

Chapter 7

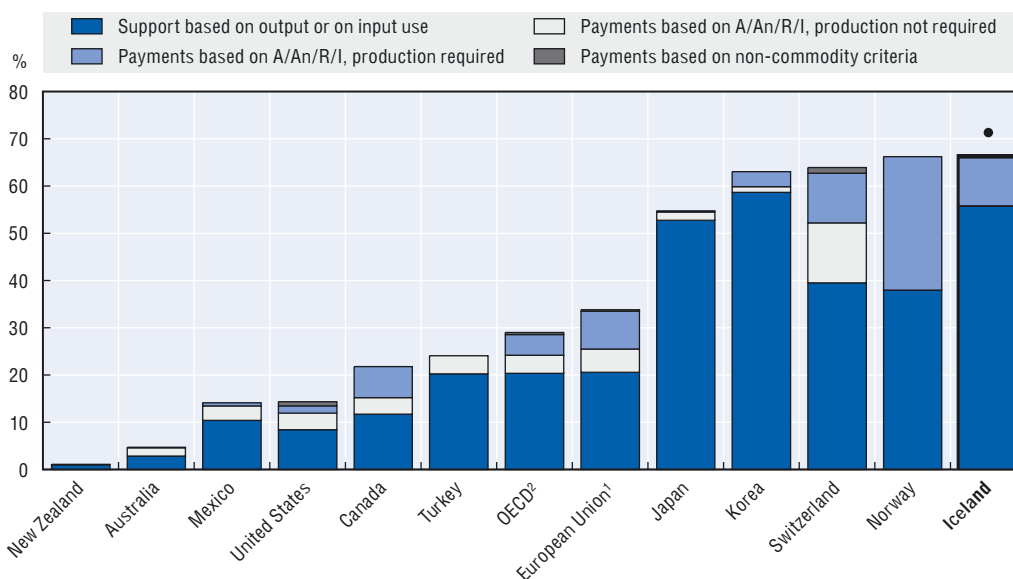
Iceland

Evaluation of policy developments

- Overall, since 1986-88 there has been some progress in policy reform. The level of producer support has declined, however it remains very high, and is among the highest in the OECD. There has been some progress in shifting away from the most distorting payments, including a shift from support based on commodity outputs to payments based on non-current animal numbers for sheepmeat.
- A new eight-year framework agreement between government and the farmers' association concerning support to dairy production was implemented in 2005. Outputs payments which are a highly production and trade distorting form of support are still the major form of support for dairy producers. However, they will decrease year by year and new payment per animal, which is relatively less distorting, was introduced.
- Further efforts are required to reduce market protection, to develop measures that are more efficient at targeting explicit policy objectives in ways that are less production and trade distorting and reduce the level of support.

Figure 7.1. **Iceland: Producer Support Estimate by country, 2004-06**

Per cent of value of gross farm receipts



A (area planted), An (animal numbers), R (receipts) or I (income).

1. EU25. 2. The OECD total does not include the six non-OECD EU member states.

Source: OECD PSE/CSE database, 2007.

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<http://dx.doi.org/10.1787/074002050363>

Summary of policy developments

A new agreement between the government and the farmers' association concerning the framework of support to dairy production was signed in May 2004 and took effect from September 2005. This agreement is valid from 2005 to 2012. Based on the agreement, annual payments for milk producers based on output are gradually reducing year by year and a new type of direct payment based on number of animals is introduced.

- Support to producers, as measured by the %PSE, declined from 77% in 1986-88 to 66% in 2004-06. However, it is still more than twice the OECD average.
- The combined share of most distorting payments (commodity output and variable input base payments) in the PSE fell from 99% in 1986-88 to 78% in 2004-06. There were no payments based on non current A/An/R/I, production required in 1986-88 but they account for 15% of the total PSE in 2004-06.
- Prices received by farmers in 1986-88 were more than 4.2 times higher than those in the world market but were 2.6 times higher in 2004-06. Farm receipts were 4.4 times higher than they would have been on the world market in 1986-88 but were 3 times higher in 2004-06.
- Milk, poultry and eggs are the highest supported commodities measured by producer SCT, followed by sheepmeat and wool. The share of producer SCT in the total PSE increased from 92% in 1986-88 to 93% in 2004-06.
- The cost imposed on consumers, as measured by the %CSE, fell from 70% in 1986-88 to 46% in 2004-06.
- Support for general services provided to agriculture increased between 1986-88 and 2004-06, from 7% to 9% of total support. Total support to agriculture declined from 5% of GDP in 1986-88 to 1.6% in 2004-06.

