

Chapter 1

Evaluation of Support Policy Developments

1. Evaluation of support policy developments in OECD countries

The short-term changes and long-term trends in OECD countries' agricultural support are described in this section. The latest data provide preliminary estimates of 2005 support that are compared against the previous year to provide a short-term assessment. Long-term trends in agricultural policy are best evaluated by comparing the 2003-05 and 1986-88 periods (Box 1.1).

Box 1.1. Method for evaluating policy developments

In 1987 Ministers stressed the need for a progressive reduction in agricultural support and a move towards those forms of support that are less production and trade distorting in order to let the agricultural sector respond more to market signals. Ministers also recognised that governments need flexibility in the choice of policy measures and in the pace of reform, taking into account the diverse situations in OECD countries, and the desire to address a range of policy goals. In 1998, they agreed on a set of principles for agricultural policy reform (Annex 1.A1), and a set of operational criteria that should apply in designing and implementing policy measures (Annex 1.A2).

The Producer Support Estimate (PSE) and related indicators (Annex 1.A3) are the principal tools used to monitor and evaluate agricultural policy developments. It is important to distinguish between transfers that are provided to producers and that can affect individual production decisions, and those that are provided to general services that support the agricultural sector as a whole. Policy measures within the PSE are classified in terms of how policies are implemented. A full explanation of the concepts, method, interpretation and guidelines for the use of the OECD support indicators in policy evaluation can be found in *Methodology for the Measurement of Support and Use in Policy Evaluation* [www.oecd.org/dataoecd/36/47/1937457.pdf], and a less technical discussion is available in *Agricultural Support: How Is It Measured and What Does It Mean?* [www.oecd.org/dataoecd/63/8/32035391.pdf].

This section first sets out the broad context of policy and market developments. Then, the variation in estimated levels of producer support between OECD countries is identified, and the composition of support is described – an important element given that the effects of support on production, trade, the environment, income and other indicators depend on the way the support is given, and not just the magnitude of support. In addition to support to producers, this assessment of agricultural policies shows the amount of support to general agricultural services, to consumers and the agricultural sector as a whole. The section draws some conclusions about OECD countries' progress toward agricultural policy reform.

Overall developments in policy and markets

Agricultural policy developments during 2005 were dominated by the negotiations towards a Doha Development Agenda agreement – intense preparations that brought about some progress at the Hong Kong Ministerial in December 2005, but fell short of comprehensive agreement. The opportunity exists in 2006 to reform agricultural policy multilaterally by lowering tariff walls and reducing the most distorting forms of support.

Numerous OECD countries are still digesting recent policy changes that directly led to observable changes in support in 2005, and others are preparing to introduce new policies. Agricultural policy in the **European Union (EU)** was marked by the implementation of the 2003 Common Agricultural Policy (CAP) reform, and the accession on 1 May 2004 of ten new member states, including four OECD members: the **Czech Republic, Hungary, Poland** and the **Slovak Republic**. Significant re-instrumentation is being brought about by **European Union** reform. More and more members apply the Single Payment Scheme, a unified payment based on historical levels of support, in place of programmes tied to the area planted to certain crops or the number of certain types of animals. The shift in the composition of the PSE should be more pronounced when all members apply the new mechanism in 2006, and as dairy and sugar support is included. **Korea** began implementing the revisions to its rice policy as announced in 2004, but the process had only started in 2005 so the full change is not yet fully manifested in PSE data (Box 1.2). Other OECD countries are preparing for further policy decisions. In **Australia**, the independent Agriculture and Food Policy Reference Group reviewed policy for the Minister of Agriculture, **Switzerland** looks forward to the next legislative package (AP 2011) and the **United States** prepares for the 2007 Farm Bill. Many governments are exploring the potential for support policies to encourage increased biofuel production. There were also some important decisions taken in 2005: the agreement on sugar reform struck in November 2005 by **European Union** members and the New Basic Plan for Food, Agriculture and Rural Areas of **Japan**. The **European Union** sugar policy will begin re-instrumentation in 2006 as guaranteed prices and quotas are lowered and, as noted above, the Single Payment Scheme becomes the primary mechanism of support to sugar producers, thus reducing the commodity-specificity of these transfers. The **Japanese** policy change, once in place, will also entail a further re-instrumentation of support as many direct payments currently attached to certain commodities will no longer be commodity-specific.

As ever, variations in weather conditions and other events led several member countries to provide weather related payments to producers. **Australia** provided such assistance as drought persisted there, and the **United States** paid for weather damages chiefly associated with hurricanes. Modest shifts in policy priorities were apparent in 2005: **Iceland** reorganised its institutions to raise efficiency; and the **United States** spent more on environmental (such as the Environmental Quality Incentive Program and the Conservation Security Program) and food access (Food Stamps Program) objectives. At the same time, existing mechanisms of farm support were reinforced, as **Canada** offered producers further *ad hoc* support through the new Farm Income Payment (FIP) programme, **Mexico** stepped up subsidies to energy use and **Turkey** raised tariffs on cereals. Some programmes were extended: **Turkey** extended to 2007 its Agricultural Reform Implementation Project, with a new conservation-related payment (CATAK), and the **United States** extended the support to dairy producers in the form of the Milk Income Loss Contract or the National Dairy Market Loss Payment to 2007.

Box 1.2. Major policy changes in Korea

Rice is an important commodity for Korean producers and consumers – and accounts for almost one-third of Korea's PSE, much of it provided by Market Price Support (MPS). Barriers to imports have long played a central part in rice policy, but Korea is committed to allowing greater room for foreign goods in domestic markets. The result of the Uruguay Round Agreement on Agriculture (URAA) negotiation was that Korea received special treatment for rice permitting the suspension of tariffication (the process whereby existing trade barriers were converted to bound tariffs) for ten years (from 1995 to 2004). Instead, Korea agreed to increase Minimum Market Access for rice imports from 1% of domestic consumption in 1995 to 4% in 2004.

In 2004, these special provisions were re-negotiated and an agreement was reached to continue special treatment for another 10 years from 2005 to 2014. Under this new agreement, the Minimum Market Access volume would be increased from 4.4% of domestic consumption in the year 2005 to about 8% of domestic consumption in the year 2014. Also, the Korean government was required to sell some of the imported rice in the domestic market for table use. To date the imported rice had been incorporated exclusively in processed products.

Until 2004, the government purchased 15-30% of harvested rice directly from farmers. Government purchasing essentially provided a guideline for the post-harvest rice market. The support arising from this system of purchasing rice constituted almost all of Korea's Aggregate Measure of Support (AMS), a category of support that Korea committed to constrain as a consequence of the URAA. However, as the AMS limit decreased in line with the provisions of the UR Agreement on Agriculture, the amount of government purchases also decreased. Following the 2004 agreement, the Korean government decided to reduce its reliance on price support and to introduce direct income support mechanisms.

The direct income support mechanism comprises a fixed payments system and a variable payments system from the 2005/06 crop year. To be eligible for the fixed payment, paddy fields had to be in production during the period 1998-2000. There are no restrictions on current production. The land may be used to produce agricultural products or set aside. The fixed payment per hectare for registered paddy fields is KRW 600 000 (about USD 600). The fixed payment is designed with a view to meet the criteria of the Green Box of the URAA.

The variable payment is given only to farmers who are currently producing rice on registered farmland. The amount of the variable payment is determined according to the difference between a target price and each year's post-harvest price. Once the target price is determined, it is fixed for three years. For the years 2005-07, the target price is KRW 170 083 (about USD 170) per 80 kilograms of rice which was determined by adding the income effect of past government purchasing and paddy-field environmental conservation payments to the 3 year average of the harvest price from 2001 to 2003. If the post-harvest price is lower than the target price, farmers receive 85% of the difference, after deduction of the fixed payment, which is multiplied by a fixed national reference yield to calculate the payment per hectare.

Following the abolition of government purchasing, the average post-harvest price for the 2005/06 crop year dropped sharply. The introduction of the fixed payment is reflected in the increase in the payments based on historical entitlements in the PSE. Even a partial shift from price support to direct income support will improve the composition of the PSE – and reduce price distortion – although MPS will not be abolished as long as import barriers are binding. As for the new system, the fixed payment is not linked to any specific commodity, whereas the variable payment is conditional on rice production. These payments have the effects of raising and stabilising farm income following the sharp decrease in the price of rice resulting from the abolition of government purchasing, thereby smoothing the transition to the new policy framework.

The context in which agricultural policies operated helps understand developments in support as the transfers generated by border measures, such as tariffs and export support, depend in part on the evolution of the border prices at which domestically produced goods would be traded in the absence of such intervention. In addition, some other forms of support are counter-cyclical to producer prices, with support rising when prices fall. There was some depreciation in the US dollar, the euro and more so the yen relative to almost all other OECD currencies. Dollar-denominated commodity prices in 2005 were mostly little changed as compared to 2004. Nonetheless, nominal prices were often higher in 2003-05 than in 1986-88. Cereal price movements were mixed in 2005 as compared to 2004, with wheat unchanged, rice a little higher and maize lower, and of these the wheat price remained well above the 1986-88 level. Oilseed prices continued a second year of weakness following the peaks in 2003, but still exceeded 1986-88 levels. The raw sugar price rose even faster in 2005 than in 2004 – by about 50% in 2005 after a rise of 34% the year before – and is now about 25% higher than in the base period. Traded dairy product prices rose for a third year in a row, raising the equivalent milk price yet higher so the 2003-05 average price was about 75% above the average in 1986-88. Some prices of beef and pork in international trade rose substantially in 2005 relative to 2004, but many other meat prices changed little, or even fell. However, individual countries' border prices may be determined as much or more by the shifts in trade patterns brought about by further outbreaks of animal diseases. **Canada, Japan** and the **United States** discovered further cases of Bovine Spongiform Encephalopathy (BSE) in 2005, but the greater threat to global animal health was avian influenza. With early 2006 already witnessing the outbreaks of avian influenza in **Turkey** and in the **European Union**, affecting consumption as well as production, and with new cases of Foot and Mouth Disease (FMD) in some Latin American countries and the possibility of further cases of BSE, there is little doubt that animal health issues will continue to have impacts on trade flows and meat prices, as well as on feed demand.

Overall support to producers in 2005

Support provided by OECD countries to agricultural producers has remained stable overall between 2003 and 2005. The key indicator of the support provided to agricultural producers expresses the estimated monetary value of transfers from consumers and budgetary payments to producers as a share of gross farm receipts (Box 1.3). Support to producers in the OECD as a whole, as measured by this % PSE, is estimated at 29% in 2005, which is the same level as in 2004 and only marginally below the 30% of 2003 (Figure 1.1; Tables 1.1 and 1.2).

