Agricultural Policy Monitoring and Evaluation 2011
OECD Countries and Emerging Economies

Executive Summary

Expanded country coverage

This report monitors and evaluates agricultural policy developments in OECD member countries, including Chile, Estonia, Israel and Slovenia which became OECD members in 2010, as well as in five emerging economies that are major players in food and agriculture markets: Brazil, China, Russia, South Africa and Ukraine.

Structural differences across countries, but common policy interests

The 45 economies examined in this report are diverse in their levels of development, the characteristics of their agricultural sectors, and their choice of policy instruments and levels of policy support: but their policy interests have a great deal in common. These include ensuring a reliable supply of safe, nutritious and affordable food, reasonable incomes for farms and farm households, a productive and competitive food and agriculture sector, and sustainable use of natural resources.

Fiscal transfers to the farm sector remain stable…

The increased burden on public finances in OECD countries in the wake of the financial and economic crisis has not led to a significant reduction or increase in budgetary expenditures on the agriculture sector. Where budget payments have been reduced it typically resulted from countercyclical payments declining as a consequence of high world prices or from shrinking disaster payments. Such expenditure reductions follow built-in mechanisms and do not reflect a re-orientation of policies. In the emerging economies, budget transfers are relatively low but in some cases are increasing. Direct payments to farmers play a less prominent role than in OECD countries, while investments in general services, such as infrastructure, account for a relatively larger share of budget transfers.

…while market price support is declining

High world market prices during 2010 led to a smaller gap between supported domestic prices and world reference prices. This was accentuated or attenuated by exchange rate movements in some countries. As is the case for fiscal transfers, this reduction in estimated support is due to built-in countercyclical mechanisms, rather than a re-orientation of policies.

Producer support in the OECD area reached a record low in 2010

In 2010 support to producers across the OECD area amounted to USD 227 billion or EUR 172 billion as measured by the Producer Support Estimate (PSE). This represents 18% of aggregated gross farm receipts, down from 22% in 2009 and 20% in 2008. This is the lowest level observed since the mid-1980s and confirms a long-term declining trend.

Support in the emerging economies is generally well below the OECD average, but varies over time and across countries

The level of support (%PSE) differs across emerging economies: Farm support in Brazil has remained flat in most recent years, around 5% of aggregate gross farm receipts; support in China has been increasing and at 17% in 2010, is approaching the OECD average; in Russia the level of support reached 22% in recent years and was above the OECD average; support in South Africa is declining and is now below 5%; in Ukraine support varied around 7% in recent years. In Ukraine, Russia and to some extent China, these averages need to be interpreted carefully as some commodities are taxed while others are supported.

Support varies greatly across OECD countries

Since 1995-97 the level of support has declined in all OECD countries except Turkey. In 2008-10 New Zealand (1%) and Australia (3%) have had the lowest levels, while Chile (4%) now joins this group. The United States (9%) is currently closer to the countries with the lowest level of support. Israel and Mexico (12%) and Canada (16%) are also below the OECD average. The European Union (22%) has reduced its level of support but remains above the OECD average. Support in Turkey has moved from below to above that average (27%). Despite some reduction, support remains relatively high in Korea (47%), Iceland (48%), Japan (49%), Switzerland (56%) and Norway (60%).

Agricultural support as a share of GDP generally declines as economies grow

Total support to the agricultural sector across the OECD area – an indicator that combines producer support (PSE), support for general services to agriculture such as research, infrastructure, inspection, marketing and promotion, as well as subsidies to consumers – stood at USD 374 billion (EUR 269 billion) in 2008-10. This is equivalent to 0.9% of OECD GDP, down from 2.2% in 1986-88 and 1.4% in 1995-97. In emerging economies, agriculture support as a share of GDP is below the OECD average, except in China (2.3%). The share increased in Brazil to 0.6% in 2008-10 from 0.2% in 1995-97, while in Russia it declined from 2.6% in 1995-97 to 1.6% in 2008-10, and in South Africa from 1% to 0.3% over the same period. These reductions reflect overall economic growth rather than reductions in total support to agriculture.

The trend towards more decoupling of support from production decisions continues in OECD countries…

The importance of the potentially most production- and trade-distorting forms of support has been falling over time as countries have shifted towards more decoupled payments to farmers. Most distorting support, based on market prices, output, and unconstrained variable input use continues to make up 51% of total producer support, but this is down from 82% in 1986-88 and 70% in 1995-97. Payments not linked to current production, have grown in recent years to 23% of total transfers in 2008-10.

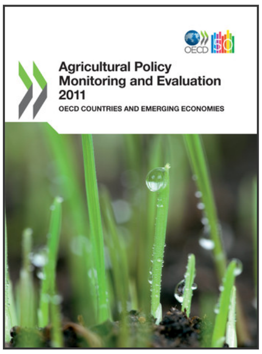
… while emerging countries rely more on market price support and budget transfers mostly finance general services

In the emerging economies most of the support is based on commodity output (mainly market price support) and input use, sometimes targeted to small holders or subsistence farming. A relatively large part of budgetary spending finances the provision of general services to agriculture, mainly financing the development of infrastructure, training and education.

Growing global demand, higher prices, volatile markets and resource pressures, argue for new policy directions

High prices today effectively remunerate producers and undermine the stated rationale for traditional price and output support policies, even though high output prices do not necessarily translate into higher farm incomes in all sub-sectors if input prices increase as well, especially for energy and animal feed, and if these costs cannot be passed on to consumers. Alternative policy directions warrant attention, including reorienting price and output linked support in favour of measures to increase public, private, and public-private investments in a wide range of activities to improve farm productivity, sustainability, and long-term competitiveness. At the same time, border measures and other policies that support domestic prices contribute to agricultural price volatility on world markets. Export restrictions exacerbate global price volatility and price rises and they discourage farmers from increasing production in countries applying those measures. Consideration needs to be given to developing comprehensive risk management policies that provide producers with a menu of instruments from which they can choose to address their specific needs. Government policies should focus on catastrophic risks but should not crowd out farmers own management of normal business risk and market-based risk management tools.

Much of the current policy set is not targeted to addressing volatility, food security and resource use issues. While higher output prices are good news for producers, they contribute to increasing hunger amongst vulnerable consumers in many parts of the world. This too argues for moving beyond "status quo" policy approaches in order to effectively address the fundamental cause of hunger – poverty. Improved policy coherence between agriculture, trade, development, and governance systems is essential. Ongoing discussions in the G20 and other international fora are addressing these issues.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