross farm receipts





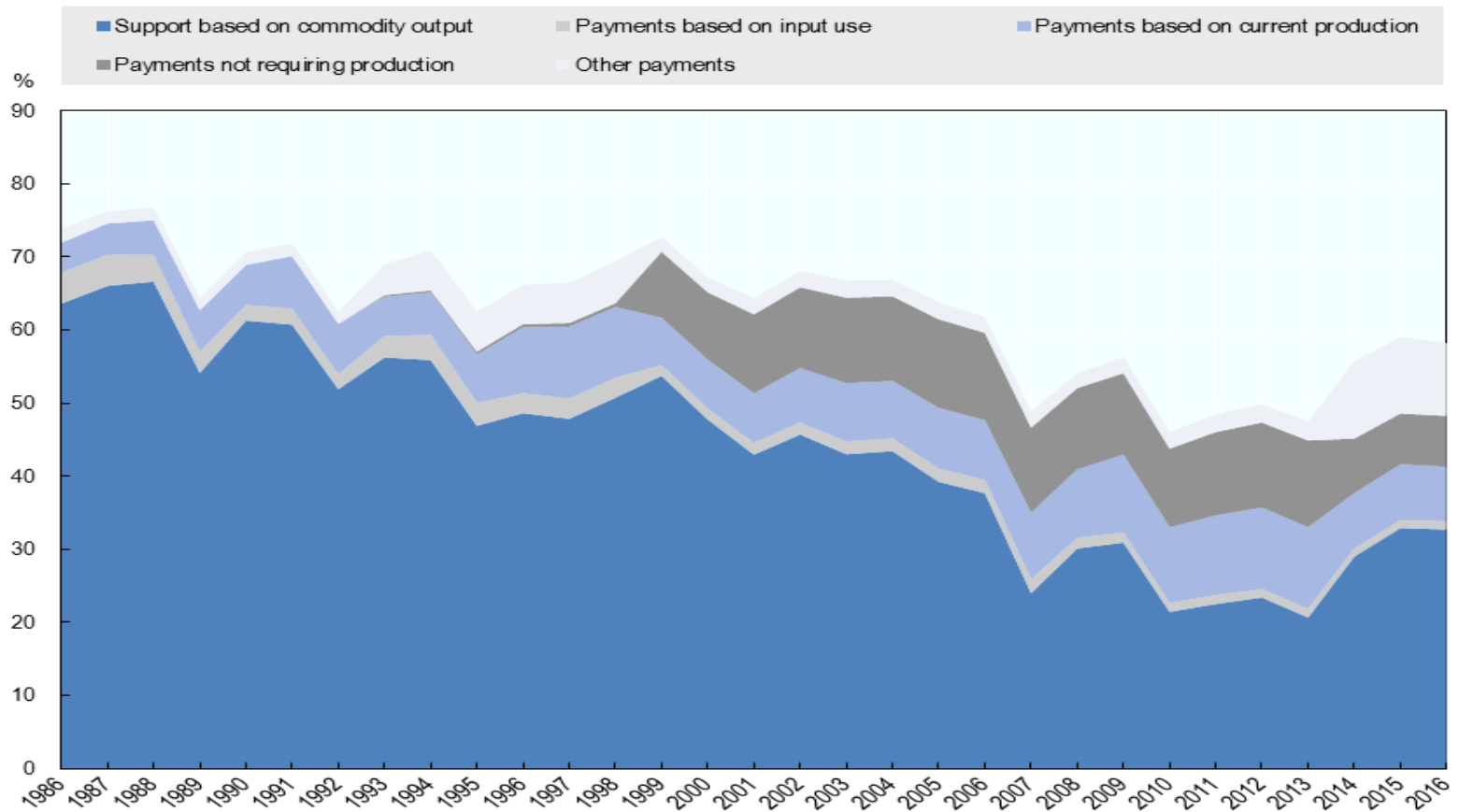
Switzerland

- Country with one of the highest GDP per capita, consistently net agro-food importer;
- One of the highest level of support in OECD, the reduction of level of support only moderate, but important change in the structure;
- Reforms started in the early 1990s;
- Market deregulation (reduction of market price support) was compensated with increased direct payments to farms:
 - General payments (decoupled general area payment, coupled headage payments);
 - Ecological payments (to meet societal demand – i.e. biodiversity, cultural landscape, animal welfare, ...).
- This policy shift increased transfer efficiency;
- On the other side the high level of general payments reduces the incentive to produce high quality products for the market.



