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NOTE BY THE SECRETARIAT

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This document is divided into three main chapters with supporting annexes. The first chapter reviews the major policy developments in 2005 and 2006. The second evaluates changes in support policies using the PSE/CSE and related indicators. The third chapter provides information on the new PSE method, which is used for the first time in this M&E report. It forms part of the report entitled *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2007*, which is circulated on OLIS as four separate documents:

**Executive Summary**

**Part I – Main Policy Developments and Evaluation**

**Part II – Country Chapters**

**Part III – Summary Tables of Estimates of Support for OECD countries**


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CHAPTER 1

MAIN POLICY DEVELOPMENTS IN 2005 AND 2006

1. Agricultural policy developments in 2005-06 were dominated by the implementation of policy reforms decided in earlier years mainly in the EU, Japan, and Korea. There was a general move towards allowing farmers more flexibility as to what they are required to produce to be eligible for support, or not to produce at all. Constraints on farming practices are becoming more frequent through more regulation and compliance conditions. Government involvement in promoting renewable energy sources from agriculture also grew.

2. Many countries were involved in preparing for new farm legislation. They share the goals of a competitive farm sector in the global economy, while protecting the environment and rural areas, and meeting the broader concerns of society. In the international arena, no conclusion was reached in the multilateral negotiations in the Doha Development Agenda, but there was a proliferation of negotiations on bilateral and regional trade agreements.

3. The increases in many commodity prices on world markets resulted in a fall in market price support. In recent years there has been a tendency towards some convergence of policies across OECD countries – a greater role for market signals to guide production decisions, increased attention to policies to address a wider set of objectives, and reflections on the appropriate roles of agricultural and other policies. Nevertheless, the experiences of OECD countries have varied in the depth, breadth and pace of reform.

1.1. Developments in domestic policies

Objectives are wide – ranging and instruments and implementation mechanisms are adjusting

4. The objectives of agricultural policy are extensive – ranging from farm income maintenance, farm and agri-food business competitiveness, environmental sustainability, resource management and pollution control, to food security and food safety, food quality, alleviation of climate change risk, animal welfare, rural viability and preservation of culturally valuable landscapes.

5. Within the broad suite of policy instruments, countries are gradually steering away from the least targeted and most distorting forms of support to less distorting ones. Price support measures, such as administered prices, import tariffs and export subsidies, are being progressively reduced. Budgetary payments are increasingly subject to environmental and other cross-compliance requirements although they are also income supporting. Governments continue to take the decoupling route while also trying to increase the competitiveness of the agri-food sectors. Yet, in the absence of trade reform, abolition of the most distorting measures might not trigger all the adjustments needed.

6. Decentralisation, delegation of responsibilities and co-financing to sub-national and regional authorities continued across OECD countries. In some countries, rural development strategies are progressively moving away from a largely agricultural focus in less favoured areas, to broader, more territorially-based policies.
7. The PSE reflects exogenous market and other developments as well as changes in policies across countries. For example the presence of border measures may prevent the transmission of lower world prices into domestic markets, thus increasing market price support even though there are no other policy changes.

New policies were implemented in the EU

8. The introduction of Single Payment Schemes in the European Union (EU) further increased the flexibility afforded to farmers in their production decisions, but some commodity-linked area and headage payments remained in some EU countries. Depending on the country, the single payment was implemented over the two years 2005 and 2006, with a gradual inclusion of dairy payments between 2005 and 2007. As a result, payments not based on current commodity parameters and not requiring production (category E) now represent 28% of the EU PSE. Efforts were made to simplify the implementation of the CAP and budgetary discipline was reinforced.

9. Specific transitional schemes apply in new EU member states. Most apply the Single Area Payment Scheme (SAPS), under which each hectare receives the same payment rate, until 2010. New member states received 30% of the EU15 direct payment rate in 2005, 35% in 2006 and 40% in 2007. Most EU member states, though, complemented EU funds with Complementary National Direct payments (CNDP or top-up payments) from national funds granted as commodity-specific area or headage payments. In some countries they were co-financed from Rural Development Regulation funds. Bulgaria and Romania joined the EU in January 2007 and from that date have begun to apply the CAP.