Support can also be measured by an indicator derived from the PSE: the producer Nominal Assistance Coefficient (NAC), an expression of the monetary value of transfers from consumers and taxpayers to producers relative to current production valued at border prices. The producer NAC for the OECD as a whole has changed slightly more than the % PSE, falling moderately over the last three years. This indicator shows that current farm receipts were 44% higher than if entirely generated in world markets without any support in 2003, 42% higher in 2004 and 41% higher in 2005.

Overall support to producers over the long-term

The long term trend exhibits a gradual, if unsteady, reduction in the overall level of support provided to OECD agricultural producers (Figure 1.1). The share of producer support in gross farm receipts has fallen from 37% in 1986-88 to 30% in 2003-05. Likewise,

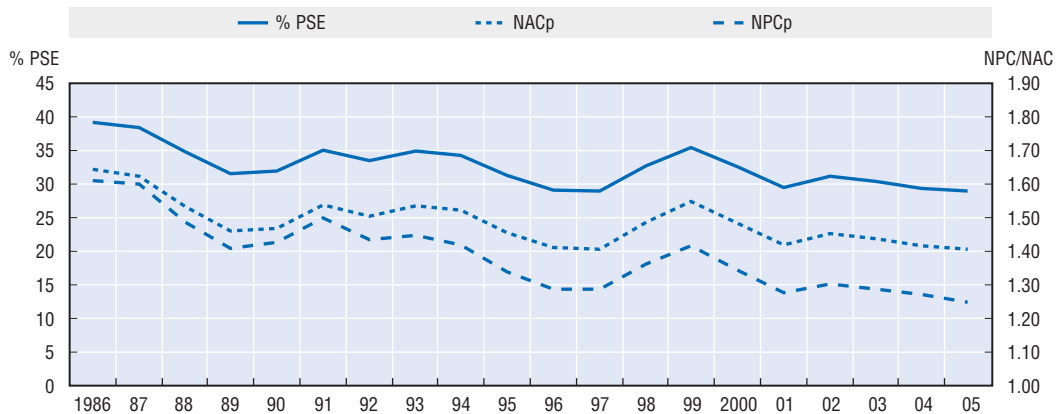
Box 1.3. Evaluating annual changes in the estimated level of support in the OECD

The PSE, the total monetary figure for the estimated level of transfers to producers, is denominated in the local currency of each country, so must be converted into a single currency to allow comparison across countries. Consequently, the year-on-year change in the total level of transfers denominated in a single currency will result from both changes in the level of transfers measured in each national currency and exchange rates movements.

It is estimated that the level of transfers to producers measured by the PSE in US dollars was hardly changed, at USD 280 billion in 2004 and 2005, but was higher than the USD 259 billion of 2003 (Table 1.1). When measured in euros, the value of transfers was likewise stable in 2005 relative to 2004, but is lower than in 2003 – EUR 225 billion in 2005 as compared to EUR 229 billion (Table 1.2). While the PSE provides an indication of the level of support provided, how can these changes over time in different currencies be interpreted? In what sense did the amount of support provided to producers remain stable between 2003 and 2005, as stated in the text?

The most appropriate measure to compare changes in the level of support provided to producers in the OECD as a whole is the % PSE, which measures the share of transfers in the value of gross producer receipts. The % PSE solves this dilemma because the same exchange rates are used to convert the denominator into a single currency and to convert the numerator. Consequently, the % PSE is the same regardless of the currency. Moreover, the % PSE is a relative measure, so this indicator also provides a sense of the importance of policy-induced transfers in the sector, and is appropriate for comparisons among OECD countries.

Figure 1.1. Evolution of OECD Producer Support Estimate (% PSE), Nominal Protection Coefficient (NPCp) and Nominal Assistance Coefficient (NACp)



Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/201716870234>

the producer NAC indicates that while in 1986-88 farm receipts were on average 60% higher than they would be if entirely generated in world markets without any support, by 2003-05 they had fallen to 42% above their world market value. These changes indicate some improvement in market orientation, with a greater share of farm receipts generated in markets than created by government intervention.

Table 1.1. **OECD: Estimates of support to agriculture (USD million)**
USD million

	1986-88	2003-05	2003	2004	2005p
Total value of production (at farm gate)	594 246	807 406	748 531	836 876	836 811
<i>of which share of MPS commodities (%)</i>	<i>72</i>	<i>68</i>	<i>67</i>	<i>70</i>	<i>68</i>
Total value of consumption (at farm gate)	556 587	785 288	751 447	797 832	806 586
Producer Support Estimate (PSE)	242 474	272 738	258 798	279 572	279 845
Market price support	187 078	156 470	155 057	164 500	149 853
<i>of which MPS commodities</i>	<i>134 472</i>	<i>106 781</i>	<i>104 619</i>	<i>114 367</i>	<i>101 358</i>
Payments based on output	12 207	12 892	10 261	13 527	14 888
Payments based on area planted/animal numbers ¹		41 059	38 849	46 064	38 264
Payments based on historical entitlements	515	19 272	12 842	13 084	31 890
Payments based on input use	20 838	26 223	25 375	26 205	27 088
Payments based on input constraints	3 471	12 461	11 736	12 508	13 138
Payments based on overall farming income	2 250	4 624	4 615	4 182	5 076
Miscellaneous payments	283	-262	63	-499	-352
Percentage PSE	37	30	30	29	29
Producer NPC	1.57	1.27	1.29	1.27	1.25
Producer NAC	1.60	1.42	1.44	1.42	1.41
General Services Support Estimate (GSSE)	39 600	65 541	60 752	65 935	69 935
Research and development	3 647	6 540	6 049	6 635	6 937
Agricultural schools	761	1 919	1 781	1 997	1 979
Inspection services	1 094	2 500	2 291	2 498	2 712
Infrastructure	13 349	21 116	19 943	22 367	21 039
Marketing and promotion	11 925	27 550	24 791	26 561	31 298
Public stockholding	6 646	2 116	2 223	2 128	1 996
Miscellaneous	2 178	3 799	3 673	3 749	3 975
GSSE as a share of TSE (%)	13.0	17.7	17.3	17.4	18.2
Consumer Support Estimate (CSE)	-171 365	-144 207	-150 499	-147 677	-134 445
Transfers to producers from consumers	-187 361	-155 161	-154 324	-161 416	-149 743
Other transfers from consumers	-17 602	-24 635	-29 359	-21 538	-23 006
Transfers to consumers from taxpayers	21 697	32 964	30 634	32 774	35 484
Excess feed cost	11 900	2 625	2 550	2 503	2 821
Percentage CSE	-32	-19	-21	-19	-17
Consumer NPC	1.59	1.30	1.32	1.30	1.27
Consumer NAC	1.47	1.24	1.26	1.24	1.21
Total Support Estimate (TSE)	303 771	371 243	350 183	378 281	385 264
Transfers from consumers	204 963	179 796	183 683	182 954	172 750
Transfers from taxpayers	116 410	216 082	195 860	216 865	235 521
Budget revenues	-17 602	-24 635	-29 359	-21 538	-23 006
Percentage TSE (expressed as share of GDP)²	2.32	1.14	1.15	1.11	1.10

p: Provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

Market price support is net of producer levies and excess feed costs.

MPS commodities: See notes to individual country tables in Chapter 2.

1. This category provisionally includes the US counter cyclical payments from 2002.

2. TSE as a share of GDP for 1986-88 for the OECD total excludes the Czech Republic, Hungary, Poland and the Slovak Republic as GDP data is not available for this period.

Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/662628741015>

Table 1.2. **OECD: Estimates of support to agriculture (EUR million)**
EUR million

	1986-88	2003-05	2003	2004	2005p
Total value of production (at farm gate)	538 223	669 813	662 572	673 570	673 298
<i>of which share of MPS commodities (%)</i>	<i>72</i>	<i>68</i>	<i>67</i>	<i>70</i>	<i>68</i>
Total value of consumption (at farm gate)	503 736	652 092	665 153	642 144	648 979
Producer Support Estimate (PSE)	220 381	226 419	229 078	225 017	225 163
Market price support	169 969	130 074	137 251	132 400	120 572
<i>of which MPS commodities</i>	<i>122 248</i>	<i>88 736</i>	<i>92 605</i>	<i>92 050</i>	<i>81 553</i>
Payments based on output	11 140	10 650	9 083	10 887	11 979
Payments based on area planted/animal numbers ¹		34 083	34 388	37 075	30 787
Payments based on historical entitlements	489	15 852	11 367	10 531	25 659
Payments based on input use	18 887	21 782	22 461	21 091	21 795
Payments based on input constraints	3 133	10 342	10 388	10 068	10 571
Payments based on overall farming income	2 077	3 845	4 085	3 366	4 084
Miscellaneous payments	269	-209	56	-401	-283
Percentage PSE	37	30	30	29	29
Producer NPC	1.57	1.27	1.29	1.27	1.25
Producer NAC	1.60	1.42	1.44	1.42	1.41
General Services Support Estimate (GSSE)	35 942	54 371	53 775	53 069	56 270
Research and development	3 300	5 425	5 354	5 340	5 581
Agricultural schools	690	1 592	1 577	1 607	1 592
Inspection services	992	2 074	2 028	2 011	2 182
Infrastructure	12 125	17 528	17 653	18 003	16 928
Marketing and promotion	10 834	22 835	21 944	21 378	25 182
Public stockholding	6 032	1 762	1 968	1 712	1 606
Miscellaneous	1 968	3 156	3 251	3 017	3 198
GSSE as a share of TSE (%)	13.0	17.6	17.3	17.4	18.2
Consumer Support Estimate (CSE)	-155 434	-120 083	-133 216	-118 860	-108 174
Transfers to producers from consumers	-170 162	-129 001	-136 602	-129 918	-120 483
Other transfers from consumers	-15 872	-20 611	-25 988	-17 335	-18 511
Transfers to consumers from taxpayers	19 716	27 348	27 116	26 379	28 550
Excess feed cost	10 884	2 180	2 257	2 014	2 270
Percentage CSE	-32	-19	-21	-19	-17
Consumer NPC	1.59	1.30	1.32	1.30	1.27
Consumer NAC	1.47	1.24	1.26	1.24	1.21
Total Support Estimate (TSE)	276 039	308 139	309 969	304 464	309 983
Transfers from consumers	186 033	149 612	162 589	147 253	138 994
Transfers from taxpayers	105 877	179 138	173 368	174 546	189 500
Budget revenues	-15 872	-20 611	-25 988	-17 335	-18 511
Percentage TSE (expressed as share of GDP)²	2.32	1.14	1.15	1.11	1.10

p: Provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

Market price support is net of producer levies and excess feed costs.

