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Agricultural Policies in OECD Countries: At a Glance
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PART I

Evaluation of Support Policy Developments

This chapter details agricultural support in OECD countries, evaluating changes both in the short-term (2003 compared with 2002) and over the longer term (the 2001-03 average compared with the 1986-88 base period). After first setting the context with regard to policy and market developments, this chapter discusses the level of support provided to producers and how this varies between OECD countries. Changes in the composition of support are then considered.

1. Evaluation of Support Policy Developments

This chapter details agricultural support in OECD countries, evaluating changes both in the short-term (2003 compared with 2002) and over the longer term (the 2001-03 average compared with the 1986-88 base period). After first setting the context with regard to policy and market developments, this chapter discusses the level of support provided to producers and how this varies between OECD countries. Changes in the composition of support are then considered. This is important because the effect on production, trade, income and the environment depend on the way in which support is provided to producers. Differences in the level of support between commodities are considered because these also a potential source of distortion. Estimates are then provided on the level of support to general agricultural services and the total value of transfers that result from agricultural policies. Finally, some conclusions are drawn about the agricultural policy reform progress being made in OECD countries in terms of reducing the level of support, improving its composition and reducing differences in the level of support between commodities. The following chapter contains details of developments for each OECD country and two non-OECD countries, Russia and the Ukraine.

Box I.1. **Methodology 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 need to address a range of policy goals. In 1998 they agreed on a set of principles for agricultural policy reform (Annex I.1) and a set of operational criteria that should apply in designing and implementing policy measures (Annex I.2).

The Producer Support Estimate (PSE) and related indicators (Annex I.3) 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 their impact on 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. This *composition of support* allows a broad ranking of categories of PSE measures according to their potential impacts on production and input use, consumption, trade, income and the environment. A full explanation of these impacts, the concepts, methodology, 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*].

Developments in policy and markets

The breakdown of the WTO Ministerial meeting in Cancún, Mexico in September 2003 has slowed progress in the Doha Development Agenda round of trade negotiation. This might further delay the much needed multilateral impetus to agricultural policy reform, including reductions in tariffs, export competition measures and trade distorting forms of domestic support. Despite this, some important policy developments occurred in 2003 at the national level, many of which are implemented in anticipation of further multilateral commitments.

It was the first year for implementing the Agricultural Policy Framework in **Canada** and for fully implementing the 2002 FSRI Act in the **United States**, providing new forms of payments to producers for the purpose of stabilising farm incomes. **Norway** has introduced a new standard per hectare payment available to all farmers in recognition of the contribution they make to the cultural landscape. The **Czech Republic**, **Hungary**, **Poland** and **Slovakia** continued to prepare for accession to the **European Union** on 1 May 2004, including changes to producer support payments, spending on infrastructure and the development of food safety systems. Payments to assist in emergency situations were provided in **Australia** (drought) and **Canada** (BSE). Some efforts were made to improve the efficiency of domestic markets behind significant border protection in **Japan** and **Korea** (rice), and **Norway** (dairy).

A number of important policy changes were announced. Agreement was reached in the **European Union** on the 2003 reform of the Common Agricultural Policy. This will be implemented from 2004 onwards, including the requirement for member countries to introduce a new single farm payment to replace most area/headage payments.* A decision was also reached in **Switzerland** on the new agricultural reform package that will be implemented over the period 2004-07.

In 2003, policy measures were implemented in the context of stronger world market prices for meat and oilseeds, and firmer prices for dairy products and rice. Meat Markets were disrupted by disease outbreaks in several parts of the world, although the impacts differed significantly. Slightly lower world prices were experienced for sugar, wheat and maize. There was also an influence of exchange rate movements, in particular a weaker US dollar and a stronger EURO.

The level of support to producers remains high…

One indicator of the level of support provided to agricultural producers is to express the monetary value of transfers from consumers and budgetary payments to producers (PSE) as a share of gross farm receipts (as measured by the % PSE) compared with 31% in 2002 (Box I.2). Support to producers in the OECD as a whole, as measured by the % PSE, is estimated at 32% in 2003. In other words, around one-third of current OECD gross farm receipts result from transfers associated with agricultural policies (Figure I.1; Tables I.1 and I.2). Producer support has remained fairly constant over the last three years, averaging 31% for the period 2001-03.

Factors driving this small increase in support at the overall OECD level in 2003 include a rise in budgetary payments based on either overall farm income in **Canada** and the **United States,** or area/animal numbers in many **European** countries, particularly those in

* A full analysis of the impact of 2003 CAP reform can be found in *Analysis of the 2003 CAP Reform*.

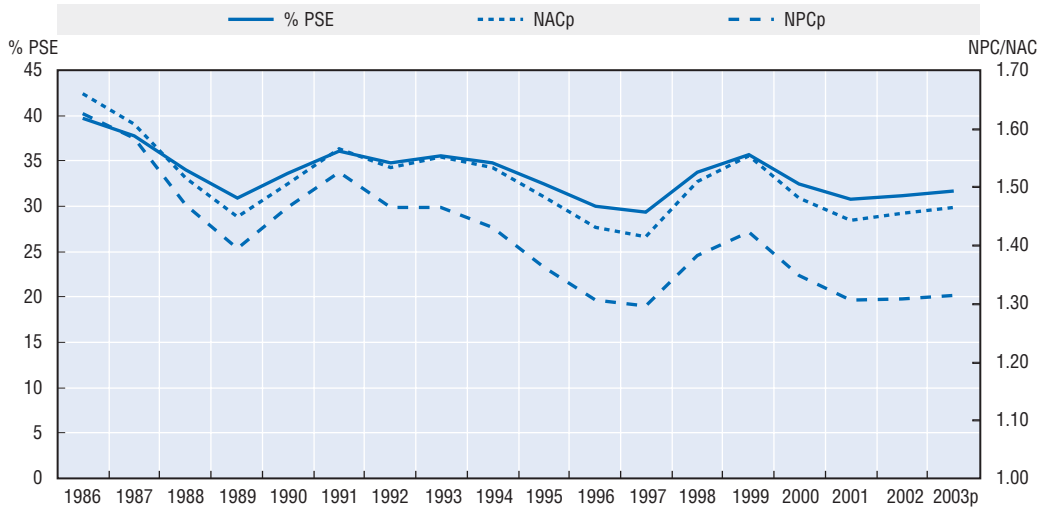
Box I.2. **Evaluating annual changes in the level of support in the OECD as a whole**

The most appropriate measure to compare annual changes in the level of support provided to producers in the OECD as a whole is the % PSE. In order to derive a total monetary figure for the level of transfers to producers in the OECD (PSE), the value of transfers in each country, denominated in different currencies, must be converted into a single currency. 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 increased from USD 230 billion in 2002 to USD 257 billion in 2003, an increase of 12% (Table I.1). When measured in EUROS, the value of transfers fell from EUR 244 billion to EUR 229 billion, a 6% decrease. While this provides an indication of the level of support provided, how are we to interpret these changes over time in different currencies? Did the amount of support provided to producers increase or decrease?

The % PSE solves this dilemma because the same exchange rates are used to convert the denominator (value of gross farm receipts) into a single currency. As exchange rate movements are reflected in both the numerator and the denominator, the % PSE therefore reflects the change in the level of support. Consequently, the % PSE is the same whether the value of transfers and gross farm receipts is measured in US dollars, Euros or Polish Zloty.

Figure I.1. **Evolution of Producer Support Estimate (% PSE), Nominal Protection Coefficient (NPCp) and Nominal Assistance Coefficient (NACp)**



Source: OECD, PSE/CSE database, 2004.

Table I.1. **OECD: Estimates of support to agriculture**

(USD million)

