Executive Summary

Producer support in OECD countries continues to decline…

In 2011 support to producers across the OECD area amounted to USD 252 billion or EUR 182 billion as measured by the Producer Support Estimate (PSE). This is equivalent to 19% of farm gross receipts in OECD countries, down slightly from 20% in 2010. This is the lowest level observed since OECD began measuring support in the mid-1980s, when the PSE as percentage of gross farm receipts was almost twice as high (37%).

…but in recent years primarily as a result of higher world prices

The recent decline in producer support was in many countries driven by developments on international markets, rather than by explicit policy changes. With higher world prices, policies to support domestic prices generated smaller transfers. As a result, the market price support component of the PSE declined to around 40% in 2011. In some countries budgetary support increased, primarily as a result of payments to help farmers cope with exceptional circumstances, such as droughts or floods.

The potentially most distorting support still represents around half of the total …

The share of potentially most production and trade distorting support, defined as payments based on output and variable inputs use without input constraints, was as high as 86% in 1986-88 and has come down to 51% in 2009-11.

… although there is a general move away from support directly linked to production

OECD countries are moving at different speeds away from supporting farmers through policies that raise domestic prices. Other mechanisms to channel support are progressively being introduced, such as payments based on historical area, livestock numbers, and farm income or receipts, which do not directly affect current production decisions. The less that support is directly coupled to production, the less production and market distorting it is.

Large variations in support levels across OECD countries remain

Differences in support levels across countries remain large. The lowest levels of support are observed in New Zealand, Australia and Chile, where less than 1% to 4% of gross farm receipts were due to policy transfers in the 2009-11 period. On the other hand, in Norway, Switzerland, Japan, Korea and Iceland between one half and two-thirds of gross farm receipts originate from policy transfers.

Total support to agriculture relative to national income is falling in the OECD area

The estimated total support as percentage of GDP declining from 3% on average in 1986-88 to less than 1% in 2009-11. This declining trend is observed in all OECD countries over the long term.

Still relatively little policy effort directly addresses environmental and risk management objectives…

Measures designed to encourage improved environmental outcomes remain a relatively small share of total support; environmental objectives are often pursued through regulations and payments based on criteria other than environmental performance. Public support for *ex ante* risk management instruments remains uneven, while expenditures on *ad hoc* disaster programmes increased in 2011.

…and more policy attention could be directed at increasing agricultural productivity growth, sustainably

Since the post-war period the growth rate of total factor productivity (TFP) in agriculture has converged across major world regions at around 2% per year. However, TFP growth rates have declined in the last decade in some OECD countries that start from a high productivity level. Government expenditure on agricultural R&D continues to increase in all OECD countries, but there are signs of deceleration in the rate of increase. On average, public expenditures on agricultural R&D amount to about 1% of agricultural value added in the OECD area. Many governments are now beginning to re-examine the performance of their agriculture innovation systems, including ways to effectively harness the innovative and financing potential of the private sector.

No major farm policy changes were introduced in OECD countries in 2011

While most countries are in consultations about new agricultural policy frameworks, no major changes have been implemented in 2011. Specific proposals for the new Farm Bill in the United States and for the Common Agricultural Policy post-2013 in the European Union are under active consideration.

Agriculture policy performance could be improved by targeting current policy objectives…

There is clear progess across the OECD area in moving towards agriculture support that is less market distorting and more efficient in transferring income to farm households. Further policy reforms could usefully focus on addressing the policy priorities expresssed by Ministers of Agriculture during their meeting at OECD in 2010. There remains relatively little policy effort directly targeted to improving the environmental performance of agriculture and ensuring the sustainable use of land, water and biodiversity resources; ensuring farmers have available to them the tools necessary to manage their own farm risks, along with clear and predictable systems to address unavoidable catastrophic losses; and to increase both public support and private incentives for innovation across the food and agriculture system, including research and development, technology transfer, and education and advisory services. Improving coherence across agriculture and other policy areas could both improve domestic policy performance in many countries and contribute to meeting the MDG goals of reducing poverty and hunger in many developing countries.

…in particular in light of buoyant global markets

After decades of declines in the real prices of agricultural commodities, both the current situation and the medium term outlook are for relatively high commodity prices; in essence, markets today are providing the remuneration to farmers that many countries' policies have sought to provide in the past. With significant demand growth envisaged, along with greater pressure on limited resources compounded by the uncertain effects of climate change, and continuing market volatility (albeit around a higher average price level), there is a clear opportunity to better align policies with these new priorities. Fiscal consolidation across many OECD countries may serve to strengthen the urgency of improving the cost effectiveness of agriculture policies.