Chapter 12

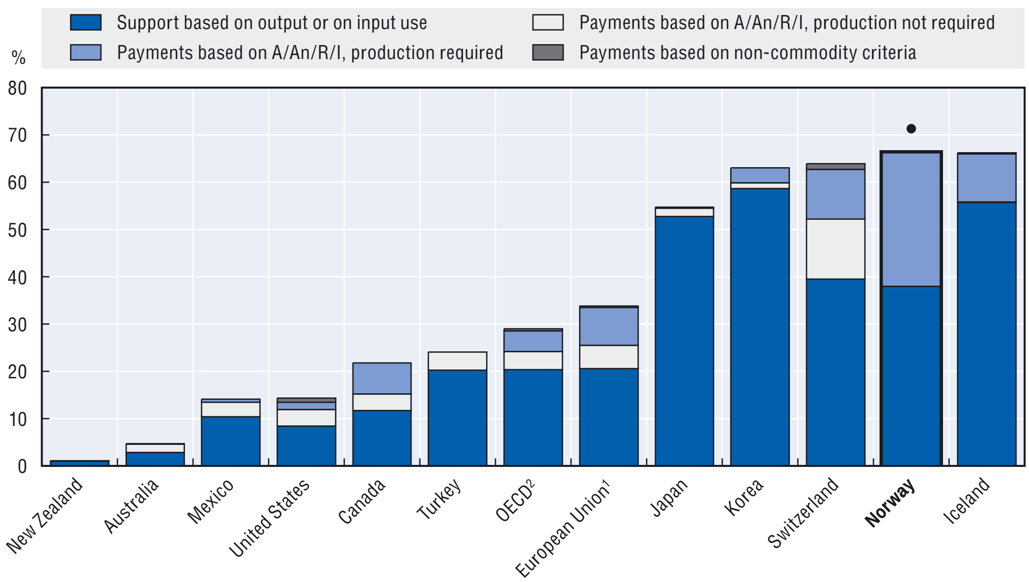
Norway

Evaluation of policy developments

- Overall, policy reform since 1986-88 has improved market orientation somewhat. There has been a move away from market price support and output payments and a modest reduction in the level of support. But the more production and trade distorting measures still account for slightly over half of support and the level of support remains very high.
- More targeted policy measures implemented in recent years, such as individual farm conservation plans, regionally based environmental payments, and incentives for year-round grazing all have the potential to improve the economic efficiency and environmental performance of policy.
- The continued use of taxes to reduce the environmental impact of pesticides is consistent with the polluter-pays-principle.
- Improving the information flow to consumers and increasing direct trading opportunities for milk quotas will allow the market a greater role in determining the patterns of production.
- However, agricultural markets are among the most highly protected in the OECD area and greater effort is required to reduce the level of production-linked support, reduce market protection and improve the targeting of policies to achieve environmental, income or other objectives in ways that are less production and trade distorting.

Figure 12.1. **Norway: 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.

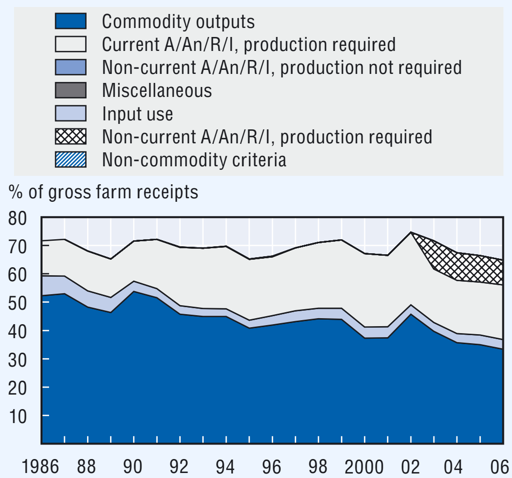
1 2 *http://dx.doi.org/10.1787/074400378411*

Summary of policy developments

In 2006, an additional grazing payment was introduced to complement existing support received for extensive grazing. This was combined with new headage payments for year-round outdoor grazing of sheep and for lamb carcasses. More emphasis is now placed on organic agriculture through increased funding and increasing milk quotas for organic farmers.