	1986-88	2001-2003	2001	2002	2003p
Total value of production (at farm gate)	**596 484**	**673 377**	**653 170**	**652 526**	**714 435**
of which share of MPS commodities (%)	*71*	*68*	*68*	*67*	*67*
Total value of consumption (at farm gate)	**532 140**	**630 064**	**603 656**	**605 204**	**681 331**
Producer Support Estimate (PSE)	**241 077**	**238 310**	**227 955**	**229 691**	**257 285**
Market price support	186 331	148 597	139 065	146 257	160 469
of which MPS commodities	*131 646*	*100 377*	*94 615*	*98 482*	*108 034*
Payments based on output	12 547	11 649	16 509	8 475	9 964
Payments based on area planted/animal numbers[1]	15 833	34 639	30 252	33 258	40 409
Payments based on historical entitlements	515	11 257	11 920	11 044	10 806
Payments based on input use	20 324	21 243	20 514	20 480	22 736
Payments based on input constraints	2 993	7 242	6 145	6 958	8 624
Payments based on overall farming income	2 253	3 486	3 538	2 869	4 051
Miscellaneous payments	281	197	13	349	228
Percentage PSE	**37**	**31**	**31**	**31**	**32**
Producer NPC	**1.56**	**1.31**	**1.31**	**1.31**	**1.31**
Producer NAC	**1.59**	**1.45**	**1.44**	**1.45**	**1.46**
General Services Support Estimate (GSSE)	**40 946**	**57 849**	**54 715**	**56 852**	**61 979**
Research and development	4 004	5 951	5 568	5 830	6 457
Agricultural schools	764	1 817	1 662	1 751	2 039
Inspection services	1 094	2 132	1 848	2 118	2 429
Infrastructure	13 467	17 678	18 105	16 840	18 089
Marketing and promotion	12 793	23 571	21 721	23 538	25 453
Public stockholding	6 646	2 399	2 170	2 429	2 597
Miscellaneous	2 178	4 301	3 642	4 346	4 915
GSSE as a share of TSE (%)	**13.5**	**17.9**	**17.8**	**18.1**	**17.7**
Consumer Support Estimate (CSE)	**–170 442**	**–141 820**	**–131 809**	**–139 859**	**–153 793**
Transfers to producers from consumers	–186 577	–145 997	–135 845	–143 534	–158 611
Other transfers from consumers	–17 457	–24 719	–22 082	–24 448	–27 626
Transfers to consumers from taxpayers	21 697	27 894	25 372	27 766	30 544
Excess feed cost	11 895	1 001	746	356	1 901
Percentage CSE	**–34**	**–24**	**–23**	**–24**	**–24**
Consumer NPC	**1.63**	**1.37**	**1.35**	**1.38**	**1.38**
Consumer NAC	**1.51**	**1.31**	**1.30**	**1.32**	**1.31**
Total Support Estimate (TSE)	**303 720**	**324 053**	**308 041**	**314 309**	**349 808**
Transfers from consumers	204 034	170 715	157 927	167 982	186 237
Transfers from taxpayers	117 143	178 056	172 197	170 775	191 197
Budget revenues	–17 457	–24 719	–22 082	–24 448	–27 626
Percentage TSE (expressed as share of GDP)	2.32	1.20	1.22	1.19	1.19

p: provisional. MPS commodities: See notes to country tables. MPS is net of producer levies and excess feed costs. TSE as a share of GDP for 1986-88 for the OECD excludes the Czech Republic, Hungary, Poland and Slovak Republic as GDP data is not available for this period. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

1. This category provisionally includes the US counter cyclical payments, which fit no category well.

Source: OECD, PSE/CSE database 2004.

central Europe acceding to the European Union on 1 May 2004. The implicit tax on consumption which the OECD measures at the farm-gate level and result from market price support (MPS) policies, as shown by the % CSE, remained stable at 24%.

The level of support can also be measured by the producer Nominal Assistance Coefficient (NAC), which expresses the monetary value of transfers from consumers and

Table I.2. **OECD: Estimates of support to agriculture**

(EUR million)

	1986-88	2001-2003	2001	2002	2003p
Total value of production (at farm gate)	**540 252**	**686 302**	**729 330**	**692 372**	**637 204**
of which share of MPS commodities (%)	*71*	*68*	*68*	*67*	*67*
Total value of consumption (at farm gate)	**481 595**	**641 294**	**674 042**	**642 160**	**607 679**
Producer Support Estimate (PSE)	**219 421**	**242 575**	**254 534**	**243 717**	**229 473**
Market price support	169 573	151 197	155 280	155 188	143 123
of which MPS commodities	*119 897*	*102 166*	*105 647*	*104 496*	*96 356*
Payments based on output	11 451	12 104	18 433	8 993	8 887
Payments based on area planted/animal numbers[1]	14 418	35 036	33 779	35 289	36 041
Payments based on historical entitlements	489	11 555	13 310	11 719	9 637
Payments based on input use	18 421	21 638	22 906	21 730	20 278
Payments based on input constraints	2 723	7 312	6 861	7 383	7 692
Payments based on overall farming income	2 079	3 536	3 950	3 044	3 613
Miscellaneous payments	268	196	14	371	203
Percentage PSE	**37**	**31**	**31**	**31**	**32**
Producer NPC	**1.56**	**1.31**	**1.31**	**1.31**	**1.31**
Producer NAC	**1.59**	**1.45**	**1.44**	**1.45**	**1.46**
General Services Support Estimate (GSSE)	**37 156**	**58 899**	**61 095**	**60 324**	**55 279**
Research and development	3 624	6 054	6 217	6 186	5 759
Agricultural schools	692	1 844	1 856	1 858	1 818
Inspection services	992	2 159	2 063	2 248	2 166
Infrastructure	12 231	18 073	20 216	17 868	16 134
Marketing and promotion	11 617	23 977	24 254	24 975	22 702
Public stockholding	6 032	2 439	2 423	2 577	2 317
Miscellaneous	1 968	4 354	4 066	4 611	4 384
GSSE as a share of TSE (%)	**13.4**	**18.0**	**17.8**	**18.1**	**17.7**
Consumer Support Estimate (CSE)	**–154 885**	**–144 248**	**–147 178**	**–148 400**	**–137 168**
Transfers to producers from consumers	–169 736	–148 483	–151 684	–152 299	–141 465
Other transfers from consumers	–15 744	–25 079	–24 656	–25 941	–24 640
Transfers to consumers from taxpayers	19 716	28 345	28 330	29 462	27 242
Excess feed cost	10 879	969	833	378	1 695
Percentage CSE	**–34**	**–24**	**–23**	**–24**	**–24**
Consumer NPC	**1.63**	**1.37**	**1.35**	**1.38**	**1.38**
Consumer NAC	**1.51**	**1.31**	**1.30**	**1.32**	**1.31**
Total Support Estimate (TSE)	**276 293**	**329 818**	**343 959**	**333 502**	**311 994**
Transfers from consumers	185 479	173 562	176 341	178 240	166 105
Transfers from taxpayers	106 557	181 336	192 275	181 204	170 529
Budget revenues	–15 744	–25 079	–24 656	–25 941	–24 640
Percentage TSE (expressed as share of GDP)	2.32	1.20	1.22	1.19	1.19

p: provisional. MPS commodities: See notes to country tables. MPS is net of producer levies and excess feed costs. TSE as a share of GDP for 1986-88 for the OECD excludes the Czech Republic, Hungary, Poland and Slovak Republic as GDP data is not available for this period. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

1. This category provisionally includes the US counter cyclical payments, which fit no category well.

Source: OECD, PSE/CSE database 2004.

taxpayers to producers (PSE) relative to current production valued at border prices. Like the % PSE, the producer NAC for the OECD as a whole has changed very little over the last three years, averaging 1.45 over 2001-03. In other words, current farm receipts are 45% higher than if entirely generated in world markets without any support.

... but has fallen somewhat over the longer term

Over a longer period, there has been a slight reduction in the overall level of support provided to agricultural producers in OECD countries. As a share of gross farm receipts, producer support has fallen from 37% in 1986-88 to the current three year average of 31%. Expressed in terms of the producer NAC, in 1986-88 farm receipts were on average 60% higher than they would be if entirely generated in world markets without any support. By 2001-03 this had fallen to 45%. This indicates some improvement in market orientation, with a greater share of farm receipts generated in markets than created by government intervention. However, since the early 1990s, the % PSE has varied on an annual basis within the 30-35% range, and the average for 2001-03 remains just above the lowest three year average of 30% in 1995-97.

The level of support varies widely among countries

There are large and increasing differences in the levels of support among OECD countries (Figures I.2 and I.3; Table I.3). These reflect among other things, variations in policy objectives, different historical uses of policy instruments, and the varying pace and degrees of progress in agricultural policy reform.

In 2003, support to producers as measured by the % PSE is estimated to have increased in **Canada**, the **Czech Republic**, the **European Union**, **Iceland**, **Japan** and **Turkey**, although the rise was marginal in all cases except Turkey. The % PSE decreased, some what in **Norway**, **Slovakia** and the **United States** significantly, in **Hungary**, **Korea**, **Mexico** and **Poland**, and remained constant in **Australia**, **New Zealand** and **Switzerland**.

For many countries variations in MPS had a significant influence on producer support levels in 2003, in most cases decreasing, but in some cases increasing, producer support. This was often due to either the influence of a weaker US dollar or a stronger EURO compared to the national currency, depending on the importance of the **European Union** or the **United States** market for the specific country. These increases/decreases cancelled each other out at the total OECD level.

