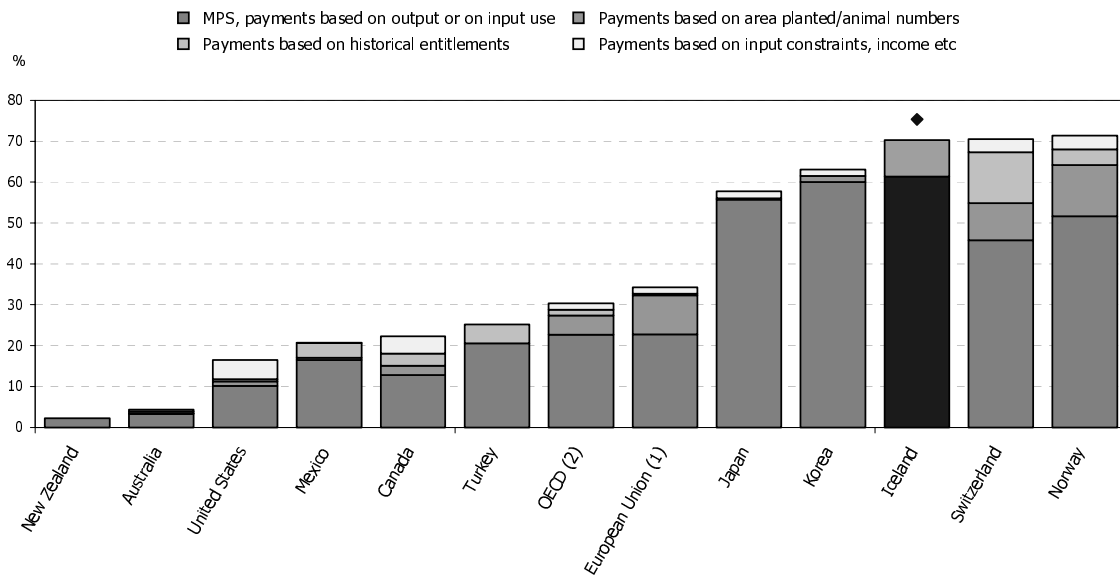


## ICELAND

### Evaluation of policy developments

- Overall, since 1986-88 there has been limited progress in policy reform, with only a slight fall in the level of producer support, which remains among the highest in the OECD. There has been a notable shift from market price support to payments based on historical entitlements for sheepmeat. As the result, the share of market price support in producer support has dropped significantly.
- The abolition of administered dairy prices at the wholesale level, scheduled for 2004, was postponed indefinitely. This was a missed opportunity to bring dairy into line with other agricultural sectors where all administered prices have been abolished.
- Payments to dairy farmers are based on output, which are highly production and trade distorting. Unfortunately no major changes are foreseen, as an eight-year framework agreement on government support to dairy production was signed in 2004.
- Further efforts are required to reduce the very high levels of support, improve market access, and introduce forms of support that are more efficient at targeting explicit policy objectives in ways that are less production and trade distorting.

**Producer Support Estimate by country, 2002-04**  
(Percent of gross farm receipts)



**Notes:**

1. EU15 for 2002-03; EU25 for 2004.

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

Source: OECD, PSE/CSE database, 2005.

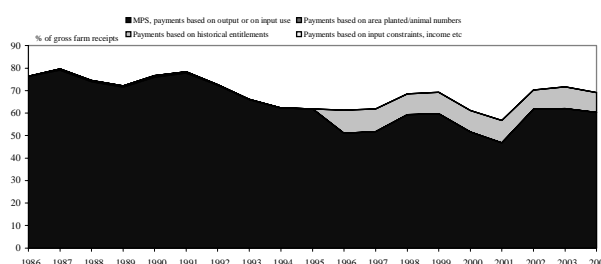
## Summary of policy developments

The abolition of the administered price for milk at wholesale level which had been scheduled for 2004 was postponed indefinitely, with legislation providing for the possible abolition of administered prices at any time by decision of the competent authorities. A new agreement on a framework for government support to dairy production was signed between the government and the farmers' union in May 2004 which will continue the current system till 2012.

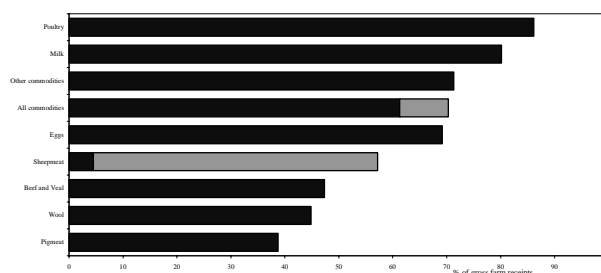
- Support to producers, as measured by the %PSE, has fallen from 77% in 1986-88 to 70% in 2002-04. However it is still more than twice the OECD average. Milk and sheepmeat account for the largest share of the total PSE, while poultry, milk and eggs report the highest %PSEs.
- The combined share of market price support (MPS), output and input payments in producer support has fallen from 99% in 1986-88 to 87% in 2002-04. Prices received by farmers in 1986-88 were over 4 times higher than those received in the world market. By 2002-04, the gap had decreased to just over 3 times.
- Payments based on historical entitlements began in 1996 and totalled ISK 1 957 million (USD 28 million) in 2004, accounting for 13% of PSE.
- The cost imposed on consumers, as measured by the %CSE, fell from 72% in 1986-88 to 54% in 2002-04.
- Support for general services provided to agriculture has decreased from 9% of total support in 1986-88 to 8% in 2002-04.
- Total support to agriculture as share of GDP has decreased from 5.1% in 1986-88 to 2.1% in 2002-04.