10. A significant reform of the sugar support regime in the EU came into force in July 2006. The reform includes a reduction of guaranteed prices over four years, the abolition of intervention and establishment of a private storage system in case the market price falls below the reference price, a single quota, the introduction of a charge on farmers producing beyond quota, partial compensation payments to be included in the single payment and a voluntary restructuring scheme, as well as concomitant modifications to preferential import systems.

11. With respect to market price support measures, the decrease of intervention prices for butter and skimmed milk powder continued in the EU, while the sugar reform led to a decrease in the minimum sugar beet price as well as in the safety net price for sugar. Other support prices remained unchanged in 2005 and 2006. EU sugar quotas were cut, quotas for starch potatoes rose, and milk quotas in the EU15 increased.

Policies in other OECD countries remained largely unchanged, market price support and output payments varied with world prices

12. 2005 and 2006 were marked by generally high commodity prices and several natural calamities. High commodity prices resulted in lower deficiency payments and market price support; natural calamities and outbreaks of animal disease prompted a variety of policy responses resulting in budgetary outlays.

13. Price support reflecting differences between domestic and world commodity prices saw the largest decrease. In Korea, the gap between domestic and border prices fell significantly for rice, milk, and poultry and no payments were made from the calf breeding stabilisation scheme. In the United States, counter-cyclical payments based on current prices and past production increased by 11% in 2005, but fell by two-thirds in 2006.

14. Prices administered by governments were not subject to much change. In Japan purchasing prices for wheat and barley declined, while selling prices for their products as well as for calves and the floor level of the pigmeat price stabilisation band remained unchanged. Korean purchase prices of barley and maize have been held constant since 2001. In Norway deficiency payment rates for wool and
sheepmeat remained constant. Loan rates, direct payment rates, and target prices in the United States were pre-determined for the period 2002-07.

15. The dismantling of administered prices for milk at the wholesale level in Iceland had been scheduled but was then postponed indefinitely. In Norway target prices for beef increased in 2005 and for sheep meat in 2006, as did the deficiency payment rates for goat milk. Purchasing prices in Turkey decreased in 2005 for all commodities except tobacco and sugar, but increased for most types of wheat, rye, oats and tobacco in 2006. As scheduled, target prices for cereals in the United States increased in 2004, but remained constant in 2005 and 2006.

16. Production quota developments were not uniform across countries. In Norway the maximum milk quota for individual farms was increased, while the total milk quota did not change significantly. The production quota for sugar beet in Turkey remained unchanged at its 2002 level. Switzerland gradually phased out the milk quota system. By 2006, 63% of producers accounting for 75% of production had already left the quota production system. After the rice policy reform in Japan, farmers and farmers’ organizations, rather than the government, will decide on production adjustment policies.

**Budgetary payments continue to embrace increased flexibility**

17. While most of the EU payments that are integrated into the single payment do not require production, some commodity specific payments remain in some countries (such as payments per hectare of cereals, oilseeds, protein crops, rice, dried fodder and energy crops) and livestock payments. Those payments were maintained at their 2004-05 levels adjusted by the coupling rate where relevant. The dairy premium, which will be incorporated into the single payment, was increased in 2005 and 2006 following the cut in support prices. In Norway headage payments decreased or remained unchanged for all animals except sheep and suckler goats. New payments were introduced for lamb carcasses and for year-round outdoor grazing of sheep. In Turkey, there was an increase in the rate of income support payments granted on a per hectare basis to all registered farmers.