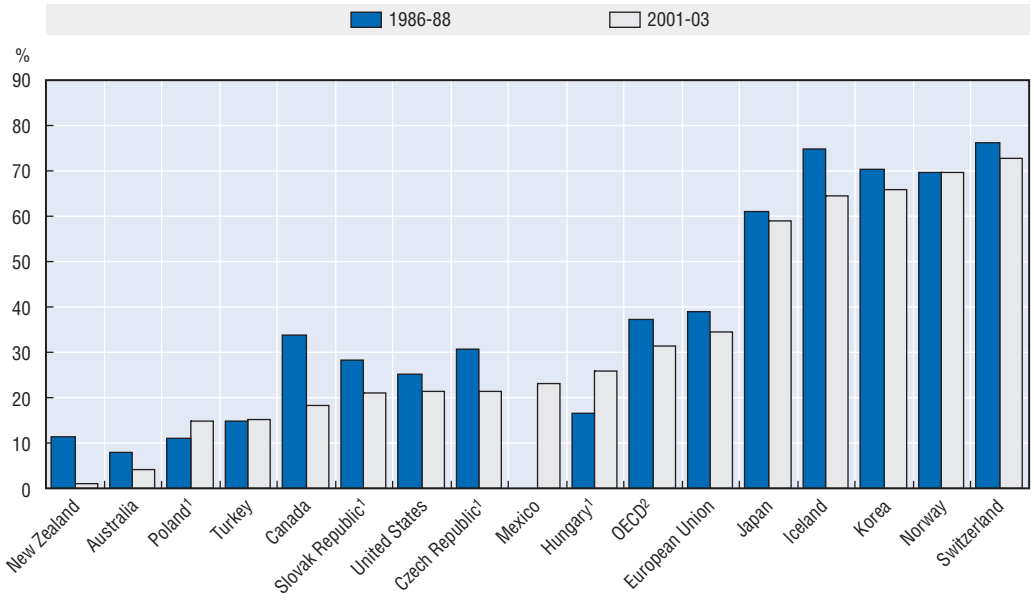
The average % PSE for 2001-03 was below 5% in **Australia** and **New Zealand.** In North America **(Canada**, **Mexico** and the **United States), Poland**, **Slovakia** and **Turkey** the average was 20% or less. It wasaround 25% in the **Czech Republic** and **Hungary**, and 35% in the **European Union** which was slightly above the OECD average. In **Iceland**, **Japan**, **Korea**, **Norway** and **Switzerland** the PSE averaged around 60% or more.

Over the longer term, the level of producer support has fallen in most OECD countries. The average % PSE in 2001-03 was lower than the 1986-88 average in all countries, except **Hungary**, **Mexico**, **Poland** (relative to 1991-1993) and **Turkey** where support has increased but continues to be relatively low, and N**orway** where it has remained unchanged. The largest decreases in percentage terms have occurred in **New Zealand**, **Australia**, **Canada**, the **Czech Republic** and **Slovakia**, countries with levels of support below the OECD average.

The most distorting forms of support have declined but still dominate

While the overall level of producer support for the OECD as a whole has fallen only slightly, there has been a greater change in the composition of support, with some movement away from consumer transfers (MPS) to budgetary payments, and also between the different types of budget payments provided to producers. The share of MPS and output

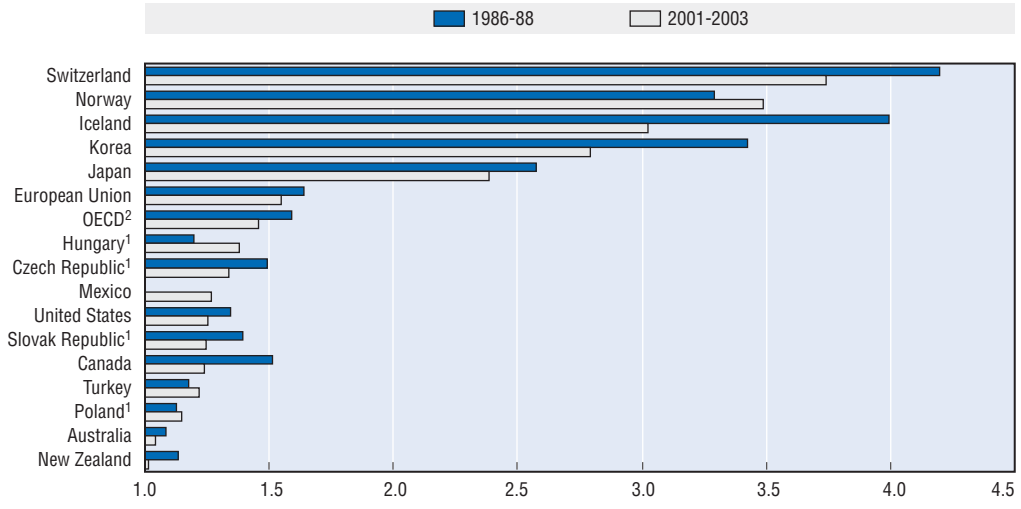
Figure I.2. **Producer Support Estimate by country**
(Per cent of value of gross farm receipts)



Notes: Countries are ranked according to 2001-2003 levels. For more detail, see Table I.3.
1. For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93.
2. For 1986-88, the Czech Republic, Hungary, Poland and the Slovak Republic are excluded.

Source: OECD, PSE/CSE database, 2004.

Figure I.3. **Producer Nominal Assistance Coefficient by country**



Notes: Countries are ranked according to 2001-2003 levels. For more detail, see Table I.3.
1. For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93.
2. For 1986-88, the Czech Republic, Hungary, Poland and the Slovak Republic are excluded.

Source: OECD, PSE/CSE database, 2004.

Table I.3. **OECD: Producer Support Estimate by country**

		1986-88	2001-2003	2001	2002	2003p
Australia	USD mn	1 264	884	792	844	1 016
	EUR mn	1 162	896	885	895	906
	Percentage PSE	8	4	3	4	4
	Producer NPC	1.04	1.00	1.00	1.00	1.00
	Producer NAC	1.09	1.04	1.04	1.04	1.04
Canada	USD mn	5 667	4 675	3 949	4 514	5 563
	EUR mn	5 183	4 720	4 410	4 789	4 962
	Percentage PSE	34	19	17	20	21
	Producer NPC	1.40	1.13	1.11	1.13	1.15
	Producer NAC	1.51	1.24	1.21	1.24	1.27
Czech Republic[1]	USD mn	1 350	983	867	945	1 135
	EUR mn	1 098	995	968	1 003	1 012
	Percentage PSE	31	25	23	25	27
	Producer NPC	1.54	1.19	1.15	1.21	1.22
	Producer NAC	1.49	1.33	1.30	1.33	1.38
European Union	USD mn	95 611	101 696	88 926	94 789	121 371
	EUR mn	86 884	102 708	99 295	100 577	108 251
	Percentage PSE	39	35	34	35	37
	Producer NPC	1.72	1.34	1.31	1.33	1.37
	Producer NAC	1.64	1.55	1.51	1.54	1.60
Hungary[1]	USD mn	880	1 544	1 160	1 871	1 601
	EUR mn	716	1 570	1 296	1 986	1 428
	Percentage PSE	16	27	22	33	27
	Producer NPC	1.15	1.14	1.10	1.19	1.21
	Producer NAC	1.20	1.38	1.28	1.49	1.36
Iceland	USD mn	195	146	112	151	175
	EUR mn	176	147	125	160	156
	Percentage PSE	75	67	61	69	70
	Producer NPC	3.89	2.67	2.21	2.86	2.94
	Producer NAC	3.99	3.03	2.56	3.24	3.28
Japan	USD mn	48 906	44 347	45 481	42 819	44 740
	EUR mn	44 342	45 374	50 784	45 434	39 904
	Percentage PSE	61	58	59	57	58
	Producer NPC	2.46	2.29	2.35	2.25	2.26
	Producer NAC	2.57	2.38	2.45	2.34	2.36
Korea	USD mn	12 120	17 264	16 399	18 377	17 016
	EUR mn	10 882	17 662	18 311	19 499	15 177
	Percentage PSE	70	64	63	68	60
	Producer NPC	3.36	2.67	2.59	3.01	2.39
	Producer NAC	3.42	2.79	2.69	3.16	2.53
Mexico	USD mn	–43	7 307	7 146	8 786	5 990
	EUR mn	–20	7 548	7 979	9 322	5 343
	Percentage PSE	0	21	20	25	19
	Producer NPC	0.92	1.20	1.18	1.27	1.15
	Producer NAC	1.00	1.27	1.25	1.33	1.23
New Zealand	USD mn	474	114	31	122	189
	EUR mn	451	111	34	130	168
	Percentage PSE	11	2	0	2	2
	Producer NPC	1.02	1.01	1.00	1.02	1.02
	Producer NAC	1.13	1.02	1.00	1.02	1.03