MPS commodities: See notes to individual country tables in Chapter 2.

1. This category provisionally includes the US counter cyclical payments from 2002.

2. TSE as a share of GDP for 1986-88 for the OECD total excludes the Czech Republic, Hungary, Poland and the Slovak Republic as GDP data is not available for this period.

Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/817775234621>

Differences in support among countries

The absence of any major initiative to reduce support in 2005 explains the minor changes in the % PSE of individual OECD countries (Table 1.3). In 2005, support to producers is estimated to have increased in **Iceland, Mexico** and **New Zealand**, although the rise was

Table 1.3. **OECD: Producer Support Estimate by country**

		1986-88	2003-05	2003	2004	2005p
Australia¹	USD mn	1 320	1 404	1 339	1 421	1 453
	EUR mn	1 218	1 166	1 185	1 143	1 169
	Percentage PSE	8	5	5	5	5
	Producer NPC	1.05	1.00	1.00	1.00	1.00
	Producer NAC	1.09	1.05	1.05	1.05	1.05
Canada	USD mn	6 066	5 884	5 941	5 695	6 015
	EUR mn	5 533	4 894	5 258	4 584	4 840
	Percentage PSE	36	22	25	21	21
	Producer NPC	1.46	1.14	1.17	1.12	1.13
	Producer NAC	1.57	1.28	1.33	1.26	1.26
European Union²	USD mn	100 147	129 693	119 149	136 144	133 785
	EUR mn	90 924	107 563	105 467	109 577	107 644
	Percentage PSE	41	34	36	33	32
	Producer NPC	1.78	1.29	1.33	1.29	1.25
	Producer NAC	1.69	1.51	1.56	1.49	1.48
Iceland	USD mn	197	196	178	180	230
	EUR mn	177	163	157	145	185
	Percentage PSE	77	66	68	63	67
	Producer NPC	4.24	2.68	2.84	2.50	2.69
	Producer NAC	4.42	2.95	3.15	2.71	2.99
Japan	USD mn	49 579	48 324	48 171	49 368	47 435
	EUR mn	44 951	40 180	42 639	39 735	38 166
	Percentage PSE	64	58	59	58	56
	Producer NPC	2.64	2.27	2.36	2.27	2.19
	Producer NAC	2.76	2.36	2.46	2.36	2.27
Korea	USD mn	12 075	20 434	17 271	20 721	23 310
	EUR mn	10 840	16 906	15 287	16 677	18 755
	Percentage PSE	70	62	61	63	63
	Producer NPC	3.34	2.53	2.44	2.59	2.57
	Producer NAC	3.39	2.66	2.58	2.70	2.70
Mexico³	USD mn	8 261	5 519	6 587	4 441	5 528
	EUR mn	6 723	4 618	5 831	3 575	4 448
	Percentage PSE	28	15	19	12	14
	Producer NPC	1.35	1.09	1.14	1.06	1.08
	Producer NAC	1.39	1.18	1.24	1.14	1.17
New Zealand	USD mn	474	212	165	208	262
	EUR mn	451	175	146	168	211
	Percentage PSE	11	2	2	2	3
	Producer NPC	1.02	1.02	1.02	1.02	1.02
	Producer NAC	1.13	1.02	1.02	1.02	1.03
Norway	USD mn	2 802	2 935	2 993	2 928	2 885
	EUR mn	2 535	2 442	2 650	2 357	2 321
	Percentage PSE	71	67	71	67	64
	Producer NPC	4.22	2.41	2.70	2.31	2.23
	Producer NAC	3.42	3.10	3.50	3.00	2.80
Switzerland	USD mn	5 427	5 619	5 390	5 848	5 620
	EUR mn	4 897	4 667	4 771	4 707	4 522
	Percentage PSE	78	69	71	68	68
	Producer NPC	4.97	2.41	2.55	2.38	2.31
	Producer NAC	4.49	3.24	3.43	3.14	3.14
Turkey	USD mn	3 169	11 550	11 142	11 250	12 257
	EUR mn	2 873	9 593	9 862	9 055	9 862
	Percentage PSE	16	26	28	25	25
	Producer NPC	1.17	1.32	1.35	1.30	1.30
	Producer NAC	1.20	1.36	1.39	1.34	1.33

Table 1.3. **OECD: Producer Support Estimate by country (cont.)**

		1986-88	2003-05	2003	2004	2005p
United States	USD mn	36 958	40 489	35 929	42 869	42 669
	EUR mn	33 782	33 546	31 803	34 504	34 332
	Percentage PSE	22	16	15	16	16
	Producer NPC	1.14	1.07	1.07	1.08	1.07
	Producer NAC	1.29	1.19	1.18	1.19	1.19
OECD⁴	USD mn	242 474	272 738	258 798	279 572	279 845
	EUR mn	220 381	226 419	229 078	225 017	225 163
	Percentage PSE	37	30	30	29	29
	Producer NPC	1.57	1.27	1.29	1.27	1.25
	Producer NAC	1.60	1.42	1.44	1.42	1.41

p: Provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

1. As a result of a technical revision of the Australian PSE database from 1990 onwards there has been an increase in the calculated PSE. This revision reflects improved information on the allocation of budgetary payments across the PSE time series and not any change in actual support provided by Australia.
2. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.
3. For Mexico, 1986-88 is replaced by 1991-93.
4. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.

Source: OECD, PSE/CSE database, 2006.

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marginal in all cases. The % PSE decreased somewhat in **the European Union,* Japan and Norway**. In most cases, namely in **Australia, Canada, Korea, Switzerland, Turkey** and the **United States**, the % PSE remained roughly constant in 2005 as compared to 2004.

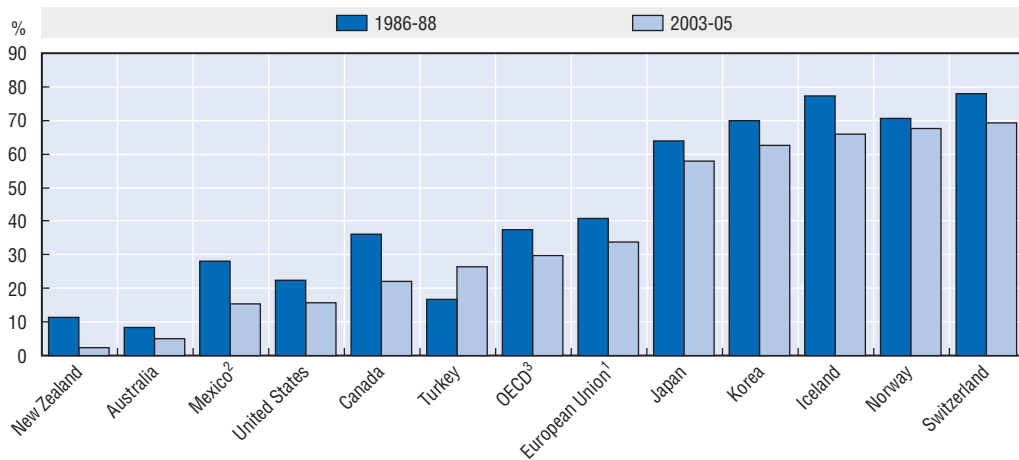
There are large differences in estimated support among OECD countries (Figures 1.2 and 1.3; Table 1.3). These reflect among other things variations in policy objectives, different historical uses of policy instruments, and the varying pace and degree of progress in agricultural policy reform. The average % PSE for 2003-05 was at or below 5% in **Australia** and **New Zealand**. The average was higher but less than 20% in **Mexico** and the **United States**. Support in **Canada** and **Turkey** accounted for somewhat larger shares of gross farm receipts, but these were still below the OECD average % PSE of 30%. The **European Union**, at 34%, just exceeded the OECD average for 2003-05. In **Iceland, Japan, Korea, Norway** and **Switzerland** the % PSE was greater than 50%, approaching 70% in some cases.

Over the longer term, producer support has almost universally fallen in OECD countries (Figure 1.2; Table 1.3). The average % PSE in 2003-05 was lower than the 1986-88 average in all countries except **Turkey** where the share of agriculture in the economy remains large at 12% of GDP and 34% of employment. The largest relative decreases in the % PSE have occurred in **New Zealand, Mexico, Canada, Australia** and the **United States** – countries that provide less support than the OECD average.

* On 1 May 2004, ten countries (Cyprus, the Czech Republic, Estonia, Hungary, Malta, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia) joined the European Union. Consequently, from 2004, the estimates of support and derived indicators for the European Union are calculated for the EU25, as well as the EU15. Unless indicated otherwise, the text refers to indicators for the EU25. It should be noted that the six new EU countries that are not members of the OECD are excluded from the calculation of the total OECD estimates of support and derived indicators.

Figure 1.2. **Producer Support Estimate by country**

Per cent of value of gross farm receipts



Countries are ranked according to 2003-05 levels. For more detail, see Table 1.3.

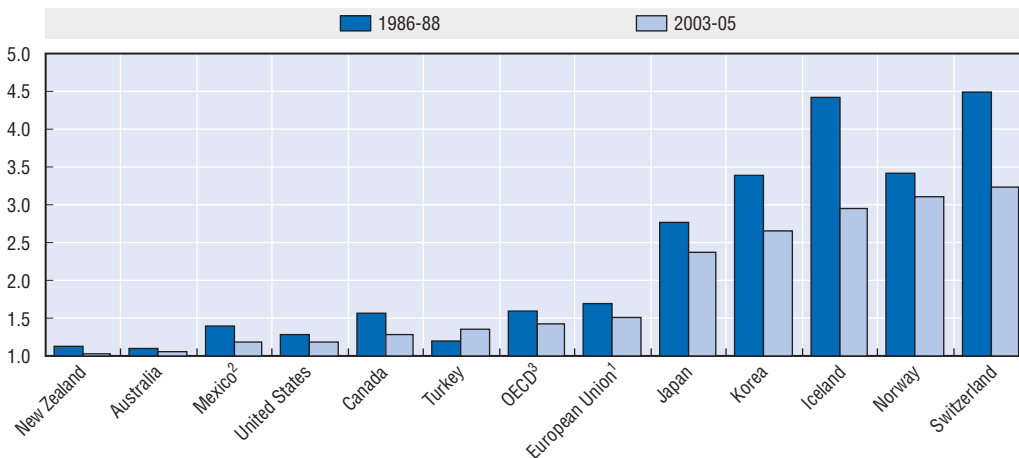
1. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.

2. For Mexico, 1986-88 is replaced by 1991-93.

3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.

Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/200700086384>

Figure 1.3. **Producer Nominal Assistance Coefficient by country**

Countries are ranked according to 2003-05 levels. For more detail, see Table 1.3.

1. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.

2. For Mexico, 1986-88 is replaced by 1991-93.

3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.

Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/843633413305>

Changes in the PSE and market price support in 2005

The change in the PSE in 2005 relative to 2004 was driven largely by changes in market price support (MPS), as was the case in **Japan, Mexico, Norway, Switzerland** and **Turkey** in 2005 (Table 1.4). Increased budgetary support in the **United States** offset some or all of the reduction in MPS, so the net effect was a modest decrease in the total PSE. The

Table 1.4. **Contribution to change in Producer Support Estimate by country, 2004 to 2005**

	Value of Producer Support (PSE) ¹	Contribution of:		Contribution of budgetary payments (BP) based on:						
		MPS	BP	Output	Area or number	Historical entitlement	Input use	Input constraint	Farm income	Misc.
% change		% change in PSE if all other variables are held constant								
Australia	-1.2	0.0	-1.2	0.0	0.0	3.8	-0.7	0.3	-4.6	-0.1
Canada	-1.6	0.8	-2.4	0.7	-6.3	-6.7	-0.5	0.4	10.0	0.0
European Union	-2.0	-9.6	7.6	0.9	-7.5	13.6	0.2	0.2	0.0	0.1
Iceland	14.4	8.6	5.8	1.0	0.0	3.7	1.0	0.0	0.0	0.0
Japan	-2.2	-2.0	-0.1	-0.4	0.1	0.1	-0.1	0.1	0.0	0.0
Korea	0.1	-0.7	0.9	0.0	-2.1	2.4	0.2	0.0	0.3	0.0
Mexico	20.1	16.1	4.1	-0.9	0.1	0.8	4.1	0.0	0.0	0.0
New Zealand	18.7	8.2	10.5	0.0	0.0	0.0	-1.5	0.0	11.9	0.0
Norway	-5.8	-4.2	-1.7	-0.2	-1.5	0.0	0.1	0.0	-0.2	0.0
Switzerland	-3.7	-4.4	0.7	0.0	0.0	0.8	0.0	0.0	0.0	0.0
Turkey	2.4	2.1	0.3	1.6	0.0	-2.6	1.4	0.0	0.0	0.0
United States	-0.5	-8.9	8.5	0.1	6.9	-0.1	0.6	0.9	0.2	0.0
OECD ²	-1.2	-4.2	3.0	0.4	-2.2	4.5	0.0	0.1	0.2	0.0

For more information on these calculations, see Box 2.1 in *Agricultural Policies in OECD countries: Monitoring and Evaluation*, 2005.

1. Per cent changes in national currency.

2. Per cent changes in national currency weighted by the value of PSE in the previous year i.e. not equivalent to the variation in OECD PSE in any common currency.

Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/737883854280>

re-instrumentation introduced by the policy decisions in 2003 and 2004 is readily apparent in the **European Union** data: the PSE decreased as the reductions in MPS and in payments based on area planted or on animal numbers, were only partly offset by the increase in support based on historical entitlement that reflects the introduction of the Single Payment Scheme and the gradual phasing-in of payments in new member states. Conversely, both MPS and budgetary support increased and led to higher PSEs in **Iceland**, **Mexico** and **New Zealand**, whereas they both decreased and resulted in a lower PSE in **Norway**.

Most border prices, except those for dairy products and sugar, did not change significantly as developments in OECD exchange rates and most world prices were modest (Table 1.5). Producer prices in most OECD countries fell in 2005, but generally not enough to reduce the gap between domestic and world prices. The absolute value of MPS, taking into account the quantity of production, rose significantly in **Mexico**, **Iceland**, and **New Zealand**, and fell significantly in the **United States**, the **European Union** and **Norway**. Despite the mixed impacts among OECD countries, MPS for the OECD as a whole was lower in 2005 than in either of the preceding two years.

Composition of support

The composition of support is important because output-linked support measures (MPS and payments based on output) distort production and trade and limit the extent to which world markets influence domestic production decisions. Payments tied to purchased inputs tend to have even greater effects on production. Thus, these three categories are the most distorting forms of support. While the estimated producer support for the OECD as a whole has fallen, there has been greater success in re-instrumenting support. OECD countries have changed the composition of support, with some movement away from consumer transfers (MPS) to budgetary payments, and also between the

Table 1.5. **Contribution to change in Market Price Support by country, 2004 to 2005**

	Market Price Support (MPS) ¹	Contribution to change in MPS of:		Contribution to change in Unit MPS of:			Contribution to change in Border Price of:	
		Quantity	Unit MPS	Producer price	Excess cost	Border price	Exchange rate	World price (USD)
	% change	% change in MPS if all other variables are held constant						
Australia	7.4	-6.2	13.6	-9 847.2	0.0	9 860.9	4 416.4	5 444.5
Canada	1.8	-1.1	3.0	13.1	0.0	-10.2	14.5	-24.7
European Union	-18.9	-0.8	-18.1	-3.3	-0.4	-14.5	0.1	-14.6
Iceland	23.0	-0.8	23.8	28.7	0.0	-4.8	13.0	-17.8
Japan	-6.0	2.4	-8.3	-8.5	0.0	0.2	-1.3	1.4
Korea	-3.7	-0.4	-3.3	-5.4	0.0	2.1	7.0	-5.0
Mexico	41.4	6.8	34.5	-43.8	5.7	72.6	53.6	19.1
New Zealand	12.9	4.5	8.5	-5.5	0.0	14.0	7.7	6.3
Norway	-10.3	-1.5	-8.8	-5.8	-0.6	-2.4	4.4	-6.8
Switzerland	-6.3	-0.2	-6.1	-7.3	0.3	0.9	-0.2	1.1
Turkey	0.5	1.7	-1.1	3.3	-0.7	-3.7	23.7	-27.4
United States	-31.6	1.1	-32.7	-17.6	0.0	-15.0	0.0	-15.0

For more information on these calculations, see Box 2.1 in *Agricultural Policies in OECD countries: Monitoring and Evaluation*, 2005.

1. Per cent changes in national currency.

Source: OECD, PSE/CSE database, 2006.

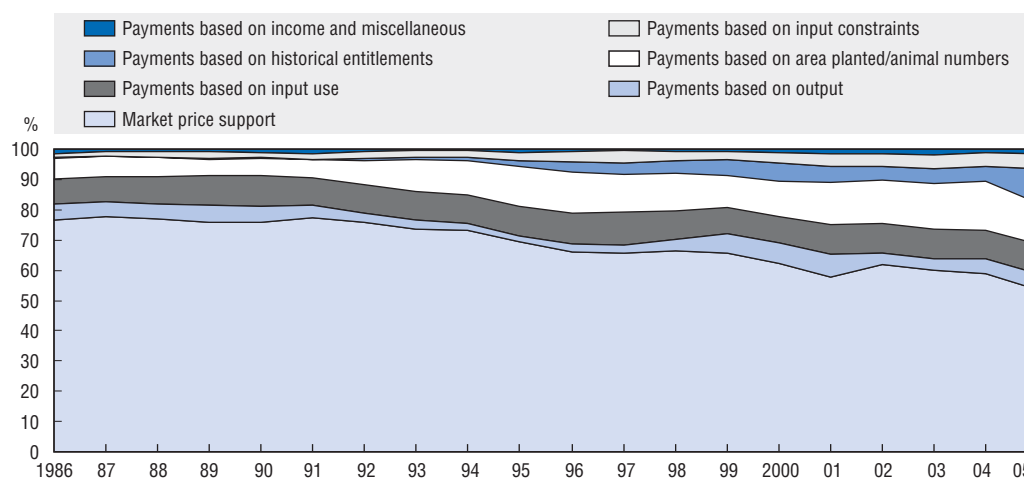
StatLink: <http://dx.doi.org/10.1787/525638627041>

different types of budget payments provided to producers. The share of MPS, output payments and payments based on input use taken together decreased from 91% of overall OECD support to producers in 1986-88 to 72% in 2003-05 (Figures 1.4 and 1.5).

The reduction in the prevalence of output-linked support brought about by re-instrumentation is shown by the movement in the producer Nominal Protection Coefficient (NPC), which demonstrates the degree of output market protection provided to producers (Figures 1.1 and 1.6). In 1986-88, the overall OECD producer NPC indicated that the sum of prices and payments based on output that producers received per unit they sold was on average 57% higher than border prices. By 2003-05, the gap had decreased by more

Figure 1.4. **Composition of OECD Producer Support Estimate (PSE), 1986-2005**

Percentage share in PSE

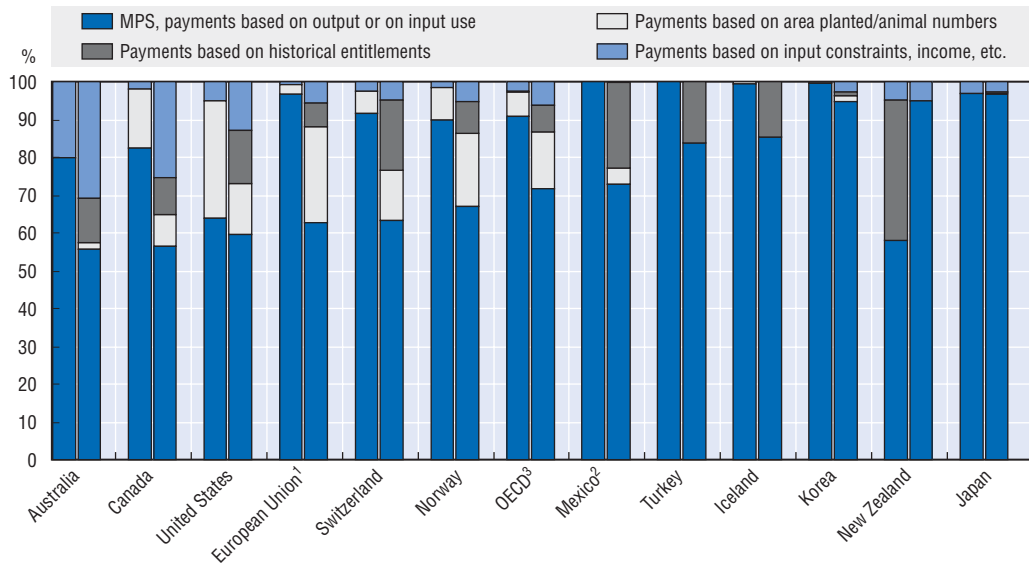


Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/774634777881>

Figure 1.5. **Composition of Producer Support Estimate by country, 1986-88 and 2003-05**

Percentage share in PSE



For each country the first vertical bar relates to 1986-88, the second to 2003-05.