Switzerland: Level and structure of support

Producer support as a share of gross farm receipts





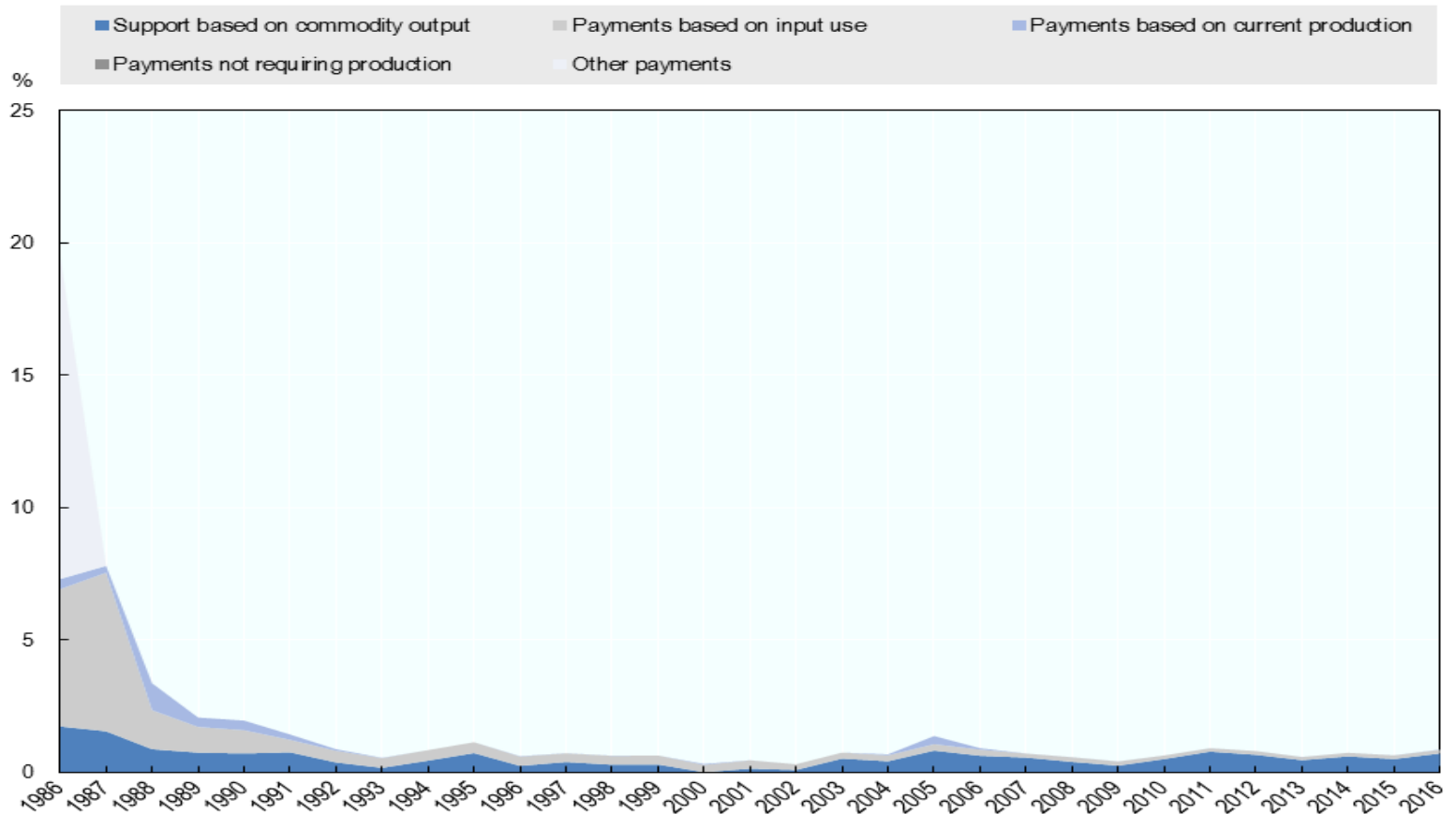
New Zealand

- Country with comparative advantages;
- Large agro-food exporter (agro-food exports represent more than a half of total NZL exports);
- Important policy reforms reducing support to farms were part of the general economy reform in the end of 1980s;
- Since NZL have consistently the lowest levels of support in OECD area;
- Little direct budgetary payments to farms;
- Most of the public expenditure goes to policies providing general services to the sector (Research & Development, Inspection & Control).



