



The OECD Agenda for Agricultural Policy Reform

Camel Cahill

Trade and Agriculture Directorate

OECD Regional Meeting on Agricultural Policy Reform

Bucharest , Romania

24-26 September 2007



OECD

- **Groups 30 countries – all democratic, market economies**
 - **Provides statistics, economic and social data**
 - **Analyses and forecasts economic developments**
 - **Researches social change and evolving patterns in trade, environment, agriculture, technology, fiscal policy and more.**
- Helps governments to***
- **Compare policy experiences**
 - **Seek answers to common problems**
 - **Identify good practice**
 - **Co-ordinate domestic and international policies**



Objectives of the meeting

- **Share experiences of policy and policy reform**
- **Explain our methods and tools**
- **Promote stronger integration into OECD work**



What is reform?

The 1987 Ministerial Principles

- « to allow market signals to influence the orientation of production
.....by way of a progressive and concerted reduction of
agricultural support »

- « considerationto social and other concerns »

- «farm income support through direct income support and not price
guarantees or other measures linked to production or factors of
production »

- «particularly well suited to
 - low income farmers
 - severely disadvantaged regions
 - those affected by structural adjustment »



The 1998 Policy Principles

- « greater influence of market signals
- « address the problem of additional trade barriers, emerging trade issues
- « strengthen world food security »
- « facilitate responsiveness to market conditions »
- « protect the environment, natural resources »
- « encourage Innovation, efficiency, sustainability (multifunctionality) »



The 1998 Operational Criteria

« transparent »

« targeted (and decoupled as far as possible) »

« tailored »

« flexible »

« equitable »



How can progress towards reform be evaluated?

- The level of support - as measured by the PSE
- The level of protection - as measured by the NPC
- The policy mix - as reflected in the composition of the PSE
 - ✓ *How much of the support is distorting?*
 - ✓ *How much of the support is decoupled?*
 - ✓ *How much of the support is targeted?*



What have we learned about reform processes?

- Reform is extremely difficult, therefore gradual and slow, and is sometimes subject to reversal
- It is easier to change delivery mechanisms than to change the level of support
- Market price support (and attendant border protection) stubbornly continues to dominate support patterns



Why is reform so difficult?

- Fierce resistance from vested interests who are well organised in OECD countries
- Weak resistance from consumers and taxpayers
- Farm votes weigh disproportionately in some countries
- Institutions and politicians are wedded to sectoral policies
- Poor understanding of the unintended and perverse effects of the existing policy set
- Fears (and misconceptions) about likely impacts of change



What circumstances favour agricultural policy reform?

- **Response to a an economy-wide crisis**
- **Generalised movement to deregulation and trade liberalisation**
- **Clear evidence of policy failure (or a victim of its own success)**
- **External pressure – WTO, Bilateral and Regional Trade Agreements**
- **Changing problem definition leading to changed objectives**



How to get onto a reform trajectory?

Whether « root and branch » or « piecemeal », reform should be carefully prepared.

- **Plan, consult, inform, communicate - with all stakeholders**
- **Proposals for change should be firmly evidence-based**
- **Consider adjustment and compensation measures to ease the process**
- **Build-in safeguards against back-tracking**



Lessons: adjustment measures

- Target measures to specific adjustment aims and identified beneficiaries
- Decouple and time limit adjustment measures
- Include clear exit components
- Advertise and stick to the irreversibility of the reform
- Do not underestimate the capacity of farmers to transform changing conditions into new opportunities



Lessons: compensation measures

- **Scope will reflect the relative influence of the stakeholders – but is not a prerequisite for reform**
- **Can itself be used to change the power and incentives of affected groups**
- **Should always seek to minimise costs and maximise benefits**
- **By definition should be decoupled and time limited**
- **Should be portable – allowing all options including exit from the sector**



Pitfalls

- **Reform measures are superimposed on existing measures increasing complexity and blurring messages**
- **Short term fixes undermine long-term intentions - policy envy may lead to back-tracking**
- **Adjustment and compensation measures designed ex ante often underestimate adjustment capacity and over-estimate compensation**