Countries are ranked according to 2003-05 levels of market price support and payments based on output or on input use.

1. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.

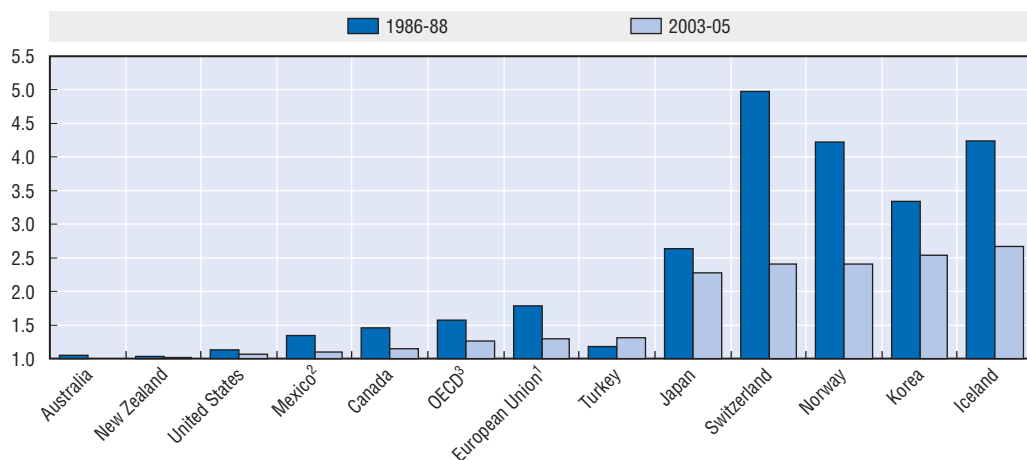
2. For Mexico, 1986-88 is replaced by 1991-93.

3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.

Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/183305606625>

Figure 1.6. **Producer Nominal Protection Coefficient by country**



Countries are ranked according to 2003-05 levels. For more detail, see Table 1.3.

1. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.

2. For Mexico, 1986-88 is replaced by 1991-93.

3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states

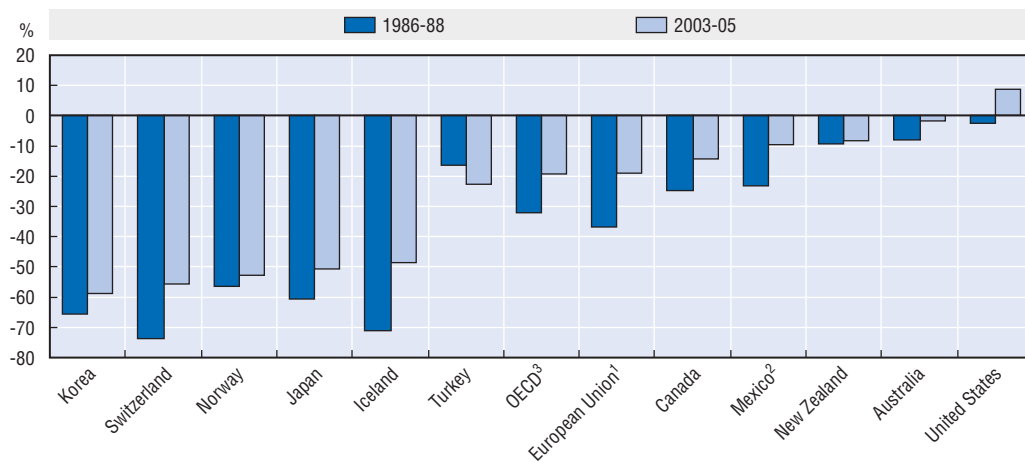
Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/005714815472>

than half, to 27%, reflecting a lower NPC in each OECD country, with the exception of the substantial increase in **Turkey**. The largest reductions have occurred in the high support countries of **Switzerland, Norway, Iceland** and in the **European Union**. In these and almost all other OECD countries, market protection has fallen faster than overall support. Reductions in MPS are also shown by changes in the % CSE, an indicator showing the costs that policies impose on consumption by increasing the prices paid by consumers (measured at the farm gate). These costs have fallen since the 1986-88 period as policy re-instrumentation allowed consumer prices to fall to levels that are closer to, but still above, world prices (Figure 1.7). The effect might have been larger, but some countries reduced subsidies provided to consumers as prices fell. Two exceptions stand out in these data: in the **United States** the % CSE is positive in the recent period as the cost of MPS is offset by greater direct subsidies to consumers, and the one instance of a growing burden on consumers, **Turkey**.

Figure 1.7. **Consumer Support Estimate by country**

Per cent of consumption expenditure at farm gate



Countries are ranked according to 2003-05 levels. A negative percentage CSE is an implicit tax on consumption. For more detail, see Table 1.3.

1. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.
2. For Mexico, 1986-88 is replaced by 1991-93.
3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.

Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/601524101786>

In addition to output-linked support, payments based on input use also distort production. While not as large as MPS for the OECD as a whole, payments based on input do account for a larger part of support than payments based on output and, for some countries, represent a significant share of the transfers to farmers. Moreover, while the share of input payments in the PSE has remained fairly constant at about 9-10% for the OECD as a whole, it has varied substantially in some countries, reflecting either changes in levels of input payments or changes in overall support to producers, or both. For example, as input payments were almost eliminated in **Turkey**, their share fell from 30% in 1986-88 to 2% in 2003-05. Conversely, their share in the PSE increased from 30% to 57% in **Australia**, as the overall level of support to producers decreased.

The decreasing share of the most distorting support, MPS and payments based on output and on input use, in the OECD overall hides wide disparities among countries. In 1986-88, 90% or more of transfers in the **European Union, Iceland, Japan, Norway and Switzerland** took one of these forms. It was 100% in **Korea and Turkey** and in **Mexico** (1991-93), while the shares were 82% in **Canada**, 80% in **Australia** and lower in the **United States** and **New Zealand**. As a consequence of policy developments, the share of these transfers in the PSE is now below the 2003-05 OECD average of 72% in the **European Union, Norway and Switzerland**. However, MPS and payments based on output and on input use continue to account for more than 91% in **Japan and Korea** in recent years.

Overall, the changes in composition are positive steps in the direction of the long-term reform objective of reducing the most production and trade distorting forms of support, particularly for those countries which have reduced the share of these transfers the most. Nevertheless, the current level of market protection and payments based on input use is still an important factor in encouraging domestic production, distorting trade and reducing world prices of agricultural commodities. These policies create costs not only to domestic consumers and taxpayers, but also to competing producers of the same commodities in other countries, including developing countries. Moreover, market protection is regressive because it mainly benefits large farms at the expense of food consumers, for the poorest of whom food constitutes a larger share of their budget.

Re-instrumentation of support

The reduction in the most distorting forms of support in some countries has been accompanied by the introduction of new mechanisms of support, which are less distorting. In 2003-05, payments based on area planted or animal numbers accounted for 15% of the PSE, compared to 7% in 1986-88. In recent years, these payments were particularly important in the **European Union**, but the data show a sharp reduction from a 28% share in 2004 to 21% in 2005 as the provisions of the 2003 CAP Reform are implemented. This re-instrumentation partly shifts the basis of payments away from payments based on area planted or animals to payments based on historical entitlements – a category that rose sharply from 2% to 16% of the PSE in 2005. In **Korea**, too, policy changes being implemented introduced new payments based on historical entitlements, although these transfers account for a small share of the PSE so far. Indeed, payments based on historical entitlements (area, animal numbers, yields, support or receipts) were first introduced only in 1993, but represented about 7% of overall support to OECD producers in 2003-05, rising to 11% in 2005. These payments are mainly used in **Mexico** (23% of PSE in 2003-05), **Switzerland** (19% of PSE), **Turkey** (16% of PSE) and the **United States** (14% of PSE). Another new category of support is specific to the **United States**: the price-linked, counter-cyclical payments which do not meet precisely the criteria of payments based on output, area or historical entitlement, but in any case amounted to 8% of estimated US producer support in 2003-05.

While payments based on historical entitlements can be independent of current production decisions (based on past support, farm receipts, or area and yields of specific commodities), area or headage payments are determined by current planting or animal numbers, and counter-cyclical payments lie somewhere in between. Links to current production or production factors makes payments based on area or animal numbers more production distorting than payments based on historical entitlements. These forms of payments may affect current production decisions in so far as they may lower production

risks by reducing the variability of revenues and alter land values, although they are considerably less distorting than equivalent amounts of support based on output or on the use of other inputs.

Some countries are increasingly using payments based on input constraints for sharing the costs of reducing, replacing or withdrawing resources from production, or changing production techniques, including for environmental purposes. While these have expanded from almost zero in 1986-88, they still represent only 5% of the overall OECD PSE in recent years. In 2003-05, the share of these payments in the PSE was 7% in the **United States** and 6% the **European Union**, 3% in **Japan**, and 2% in **Norway** and **Switzerland**, but 1% or effectively zero in all other countries. Payments based on input constraints are among the categories of support likely having smaller impacts on the production and trade of specific commodities.

MPS and payments based on output or on input use often exacerbate the very environmental problems that payments based on input constraints are intended to assuage. Payments based on input constraints are put in place to compensate producers for their higher costs in adopting input restricting policy measures – land rental costs, costs of adopting and maintaining good farming practices, or costs in terms of income forgone – and these costs will increase with greater production. Thus, the level of payments based on input constraints and the costs of providing environmental services or reducing environmental damage, is higher than would be the case in the absence of MPS and payments based on output or on input use. Policies requiring producers to pay for pollution they cause, such as through taxes and charges or meeting the costs of environmental regulations, also contribute to improving the environmental performance of agriculture. Reforms to water policies related to agriculture, particularly in terms of market-based instruments, are also gaining importance in OECD countries (Box 1.4).

Some countries also use payments based on overall farming income or revenue. In 2003-05 these payments represented 30% of the PSE in **Australia**, 24% in **Canada**, 5% in **New Zealand** and the **United States**, 3% in **Norway** and 2% in **Korea**. While significant in a few countries, the importance of these payments has remained consistently low at around 2% or less of the OECD PSE.

Support for general services to agriculture

While transfers to producers have been falling, there has been an increase in budgetary transfers for general services to the agricultural sector such as research, infrastructure, inspection, and marketing and promotion. The transfers provided to the sector but that are not received by producers individually are reflected in the General Services Support Estimate (GSSE). Support to producers and transfers from taxpayers to consumers, combined with general service transfers, make up Total Support Estimate (TSE), which measures the totality of the transfers to the agricultural sector. Such general service transfers at the overall OECD level have increased from 13% of the TSE in 1986-88 to 18% in 2003-05 (Table 1.1).