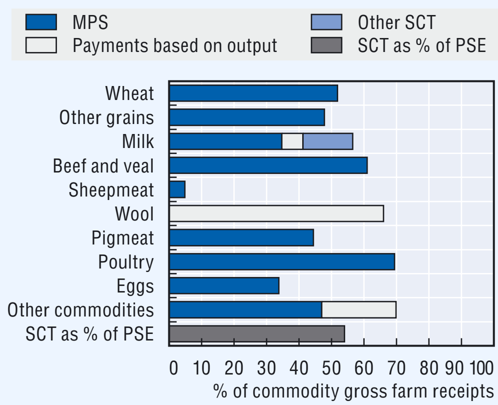
- Support to producers (%PSE) decreased from 71% in 1986-88 to 66% in 2004-06, compared to an OECD average of 29%. Support fell slightly in 2006 to 65%.
- The combined share of the most distorting types of support in the PSE fell from 78% in 1986-88 to 55% in 2004-06. Despite this reduction, during the same period the share of the least distorting types of support remained stable at approximately zero, indicating there is still room for further improvements.
- Prices received by farmers were over twice as high as those on the world market in 2004-06, compared to over four times as high in 1986-88. Farm receipts went from three and a half times what they would have been on the world market in 1986-88, to three times that amount in 2004-06.
- In 2004-06 producer single commodity transfers (SCT) by commodity was low for sheepmeat (5%), but 34% for eggs, between 40-60% for common wheat, barley, oats, milk, and pigmeat, and around 60-70% for poultry and wool. The share of total SCT in the PSE decreased from 64% in 1986-88 to 54% in 2004-06 (51% in 2006).
- The cost imposed on consumers as measured by the %CSE has fallen slightly from 56% in 1986-88 to 52% in 2004-06.
- Support for general services provided to agriculture increased from 3.9% of total support in 1986-88 to 7.5% in 2004-06. Total support to agriculture as a percentage of GDP has fallen by two thirds since 1986-88, to 1.1% in 2004-06, in line with the OECD average.

Figure 12.2. **Norway: PSE level and composition by support categories, 1986-2006**



1 2 *http://dx.doi.org/10.1787/074501837086*

Figure 12.3. **Norway: Producer SCT by commodity, 2004-06**



1 2 *http://dx.doi.org/10.1787/074546655617*

Table 12.1. **Norway: Estimates of support to agriculture**

NOK million

	1986-88	2004-06	2004	2005	2006p
Total value of production (at farm gate)	**17 354**	**18 722**	**18 868**	**18 466**	**18 832**
Of which share of MPS commodities (%)	*73*	*82*	*82*	*83*	*82*
Total value of consumption (at farm gate)	**17 899**	**18 583**	**18 433**	**18 673**	**18 644**
Producer Support Estimate (PSE)	**19 203**	**19 451**	**20 013**	**19 255**	**19 083**
Support based on commodity output	13 905	10 187	10 593	10 131	9 838
Market Price Support	9 351	8 802	9 203	8 736	8 466
Payments based on output	4 554	1 386	1 390	1 395	1 372
Payments based on input use	1 721	979	945	997	994
Variable input use	1 020	510	513	514	503
Fixed capital formation	628	387	350	403	408
On-farm services	73	82	83	81	82
Payments based on current A/An/R/I[1] production required	3 577	5 563	5 592	5 412	5 684
Of a single commodity	0	13	16	12	12
Of a group of commodities	3 539	4 719	4 825	4 647	4 685
Of all commodities	38	830	750	753	987
Payments based on non-current A/An/R/I[1] production required	0	2 722	2 882	2 715	2 568
Payments based on non-current A/An/R/I[1] production not required	0	0	0	0	0
Variable rates	0	0	0	0	0
Fixed rates	0	0	0	0	0
Payments based on non-commodity criteria:	0	0	0	0	0
Long-term resource retirement	0	0	0	0	0
Specific non-commodity output	0	0	0	0	0
Other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE	**71**	**66**	**67**	**66**	**65**
Producer NPC	**4.22**	**2.35**	**2.40**	**2.40**	**2.25**
Producer NAC	**3.42**	**2.96**	**3.07**	**2.98**	**2.84**
General Services Support Estimate (GSSE)	**848**	**1 579**	**1 624**	**1 545**	**1 569**
Research and development	472	770	736	752	821
Agricultural schools	0	0	0	0	0
Inspection services	33	323	365	306	299
Infrastructure	133	173	188	194	138
Marketing and promotion	210	62	81	51	53
Public stockholding	0	0	0	0	0
Miscellaneous	0	251	253	241	258
GSSE as a share of TSE (%)	**3.9**	**7.5**	**7.5**	**7.4**	**7.6**
Consumer Support Estimate (CSE)	**–9 244**	**–9 564**	**–9 673**	**–9 773**	**–9 245**
Transfers to producers from consumers	–11 474	–9 858	–10 050	–9 975	–9 550
Other transfers from consumers	–969	–310	–226	–421	–282
Transfers to consumers from taxpayers	1 522	82	108	70	67
Excess feed cost	1 677	523	495	554	520
Percentage CSE	**–56**	**–52**	**–53**	**–53**	**–50**
Consumer NPC	**3.35**	**2.21**	**2.26**	**2.26**	**2.12**
Consumer NAC	**2.31**	**2.07**	**2.12**	**2.11**	**1.99**
Total Support Estimate (TSE)	**21 573**	**21 112**	**21 746**	**20 870**	**20 720**
Transfers from consumers	12 443	10 168	10 276	10 397	9 833
Transfers from taxpayers	10 099	11 253	11 696	10 894	11 169
Budget revenues	–969	–310	–226	–421	–282
Percentage TSE (expressed as share of GDP)	3.57	1.12	1.27	1.10	0.99
GDP deflator 1986-88 = 100	100	190	175	190	204