### Producer Support Estimate (PSE)

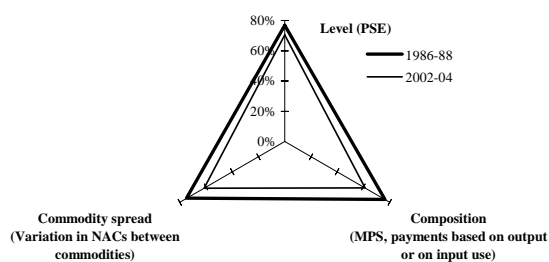
Level and composition over time...



...by commodity, 2002-04 average



...and reform progress



Agriculture accounts for 9% of GDP and 4% of total employment in Iceland. Milk and sheepmeat are the two major agricultural commodities and developments in domestic agricultural policies have been concentrated in these two sectors. Iceland allows only small quantities of imports that compete with major domestically produced commodities.

**Table 2.5. Iceland: Estimates of support to agriculture**

(ISK million)	1986-88	2002-04	2002	2003	2004p
<b>Total value of production (at farm gate)</b>	<b>9 644</b>	<b>13 411</b>	<b>13 481</b>	<b>13 079</b>	<b>13 672</b>
<i>of which share of MPS commodities (%)</i>	80	78	78	77	78
<b>Total value of consumption (at farm gate)</b>	<b>8 750</b>	<b>12 178</b>	<b>12 561</b>	<b>11 721</b>	<b>12 254</b>
<b>Producer Support Estimate (PSE)</b>	<b>8 022</b>	<b>15 346</b>	<b>15 127</b>	<b>15 623</b>	<b>15 288</b>
Market Price Support (MPS)	7 218	6 931	7 069	6 894	6 828
<i>of which MPS commodities</i>	5 795	5 385	5 501	5 318	5 335
Payments based on output	113	5 928	5 742	6 061	5 980
Payments based on area planted/animal numbers	48	0	0	0	0
Payments based on historical entitlements	0	1 965	1 840	2 096	1 957
Payments based on input use	643	524	476	572	523
Payments based on input constraints	0	0	0	0	0
Payments based on overall farming income	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
<b>Percentage PSE</b>	<b>77</b>	<b>70</b>	<b>70</b>	<b>72</b>	<b>69</b>
<b>Producer NPC</b>	<b>4.37</b>	<b>3.15</b>	<b>3.13</b>	<b>3.28</b>	<b>3.03</b>
<b>Producer NAC</b>	<b>4.36</b>	<b>3.37</b>	<b>3.36</b>	<b>3.53</b>	<b>3.23</b>
<b>General Services Support Estimate (GSSE)</b>	<b>935</b>	<b>1 331</b>	<b>1 265</b>	<b>1 393</b>	<b>1 335</b>
Research and development	93	221	217	233	214
Agricultural schools	149	546	469	608	561
Inspection services	39	118	123	108	124
Infrastructure	281	185	179	192	184
Marketing and promotion	10	10	27	2	2
Public stockholding	359	244	244	244	244
Miscellaneous	5	6	7	6	6
<b>GSSE as a share of TSE (%)</b>	<b>8.8</b>	<b>7.9</b>	<b>7.6</b>	<b>8.0</b>	<b>7.9</b>
<b>Consumer Support Estimate (CSE)</b>	<b>-5 076</b>	<b>-6 374</b>	<b>-6 696</b>	<b>-6 183</b>	<b>-6 243</b>
Transfers to producers from consumers	-6 682	-6 493	-6 641	-6 384	-6 454
Other transfers from consumers	-99	-146	-301	-86	-51
Transfers to consumers from taxpayers	1 705	265	246	287	262
Excess feed cost	0	0	0	0	0
<b>Percentage CSE</b>	<b>-72</b>	<b>-54</b>	<b>-54</b>	<b>-54</b>	<b>-52</b>
<b>Consumer NPC</b>	<b>4.49</b>	<b>2.20</b>	<b>2.24</b>	<b>2.23</b>	<b>2.13</b>
<b>Consumer NAC</b>	<b>3.68</b>	<b>2.15</b>	<b>2.19</b>	<b>2.18</b>	<b>2.09</b>
<b>Total Support Estimate (TSE)</b>	<b>10 662</b>	<b>16 942</b>	<b>16 638</b>	<b>17 303</b>	<b>16 885</b>
Transfers from consumers	6 781	6 639	6 942	6 470	6 506
Transfers from taxpayers	3 980	10 449	9 998	10 918	10 430
Budget revenues	-99	-146	-301	-86	-51
<b>Percentage TSE (expressed as share of GDP)</b>	<b>5.07</b>	<b>2.07</b>	<b>2.14</b>	<b>2.14</b>	<b>1.94</b>
<b>GDP deflator 1986-88 = 100</b>	<b>100</b>	<b>274</b>	<b>274</b>	<b>272</b>	<b>278</b>

Notes: p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient. Market price support is net of producer levies and excess feed costs. MPS commodities for Iceland are: milk, beef and veal, sheepmeat, wool, pigmeat, poultry and eggs. Source: OECD, PSE/CSE database 2005.