18. Iceland reduced output based milk payments and introduced a payment based on the number of bovine animals, a payment for animal breeding programs and a payment for land improvement. Following a sharp fall in rice prices after the abolition of government purchases, Korea implemented a two-tier area-based payment system, and these policy changes resulted in a decline of production and cultivated area. The fixed payment element based on historical production increased between 2005 and 2006, while the variable payment element, based on the difference between the target and the current post-harvest price and given only to farmers currently producing rice, decreased. Japan decided to introduce three new payments: one based on historical area in a defined and fixed base period to correct geographical handicaps; a second to encourage quality improvement, and a third to mitigate income instabilities due to price and yield fluctuations. Wheat, barley, soybeans, sugar beet and starch potatoes are eligible for all three payments, rice only for the latter. Environmental compliance and other conditions apply.

19. Most transition programmes in 2005-06 concerned tobacco. Australia assists former tobacco growers in re-establishing themselves in alternative economic activities, including off-farm. An adjustment assistance programme in Canada also aims to retire base and production quotas for tobacco. The US tobacco program was terminated and tobacco producers and quota holders will receive transition “buy-out” payments, funded by a levy on tobacco manufacturers and importers. Following the 2004 reform of the EU tobacco regime, an increasing share of the payment will be gradually included in the single payment up to 2010.
Greater emphasis on environmental sustainability and addressing long-term climate change

20. Environmental sustainability is usually expressed as emphasis on water protection, limits to air pollution, reduction of pollution from fertilisers and chemicals, protection from soil erosion, and conservation of biodiversity and cultural landscapes. **New Zealand** is developing a sustainable development framework to address the factors helping or hindering the implementation of economically and environmentally sound sustainable development, leading to the development of national frameworks for land and water quality and allocation. In the **United States** the Administration’s proposal for the 2007 Farm Bill increases conservation funding, simplifies and consolidates conservation programmes.

21. Supplementary payments were paid to producers who apply stricter farmer practices than those required by regulations. **Switzerland, Korea, Norway** and **EU** are providing payments for environmentally friendly farming, environmentally friendly livestock practices and improvement of animal welfare. “Improving the environment and the countryside” is a priority of the new **EU** rural development policy to be implemented from 2007 onwards.

22. Countries are channelling greater research efforts into studying the effects of climate change on agriculture. The National Agriculture and Climate Change Action Plan in **Australia** identifies four key areas to manage multiple climate change risks to agriculture: adaptation, mitigation, research and development, and awareness and communication. The Action Plan 2000 in **Canada** finances programmes to address agricultural sources of emissions of greenhouse gases. **New Zealand** is developing technologies and systems for improving the economic and environmental performance of agriculture via a research consortium.

Exceptional weather events triggered disaster payments and some new policies

23. Responding to severe droughts, in 2005 and 2006 the **European Commission** authorised affected farmers to use set-aside land to feed animals and allowed member states to grant advance payments earlier than usual. Additional measures were taken by **EU** member states in the form of temporary tax concessions (social security, value-added tax, and personal income tax), opening credit lines to compensate for feed and pasture shortage or to assist with irrigation. **Portugal** approved, in 2005, strategic orientations to re-cover areas that had been burned in 2003 and 2004. These orientations will also apply to the area devastated by fires in 2005.

24. The **United States** provided assistance to agricultural producers who suffered losses from natural disasters as well as additional emergency assistance to producers who suffered losses due to hurricane disasters in 2005. Compensation payments were aimed at livestock, dairy, cottonseed, specialty and nursery crop producers and processors (first handlers in case of cotton) as the loss of electricity, shortage of fuel, and infrastructure damage temporarily interrupted the flow of products to markets. In 2006, **Canada** provided a payment to producers affected by floods to assist in improving and protecting flood-damaged soil until a commercial crop can be planted.