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 Norway are: wheat, other grains, milk, beef and veal, sheepmeat, wool, pigmeat, poultry and eggs. Market price support is net of producer levies and excess feed costs.

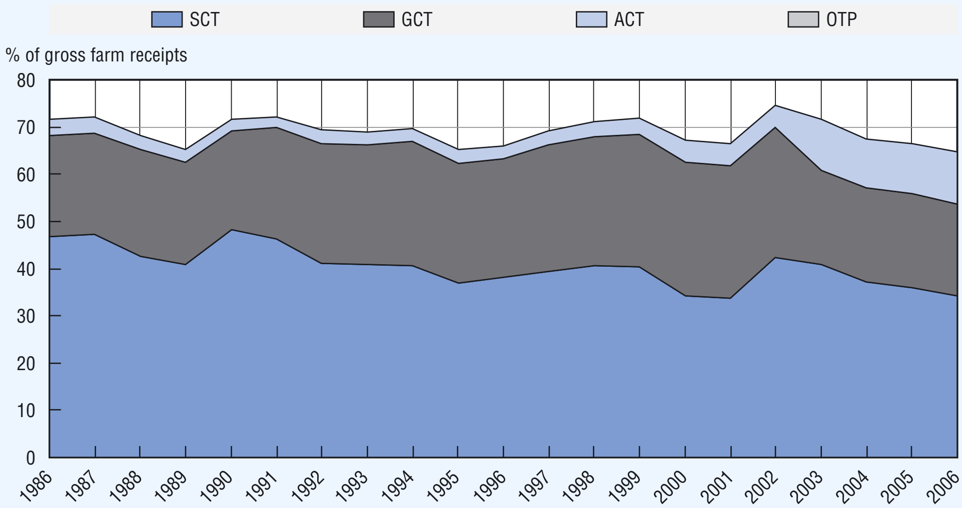
Source: OECD, PSE/CSE database, 2007.