Table I.3. **OECD: Producer Support Estimate by country** *(cont.)*

		1986-88	2001-2003	2001	2002	2003p
Norway	USD mn	2 763	2 611	2 178	2 681	2 972
	EUR mn	2 499	2 643	2 432	2 845	2 651
	Percentage PSE	70	71	68	73	72
	Producer NPC	3.97	2.82	2.55	3.08	2.83
	Producer NAC	3.29	3.49	3.12	3.72	3.62
Poland[1]	USD mn	1 433	1 822	2 223	2 024	1 218
	EUR mn	1 180	1 905	2 483	2 148	1 086
	Percentage PSE	11	13	15	14	9
	Producer NPC	1.08	1.12	1.16	1.13	1.08
	Producer NAC	1.13	1.14	1.17	1.17	1.10
Slovak Republic[1]	USD mn	540	328	231	354	400
	EUR mn	440	330	258	375	357
	Percentage PSE	28	20	16	22	21
	Producer NPC	1.17	1.12	1.06	1.15	1.15
	Producer NAC	1.40	1.24	1.19	1.28	1.26
Switzerland	USD mn	5 304	4 984	4 424	4 987	5 540
	EUR mn	4 791	5 058	4 940	5 292	4 941
	Percentage PSE	76	73	72	74	74
	Producer NPC	4.56	2.85	2.72	2.93	2.90
	Producer NAC	4.20	3.74	3.57	3.80	3.86
Turkey	USD mn	2 864	5 367	1 043	5 577	9 479
	EUR mn	2 602	5 179	1 165	5 918	8 455
	Percentage PSE	15	17	5	20	26
	Producer NPC	1.15	1.19	1.05	1.20	1.32
	Producer NAC	1.18	1.22	1.05	1.25	1.36
United States	USD mn	41 831	44 239	52 991	40 849	38 878
	EUR mn	38 406	45 730	59 170	43 343	34 675
	Percentage PSE	25	20	23	19	18
	Producer NPC	1.19	1.12	1.17	1.10	1.10
	Producer NAC	1.34	1.25	1.30	1.23	1.22
OECD	USD mn	241 077	238 310	227 955	229 691	257 285
	EUR mn	219 421	242 575	254 534	243 717	229 473
	Percentage PSE	37	31	31	31	32
	Producer NPC	1.56	1.31	1.31	1.31	1.31
	Producer NAC	1.59	1.45	1.44	1.45	1.46

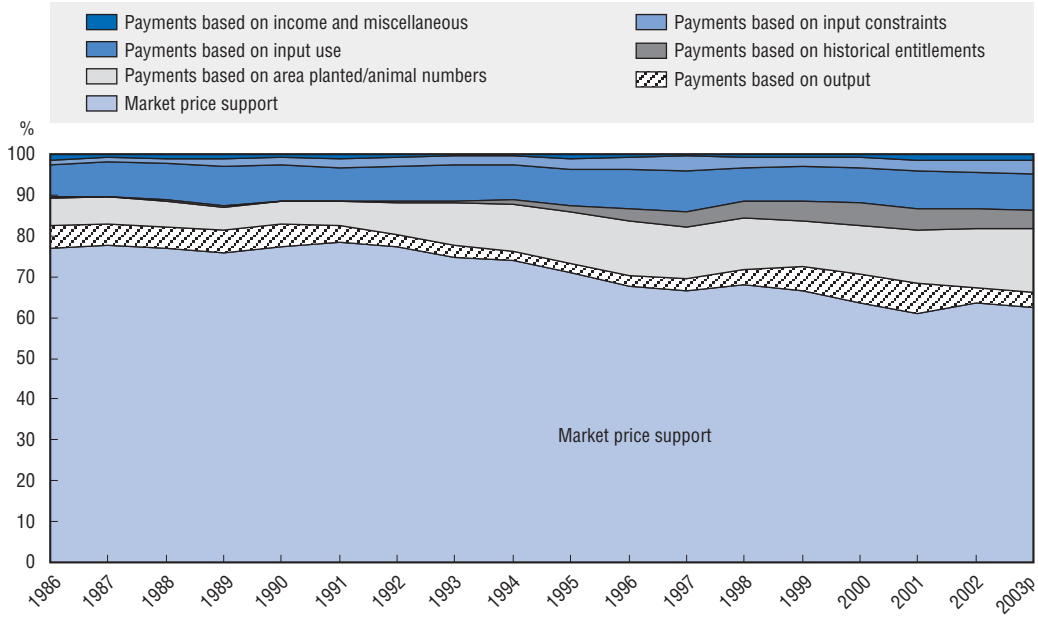
p: provisional. NPC: Nominal Protection Coefficient.
NAC: Nominal Assistance Coefficient. EU-12 for 1986-94, EU-15 from 1995, EU includes ex-GDR from 1990.
1. For Czech and Slovak Republics, Hungary and Poland: The figure in the first column refers to 1991-93. Austria, Finland, and Sweden are included in the OECD totals for all years and in the EU from 1995.

Source: OECD, PSE/CSE database 2004.

payments taken together decreased from 82% of overall OECD support to producers in 1986-88 to 67% in 2000-02 (Figures I.4 and I.5). This is important because output-linked support measures limit the extent to which world markets influence domestic production decisions.

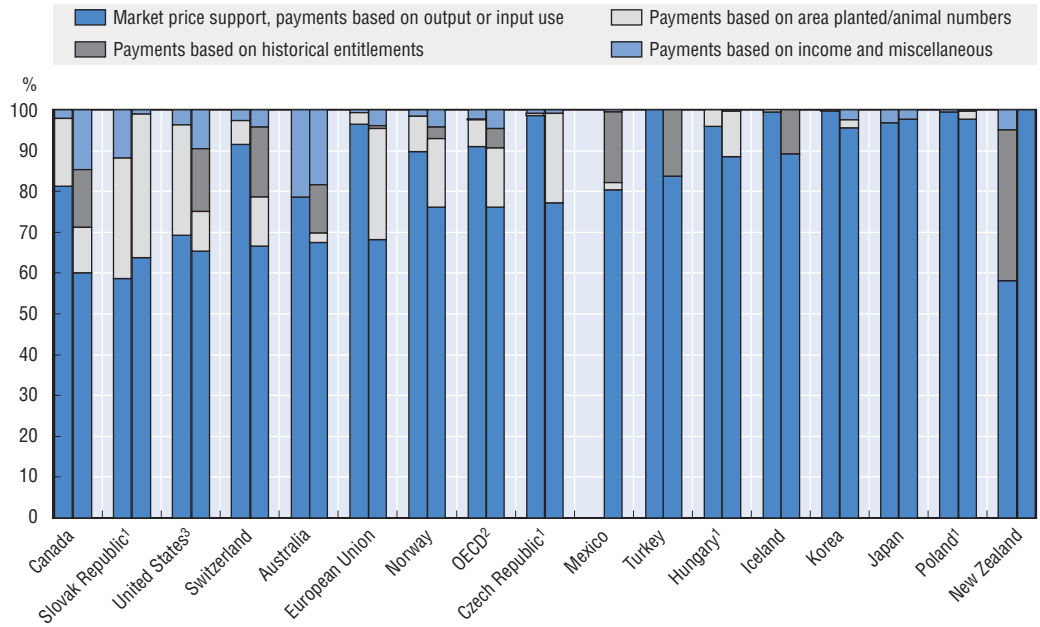
The reduction in the prevalence of MPS and output payments is shown by the movement in the producer Nominal Protection Coefficient (NPC), which shows the degree of market protection provided to producers (Figures I.1 and I.6). In 1986-88, the overall OECD producer NPC indicated that prices received by producers were on average 56% higher than border prices. By 2001-03, the gap had decreased to 31%. The largest reductions

Figure I.4. **Composition of Producer Support Estimate for the OECD**
(Percentage share in PSE)



Source: OECD, PSE/CSE database, 2004.

Figure I.5. **Composition of Producer Support Estimate by country, 1986-88 and 2001-03**
(Percentage share in PSE)

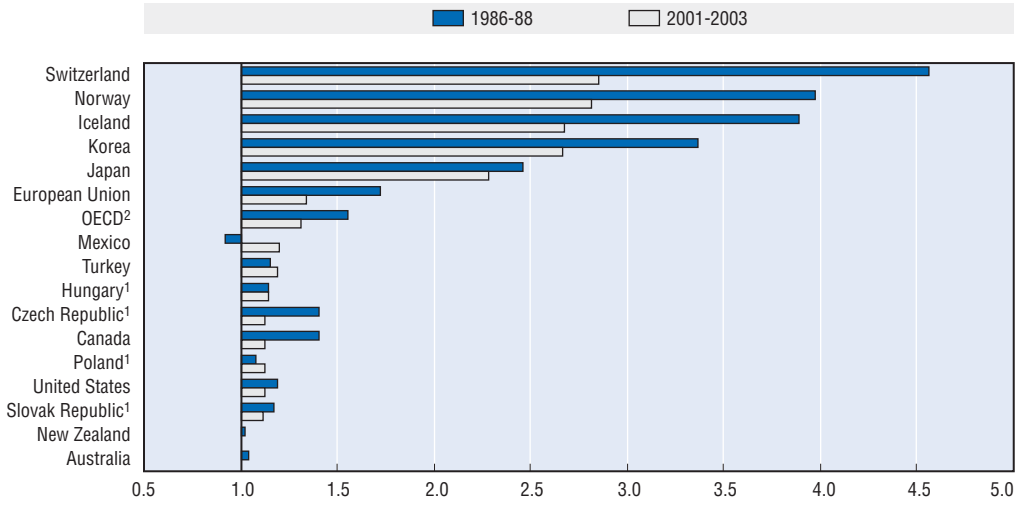


Note: Countries are ranked according to the 2001-2003 share of market price support and payments based on output or input use in the PSE.

1. For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93.
2. For 1986-88, the Czech Republic, Hungary, Poland and the Slovak Republic are excluded.
3. Payments based on area planted for the 2001-2003 average provisionally include "Counter cyclical payments".

Source: OECD, PSE/CSE database, 2004.

Figure I.6. **Producer Nominal Protection Coefficient by country**



Note: Countries are ranked according to 2001-2003 levels. For more detail, see Table I.3.
1. For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93.
2. For 1986-88, the Czech Republic, Hungary, Poland and the Slovak Republic are excluded.