25. With the ongoing drought in **Australia**, nearly half of the drought relief under the Exceptional Circumstances Relief Payment Scheme was provided to farmers as income support in the form of social security payments, small business assistance, business interest subsidies, personal counselling and other support programmes. The government is currently working towards reforming drought policy through negotiations with State governments.
Water shortages and droughts necessitate reflection on new policies

26. While some countries have started reconsidering their water policies and implementing reform policies, further efforts could include enforcement and trading of water property rights, determination of pricing schemes and allocations, the reform of subsidisation of different uses of water and delegation of competencies to local authorities.

27. Major initiatives were taken in Australia. The implementation of the 2004 water policy reform programme continued in 2005 and 2006, including improvements to water resource accounting, trading, measuring and metering of water. Additional resources were committed from 2005 to 2009 for projects to support installation of water pipelines to agricultural areas, wastewater recycling and improved water management. Australian landholders can claim accelerated depreciation for investments relating to land and water conservation, aimed at improving natural resource management.

28. The Sustainable Water Programme of Action in New Zealand, established in 2003, aims to address the issues of maintaining water quality and the increasing demand for water, including for irrigation. Spain reviewed its National Irrigation Plan, which was applied in 2006 and 2007 to assess efficiency gains in the consumption of water through infrastructure improvements. In Mexico two projects, Baluarte Presidio and El Tigre have, since 2005, improved irrigation infrastructure on 22 500 hectares. Turkey implemented a number of regulations to control water and soil pollution, and protect wetlands. The Government plays a major role in providing infrastructure investment for irrigation.

Outbreaks of animal disease continued to preoccupy policymakers and test preparedness

29. Animal disease prevention campaigns include vaccinations, regulations to avoid transmission of a virus, or measures facilitating crisis management. Portugal vaccinated sheep against bluetongue disease. Many EU member states, Norway and Switzerland banned keeping poultry in the open air to limit the risk of spread of avian influenza. The United Kingdom replaced a system of BSE testing for cattle that could no longer enter the food or feed chain by a measure providing for the disposal of and compensation for cattle born before 1 August 1996. The United Kingdom also introduced a scheme to help farmers meet their legal responsibilities for disposing of fallen animals. Estonia, in 2005, opened the first processing factory for animal waste materials. The United States designed a National Poultry Improvement Program to prevent the spread of poultry diseases in commercial poultry operations. The United Kingdom started a Poultry Register to collect essential information about certain bird species to help reduce the impact of disease outbreaks, with more than 250 million birds now included.

30. Responding to an outbreak of bluetongue disease at the end of 2004, Portugal limited animal traffic within the national territory and granted advance premium payments. Measures taken in France in response to disease outbreaks in 2006 included, particularly for livestock producers experiencing the most difficulty, reductions or delays for social security contributions, partial interest concessions, payments for keeping animals on farms that would otherwise have been killed and various payments to compensate for income losses due to market disturbances. As well, costs of tests, laboratory analyses, and veterinary visits were partially reimbursed.

31. In Spring 2006, the European Commission agreed to fund 50% of the cost of measures taken to support the poultry market affected by avian influenza, such as the destruction of hatching eggs and chicks, the early slaughter of the breeding flock, other voluntary reductions in output and the compensation of income losses, even if the farm itself is not affected by the outbreak. Additional compensation was available in some member states compensating for income losses, loan guarantees, interest concessions and reductions in social security contributions. Switzerland continued to pay premiums for keeping animals outdoors even for those periods when producers were banned from keeping their flocks in the open air, and
the appropriate marketing labels could be used (provided it was completed by a notice on the temporary ban).

32. In 2006, Turkey implemented an insurance support scheme open to all producers and covering hailstorm and frost for aquaculture, greenhouse and livestock products, including poultry. The government reimburses 50% of the premium costs. Agricultural insurance schemes were extended to include insurance for animal disease, such as in Spain where the Combined Agricultural Insurance System includes cattle insurance for foot and mouth disease, and poultry insurance. The product coverage of Korea's livestock insurance scheme protecting farmers’ income from outbreaks of animal disease and natural disasters more than doubled from 2002 to 2006 and now includes cattle, pork, chicken, horses, deer, duck, pheasant, quail and turkey. France introduced a crop insurance scheme to help farmers insure either individual crops, or the whole farm with the government subsidizing 35% of premiums (40% for young farmers).