1 2 *http://dx.doi.org/10.1787/075336204573*

Box 12.1. **Norway: Commodity-Specificity of Support**

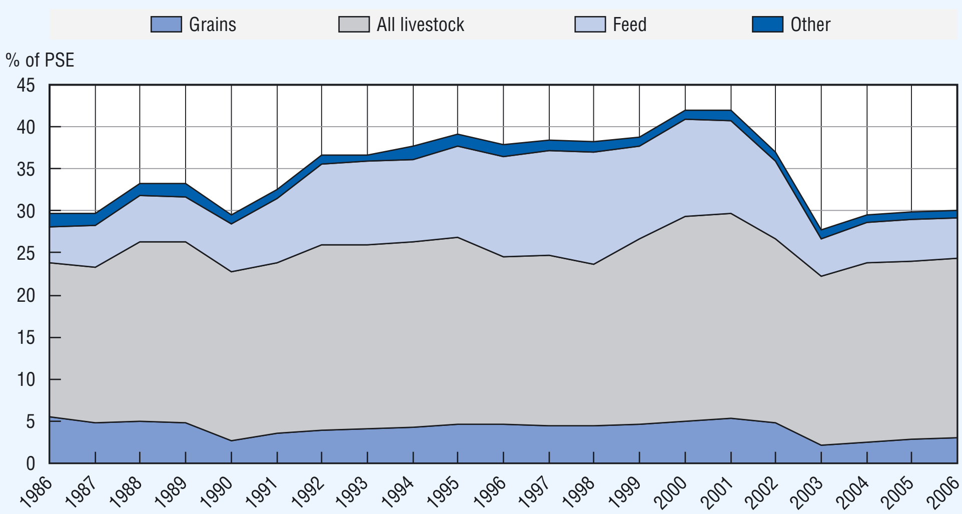
In Norway, Single Commodity Transfers (SCT) made up 53% of the PSE in 2006, a reduction from 64% in 1986-88. Group Commodity Transfers (GCT), where producers have the option to produce any one of a specified group of commodities as part of programme eligibility, made up 30% of the PSE in 2006, basically unchanged when compared to 1986-88 when it was 31%. 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 these more flexible payments comprised 17% of the PSE in 2006, up from 5% in 1986-88.

Figure 12.4. **Norway: PSE level and commodity specificity, 1986-2006**



1 2 *http://dx.doi.org/10.1787/074552287004*

Figure 12.5. **Norway: Components of GCT**



Source: OECD PSE/CSE database, 2007.

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Box 12.1. **Norway: Commodity-Specificity of Support** *(cont.)*

The increase in more flexible payments dates back to 2003 when the Cultural Landscape Programme was introduced, providing all farmers with a per hectare payment while requiring only landscape maintenance and the use of environmentally sound production practices. Transfers for producing any one of a group of commodities (GCT), accounting for 30% of PSE support are sizable, with the largest share (21% of PSE) going to livestock producers (irrespective of animal type), followed by 5% of PSE supporting production of coarse feeds, including mountain farming, and the rest going to either producers of grains (3%), or other groups. The relative importance of the different groups in terms of share of PSE support did not change much from 1986 to 2006.

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

Border measures and budgetary payments are the main policy instruments supporting agriculture in Norway. Market price support, in the form of wholesale target prices, is provided for most commodities. These target prices and most payments are negotiated annually between the government and producer representatives resulting in an Agricultural Agreement, on a July/June basis. Milk production quotas were introduced in 1983. Most of Norway's tariff-rate-quotas (TRQs) were eliminated in 2000 when the WTO bound tariff rates for these products became equal to the in-tariff quota rates. Tariffs for the vast majority of products are set between 100-400% although there is a system of "open periods" for imports at reduced tariff rates when domestic prices rise above threshold levels.

Market price support is supplemented by a variety of other support measures, including area, headage, and deficiency payments. A significant proportion of these payments are differentiated by region and farm size. Agri-environmental payments have been increasing in recent years. Producer levies are used for marketing activities, including export subsidies for livestock products, while exports of processed products and marketing activities for horticultural products are financed directly by the government.

The current direction of Norwegian agricultural policy emphasises increased consumer orientation, food safety and the multifunctional character of agriculture, while continuing to focus on promoting food security, enhancing rural development, and protecting the cultural landscape and biodiversity. The **Norwegian Agricultural Authority** (NAA), established in 2000 under the authority of the Ministry of Agriculture, is the central body implementing agricultural policy.

The ***Norwegian Food Safety Authority*** was established in 2004 bringing together into one organisation responsibilities previously held by several Norwegian agencies. The Authority is responsible for all matters relating to health, quality and other consumer interests in feed and food production and marketing. Also in 2004, a new Food Production and Safety Act was enacted to replace previous laws regulating the food chain and plant and animal health.

Another responsibility of the Authority is to implement the measures contained in ***An Action Plan for the Consumer Orientation of Food Policy (2004-05)*** jointly established by four government agencies, including the Ministry of Agriculture and Food. The objectives of the plan are to strengthen the opportunities of consumers to influence the development of food policy and to make an informed choice based on personal preference, and their confidence in the food they consume. Projects include consumer panels for advising politicians and Internet-based information sources.