New Zealand: Level and structure of support

Producer support as a share of gross farm receipts





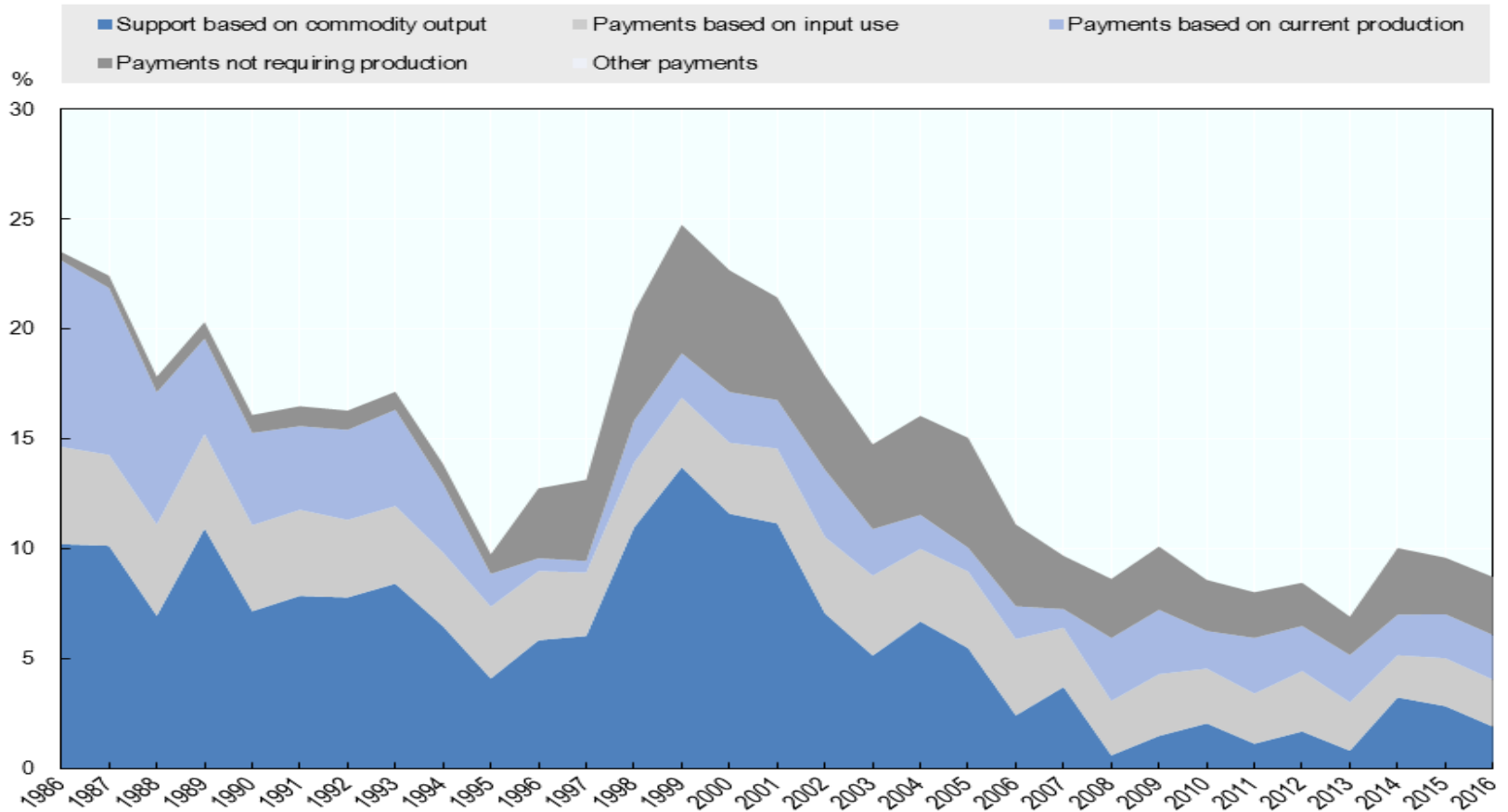
United States

- Farm Acts approved for a 4 – 5 year period provides the main regulatory and budgetary framework for agricultural policies in US;
- Relatively low levels of support;
- Large agro-food exporters and dominant player on world markets;
- Low level of market price support:
 - Most commodities aligned to world market prices;
 - Supported commodities: sugar.
- Programmes stabilising income in agriculture (countercyclical payments) + risk management;
- Important agro-environmental programmes.



United States: Level and structure of support

Producer support as a share of gross farm receipts





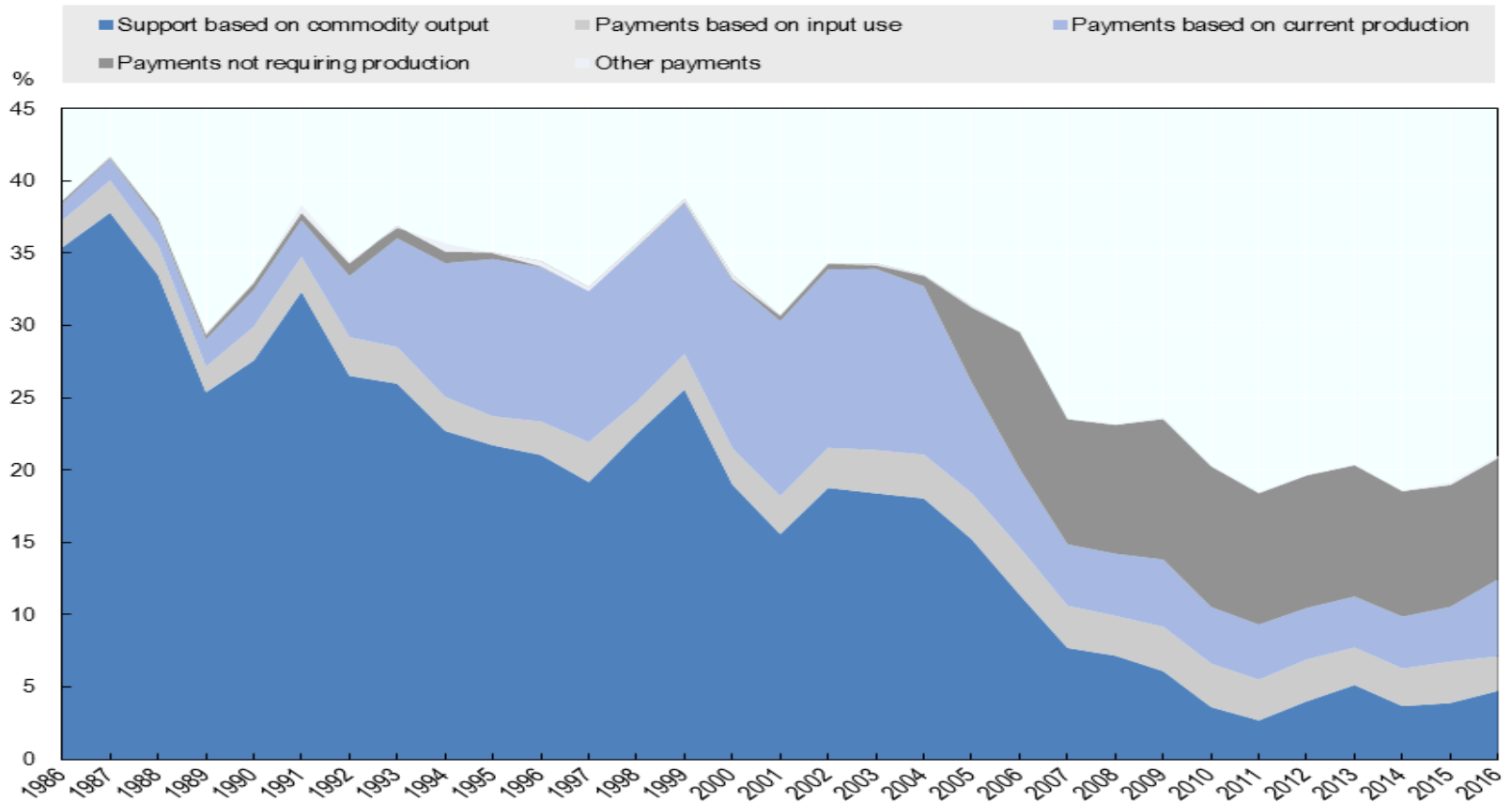
5. European Union Common Agricultural Policy