The OECD average hides differences between countries. The average share of GSSE in TSE (% GSSE) in 2003-05 was 41% in **New Zealand**, and these programmes accounted for about one-third of TSE for **Australia** and the **United States**. The % GSSE was between 20 and 30% in **Canada** and **Japan**, and less than 15% in all other countries (Table 1.6). For many countries GSSE was higher than in 1986-88, both in monetary terms (measured in USD or euros) and as a share of the TSE. Exceptions are the lower shares in the **European Union** and **Turkey**, and the lower absolute levels in **Mexico** and **Switzerland**.

Box 1.4. Water policy reform and agriculture in OECD countries

Water used by farming has increased rapidly in OECD countries over the past decade, currently accounting for about 45% of total OECD water use. Overuse of scarce water resources in agriculture is an increasing concern, and farming is a major source of water pollution, especially from nutrients and pesticides, but also pathogens, salts and heavy metals.

In most OECD countries regulations are in place to limit water pollution, but government support to agricultural production and input subsidies – including for the supply of water and maintenance of water infrastructure – misalign farmer incentives and aggravate overuse and pollution of water across most OECD countries. Property rights to water used by farmers are sometimes poorly defined and the “polluter pays” principle applying to farmers is often weakly enforced. Overall, households and industries in OECD countries often pay significantly more for water than farmers.¹

Most Governments are beginning to ensure water resources are not overused by farmers, seek the best allocation among competing demands to efficiently produce food, fibre and biomass, minimise pollution and support ecosystems, while meeting social aspirations under different property right arrangements and institutional systems and structures.

In response policies are beginning to shift toward more sustainable agricultural water management in OECD countries. Market-based, voluntary and regulatory approaches are being implemented. But there is widespread recognition of greater scope for using better pricing structures, tradable permits, accompanied by government regulations, as well as co-operative and community efforts amongst different water users at the water catchment level.

Countries are at different stages in reforming their water policies, partly reflecting the varying importance of water-related issues in agriculture and current systems of property rights and management structures. But there is a lack of robust comparative data on the support given to irrigators and other agricultural water users as a result of policies, and the costs and benefits of water used in agriculture. There is little monitoring and evaluation of current water policy reform initiatives. An OECD Workshop² held in Australia in November 2005 recommended a number of actions for consideration by policy makers:

- use a mix of cost-effective and coherent policy measures, ranging from the watershed to the national level, to improve the management of water both for farming and to support aquatic ecosystems;
- draw on and improve scientific research, water use accounts and water quality indicators to underpin policy making;
- identify property rights attached to water withdrawals, water pollution and ecosystem provision;
- establish clear lines of responsibility in water management, with a commitment from governments to resource the necessary actions, especially given the challenges related to climate change;
- strengthen water policy reforms with the aim to encourage water pricing and trading, water service competition or benchmarking performance where competition is limited, and nutrient trading; and
- enhance the capacity for farmers, industry and community groups to participate in the design and delivery of policies for water management.

1. Subject to data availability, the amount of support resulting from reduced water prices for farmers is included in the PSE as payments based on the use of variable inputs. Government support for the operation and maintenance of water infrastructure is included in the General Services Support Estimate, but initial investments for building the infrastructure are not taken into account. The OECD is currently in the process of improving the coverage and measurement of irrigation subsidies in the OECD indicators of support.

2. OECD (2006), *Water and Agriculture: Sustainability, Markets and Policies*, Publication Service, Paris, France, [www.oecd.org/agr/env].

Table 1.6. **OECD: General Services Support Estimate by country**

		1986-88	2003-05	2003	2004	2005p
Australia	USD mn	387	644	576	667	688
	EUR mn	350	533	510	537	554
	Percentage of TSE	22	34	32	35	35
Canada	USD mn	1 464	2 012	1 700	1 965	2 372
	EUR mn	1 328	1 665	1 505	1 581	1 909
	Percentage of TSE	19	26	22	26	28
European Union¹	USD mn	9 799	11 174	9 412	11 901	12 210
	EUR mn	8 872	9 245	8 331	9 579	9 824
	Percentage of TSE	9	8	7	8	8
Iceland	USD mn	19	16	16	16	17
	EUR mn	17	14	14	13	14
	Percentage of TSE	7	8	8	8	7
Japan	USD mn	8 775	12 678	12 391	13 546	12 098
	EUR mn	7 889	10 535	10 968	10 903	9 734
	Percentage of TSE	15	21	20	22	20
Korea	USD mn	1 069	3 017	3 181	2 757	3 113
	EUR mn	954	2 513	2 816	2 219	2 504
	Percentage of TSE	8	13	15	12	12
Mexico²	USD mn	1 105	858	878	828	867
	EUR mn	900	714	777	667	698
	Percentage of TSE	10	14	12	16	13
New Zealand	USD mn	104	144	122	146	164
	EUR mn	94	119	108	117	132
	Percentage of TSE	17	41	42	41	38
Norway	USD mn	124	264	238	279	275
	EUR mn	112	219	211	225	221
	Percentage of TSE	4	8	7	9	9
Switzerland	USD mn	438	399	402	404	391
	EUR mn	396	332	355	325	315
	Percentage of TSE	7	7	7	6	6
Turkey	USD mn	309	1 105	984	664	1 667
	EUR mn	277	916	871	534	1 341
	Percentage of TSE	10	9	8	6	12
United States	USD mn	15 710	32 960	29 956	32 772	36 153
	EUR mn	14 362	27 327	26 516	26 377	29 088
	Percentage of TSE	24	33	33	32	33
OECD³	USD mn	39 600	65 541	60 752	65 935	69 935
	EUR mn	35 942	54 371	53 775	53 069	56 270
	Percentage of TSE	13	18	17	17	18

p: Provisional.

1. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.

2. For Mexico, 1986-88 is replaced by 1991-93.

3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.

Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/376620646042>

There have been some changes in the composition of support within the GSSE, but these changes are less pronounced at the aggregate level. Marketing and promotion support has increased the most since 1986-88, rising from 30% in 1986-88 to 42% of the overall GSSE in 2003-05, whereas the costs associated with public stockholding of agricultural products have fallen substantially since 1986-88, from 17% to only 3% of the

overall GSSE in the recent period. About one-third of OECD support to the sector is spent on infrastructure, and just over a tenth is allocated to research and development or to education – shares that vary little over time. The OECD as a whole allocates less than 5% of GSSE, equivalent to less than 1% of TSE, to inspection services.

The composition of GSSE within countries is not uniform, and shows greater changes over time. Marketing and promotion play a particularly important part in the **United States** and, recently, in **Turkey**. Infrastructure dominates the GSSE in **Japan** and, to a lesser extent, **Korea**. The **European Union** has emphasised these two types of expenditure lately as well, whereas the costs of public stockholding fell from over half of overall **European Union** expenditure on general services in 1986-88 to 10% in 2003-05. Support for research and development and for education rose in many countries, and is around 50% of the GSSE in **New Zealand** and **Norway**, and over 70% in **Australia**. The share of inspection services in the overall GSSE rose substantially in **Canada** and **Norway**, but the most striking increase is seen in **Mexico** where it rose from a minimal amount in 1991-93 to nearly one-fifth of GSSE in recent years.

Support for general services to agriculture does not depend on individual farmers' production decisions regarding output or use of factors of production, and does not directly affect farm receipts. Inspection services to ensure plant, animal and human health benefit both consumers and producers. General services in the area of advisory services, training and research and development can improve long-term productivity or expand the sector's production capacity, reducing costs of production over time.

Total support to agriculture

For the OECD as a whole, transfers to agriculture amounted to USD 385 billion (EUR 310 billion) in 2005, as measured by the TSE (Tables 1.1 and 1.2). When expressed as a share of GDP (% TSE) overall support changed very little – from 1.11% in 2004 to 1.08% in 2005. The 2003-05 average of 1.11% is less than half the 1986-88 average of 2.32%. Within the overall figure there has been a decrease in the transfers from consumers, who on average pay prices for their products that are closer to border prices, and an increase in transfers from taxpayers, reflecting the change in composition of producer support.

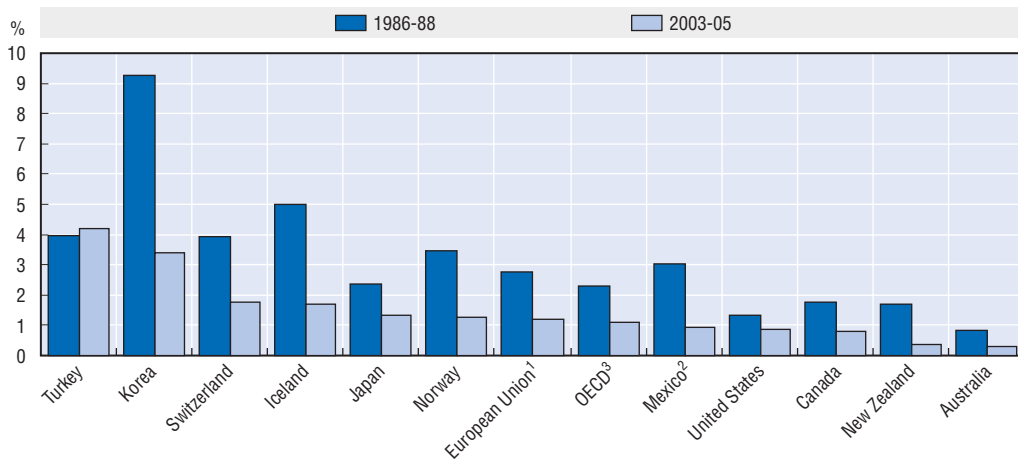
The size of transfers relative to GDP has fallen almost universally, often substantially (Figure 1.8; Table 1.7). The sole exception is **Turkey**, in which agriculture accounts for a larger than average share in the economy and in employment, where % TSE rose slightly from 4.0% in 1986-88 to 4.2% in 2003-05. The % TSE fell by two-thirds or more in **Iceland** and **New Zealand**, and by over half in other countries, except **Japan** and the **United States**. By 2003-05, the % TSE ranged from less than 0.5% in **Australia** and **New Zealand** to over 3% in **Korea** and **Turkey**. This broad reduction reflects a combination of factors including overall GDP growth, changes in the relative contribution of agriculture to GDP, and changes in the monetary value of transfers associated with agricultural policies.