Figure 7.2. Iceland: PSE level and composition by support categories, 1986-2006

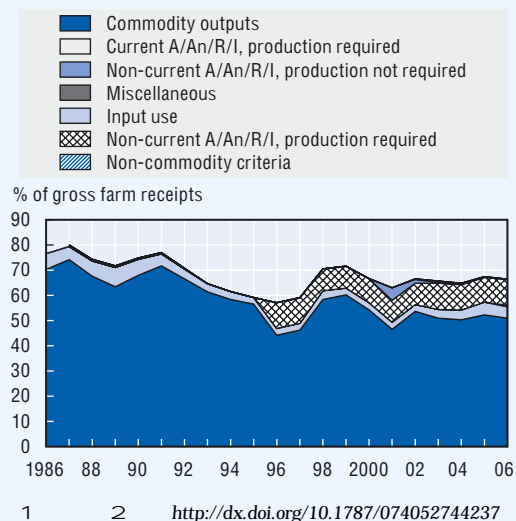


Figure 7.3. Iceland: Producer SCT by commodity, 2004-06

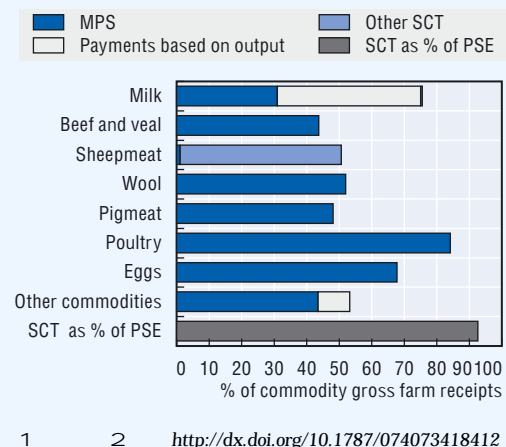


Table 7.1. Iceland: Estimates of support to agriculture

ISK million

	1986-88	2004-06	2004	2005	2006p
Total value of production (at farm gate)	9 644	14 220	13 566	14 547	14 547
<i>Of which share of MPS commodities (%)</i>	<i>80</i>	<i>86</i>	<i>82</i>	<i>84</i>	<i>91</i>
Total value of consumption (at farm gate)	8 750	12 939	12 240	13 535	13 041
Producer Support Estimate (PSE)	7 963	14 453	13 499	15 016	14 845
Support based on commodity output	7 312	11 168	10 467	11 649	11 387
<i>Market Price Support</i>	7 246	6 861	6 247	7 286	7 051
<i>Payments based on output</i>	66	4 306	4 219	4 363	4 336
Payments based on input use	602	981	818	1 111	1 014
<i>Variable input use</i>	138	108	72	131	121
<i>Fixed capital formation</i>	289	448	376	431	538
<i>On-farm services</i>	174	425	370	549	356
Payments based on current A/An/R/I ¹ production required	0	48	0	0	145
<i>Of a single commodity</i>	0	48	0	0	145
<i>Of a group of commodities</i>	0	0	0	0	0
<i>Of all commodities</i>	0	0	0	0	0
Payments based on non-current A/An/R/I ¹ production required	0	2 174	2 072	2 183	2 268
Payments based on non-current A/An/R/I ¹ production not required	48	39	52	65	0
<i>Variable rates</i>	0	0	0	0	0
<i>Fixed rates</i>	48	39	52	65	0
Payments based on non-commodity criteria:	0	43	91	8	31
<i>Long-term resource retirement</i>	0	43	91	8	31
<i>Specific non-commodity output</i>	0	0	0	0	0
<i>Other non-commodity criteria</i>	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE	77	66	65	67	66
Producer NPC	4.23	2.60	2.52	2.70	2.60
Producer NAC	4.39	2.96	2.84	3.07	2.98
General Services Support Estimate (GSSE)	769	1 425	1 382	1 470	1 423
Research and development	140	351	311	382	361
Agricultural schools	47	109	160	89	76
Inspection services	40	167	128	205	167
Infrastructure	124	293	286	301	292
Marketing and promotion	54	208	192	215	217
Public stockholding	359	292	300	272	304
Miscellaneous	5	6	6	6	6
GSSE as a share of TSE (%)	7.3	8.8	9.1	8.7	8.6
Consumer Support Estimate (CSE)	-4 846	-5 849	-5 327	-6 356	-5 862
Transfers to producers from consumers	-6 615	-6 086	-5 591	-6 640	-6 028
Other transfers from consumers	-98	-98	-45	-129	-119
Transfers to consumers from taxpayers	1 867	335	309	413	284
Excess feed cost	0	0	0	0	0
Percentage CSE	-70	-46	-45	-48	-46
Consumer NPC	4.36	1.92	1.85	2.00	1.89
Consumer NAC	3.50	1.87	1.81	1.94	1.85
Total Support Estimate (TSE)	10 600	16 214	15 190	16 900	16 551
Transfers from consumers	6 714	6 184	5 636	6 770	6 146
Transfers from taxpayers	3 984	10 127	9 599	10 260	10 524
Budget revenues	-98	-98	-45	-129	-119
Percentage TSE (expressed as share of GDP)	5.04	1.61	1.66	1.67	1.49
GDP deflator 1986-88 = 100	100	299	287	296	313