- EU treated as a single entity in the OECD reporting due to the single market and Common Agricultural policy (CAP);
- The national budget expenditures are available at the country level, but not published separately;
- EU level of support close to OECD average;
- Reduction and change of structure in the EU support, related to the various reforms of the CAP.



European Union: Level and structure of support

Producer support as a share of gross farm receipts





EU Common Agricultural Policy reforms

- 1960s – creation of CAP, main objective stimulate production – heavy intervention mechanisms;
- 1980s – mounting surplus problems, export subsidies resulting in trade disputes, introduction of quota systems (milk, sugar);
- 1990s – agricultural policies and their interference with world markets disciplined under the WTO (Uruguay Round Agreement on Agriculture);
- Mid 1990 – CAP reform (Mc Sharry reform):
 - Reduction of price support;
 - Compensated with product specific area and headage payments.



EU Common Agricultural Policy reforms (cont.)

- 2000s – Another CAP reform (Fischler):
 - Commodity specific payments replaced with flat area payments (Single Area Payments);
 - Introduction of Pillar 2 payments (agri-environment, rural development).
- The policy changes related to the new CAP budget (2014-2020) do not have a scope of previous reforms:
 - More complex and likely to deliver more distortive payments;
 - Unclear whether expected benefits will be achieved (greening of the CAP);
 - End of milk and subsequently sugar quota regimes are steps in right direction;
 - The flexibility given to member-states to allocate part of the EU fund payments to product specific payments is likely to increase the share of support coupled with production.



