Agricultural Policies in OECD Countries: Monitoring and Evaluation 2005

Summary in English

EXECUTIVE SUMMARY

There has been little change in the level of producer support since the late 1990s for the OECD as a whole. It has fallen from 37% of farm receipts in 1986-88 to 30% in 2002-04, but this level of support was first reached seven years ago in 1995-97. Annual fluctuations in the level of support mainly reflect policy measures limiting the transmission of international trade price developments to domestic markets. Policy reform has focussed on changing the way in which support is provided to producers, with a notable shift away from production-linked measures. While this shift may well continue over the coming years, production-linked measures still dominate producer support in most countries, encouraging output, distorting trade and contributing to lower world prices of agricultural commodities. In addition, some product sectors have remained relatively unaffected by reforms to date and there is a strong need to address this deficiency. Despite the move away from production-linked support, there is only a very modest move to policies targeted to clearly defined objectives and beneficiaries. Further efforts are needed to ensure that policies are more transparent in operation, tailored to specific outcomes and flexible in responding to changing priorities.

OECD agriculture continues to be characterised by high levels of support,with large differences between countries.

In 2004, the value of support to producers in the OECD as a whole is estimated at USD 279 billion or EUR 226 billion. As measured by the percentage PSE, support accounted for 30% of farm receipts, the same level as in 2003. Including support for general services to agriculture such as research, infrastructure, inspection, and marketing and promotion, total support to the agricultural sector was equivalent to 1.2% of OECD GDP in 2004.

Within the OECD, support to producers in 2002-04 was below 5% of farm receipts in Australia and New Zealand. It averaged around 20% in Canada, Mexico and the United States, and 25% in Turkey. At 34%, the level of support in the European Union (EU)[1] was above the OECD average of 30%. Support to producers in Japan and Korea averaged about 60% and around 70% in Iceland, Norway and Switzerland.

Since 1986-88, the level of producer support has fallen in most countries, remained constant in Norway, but has risen in Turkey. The largest decrease in the level of producer support has occurred in Canada, with other notable decreases in Mexico (since 1991-93) and New Zealand. Among the high support countries, the greatest reduction has occurred in Switzerland. Total support to agriculture in the OECD has fallen from 2.3% to 1.2% of GDP between 1986-88 and 2002-04. This is a similar trend for all OECD countries except Turkey where the share of total agricultural support in GDP increased, reflecting among other things, GDP levels and growth.

Greater efforts have been made in changing the way in which support is provided to producers, but little reform has occurred in some sectors.

The share of the most production and trade distorting forms of support – those linked to outputs or inputs – has declined from 91% of producer support in 1986-88 to 74% in 2002-04. A decrease in output-linked support is also shown by a reduction in the gap between producer and border prices. In 1986-88, the average producer price in the OECD as a whole was 60% higher than the border price; by 2002-04 the gap had reduced to 30%. The largest reductions in the gap have occurred in Switzerland, the EU and Norway, countries with a level of support above the OECD average. However, most of the reduction occurred before the late-1990s. Reductions in these forms of support have been accompanied by increases in payments based on area or animal numbers or on historical entitlements that have limited the impact on farm receipts, with some payments having compliance conditions.

1. From 2004 onwards, support estimates are calculated for the EU of 25 member states. The six non-OECD EU member states (Cyprus, Estonia, Latvia, Lithuania, Malta and Slovenia) are included in the estimates of support for the EU25 but not in the OECD total.

Between 1986-88 and 2002-04 differences in support levels between commodities have declined in all countries, with the smallest decreases in the EU, Japan and Korea and the largest in Canada and Switzerland. The greatest reductions in the level and improvements in the composition of support have occurred in the sheepmeat and grain (other than rice) sectors. Sugar, rice and milk remain the most highly supported commodities.

EU enlargement was a significant process for both the old and new member states.