Domestic policy

Target prices for cereals, after having typically fallen every year since the target price system was introduced for grains in 2001, were basically left unchanged in 2005 and 2006 (Table 12.2). Increases in target prices occurred for beef in 2005 and for sheepmeat in 2006. On 1 January 2004 a new target price for raw milk for all uses was established. Previously there were separate target prices for different groups of milk uses. This target price was

Table 12.2. **Norway: Administered prices**

Product	2004/05 (July to June) NOK/t	2004/05 (July to June) USD/t	2005/06 (July to June) NOK/t	2005/06 (July to June) USD/t	2006/07 (July to June) NOK/t	2006/07 (July to June) USD/t	Change in NOK price 04/05-06/06 %	Change in NOK price 05/06-06/07 %
	Wholesale level (excluding value added tax)							
Food grains								
Wheat	2 150	318	2 120	329	2 120	329	–1.40	0.00
Rye	1 990	294	1 960	304	1 960	305	–1.51	0.00
Feed grains								
Barley and Oats[1]	1 720	254	1 730	269	1 730	269	0.58	0.00
Oilseeds	4 280	632	4 290	666	4 330	673	0.23	0.93
Beef, bull[2]	38 110	5 632	40 130	6 230	40 130	6 235	5.30	0.00
Pigmeat[3]	27 220	4 022	27 220	4 226	26 220	4 074	0.00	–3.67
Sheepmeat, lamb[2]	44 000	6 502	44 000	6 831	46 000	7 147	0.00	4.55
Eggs[4]	13 600	2 010	13 600	2 111	13 830	2 149	0.00	1.69
Poultry	26 030	3 847	25 010	3 883	25 010	3 886	–3.92	0.00
Milk[5]	3 673	5 780	3 702	575	3 721	578	0.79	0.51

1. The same target price applies to both barley and oats.
2. Class O- and better; Carcasses.
3. Class E; Carcasses minus head and trotter.
4. Class A, weighing more than 53 grams.
5. Converted from litres, assuming 1 litre equals 1.032 kilograms of milk.

Source: Ministry of Agriculture, Oslo, 2007.

increased by less than 1% in the 2004/05 annual agreement. Overall, changes in target prices since 2004/05 are estimated to have increased the total value of farm gate production by NOK 300 million (USD 46.6 million), or around 2%.

In Norway, agricultural co-operatives are responsible for market regulation within their respective sectors. Market regulation measures are funded in part by producer levies (marketing fees) imposed on agricultural products, paid by the producers. These levies decreased for grain, sheepmeat, poultry, and eggs, reflecting the fact that there has been only limited surplus production. Beef and pigmeat are the exceptions to this downward trend of marketing fees indicating that significant surplus production has led to lower market prices (Table 12.3). However, surplus production and imports of beef appeared mainly in 2005 and the first part of 2006, and are not expected to be a recurrent issue.

Table 12.3. **Norway: Average marketing fees 2005, and per cent change in 2006 and 2007**

(NOK per l/kg, 1st of January)

	1 January 2005		Jan. 05-Jan. 06	Jan. 06-Jan. 07
	NOK per l/kg	USD per l/kg	% change	% change
Grain	0.04	0.01	0	–50
Milk	0.08	0.01	25	20
Beef	0.50	0.08	40	214
Sheepmeat	3.00	0.47	–17	–60
Pigmeat	2.40	0.37	–21	42
Egg	0.80	0.12	0	–25
Chicken	0.45	0.07	–44	–20
Turkey	0.30	0.05	–17	–20

Source: The Agricultural marketing Board/Norwegian Agricultural Authority.

Milk production quotas have been tradable since 1997 through a system whereby the NAA purchases and on-sells quota. The government has used this system to reduce production in response to lower domestic consumption and the WTO limits on subsidised exports. Over the period 1997-2001, the government on-sold only 36% of the quota it purchased, withdrawing the other 64% (275 million litres or 15% of production) from the market. Since 2001, it has not been necessary to withdraw quota from the market and so all milk quota purchased by the NAA has been on-sold. In fact, quotas were increased by 2% in 2005 and will be increased by an additional 1% in 2007.