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

1. A (area planted), An (animal numbers), R (receipts) or I (income).

MPS commodities for Iceland are: milk, beef and veal, sheepmeat, wool, pigmeat, poultry and eggs.

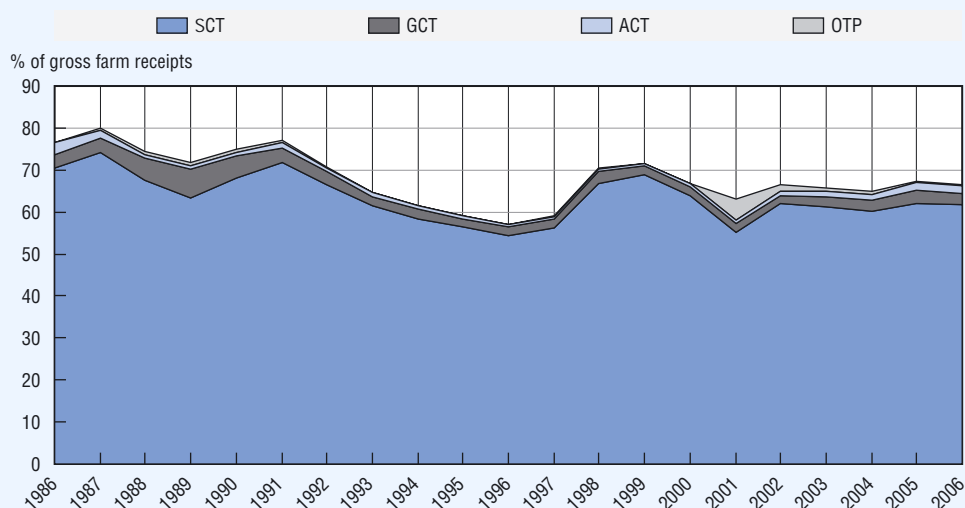
Market price support is net of producer levies and excess feed costs.

Source: OECD, PSE/CSE database, 2007.

Box 7.1. Iceland: Commodity-Specificity of Support

In Iceland, Single Commodity Transfers (SCT) made up 92% of the PSE in 1986-88 and this has remained unchanged in 2004-06. Group Commodity Transfers (GCT), where producers have the option to produce one of a specified group of commodities as part of programme eligibility, made up 5% of the PSE in 1986-88 and fell to 4% in 2004-06. Transfers provided under the headings All Commodity Transfers (ACT) and Other Transfers to Producers (OTP) place no restriction on commodities that farmers choose to produce or do not require any commodity production at all.¹ Together they comprised 5% of the PSE in 2004-06, up from 3% in 1986-88.

Figure 7.4. Iceland: PSE level and commodity specificity, 1986-2006



Source: OECD PSE/CSE database, 2007.

1 2 <http://dx.doi.org/10.1787/074218716200>

1. The definition of the categories SCT, GCT, ACT and OTP are provided in the Chapter I.3 of this report including an annex with the list of groups used in specific countries in the period 1986-2006.