Unresolved or new problems

- Unintended effects emerge such as capitalisation in land or other asset values
- Decoupling does not solve perverse distribution effects of previous policies
- Improved transfer efficiency makes it more difficult to go to the next step of targeting
- Implementation costs may spiral as targeting improves, even though total costs may be lower
- The information needed for a complete policy cycle may not be available or may be extremely costly

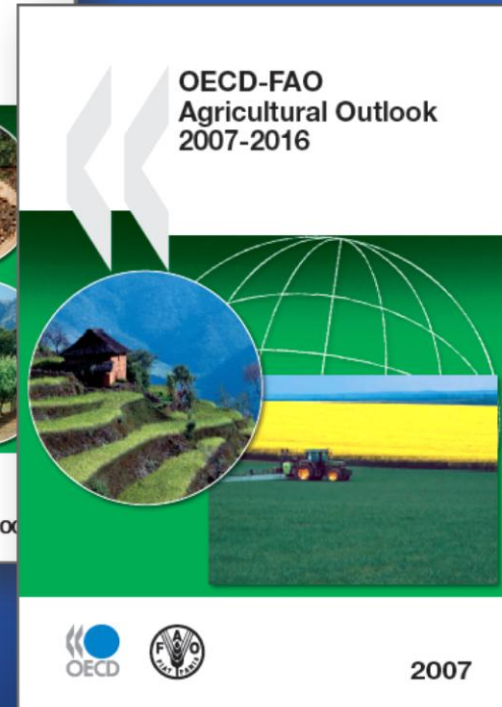
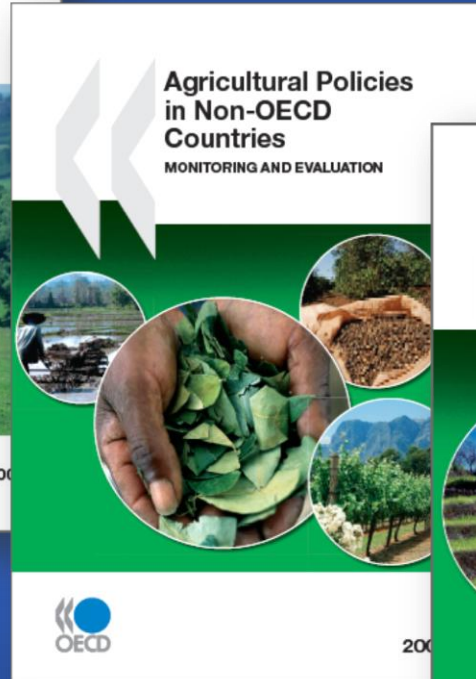
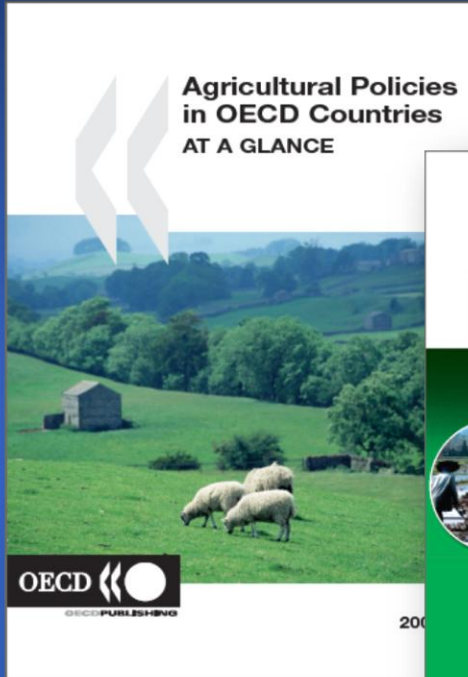


Conclusion

- **The framework defined by Ministers provides clear reform principles and guidelines**
- **Composition of support has changed towards less distorting forms**
- **Reducing support levels has proven to be more difficult**
- **Radical change avoids many of the problems that arise with piecemeal approaches**
- **Adjustment and compensation measures, if used, should be designed carefully or they will impede the developments they are supposed to facilitate**
- **Harness non-sectoral or economy-wide measures where appropriate**
- **The political economy of reform is crucial**



Thank You



www.oecd.org/tad