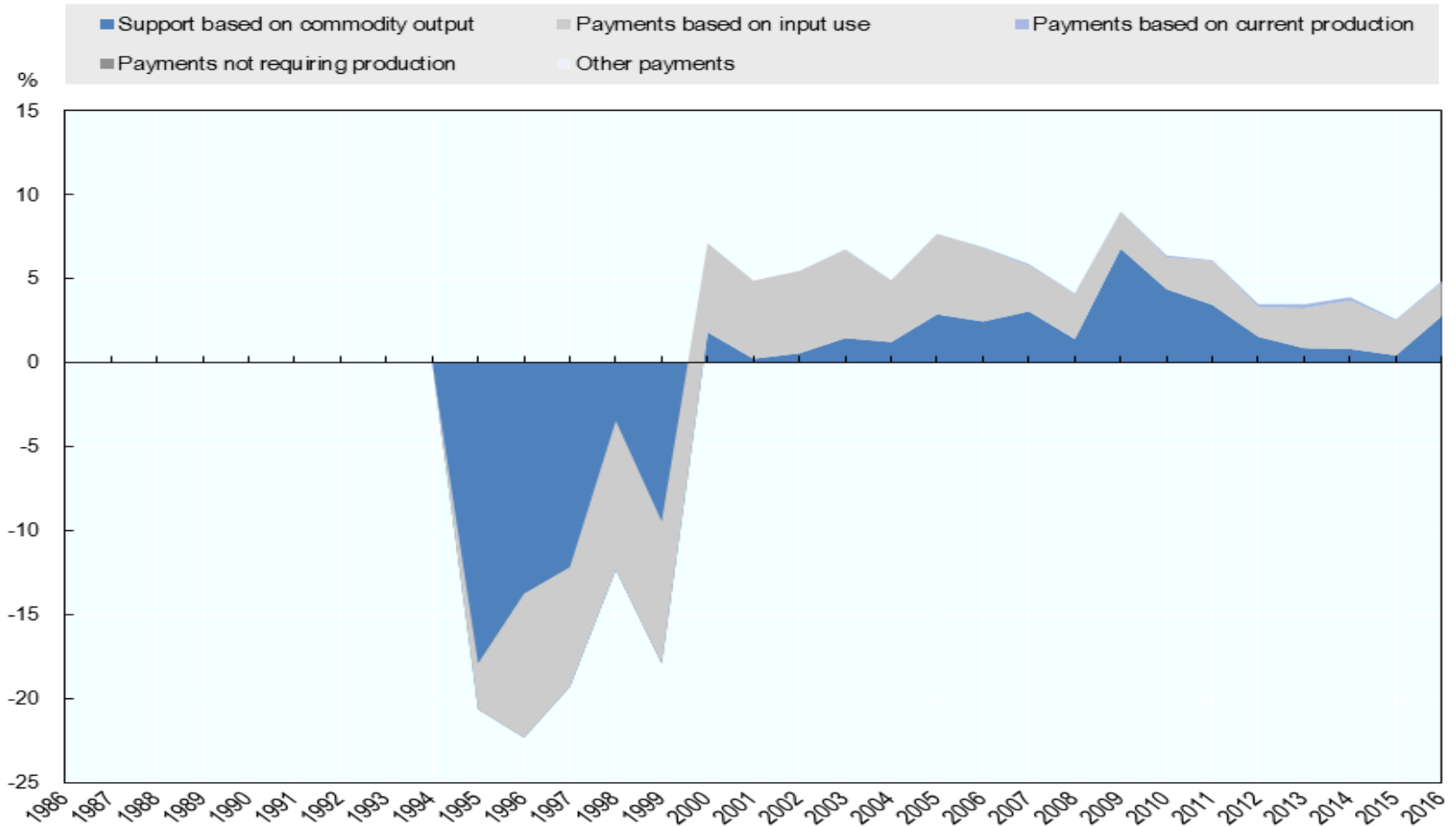
6. OECD work on emerging economies

- OECD also monitors and evaluates agricultural policy development in some emerging economies;
- The 2017 M&E report will include 52 countries and covers a decisive part of global value added in agriculture;
- Emerging economies included in the 2017 report: Brazil, China, Colombia, Costa Rica, Indonesia, Kazakhstan, Philippines, Russia, South Africa, Ukraine and Viet Nam. Work is underway on India;
- In general these countries have lower level of support than OECD average, but the trend is different:
 - Some countries are increasing their support: China, Indonesia, Kazakhstan;
 - While other maintained low levels of support (Brazil, South Africa, Viet Nam);
 - In Ukraine and Russia, relatively low levels of support are hiding an uneven distribution of support (taxation of crop producers and subsidising of the livestock sector).