33. Although many countries have disaster response plans in place incorporating comprehensive risk management and cost benefit analysis, many policies also involve ad hoc measures. Further reforms could be aimed at planning, prevention, minimising consequences, and strengthening mechanisms to stabilise and protect household income in exceptional circumstances. Traceability schemes and registers, where they have not already been introduced, would help reduce the impact of a disease outbreak.

Organics continue to attract interest of consumers and governments

34. Organic production is growing in response to consumer demand including demands for more traditional production systems and perceived higher quality food (commanding a price premium), and governments are establishing policies to promote organic products. Organic production can improve environmental performance of agriculture by using fewer chemicals in less-intensive systems. However, organic production is often lower yielding and therefore uses more land than conventional systems. The farm management practices adopted are key factors in determining the overall environmental impact. Environmental sustainability initiatives and related framework laws in many countries (Austria, Norway, Turkey, Belgian region of Flanders, Germany, France, Greece, and Spain) were updated to promote organic farming practices as ecologically sound. Some of the rural development schemes, for example in the EU (discussed later in the chapter), also promote organic agriculture. Plans on organic farming in general include three steps: development of organic farms, increasing and promoting consumption, and institutional coordination such as certification and labelling.

35. Subsidies, tax concessions, special quotas and credit schemes are used to encourage adoption. From 2006 onwards, the Belgian region of Flanders simplified the per hectare premium system in order to make it more accessible to farmers who want to convert to organic farming. In the United Kingdom (Northern Ireland), the Organic Farming (Conversion of Animal Housing) Scheme, facilitating the development of organic livestock production, was closed to new applicants from September 2005. Germany continued payments to producers for the introduction and maintenance of organic production. France offered a tax rebate to farmers who earn 40% of their income from organic farming. Farmers are also able to discount their conversion years when calculating historic reference amounts for the Single Payment Scheme. Turkey in 2005 provided a new credit scheme at an interest rate of 25%-60%, among others, to producers for organic farming, aromatic and medicinal crops, and good farming practices. Norway in 2006 earmarked 10% of the milk quota bought by the state for producers of organic milk.

36. The European Commission allowed the producers of organic food to choose whether or not to use the EU organic logo. Imports of organic products are allowed but cannot be marketed as organic unless they comply with EU standards or come with equivalent guarantees from the country of origin. The German Federal Organic Farming Scheme includes a variety of measures at all levels of the food chain, such as training, information, advisory activities, supporting research and development projects, and
technology transfers. **Estonia** adopted the Organic Farming Law in 2006 which specifies the requirements for organic farming in the areas not covered by EU regulations.

37. The **Belgian region of Flanders** approved a subsidy for a three-year organic food promotion campaign to boost consumption of organic products in the region and promote the expansion of organic farming. A commissioned survey in **Spain** revealed that domestic consumption could be enhanced by providing consumers with more information on organic products. A two-year promotional campaign commenced in 2006.

**Bioenergy: targets and taxes to stimulate consumption, subsidies and premiums to increase production**

38. Increased interest in bioenergy and biomaterials produced from agricultural biomass has been driven by concerns over the environment and climate change (greenhouse gases), energy security, diversification of energy sources, and market development for agricultural products. Production of energy from agriculture is becoming an additional source of income for agriculture and forestry. Increased biofuel production from agricultural sources (sugar cane and beet, rapeseed and other oil crops, and maize) can have significant effects on food and feed commodity prices through the competition for scarce land. In the long run farmers and markets are likely to adjust to higher commodity prices. However, while there is concern as to the economic and wider environmental effects (not only greenhouse gases, but also water, soil erosion and biodiversity), the evidence is not yet clear.