Source: OECD, PSE/CSE database, 2004.

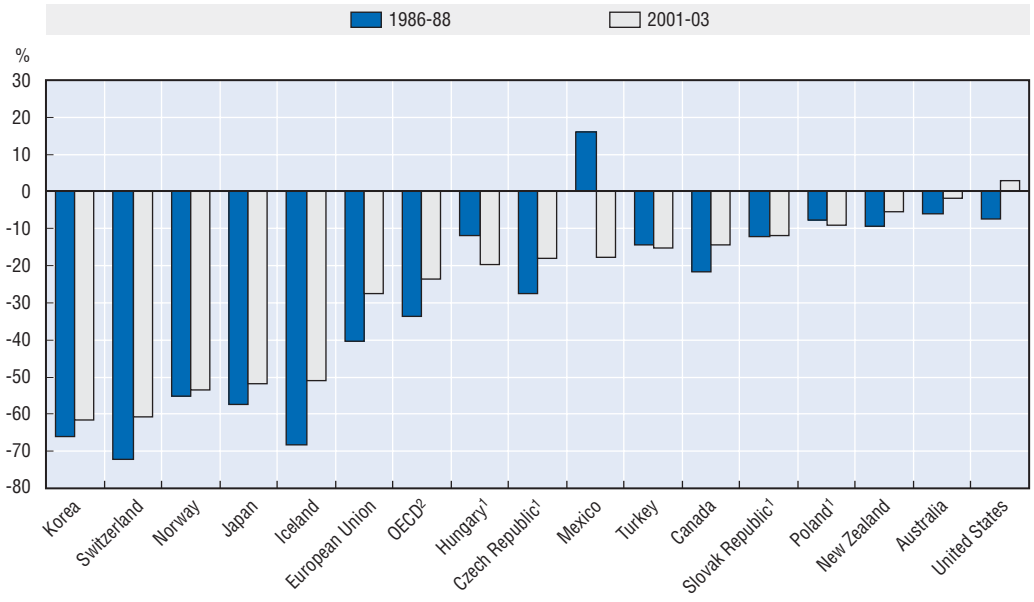
in percentage terms have occurred in the relatively high support countries of **Switzerland**, **Iceland**, **Norway**, the **European Union** and **Korea**. In these countries and in the OECD overall, market protection has fallen at a faster rate than overall support, although like the overall level of support there has been little downward movement since the mid-1990s. Reductions in MPS are also shown by changes in the % CSE (Figure I.7). Some countries have offset the benefit received by consumer from a decrease in high prices to lower the level of subsidies paid to consumers.

In addition to output-linked support, payments based on input use are also highly distortionary. While not as significant as output-linked support, the share of input payments in support to producers has remained fairly constant over the period, rising slightly from 8% of the overall OECD PSE in 1986-88 to 9% in 2001-03. Together the combined share of output and input-linked support decreased from 91% to 76%.

In 1986-88, the majority of OECD countries had a share of transfers associated with output and input-linked measures in producer support at or above the OECD average of 91%, including the **Czech Republic**, the **European Union**, **Hungary**, **Iceland**, **Japan**, **Korea**, **Norway**, **Poland**, **Switzerland** and **Turkey**. As a consequence of policy developments, the share of these transfers in producer support is now below the 2001-03 OECD average of 76% in the European Union, Norway and Switzerland. However, they remain above 91% in Japan, Korea and Poland.

Overall, this is a positive step 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. These forms of support may contribute to environmental pressure. Moreover, these measures are not the most effective in targeting income to farmers or the provision of specific environmental benefits.

Figure I.7. **Consumer Support Estimate by country**
(Percentage of consumption expenditure at farm gate)



Note: Countries are ranked according to 2001-2003 levels. A negative percentage CSE is an implicit tax on consumption.
1. For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93.
2. For 1986-88, the Czech Republic, Hungary, Poland and the Slovak Republic are excluded.

Source: OECD, PSE/CSE database, 2004.

Nevertheless, the current level of market protection is still an important factor in encouraging domestic production, distorting trade and depressing world prices of agricultural commodities. These create costs not only to domestic consumers and taxpayers, but also to other countries, in particular those producing the same commodities. Increased production and protection in OECD countries reduces production incentives elsewhere, may affect consumption patterns and food security, and can limit growth opportunities in developing countries. Moreover, market protection is regressive as it mainly benefits large farms. As price support is transmitted to food consumers it can impact most on low-income households for whom food constitutes a larger share of their total expenditure.

New forms of support have been introduced

The reduction in the most distorting forms of support in some countries has been accompanied by the introduction of other forms of support, which are potentially less distorting. In 2001-03, the share of payments based on area planted or animal numbers was 15% of support to producers, compared to 7% in 1986-88. These payments were particularly important in the **Slovak Republic** (35% of PSE), the **European Union** (27% of PSE), and the **Czech Republic** (22% of PSE). Payments based on historical entitlements (area, animal numbers, yields, support or receipts) were first introduced in 1993 and represented about 5% of overall support to OECD producers in 2001-03. These payments are mainly used in **Mexico** (17% of PSE) **Switzerland** (17% of PSE), **Turkey** (16% of PSE) and the **United States** (15% of PSE).

While payments based on historical entitlements are independent of current production decisions (based on past support, farm receipts, or area and yields of specific

commodities), area/headage payments are determined by current planting or animal numbers. Links to current production parameters makes payments based on area/animal numbers more production distorting than payments based on historical entitlements. Both 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 output and input-based support. For these reasons, attention may need to be paid to any production effects that such payments may have, in particular where such payments are large, such as in the **European Union** and the **United States**, for example.

Although these payments can be targeted to specific income or environmental situations, they are most often sector-wide. They partly benefit landowners, who are not always farmers, and large farms more than small ones. They may also encourage the use of environmentally fragile land, although payments are sometimes conditional upon farmers undertaking some type of environmental compliance.

Some countries are increasingly using payments based on input constraintsfor sharing the costs of reducing, replacing or withdrawing resources from production, or changing production techniques, including for environmental purposes. While these have more than doubled since 1986-88, they represent only 3% of the overall OECD PSE. In 2001-03, the share of these payments in the PSE was 4% in both the **European Union** and the **United States,** 2% in **Japan, Norway** and **Switzerland**, 1% in the **Czech Republic**, and effectively zero in all other countries.

Payments based on input constraints are among the categories of support having a smaller impact on the production and trade of specific commodities. However, as these payments are based on land rental costs and/or costs of adopting and maintaining good farming practices, which increase with production-linked payments, their level and hence the costs of providing environmental services or reducing environmental damage are higher than they would be in the absence of production-linked support. Policies requiring producers to account for pollution also provide an important contribution to improving the environmental performance of agriculture.

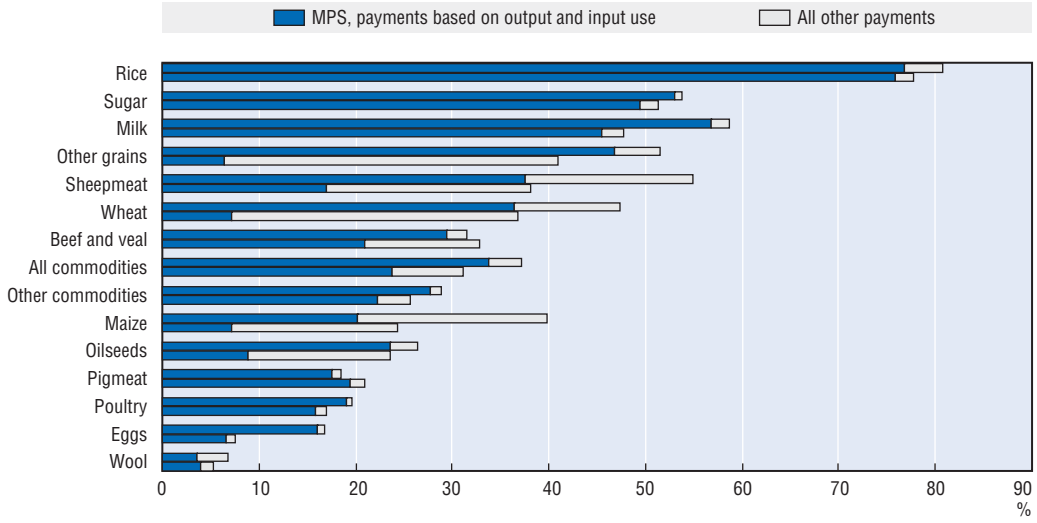
Some countries also use payments based on overall farming income or revenue**,** which are the most effective measures in transferring income to producers and tend to be less production and trade distorting. In 2001-03 these payments represented around 18% of the PSE in **Australia**, 13% in **Canada**, 5% in the **United States** and 3% in **Norway**. While significant in a few countries, the importance of these payments has remained consistently low at around 1% of the overall support to OECD producers.