Status of agricultural policy reform

Progress towards the long-term objectives of less distorting and better targeted policies are evaluated here using trends in two facets of estimated producer support: the share of support in gross farm receipts and the composition of support in terms of the share of the most distorting mechanisms. Trends in these two indicators of support for the OECD as a whole show that there has been some progress towards the goals of policy reform: the share of support in gross farm receipts (% PSE) has decreased from 37% to 30%

Figure 1.8. **Total Support Estimate by country**

Percentage of GDP



Countries are ranked according to 2003-05 levels. For more detail, see Table 1.7.

1. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.

2. For Mexico, 1986-88 is replaced by 1991-93.

3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states. TSE as a share of GDP for the OECD total in 1986-88 excludes the Czech Republic, Hungary, Poland and the Slovak Republic as GDP data is not available for this period.

Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/066474284233>

between 1986-88 and 2003-05 and the share of market price support, payments based on output and payments based on input use (i.e. the most distorting forms of support) in support to producers has decreased from 91% to 72% during the same period. There have been, however, year-on-year fluctuations (Table 1.1).

In almost all countries, there has been some progress in policy reform; most have improved on one aspects of support and many on both. However, the extent to which further progress is necessary varies considerably.

- **Australia:** support has fallen – the % PSE is the second lowest in the OECD – and domestic and border prices are aligned.
- **Canada:** considerable progress has been made in reducing the support and the reliance on the most distorting forms of support.
- **European Union:** support has fallen and more progress has been made in reducing the most distorting forms of support. The full implementation of recent reforms is likely to improve further the composition of support.
- **Iceland:** support has been reduced only slightly with somewhat greater progress made in reducing the most distorting forms of support, although both indicators remain high.
- **Japan:** there has been little reduction in support and no noticeable movement to less distorting forms of support, but recent policy decisions may lead to future improvements.
- **Korea:** there has been a slight fall in the two indicators of support, and the share provided by the most distorting forms of support should decrease more as the new rice policy is implemented, but both indicators remain high.
- **Mexico:** progress has been made in reducing support and improving the composition of support.

Table 1.7. **OECD: Total Support Estimate by country**

		1986-88	2003-05	2003	2004	2005p
Australia	USD mn	1 708	1 894	1 773	1 933	1 976
	EUR mn	1 568	1 572	1 569	1 556	1 590
	Percentage of GDP	0.8	0.3	0.3	0.3	0.3
Canada	USD mn	7 561	7 917	7 702	7 660	8 388
	EUR mn	6 891	6 577	6 817	6 165	6 749
	Percentage of GDP	1.8	0.8	0.9	0.8	0.7
European Union¹	USD mn	114 797	145 419	132 947	152 807	150 501
	EUR mn	104 183	120 587	117 680	122 989	121 093
	Percentage of GDP	2.8	1.2	1.2	1.2	1.1
Iceland	USD mn	256	217	198	201	252
	EUR mn	230	180	175	162	203
	Percentage of GDP	5.0	1.7	1.9	1.6	1.6
Japan	USD mn	58 247	61 040	60 599	62 954	59 568
	EUR mn	52 742	50 746	53 640	50 669	47 928
	Percentage of GDP	2.4	1.3	1.4	1.3	1.3
Korea	USD mn	13 218	23 588	20 704	23 562	26 499
	EUR mn	11 860	19 537	18 327	18 964	21 321
	Percentage of GDP	9.3	3.4	3.4	3.5	3.4
Mexico²	USD mn	10 880	6 411	7 499	5 304	6 430
	EUR mn	8 851	5 360	6 638	4 269	5 173
	Percentage of GDP	3.0	0.9	1.2	0.8	0.9
New Zealand	USD mn	578	356	286	354	427
	EUR mn	545	294	253	285	343
	Percentage of GDP	1.7	0.4	0.4	0.4	0.4
Norway	USD mn	3 146	3 216	3 248	3 223	3 177
	EUR mn	2 849	2 675	2 875	2 594	2 556
	Percentage of GDP	3.5	1.3	1.5	1.3	1.1
Switzerland	USD mn	6 516	6 158	5 948	6 399	6 128
	EUR mn	5 881	5 115	5 265	5 150	4 931
	Percentage of GDP	3.9	1.8	1.8	1.8	1.7
Turkey	USD mn	3 478	12 655	12 126	11 914	13 924
	EUR mn	3 149	10 509	10 734	9 589	11 203
	Percentage of GDP	4.0	4.2	5.1	3.9	3.8
United States	USD mn	64 136	101 608	91 663	103 482	109 680
	EUR mn	58 562	84 225	81 137	83 289	88 248
	Percentage of GDP	1.3	0.9	0.8	0.9	0.9
OECD³	USD mn	303 771	371 243	350 183	378 281	385 264
	EUR mn	276 039	308 139	309 969	304 464	309 983
	Percentage of GDP	2.3	1.1	1.1	1.1	1.1

p: Provisional.

1. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.

2. For Mexico, 1986-88 is replaced by 1991-93.

3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.

Source: OECD, PSE/CSE database, 2006.

StatLink: <http://dx.doi.org/10.1787/771636837507>

- **New Zealand:** support has been reduced from an already low base – to the lowest % PSE in the OECD – domestic prices are closely aligned to border prices and payments based on input use have decreased.
- **Norway:** there has been little reduction in support but progress in lowering the share of the most distorting forms of support, although both indicators remain high.

- **Switzerland:** while support has only fallen slightly – % PSE is the highest in the OECD in 2005 – significant improvements have been made in shifting away from the most distorting forms of support.
- **Turkey:** there has been an increase in support, but the share of the most distorting forms of support has been reduced.
- **United States:** there has been a modest reduction in support and reliance on the most distorting forms of support.

Further efforts to reform agricultural policies are required

Government intervention continues to be significant, creating important spill-over effects on production, trade and the environment. Although some progress has been made since 1986-88, the current percentage PSE and composition of support in OECD countries still create distortions. Producer support accounts for about 30% of farm receipts. Three-quarters of support is generated by the most distorting forms of support.

The cost imposed on consumers by agricultural support policies has fallen for the OECD as a whole, but 57% of estimated support to producers continues to be provided through policies that raise prices in the domestic market. Such transfers can bear heavily on low-income households for whom food constitutes a larger share of their total expenditure. Moreover, as 72% of the estimated support provided to producers is still linked either to output or to input use, and a further 15% is tied to current area or animal numbers, a high share of support goes to larger farms. Price and production linked support can increase disparities in income. Support tied to outputs or use of inputs may also be counter-productive with respect to environmental goals; where the negative effects of these production-enhancing forms of support on the environment are dealt with by the introduction of offsetting mechanisms, such as compliance requirements or payments tied to input constraints. Policies that directly target objectives relating to resources and externalities might achieve the environmental objectives at lower cost.

A number of countries are continuing to undertake unilateral efforts to reform their agricultural policies. These are reducing trade distortions and improving the targeting of policies to specific objectives, although the extent of reform varies quite considerably. In addition, many countries have entered into bilateral or regional trade agreements. These arrangements can offer possibilities for increased competition among the countries concerned and spur structural adjustment, thereby providing economy-wide efficiency gains. However, limited tariff reductions could modify trade flows and reduce transparency in tariffs and market access administration.

A successful conclusion to the on-going trade negotiations in the context of the WTO Doha Development Agenda could reinforce the process of agricultural policy reform in some countries, and re-start it in others. Lower barriers to imports and commitments to discipline the use of domestic support and all forms of export subsidies would allow price signals to play a greater part in producer and consumer decision-making, leading to improved resource allocation and sectoral efficiency and, thus, to better economic performance.

2. Agricultural policies in Brazil, China and South Africa through OECD indicators of agricultural support

In 2005 the OECD carried out its first ever reviews of agricultural policies in Brazil, China and South Africa. The reports provided sound bases for peer reviews of agricultural policies in the countries concerned and contributed to first ever joint High Level Meeting with the participation of representatives from thirty OECD member countries, together with Argentina, Brazil, Chile, China, India and South Africa.

Economies in Brazil, China and South Africa have undergone radical reforms over the past 10-15 years. These reforms have provided a more stable macroeconomic and investment climate and stimulated agricultural growth. Agriculture both contributed to these reforms and benefited from them. Considerable progress has been made, not the least in poverty reduction, demonstrating that agriculture can contribute towards achieving sustainable economic development and poverty alleviation. However, there is a number of problems which those countries are facing such as: persisting rural poverty, urban-rural imbalance (in particular in China), dual agricultural systems (subsistence and commercial farming, in particular in Brazil and South Africa), poorly functioning land markets, slow progress in land reform (in Brazil and South Africa), poorly identified farmers' rights to land (in China), acute environmental issues (water scarcity in the northern part of China and in South Africa, soil erosion and deforestation in Brazil).

Levels of producer support are low

The levels of support from policies fluctuated at low levels in all three countries and remained significantly below the OECD average (Table 1.8). The low levels of support result from reforms in domestic and trade policies, radical in Brazil and South Africa and gradual in China. Domestic policy reforms covered the deregulation of domestic markets and prices as well as reduction and/or refocusing of budgetary support. Trade policy reform consisted of an opening of agricultural markets, including cuts in import tariffs, elimination or limitation of state trading, and progress in regional and international trade integration.

Table 1.8. **Producer Support Estimate in selected OECD and non-OECD countries, 1993-2004**

	Per cent of value of gross farm receipts											
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Brazil	n.c.	n.c.	-1	1	1	6	1	4	3	3	4	3
China	-14	1	6	1	1	1	-3	3	5	7	8	n.c.
South Africa	n.c.	10	16	8	12	8	9	5	2	8	5	n.c.
OECD	35	34	31	29	29	33	35	33	29	31	30	29
European Union ¹	38	37	36	33	34	37	39	34	32	35	36	33
United States	18	15	10	14	14	22	26	24	22	18	15	16

n.c.: Not calculated.

1. 1993-94: EU12; 1995-2003: EU15; 2004: EU25.

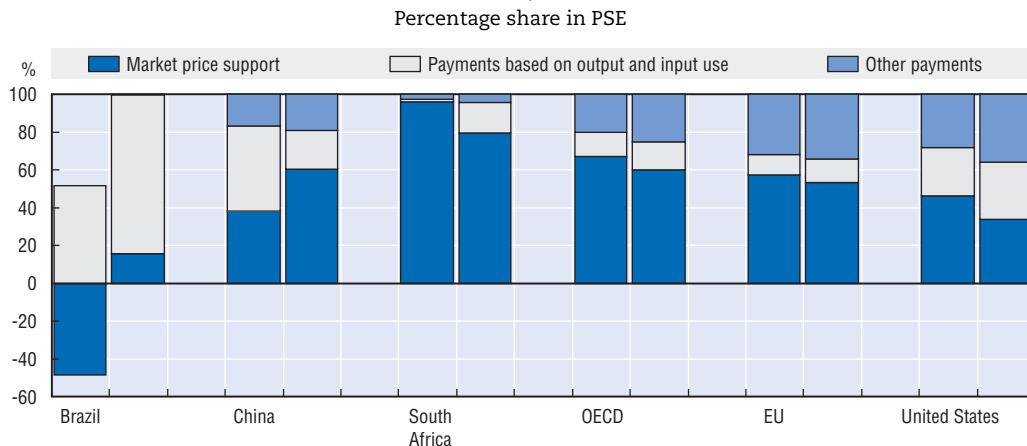
Source: OECD, PSE/CSE database, 2006 for OECD countries and 2005 for Brazil, China and South Africa.