On 1 May 2004, ten new member states joined the EU including four OECD countries, the Czech Republic, Hungary, Poland and the Slovak Republic. As a result of pre-accession treaties, trade flows between the EU25 countries had already increased and are expected to continue doing so after accession. Only in the grain sector are countries outside the EU25 significant import sources for the ten new members. For these new EU countries, the accession process resulted in a progressive increase in the level of support for both producers and general services to agriculture. While increasing, the level of producer support in the new member states remains lower than in the EU15. Consequently, the enlargement is estimated to have reduced the level of producer support in the EU by one percentage point.

Decisions were taken on how to implement the EU single payment schemes.

As part of the 2003 CAP reform, the majority of EU15 countries decided to begin implementing the single payment scheme in 2005, with the rest (Finland, France, Greece, the Netherlands and Spain) commencing in 2006. Germany, Ireland, Italy, Luxembourg and the United Kingdom chose to maximise, while France chose to minimise, the use of the decoupling provision of the single payment scheme. The majority will base the single payment on farm level historical entitlements, with Denmark, Finland, Germany, Luxembourg, Sweden and the United Kingdom using a mix of both farm level historical and regionalised payments. With the exception of Malta and Slovenia new member states implemented single area payment schemes (SAPS) in 2004, providing a flat rate (averaging EUR 48 per hectare across the eight) for all agricultural land, with all ten providing "top-up" payments. These contributed to increases in agricultural income in all new member states except Cyprus, Malta and Slovenia. After the transitional SAPS phase, the new member states will implement the single payment scheme on the basis of the regional model.

Other notable developments in support programmes occurred in 2004.

In the United States, lower cereal prices led to significant increases in support provided through the marketing loan and counter-cyclical payment programmes. The EU decided that commodity-linked payments for olive oil, hops, cotton and tobacco would be gradually incorporated into the single payment schemes from 2006 (2005 for hops). The

Canadian Agricultural Income Stabilisation programme replaced several income support measures, and insurance programmes were expanded in France, Italy, Korea and Spain. A few countries reduced taxes or offered subsidies to compensate for higher fuel prices. Emergency payments in response to weather disasters were provided in many countries.

An important component of the Swiss AP 2004-07 programme is the gradual abolition of dairy quotas. The United States announced the abolition of tobacco quotas from 2005, replacing them with a ten-year quota buyout payment. Greater flexibility was introduced into the rice production adjustment system in Japan, with government purchases now determined by tender rather than by set prices. Norway has increased private trading possibilities for milk quotas.

Agri-environmental and food safety policies continue to be developed.

Australia, Canada, Mexico and the United States introduced measures to improve water allocation and/or use. Norway established a framework to better coordinate and target agri-environmental payments. Environmental cross-compliance conditions on support payments became mandatory in the EU and were introduced in Japan. Denmark and Norway increased taxes on agricultural pollutants. Several countries implemented traceability systems, including for GMOs, or restructured food regulations and administrations.

Trade agreements and WTO agricultural panel disputes will influence the reform process.

In 2004, almost all OECD countries were involved in either concluding or commencing implementation of bilateral or regional trade agreements. While these generally include an agricultural component, sensitive products are often exempt from liberalisation commitments. After stalling in September 2003, the Doha Development Agenda (DDA) round of trade negotiations was revived in 2004. Progress was made in establishing a framework for agriculture but many of the important details are still to be negotiated. While bilateral/regional agreements can trigger some policy adjustments, progress at the multilateral level is much needed to invigorate the process of agricultural policy reform.

Partly as a result of the delay in concluding the DDA, the number of agriculture-related WTO panel disputes is increasing. While both OECD and non-OECD countries have been the complainants, OECD countries have almost always been the respondents. Panels have covered a broad range of issues including domestic payments, export subsidies, market access arrangements, state trading enterprises, and phytosanitary requirements. The outcome of these panel decisions have important consequences for both domestic policy reform and for the multilateral commitments currently being negotiated.

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