Differences in support levels across commodity also cause distortions

There is also wide difference in the level of support and protection between commodities (Figures I.8 and I.9; Table I.4). For 2001-2003, the average OECD commodity % PSE was below the all commodity average of 31% for wool and eggs (under 10%), pigmeat and poultry (around 20%), and maize and oilseeds (about 25%). It was slightly above the OECD average for beef (33%), wheat and sheepmeat (just under 40%), and significantly above for milk and sugar (around 50%) and rice (close to 80%).

Average commodity support levels have decreased compared with 1986-88 for all commodities except pigmeat and beef and veal which have increased slightly. The largest decreases, both in absolute and relative terms, have occurred in the non-rice grain sector

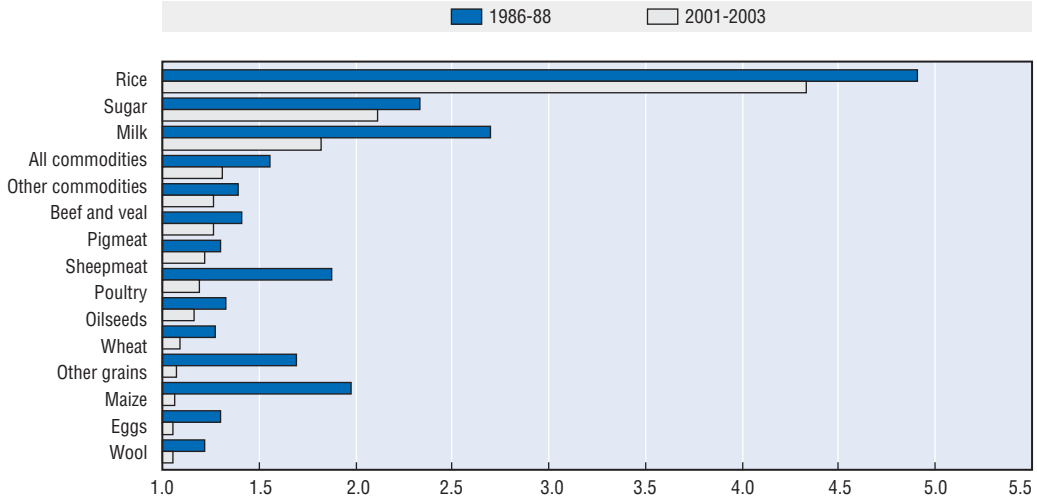
Figure I.8. **Producer Support Estimate by commodity, 1986-88 and 2001-03**
(OECD average as per cent of value of gross farm receipts)



Note: For each commodity the first horizontal bar represents 1986-88, the second to 2001-03. Commodities are ranked according to 2001-2003 levels. For more details see Table I.4.

Source: OECD, PSE/CSE database, 2004.

Figure I.9. **Producer Nominal Protection Coefficient by commodity**



Note: Commodities are ranked according to 2001-2003 levels. For more details see Table I.4.

Source: OECD, PSE/CSE database, 2004.

(wheat, maize and other grains) and sheepmeat. There have been significant decreases in the level of price support provided to these commodities, as also indicated by the producer NPC. For example, in 1986-88 prices received by wheat producers were on average 70% higher than border prices. By 2001-03 they were only 7% higher. Similarly, the average producer price for sheepmeat was 90% higher than border prices in 1986-88. By 2001-03 they were on average only 20% higher.

Table I.4. **OECD : Producer Support Estimate by commodity**

		1986-88	2001-2003	2001	2002	2003p
Wheat						
	USD mn	18 664	15 173	14 596	14 013	16 910
	EUR mn	17 032	15 416	16 298	14 869	15 082
	Percentage PSE	47	37	37	36	37
	Producer NPC	1.69	1.07	1.06	1.06	1.10
	Producer NAC	1.92	1.58	1.58	1.57	1.60
Maize						
	USD mn	12 693	9 694	10 690	9 175	9 217
	EUR mn	11 633	9 964	11 936	9 735	8 221
	Percentage PSE	40	24	28	23	21
	Producer NPC	1.30	1.06	1.08	1.03	1.06
	Producer NAC	1.67	1.32	1.39	1.31	1.27
Other grains						
	USD mn	11 197	8 208	7 946	7 521	9 158
	EUR mn	10 235	8 340	8 872	7 980	8 168
	Percentage PSE	52	41	40	41	41
	Producer NPC	1.97	1.07	1.07	1.06	1.07
	Producer NAC	2.13	1.69	1.68	1.70	1.69
Rice						
	USD mn	26 932	22 254	24 193	22 093	20 477
	EUR mn	24 476	22 907	27 014	23 442	18 263
	Percentage PSE	81	78	81	78	74
	Producer NPC	4.91	4.33	4.96	4.36	3.68
	Producer NAC	5.22	4.56	5.21	4.60	3.88
Oilseeds						
	USD mn	5 387	6 680	7 803	5 101	7 136
	EUR mn	4 879	6 830	8 713	5 412	6 365
	Percentage PSE	27	24	30	19	22
	Producer NPC	1.27	1.09	1.22	1.03	1.03
	Producer NAC	1.36	1.31	1.42	1.24	1.28
Sugar						
	USD mn	5 777	6 127	4 974	6 313	7 093
	EUR mn	5 257	6 193	5 555	6 698	6 326
	Percentage PSE	54	51	47	51	56
	Producer NPC	2.33	2.11	1.89	2.09	2.37
	Producer NAC	2.19	2.06	1.89	2.04	2.26
Milk						
	USD mn	48 107	43 393	41 328	41 454	47 396
	EUR mn	43 935	44 135	46 147	43 986	42 273
	Percentage PSE	59	48	46	48	49
	Producer NPC	2.70	1.82	1.76	1.84	1.87
	Producer NAC	2.47	1.91	1.85	1.94	1.96
Beef and veal						
	USD mn	22 230	27 513	22 646	26 295	33 598
	EUR mn	20 274	27 717	25 286	27 900	29 966
	Percentage PSE	32	33	30	34	35
	Producer NPC	1.41	1.26	1.23	1.28	1.28
	Producer NAC	1.47	1.49	1.42	1.51	1.54
Sheepmeat						
	USD mn	4 677	3 842	3 583	2 820	5 122
	EUR mn	4 207	3 854	4 001	2 992	4 568
	Percentage PSE	55	38	40	32	42
	Producer NPC	1.87	1.19	1.20	1.18	1.20
	Producer NAC	2.23	1.62	1.66	1.47	1.74

Table I.4. **OECD : Producer Support Estimate by commodity** *(cont.)*

		1986-88	2001-2003	2001	2002	2003p
Wool						
	USD mn	287	113	85	126	128
	EUR mn	261	114	95	134	114
	Percentage PSE	7	5	5	5	6
	Producer NPC	1.01	1.01	1.01	1.01	1.01
	Producer NAC	1.07	1.06	1.05	1.06	1.06
Pigmeat						
	USD mn	8 762	10 624	10 212	10 626	11 032
	EUR mn	7 937	10 839	11 403	11 275	9 840
	Percentage PSE	18	21	19	23	21
	Producer NPC	1.30	1.22	1.19	1.25	1.23
	Producer NAC	1.23	1.27	1.24	1.30	1.27
Poultry						
	USD mn	4 893	6 514	6 013	6 897	6 632
	EUR mn	4 389	6 649	6 714	7 318	5 915
	Percentage PSE	20	17	15	19	17
	Producer NPC	1.33	1.17	1.14	1.19	1.18
	Producer NAC	1.25	1.21	1.18	1.24	1.20
Eggs						
	USD mn	2 638	1 377	1 563	1 437	1 132
	EUR mn	2 399	1 426	1 745	1 524	1 009
	Percentage PSE	17	8	9	8	5
	Producer NPC	1.22	1.06	1.07	1.06	1.04
	Producer NAC	1.20	1.08	1.10	1.09	1.06
Other commodities						
	USD mn	68 833	76 800	72 323	75 820	82 256
	EUR mn	62 508	78 190	80 756	80 450	73 364
	Percentage PSE	29	26	25	25	27
	Producer NPC	1.39	1.27	1.26	1.26	1.28
	Producer NAC	1.41	1.35	1.33	1.34	1.36
All commodities						
	USD mn	241 077	238 310	227 955	229 691	257 285
	EUR mn	219 421	242 575	254 534	243 717	229 473
	Percentage PSE	37	31	31	31	32
	Producer NPC	1.56	1.31	1.31	1.31	1.31
	Producer NAC	1.59	1.45	1.44	1.45	1.46

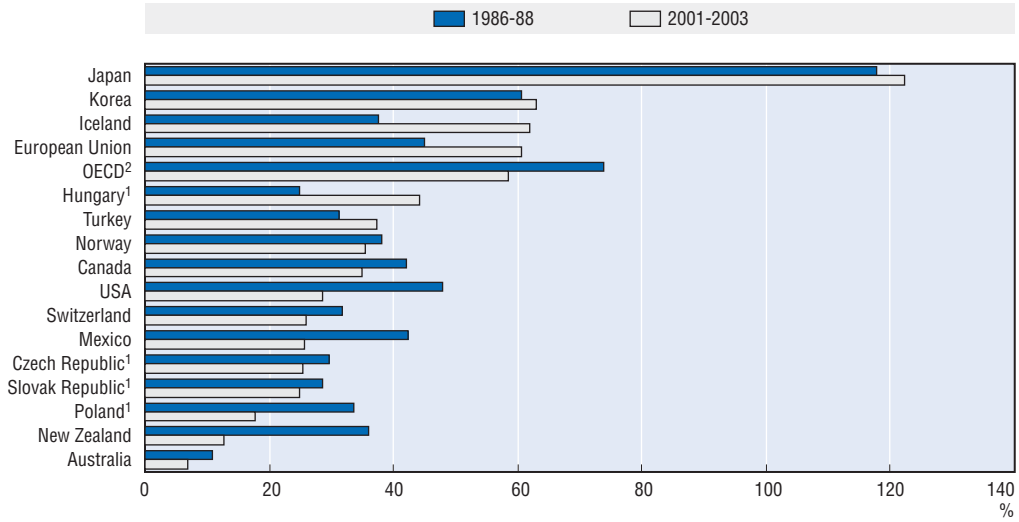
p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.
The PSE for "other commodities" is the residual of the PSE for all commodities minus the PSE for the commodities listed above. Austria, Finland and Sweden are included in the total for "all commodities" for all years, and in the commodity detail from 1995 (since joining the EU).