Description of policy developments

Main policy instruments

Support in Iceland is mainly provided through border measures, payments based on output and production quotas. Milk and sheepmeat are the two major agricultural commodities and developments in domestic agricultural policies have been concentrated on these two sectors in accordance with agricultural agreements between the government and the farmers' union. During the 1990's, the government phased out all administered prices except for milk, for which the government administers both producer and wholesale prices, coupled with production quotas. Payments based on output are also made to milk producers. For sheepmeat, the government provides payments based on historical production quota entitlements established after output payments were abolished in 1996. A levy is imposed on the total agricultural revenue of each farm and distributed within and between various agricultural bodies. Tariff rate quotas provide some market opening for agricultural products such as meat and dairy products. However, only a limited quantity of imports competes with the major, domestically produced commodities. Consumer subsidies for wool are provided at the wholesale level. Agri-environmental policy mainly focuses on soil conservation.

Domestic policy

The dismantling of the **administered price for milk** at the wholesale level had been scheduled but was postponed indefinitely in 2004. The legislation now provides for abolition at any time, by decision of the competent authorities. For the production years 2004-06, the administered price for milk at the producer level was decreased by 2.1% but was increased by 1.5% at the wholesale level. The total value of payments for milk in 2006 was around ISK 4 000 million (USD 57 million).

Table 7.2. **Iceland: Administered prices for milk**

Product	2004		2005		2006		Change in ISK price	
	ISK/t	USD/t	ISK/t	USD/t	ISK/t	USD/t	2004-05	2005-06
							%	
Price at the producer level	83 324	1 187	83 921	1 335	82 125	1 179	0.7	-2.1
Price at the wholesale level	71 518	1 019	71 518	1 137	72 560	1 041	0.0	1.5

Source: Ministry of Agriculture, Iceland, 2007.

A new agreement between the government and the farmers' association concerning the framework of support to dairy production was signed in May 2004 and took effect from 1st September 2005. This agreement is valid from 2005 to 2012. There are four elements in the agreement. First, direct payments for milk producers for each of the eight years from 2005 to 2012 are agreed. Provision is ISK 4000 million (USD 57 million) ISK in 2005, decreasing year by year as the agreement is implemented. In 2012, the final year of the agreement, ISK 3 014 million (USD 43 million) will be paid. The second element is a new type of direct payment for milk producers, introduced as of 1st January 2006. This payment is based on the number of bovine animals and the amounted to ISK 396 million (USD 6 million) in 2006. Third, new support to bovine animal breeding programmes and

general development issues was introduced from 2005. Fourth, a payment for land improvement will be introduced from 1st September 2007.

A renewed agreement between the government and the Farmers' Association concerning overall agricultural support was signed in May of 2005. The agreement is valid for the years from 2006 to 2010. The agreement secures ISK 612.7 million (USD 8.8 million) in 2006. The farmers' association manages these funds, which are for advisory services, sheep rearing programme, and developmental programmes, marketing programmes and for the Agricultural Productivity Fund.

There were several **institutional changes** in 2005 and 2006. The Agricultural University of Iceland was established 1st January 2005 in order to strengthen research in agriculture. The new institute combines three research institutions, The Agricultural University at Hvanneyri, The Agricultural Research Institute and The State Horticultural School. The Agricultural Authority of Iceland started operation on 1st January 2006 under the Ministry of Agriculture. This institution combines The Chief Veterinary Officer, the Institute of Freshwater Fishing, the State Meat Valuation Inspectorate and the State Feed, Seed and Fertilizer Surveillance Authority. The Authority's role is to monitor and give guidance to the Ministry of Agriculture in all areas concerning health and safety of livestock rearing and production. In addition, the Authority has taken over some of the monitoring of health and safety, formerly carried out by the farmers' association and the Plant Protection Service, formerly carried out by Agricultural University of Iceland

The **Agricultural Loan fund** ceased operations on 31 December 2005. The fund was sold off to the banking sector and government revenues from the sale were allocated to the **Farmers Pension Fund** in fiscal year 2006.

Trade policy

Tariff-rate-quotas under the minimum access commitments were fully filled in 2005 and 2006 except for meat and edible offal of pigs, sheep and butter which were underfilled. Some additional quotas for beefmeat and meat of poultry were granted to importers, due to the market situation in Iceland.