Brazil: Level and structure of support

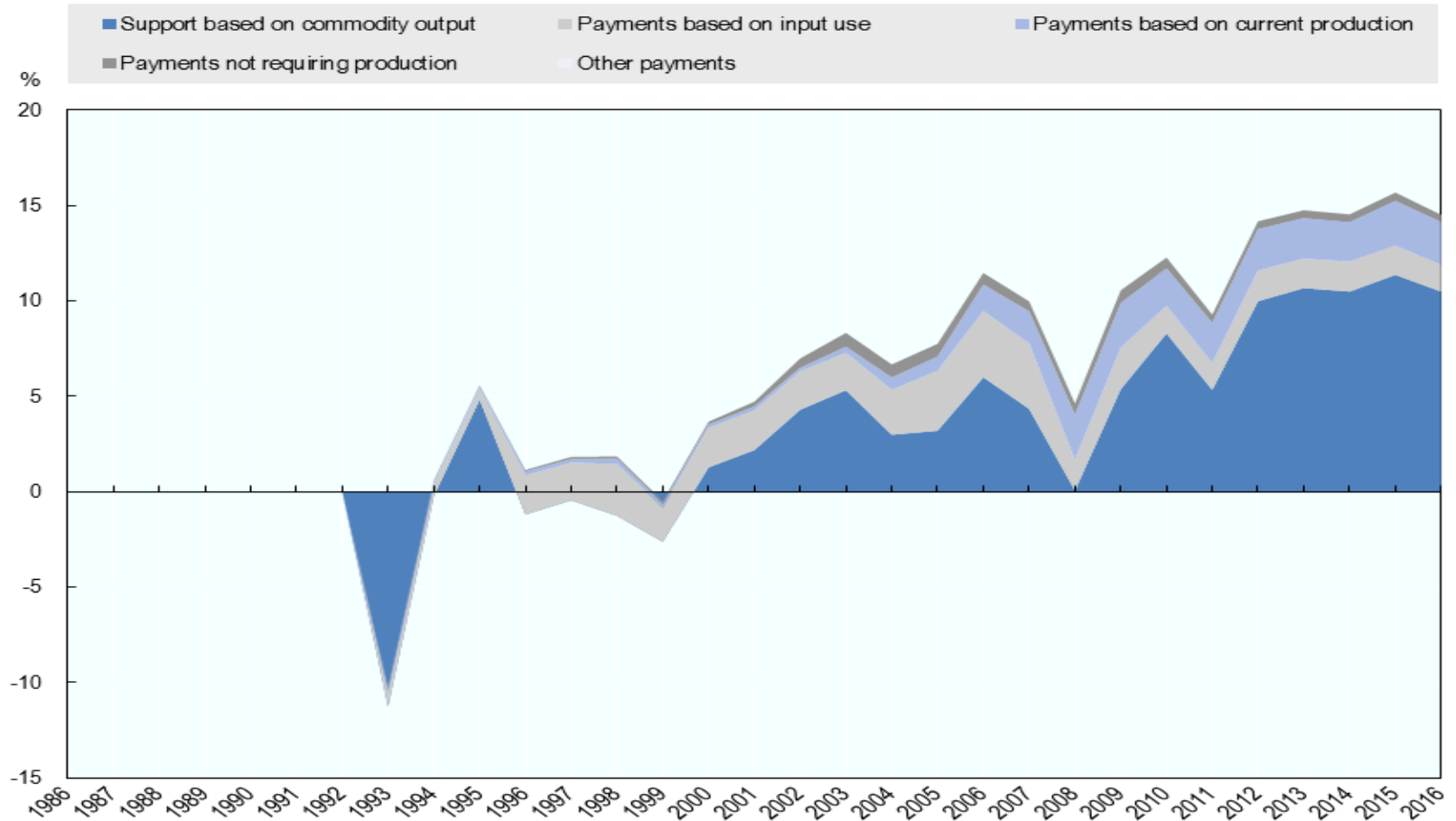
Producer support as a share of gross farm receipts





China: Level and structure of support

Producer support as a share of gross farm receipts





For more information

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