Source: OECD, PSE/CSE database 2004.

Sugar and milk benefit from relatively high levels of support in most OECD countries, with the notable exceptions of **Australia** and **New Zealand**. Rice is produced in only a few OECD countries but benefits from high support in **Japan, Korea** and the **United States**. As support for these three commodities is mainly provided through price support, the associated levels of market protection are also the highest. Prices received by producers and those paid by consumers were, on average in 2001-03, around twice the level of world market prices for sugar and milk and about four times higher than the world prices for rice. Farm receipts from sugar and milk were also twice what they would be without support, while those of rice were four and a half times higher.

Differences in the level of support and protection across commodities within the agricultural sector of a country can contribute significantly to distortions in resource allocation. The spread in commodity support levels in 1986-88 was highest in **Japan** and **Korea**, and lowest in **Australia** (Figure I.10). **Norway** and **Switzerland**, which are two high support countries, have a relatively even distribution in support levels between commodities. **New Zealand** had a low level of support but a relatively large variation between commodities support levels in 1986-88. By 2001-03 the spread in commodity support levels had fallen in all countries except the **European Union**, **Japan**, **Korea, Hungary** and **Iceland** where it increased, although the rate of increase or decrease varies.

Figure I.10. **Spread in commodity support by country**
(Per cent of value of gross farm receipts)



Note: Spread in commodity support is measured by the coefficient of variation of commodity producer NACs, weighted by value of production, shown in terms of per cent of gross farm receipts.
1. For the Czech Republic, Hungary, Mexico, Poland and the Slovak Republic, 1986-88 refers to 1991-93.
2. For 1986-88, the Czech and Slovak Republics, Hungary and Poland are excluded.

Source: OECD, PSE/CSE database, 2004.

Support for general services to agriculture is increasing but remains low relative to support to producers

While transfers to producers have been falling, there has been an increase in budgetary transfers for general services to the agricultural sector, *i.e.* transfers not received by producers individually. As measured by the % GSSE [General Services Support Estimate], general service transfers at the overall OECD level have increased from 13% of the total support estimate (TSE) in 1986-88 to 18% in 2001-03.

The average % GSSE in 2001-03 was above 40% in **Australia** and **New Zealand**, between 20 and 30% in **Canada**, **Japan**, **Turkey**, and the **United States**, and less than 15% in all other countries (Table I.5). For all countries, with the exception of the **European Union** and **Switzerland**, this was higher than in 1986-88, both in monetary terms and as a share of the total support estimate.

There have been some notable changes in the composition of support within the GSSE. Marketing and promotion support has increased the most since the mid-1980s, rising from 31% in 1986-88 to 41% of the overall GSSE in 2001-03. It has always been the most important

Table I.5. **OECD: General Services Support Estimate by country**

		1986-88	2001-2003	2001	2002	2003p
Australia	USD mn	389	518	461	495	597
	EUR mn	352	524	515	525	533
	Percentage of TSE	23	41	40	40	40
Canada	USD mn	1 464	1 635	1 437	1 641	1 828
	EUR mn	1 328	1 659	1 605	1 741	1 630
	Percentage of TSE	20	26	27	27	25
Czech Republic[1]	USD mn	36	107	93	107	121
	EUR mn	29	109	104	113	108
	Percentage of TSE	3	10	10	10	10
European Union	USD mn	10 693	9 301	8 254	8 800	10 848
	EUR mn	9 677	9 410	9 216	9 338	9 675
	Percentage of TSE	10	8	8	8	8
Hungary[1]	USD mn	5	302	222	348	337
	EUR mn	5	306	248	369	300
	Percentage of TSE	1	16	16	16	17
Iceland	USD mn	23	15	14	14	17
	EUR mn	20	15	16	15	15
	Percentage of TSE	9	9	11	8	9
Japan	USD mn	8 775	12 098	11 864	11 713	12 718
	EUR mn	7 889	12 339	13 247	12 428	11 343
	Percentage of TSE	15	22	21	21	22
Korea	USD mn	1 069	2 847	2 567	2 796	3 177
	EUR mn	954	2 889	2 867	2 967	2 833
	Percentage of TSE	8	14	13	13	16
Mexico	USD mn	680	651	722	629	601
	EUR mn	637	670	806	667	536
	Percentage of TSE	53	8	9	7	9
New Zealand	USD mn	104	107	92	104	126
	EUR mn	94	109	102	111	113
	Percentage of TSE	17	50	75	46	40
Norway	USD mn	129	181	144	194	205
	EUR mn	117	183	161	206	183
	Percentage of TSE	4	6	6	7	6
Poland[1]	USD mn	257	270	203	355	252
	EUR mn	209	276	227	377	225
	Percentage of TSE	14	13	8	15	17
Slovak Republic[1]	USD mn	72	57	35	62	74
	EUR mn	58	57	40	66	66
	Percentage of TSE	12	15	13	15	15
Switzerland	USD mn	438	349	323	335	391
	EUR mn	396	355	360	355	349
	Percentage of TSE	7	6	7	6	6
Turkey	USD mn	308	2 251	3 159	2 526	1 069
	EUR mn	276	2 387	3 527	2 680	953
	Percentage of TSE	11	28	75	31	10
United States	USD mn	16 151	27 159	25 125	26 735	29 618
	EUR mn	14 762	27 613	28 054	28 367	26 417
	Percentage of TSE	23	29	25	29	31
OECD	USD mn	40 946	57 849	54 715	56 852	61 979
	EUR mn	37 156	58 899	61 095	60 324	55 279
	Percentage of TSE	13	18	18	18	18

p: provisional. EU-12 for 1986-94, EU-15 from 1995, EU includes ex-GDR from 1990.
Austria, Finland, and Sweden are included in the OECD totals for all years, and in the EU from 1995.
1. For Czech Republic, Hungary, Poland and Slovak Republic: The figure in the first column refers to 1991-93.

Source: OECD, PSE/CSE database 2004.

form of GSSE support in **Turkey** and the **United States**, and now also in the **European Union**. The costs associated with public stockholding of agricultural products is now a quarter of its 1986-88 level at 4% of the overall GSSE in 2001-03, reflecting lower public stocks as a result of a combination of policy and market developments. The fall in this budgetary cost explains the overall reduction in European Union expenditure on general services.

About one-third of overall GSSE support is for infrastructure. It is particularly important in **Japan** and **Korea**, and has been increasing in the central European countries of the **Czech Republic**, **Hungary**, **Poland**, and the **Slovak Republic**. Support for research and development, and for education remained stable at 13% of the overall GSSE, but is around 50% or more of the GSSE in **Australia**, **New Zealand** and **Norway**. While the share of inspection services in the overall GSSE remained constant at just 3%, its share rose in a significant number of countries, reflecting a greater public policy focus on food safety and the efforts of central European countries to comply with **European Union** regulations.

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. Efforts to ensure plant, animal and human health benefit both consumers and producers alike. Therefore, while general services in the areas of advisory services, training, research and development, and inspection services can improve long-term productivity or expand the sector's production capacity, the distorting effects on production and trade are generally much lower than other forms of support.

Total support to agriculture has decreased

For the OECD as a whole, transfers to agriculture as measured by the Total Support Estimate (TSE) amounted to USD 350 billion (EUR 372 billion) in 2003 (Figure I.11). When measured as a share of GDP (% TSE) overall support remained unchanged from 2002 at approximately 1.2% of GDP. This is almost half the 1986-88 average of 2.3%. Within the overall figure there has been a decrease in the transfers from consumers, who on average pay lower prices for their products, and an increase in transfers from taxpayers, reflecting the overall change in composition of support.