Some flexibility in the system was introduced in 2003 with the government restricting itself to purchasing only 70% of the offered quota (for either on-sale or withdrawal), with the remainder able to be traded directly between farmers. In 2004, the share that farmers could sell directly was increased to 60%, but will be brought down again to 50% in 2007. Sales remain restricted through both systems to existing producers within the same county, with any surplus held by the NAA offered to new milk producers. In addition, in 2006 the maximum milk quota for individual farms was increased by 9%, from 375 000 to 400 000 litres for cow milk and from 187 500 to 200 000 litres for goat milk. In 2006, 10% of the quota bought by the state was earmarked for producers of organic milk, and this amount can be redistributed between counties.

Since July 2003, Tine, the farmer co-operative responsible for raw milk price setting and market regulation, has separated its functions of collecting and selling raw milk from that of processing dairy products. Efforts are also being made to ensure that the prices of processed dairy products charged by Tine are cost-based in an attempt to increase competition in the milk processing sector.

Following the elimination of the ***base deficiency payment*** for milk in 2002, the NOK 1.81/kg deficiency payment for beef and veal was eliminated in 2003. Deficiency payments remain only for wool, sheepmeat, goatmeat and goat milk, with payment rates for these products remaining constant except for goat milk that was increased by 25% in 2005 and by 12% in 2006. No changes were made to the ***regional deficiency payments*** except for a small increase starting in 2007 for cow milk and goat milk (only in some regions) and for eggs.

Support for NOK 2.1 billion (USD 333 million), approximately 18% of budgetary support, is provided in the form of ***headage payments*** under the Production Subsidy to Livestock Programme for cows, beef cattle, sheep, goats, breeding pigs, pig for slaughter and laying hens (Table 12.4). Limits are placed on the animals per farm eligible to receive headage payments. In contrast to the area payment programme, a regional distinction is only made for laying hens and breeding pigs. In 2005/06, headage payments decreased or remained unchanged for all animals except sheep and suckler goats up to 100 animals. New headage payments were introduced in 2005/06 for *i)* lamb carcasses paying NOK 200 per animal (USD 31/animal) and for *ii)* year-round outdoor grazing of sheep NOK 100/animal (USD 15/animal) for up to 300 animals.

In 2003, the ***Acreage and Cultural Landscape Programme***, worth around NOK 3 billion (USD 440 million) or one quarter of total budgetary support to farmers, was separated into two programmes. Under the ***Cultural Landscape Programme*** in 2006 farmers received a ***uniform payment*** of NOK 1 870 (USD 277) per hectare for all agricultural land, down from NOK 2 000 (USD 296) in 2004. To receive funds farmers must meet the compliance requirements already in place relating to the maintenance of the landscape and the use of environmentally sound production practices.

The separate Acreage Support Programme also provides ***area payments*** to producers, but focuses on providing payments to less-favoured areas, encouraging certain crops or providing support to small farmers, to compensate for the maintenance of certain landscapes which incur extra costs. Consequently payment rates vary by crop, region and farm size. In 2004/05, an additional payment of NOK 500 (US 74) per hectare was introduced on grassland over 20 hectares. Starting in 2007 acreage support payments for vegetable and for fruit and berries, previously limited to 3 hectares, will be expanded to areas up to 6 hectares for vegetables and 4 hectares for fruits and berries, albeit at a lower rate for the additional acres. Total expenditures in 2006 for the Acreage Support and the Cultural Landscape Programmes remained stable at NOK 3 billion (USD 470 million).

To better co-ordinate the range of payments being provided for environmental objectives, a ***National Environmental Programme*** was established in 2004. It includes national agri-environmental goals with the objectives of safeguarding the cultural landscape, including biodiversity, cultural heritage, public access, and reducing pollution. Under the Programme all farms are required to establish an environmental plan. Several payment schemes fall under the Programme, including Acreage Cultural Landscape Support, payments to extensive grazing, support to organic agriculture, and regional environmental programmes. In 2006, an additional grazing payment, complementary to the support received for extensive grazing in outlying fields, was introduced. For 2007, the funding for the new scheme is NOK 125 million (USD 19.4 million). Concerning support to organic agriculture, funding in 2007 will be increased by 25 million NOK to 150 million NOK (USD 23.3 million).