StatLink: <http://dx.doi.org/10.1787/687718245272>

The composition of support varies across countries

In Brazil, producer support is provided mostly through taxpayer transfers associated with preferential credits and debt rescheduling implemented in the mid-1990s. MPS was negative between 1995 and 1997 mostly due to price regulations and export constraints on sugar cane products. Since then it has increased, but remains small and results mainly from border protection on import-competing staples and cotton (Figure 1.9).

Figure 1.9. **Composition of Producer Support Estimate in selected OECD and non-OECD countries, 1995-97 and 2001-03**



For each country the first vertical bar relates to 1995-97, the second to 2001-03.

Source: OECD, PSE/CSE database, 2006 for OECD countries and 2005 for Brazil, China and South Africa.

StatLink: <http://dx.doi.org/10.1787/050732467633>

In China, MPS is the largest component, mostly due to border protection on selected imported commodities. Budgetary support consists mainly of input and credit subsidies, direct payments (for grain producers, based on the area of land they sow to rice, wheat and corn) and payments for returning farmland to forests (“grain for green” programme).

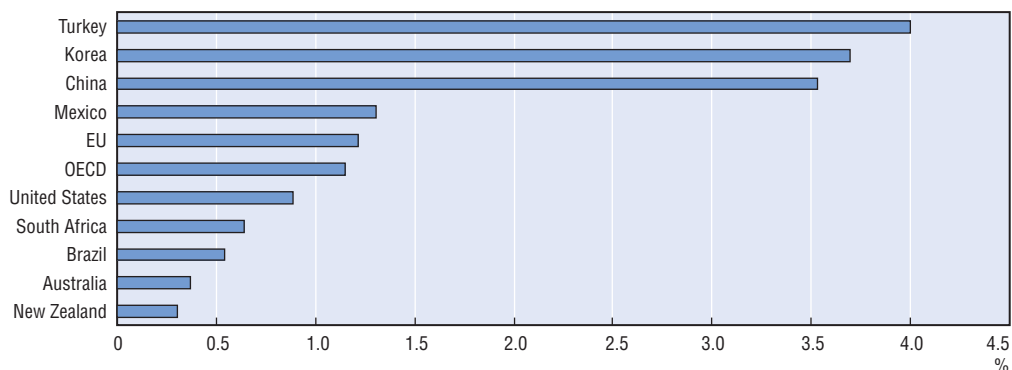
In South Africa, MPS dominates and largely arises from support provided to sugar producers. Sugar is one of the key South Africa’s exports with around one-half of production exported. Its producers are supported by the price pooling system under which import tariffs are applied and losses on exports are effectively compensated by higher prices for domestic sales compared to that destined for exports. Budgetary support is provided mostly through input subsidies on variable (fuel tax and interest rate rebates) and fixed (land grants and on-farm investment) inputs. In 2003, flood, drought and fire damage assistance were allocated to the sector.

The cost of support to the economy varies across countries

The TSE as a percentage of GDP is relatively low in South Africa and Brazil, but high in China (Figure 1.10). In China, the high percentage TSE is partly due to the economic importance of agriculture in a relatively poor economy, and partly due to large budgetary expenditures on general services at 56% of TSE compared to 44% for South Africa, 36% for Brazil and just 18% for the OECD average in 2001-03. The large share of general services in TSE is a positive feature of support in China as this type of support can improve long-term productivity or expand the sector’s production capacity while its distorting effects on production and trade are generally much lower than other forms of support.

Figure 1.10. **Total Support Estimate for selected OECD and non-OECD countries, 2001-03**

Percentage of GDP



Source: OECD, PSE/CSE database, 2006 for OECD countries and 2005 for Brazil, China and South Africa.

StatLink: <http://dx.doi.org/10.1787/254507733726>

ANNEX 1.A1

Policy Principles

OECD Agriculture Ministers in 1998 adopted a set of policy principles, building on the agricultural policy reform principles agreed by OECD Ministers in 1987. These principles stress the need to:*

- pursue agricultural policy reform in accordance with Article 20 of the Uruguay Round Agreement on agriculture and the commitment to undertake further negotiations as foreseen in that article and to the long-term goal of domestic and international policy reform to allow for a greater influence of market signals;
- address the problem of additional trade barriers, emerging trade issues and discipline on export restrictions and export credits;
- strengthen world food security;
- promote innovative policies that facilitate responsiveness to market conditions by agricultural producers;
- facilitate improvement in the structures of the agriculture and agro-food sectors;
- enhance the contribution of the agro-food sector to the viability of the rural economy;
- take actions to ensure the protection of the environment and sustainable management of natural resources in agriculture;
- take account of consumer concerns;
- encourage increased innovation, economic efficiency, and sustainability of agro-food systems; and
- preserve and strengthen the multifunctional role of agriculture.

* The full text from the relevant Ministerial Communiqués can be found via the OECD home page, in www.oecd.org/agr/ministerial/commune.htm.

ANNEX 1.A2

Operational Criteria

OECD Agriculture Ministers in 1998 agreed that policy measures should seek to meet a number of operational criteria, to apply in both the domestic and the international contexts, which should be:*

- **transparent:** having easily identifiable policy objectives, costs, benefits and beneficiaries;
- **targeted:** to specific outcomes and as far as possible decoupled;
- **tailored:** providing transfers no greater than necessary to achieve clearly identified outcomes;
- **flexible:** reflecting the diversity of agricultural situations, be able to respond to changing objectives and priorities, and applicable to the time period needed for the specific outcome to be achieved; and
- **equitable:** taking into account the effects of the distribution of support between sectors, farmers and regions.

* The full text from the Ministerial Communiqués can be found via the OECD home page, at www.oecd.org/agr/ministerial/commune.htm.

ANNEX 1.A3

*Definitions of the OECD Indicators of Support**

The term *producers* refers to producers of primary agricultural products (generally farmers, growers and ranchers) and the term *consumers* refers to first consumers of these primary products – e.g. mills, dairies and slaughterhouses – and not to final consumers. Numbers relating to 2005 should be treated as provisional. All changes in prices and expenditure data are expressed in nominal terms unless stated otherwise.

Producer Support Estimate (PSE): an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm-gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income. It includes market price support and budgetary payments, i.e. gross transfers from taxpayers to agricultural producers arising from policy measures based on: current output, area planted/animal numbers, historical entitlements, input use, input constraints, and overall farming income. The % PSE measures the transfers as a share of gross farm receipts.

Market Price Support (MPS): an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers arising from policy measures that create a gap between domestic market prices and border prices of a specific agricultural commodity, measured at the farm-gate level.

Payments based on output: an indicator of the annual monetary value of gross transfers from taxpayers to agricultural producers arising from policy measures based on current output of a specific agricultural commodity or a specific group of agricultural commodities.

Payments based on area planted/animal numbers: an indicator of the annual monetary value of gross transfers from taxpayers to agricultural producers arising from policy measures based on current plantings, or number of animals, in respect of a specific agricultural commodity or a specific group of agricultural commodities.

Payments based on historical entitlements: an indicator of the annual monetary value of gross transfers from taxpayers to agricultural producers arising from policy measures based on historical support, area, animal numbers or production of a specific agricultural commodity, or a specific group of agricultural commodities, without any obligation to continue planting or producing such commodities.

* Source: OECD (2002), *Methodology for Measurement of Support and Use in Policy Evaluation*, www.oecd.org/agr/policy.

Payments based on input use: an indicator of the annual monetary value of gross transfers from taxpayers to agricultural producers arising from policy measures based on the use of a specific fixed or variable input, or a specific group of inputs or factors of production.

Payments based on input constraints: an indicator of the annual monetary value of gross transfers from taxpayers to agricultural producers arising from policy measures based on constraints on the use of a specific fixed or variable input, or a specific group of inputs, through constraining the choice of production techniques.

Payments based on overall farming income: an indicator of the annual monetary value of transfers from taxpayers to agricultural producers arising from policy measures based on overall farming income (or revenue), without constraints or conditions to produce specific commodities, or to use specific fixed or variable inputs.

Miscellaneous payments: an indicator of the annual monetary value of all transfers from taxpayers to agricultural producers that cannot be disaggregated and allocated to the other categories of transfers to producers.

Producer Nominal Protection Coefficient (NPCp): the ratio between the average price received by producers (at farm gate), including payments per tonne of current output, and the border price (measured at farm gate).

Producer Nominal Assistance Coefficient (NACp): the ratio between the value of gross farm receipts including support and gross farm receipts valued at border prices.

Consumer Support Estimate (CSE): an indicator of the annual monetary value of gross transfers to (from) consumers of agricultural commodities, measured at the farm-gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on consumption of farm products. If negative, the CSE measures the burden on consumers by agricultural policies, from higher prices and consumer charges or subsidies that lower prices to consumers. The % CSE measures the implicit tax (or subsidy, if CSE is positive) on consumers as a share of consumption expenditure at the farm gate.

Consumer Nominal Protection Coefficient (NPCc): the ratio between the average price paid by consumers (at farm gate) and the border price (measured at farm gate).

Consumer Nominal Assistance Coefficient (NACc): the ratio between the value of consumption expenditure on agricultural commodities (at farm gate) and that valued at border prices.

General Services Support Estimate (GSSE): an indicator of the annual monetary value of gross transfers to general services provided to agriculture collectively, arising from policy measures that support agriculture regardless of their nature, objectives and impacts on farm production, income, or consumption.

Total Support Estimate (TSE): an indicator of the annual monetary value of all gross transfers from taxpayers and consumers arising from policy measures that support agriculture, net of the associated budgetary receipts, regardless of their objectives and impacts on farm production and income, or consumption of farm products. The % TSE measures the overall transfers from agricultural policy as a percentage of GDP.

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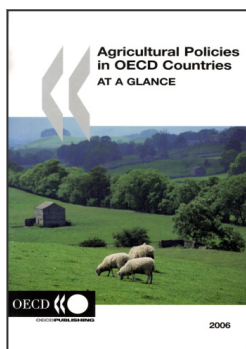
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