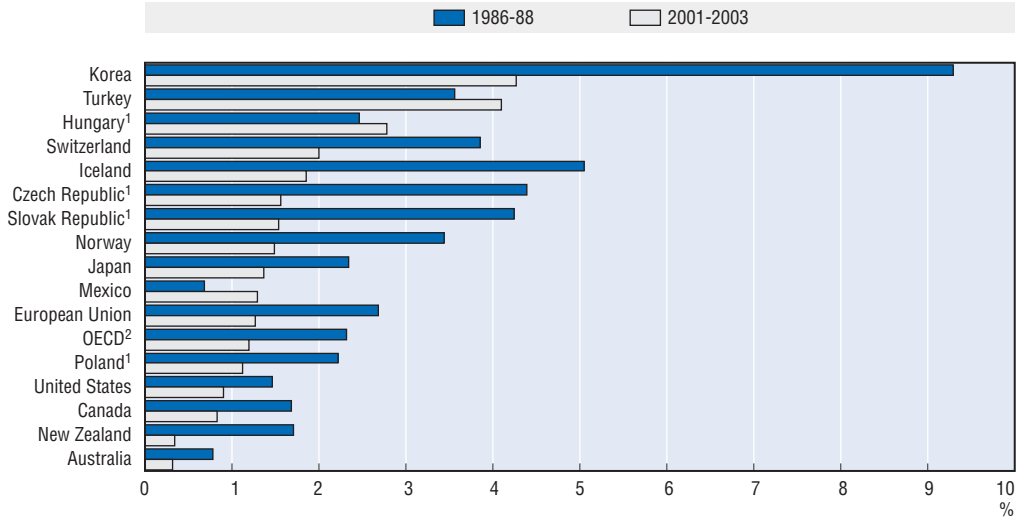
In 2001-03, the % TSE ranged from less than 0.5% in **Australia** and **New Zealand** to over 4% in **Korea** and **Turkey**. Across all OECD countries, the % TSE has fallen by around 50% or more since 1986-88, with the exception of **Hungary**, **Mexico** and **Turkey** where it has increased. This 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.

Overall, some progress in reform has occurred…

Progress towards the long-term objective of policy reform can be shown by downward trends in three elements of support to producers: the level of support, the share of most production and trade distorting forms of support, and the spread in support levels among commodities. The trends in these three support elements for the OECD as whole show that there has been some progress towards the goal of policy reform, although there have been year-on-year fluctuations (Figure I.12). There has been a reduction in the level of support, a greater but modest improvement in the composition of support, and a fall in the difference in support levels between commodities.

Figure I.11. **Total Support Estimate by country**

(Percentage of GDP)



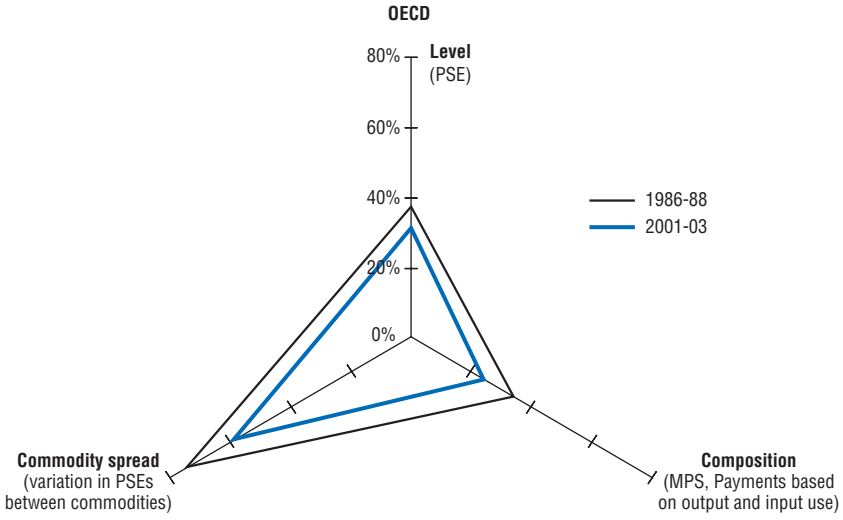
Notes: Countries are ranked according to 2001-2003 levels.

1. For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93.
2. For 1986-88, the Czech Republic, Hungary, Poland and the Slovak Republic are excluded.

Source: OECD, PSE/CSE database, 2004.

Figure I.12. **Changes in the level, spread and composition of support in the OECD**

(Per cent of value of gross farm receipts)



1. The level of support is measured by the % PSE. The composition of support is measured by the share of market price support, payments based on output and payments based on inputs in gross farm receipts. The spread in commodity support is measured by the coefficient of variation of commodity producer NACs, weighted by value of production.
2. All the axes are on the same scale shown on the vertical axis.

Source: OECD, PSE/CSE database 2004.

... but remains highly uneven across countries

Different patterns of support and reform are evidenced across OECD countries as shown by changes in the level, spread and composition of support between 1986-88 (1991-93 for the Czech Republic, Hungary, Mexico, Poland and Slovakia) and 2001-03 (Part 2). Progress in policy reform, *i.e.* a reduction in all three elements of support has occurred in the OECD countries located in the Oceania and North American regions, and in several European countries, but the extent to which further progress is necessary varies considerably.

- In **Australia**, recent reforms in the dairy sector have contributed to a decrease in the spread of support among commodities.
- In **New Zealand**, the level of support has been significantly reduced, from a relatively low base, and there has also been a marked reduction in differences in support levels between commodities.
- **Canada** has made progress in reducing the level and the use of the most distorting forms of support, but there has been less progress in reducing the spread in support levels among commodities, reflecting in particular the continued relatively high level of support for milk.
- In the **United States,** there has been a modest reduction in the level of support and improvement in the composition of support, with greater progress made on reducing the spread in support levels across commodities, particularly between cereal and oilseed products.
- **Mexico** has made progress in reducing the level and improving the composition of support but the difference in support levels between commodities has only improved slightly.
- **Switzerland** stands out as the high support country making the most significant change. While the level of support has decreased only a little, improvements have been made in shifting away from the most distorting forms of support and reducing the difference in support levels between commodities.
- The **Czech Republic**, **Poland** and the **Slovak Republic** have all reduced the level of support, the most distorting forms of support and the spread in support levels across commodities.

Other countries have made progress in some, but not all of the three elements.

- In the **European Union**, the level of support has fallen marginally, with greater progress made in reducing the most distorting forms of support. However, the spread in support levels among commodities has increased, with greater reductions in support for cereals than for other products such as livestock and sugar.
- A similar situation has occurred in **Iceland**, where the spread of support has increased due to relatively greater reforms in the sheepmeat, pigmeat and egg sectors.
- In **Korea** there has been a slight fall in boththe level and the importance of the most distorting forms of support, with the spread in support rising slightly.
- **Norway** has made some progress in lowering the most distorting forms of support, but no change in the other two elements, although the spread of support remains narrow.

Finally, in a few countries, there has been little change or an increase in all three support elements.

- In **Japan**, no change has been observed in reducing the level of support or reducing the most distorting forms of support, and the difference in support levels across commodities has increased. While support decreased for some commodities, especially oilseeds, sugar and beef and veal, it increased for pork, while remained unchanged for rice even though the domestic prices declined.
- In **Turkey**, there has been an increase in the level of support and in the spread in support levels across commodities, although the importance of the most distorting forms of support has remained constant.
- While starting from a low base, **Hungary** stands out as the one country where all three support elements have increased in comparison with the reference period.

Further efforts to reform agricultural policies are clearly 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 level, composition and spread in support levels across commodities among OECD countries, and the distortions associated with such policies, demands further attention. About three-quarters of the total support to agriculture continues to go to individual producers. Producer support still accounts for about one third of farm receipts, of which over three-quarters is still generated by the most distorting forms of support. And there remain wide differences in the level of support between commodities.

Over 60% of support to producers continues to be provided through policies generating higher prices. This can bear heavily on low-income households, for whom food constitutes a larger share of their total expenditure. Moreover, as most of the support provided to producers is still either output- or input-linked, a high share of support goes to larger farms. Price support can enhance rather than reduce income disparities.

A number of countries are continuing to undertake unilateral efforts to reform their agricultural policies. These are often a positive step in the right direction of reducing trade distortions and improving the targeting of policies to specific objectives, although the extent of reform varies quite considerably. A successful conclusion to the on-going trade negotiations in the context of the WTO Doha Development Agenda would invigorate the process of agricultural policy reform.

ANNEX I.1

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 available on the OECD website (The link is *www.oecd.org/agr/policy/*, under > Publications & Documents > Events/Conferences/Meetings **Ministerial Communiqués Related to Agricultural Policies**). 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;
- preserve and strengthen the multifunctional role of agriculture.

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

ANNEX I.2

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;
- ***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 at *www.oecd.org//agr/ministerial/commune.htm*.

ANNEX I.3

Definitions of the OECD Indicators of Support

Producer Support Estimate (PSE): 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): 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.

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): 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): 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) 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.

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

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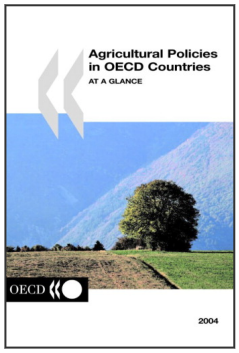

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