The National Environmental Programme also provides a greater role for the 18 regional administrations. In particular, several national environmental payment programmes paid out of the Agricultural Development Fund have been abolished (*e.g.* payments to administer cooperatives for extensive grazing, payments to mountain farming and support to changed cultivation practices), with the funding being made available to the 18 counties for the establishment of new environmental and forestry measures. Each of the 18 counties must establish an environmental programme based on regional priorities for achieving the national goals. The main reasons for the devolution of responsibility are to raise local public awareness of agri-environmental issues, to better target local needs and to improve the efficiency of delivery. Funding for this programme was increased from NOK 350 million (USD 54 million) in 2005 to NOK 390 million (USD 61 million) in 2007.

In 2003, the Norwegian authorities conducted an evaluation of the National Plan for Pesticide Risk Reduction (1998-2002), which includes a banded, area-based tax on pesticide use. It revealed that farmers are shifting their pesticide use to less environmentally harmful varieties. A new ***Action Plan for Pesticide Risk Reduction (2004-08)***, built on the equivalent main elements contained in the previous plan, began on 1 October 2004. It includes an increase in the number of tax classes from three to five to give a better differentiation of the health and environment risks and an increase in the pesticide tax rates by approximately 25% in 2005 with no further changes in later years.

Trade policy

Export subsidies are used for the promotion of branded cheese, exports of processed agricultural products and to dispose of surplus meat, eggs and dairy products. Although

Table 12.4. **Norway: Headage payments**

Animal	Number of animals per farm	2004/05 (July to June)		2005/06 (July to June)		2006/07 (July to June)		Change in NOK price	
								04/05-05/06	05/06-06/07
		NOK/head	USD/head	NOK/head	USD/head	NOK/head	USD/head	%	
Milk cow and suckler cow	1-16	2 990	464	2 960	460	3 120	484	–1.00	5.41
	17-25	1 614	251	1 584	246	1 584	246	–1.86	0.00
	26-50	426	66	396	61	396	61	–7.04	0.00
Bovine	1-250	787	122	787	122	787	122	0.00	0.00
Milk goat	1-125	1 008	156	900	140	900	140	–10.71	0.00
	126-250	520	81	412	64	412	64	–20.77	0.00
Sheep and suckler goat	1-100	570	88	598	93	624	97	4.91	4.35
	101-250	113	18	113	18	113	18	0.00	0.00
Year-round sheep grazing	1-300	0	0	100	16	100	16	n.a.	0.00
Lamb carcasses		0	0	200	31	209	32	n.a.	4.50
Breeding pig	1-25 southern Norway	594	92	594	92	750	116		n.a.
	1-25 northern Norway	881	137	881	137	1 037	161	0.00	26.26
	26-70	594	92	594	92	594	92	0.00	17.71
Slaughter pig	1-1 400	28	4	28	4	28	4	0.00	0.00
Laying hen	1-1000 southern Norway	12	2	12	2	12	2	0.00	0.00
	1-1000 northern Norway	26	4	26	4	26	4	0.00	0.00
	1001-5000	12	2	12	2	12	2	0.00	0.00

Source: Ministry of Agriculture, Oslo, 2007.

Norway's last notification to the WTO occurred in 2001, based on preliminary figures the total value of export subsidies in 2002 and 2003 was NOK 261 million (USD 39 million) and NOK 320 million (USD 47 million) respectively after averaging NOK 622 million (USD 92 million) during the six years (1996-2000) relating to the URAA reduction period. Restrictions on export subsidies established under the URAA have been binding on cheese, with Norway using the full volume and budget commitment levels in most years. Norway provided NOK 220 million (USD 33 million) for ***food aid*** in both 2002 and 2003, mainly in the form of cash in lieu of commodities. In 2002 and 2003, the simple average fill rate for the remaining ***tariff-quotas*** (covering 15 products) were 38% and 47% respectively.

Negotiations with the EU over a reduction in trade barriers for basic agricultural products on the basis of Article 19 of the EEA Agreement were finalised in December 2002 and implemented on 1 July 2003. Negotiations with the EU to remove the industrial element of the tariff on processed products were finalised in March 2004 and implemented in November 2004. Through EFTA, Norway is involved in broader ***free trade agreement*** negotiations with a number of countries, which include processed agricultural products and, on a bilateral basis, several basic agricultural products. In 2006, agreements were signed with the South African Customs Union and with Egypt. Previously signed agreements with Korea and Lebanon were implemented in 2006 and 2007 respectively. Negotiations continue with Canada, Thailand and the GCC (Gulf Co-operation Council).