39. Although high energy prices played a role in increasing interest in bioenergy, OECD governments are increasingly active in supporting the production and use of bioenergy. Policies pursued in many countries include stimulating demand for biofuels, developing distribution networks, and supporting research and development. Taxes (or tax concessions) are often used to encourage use of biofuels, while subsidies encourage the steady supply of feedstocks and investment in processing capacity. Countries are seeking new methods such as the chemical processing of waste food oil, or the use of methane gas fermented from livestock waste.

40. Many countries, including the **EU** and **EU** member states, **US** and **Japan**, established targets for biofuels in overall transport fuel strategies. **Germany**, where biofuels had earlier benefited from tax concessions, passed a law in October 2006 obliing firms in the mineral oil economy to use a minimum quota of biofuels from January 2007 onward. To reach the national targets, **France** implemented an incentive tax system based on a fuel tax rebate granted to eligible production of bioethanol and biodiesel and an additional tax as a penalty for fuel suppliers who do not incorporate enough biofuels into road fuels. **Austria** also followed a horizontal approach by introducing an obligation for the oil industry to substitute a specific percentage of fuels based on mineral oil by biofuels. The **Irish** incentive scheme for biofuels resulted in eight projects being awarded excise relief for a two year period. **Italy** provided that a share of production will be used for the production of bio-fuels, as dealt with in special planting contracts or supply chain agreements, for inclusion in the experimental “bio-ethanol” program. The six-year programme beginning in 2005 called for exemption of excise duty on bio-diesel within an annual limit. In **Sweden**, biofuels are exempt from carbon dioxide and energy taxes from 2004 to 2008. **Norway** also exempts biofuels from the carbon dioxide tax. In **Australia**, biofuels benefit from reduced taxes compared to fossil fuels.

41. The **EU** member states are allowed to grant national aid of up to 50% of the costs of establishing multi-annual crops on areas eligible for the energy crop aid. The energy crop payments were extended to the ten new member states from 2007. The **Belgian region of Flanders** granted premiums for the production of fuel crops. **Lithuania** doubled its support to bio diesel production between 2006 and 2005.
As from 2005, energy crops in Turkey enjoyed growing interest and the government supported production of canola through a deficiency payment.

42. The Administration’s proposal for the 2007 US Farm Bill includes provisions for a bio-energy and bio-based product research initiative and new funding for renewable energy research and development and production, targeted to cellulosic ethanol. For the United Kingdom (England) the government proposed key measures to unlock the potential for renewable energy in biomass, including: a capital grant scheme for biomass boilers; the establishment of a new expert centre to provide information and advice; grant support for biomass supply chains; and a commitment to consider using biomass heating in Government buildings. Among the priorities for the next three years are bioenergy, plant based pharmaceuticals, and renewable construction materials and chemicals. Canada introduced an initiative to help agricultural producers develop sound business proposals and undertake feasibility studies to support the creation and expansion of the biofuels production capacity. Measures are in place in Germany to promote research, development and demonstration projects as well as marketing.

43. Australia provides ethanol production grants and one-off capital grants for projects that develop new or expanded biofuels production. Greece supports 40% of the capital costs for biodiesel plants and tax exemptions when biofuels are produced on the basis of contracts between farmers and production units. The United States supports ethanol production through a tax credit for domestic production and a tariff on imported ethanol. Canada offers a line of credit to increase ethanol production capacity.

44. Sweden appointed a biofuels committee to evaluate its capacity to produce biofuels from field crops and forestry, and mandated the committee to examine the ethical aspects of producing biofuels because of trade-offs between using crops for food and for fuel, particularly in the context where large parts of the world’s population cannot afford to buy sufficient food.

Responding to consumer concerns about production processes with new regulations

45. In 2006 Denmark initiated a new food policy focusing on availability of healthy foods, transparency through sufficient labelling, and food and veterinary research to promote consumer health by securing safe and nutritious food. In January 2007 the Australian government launched a review to examine outstanding issues on the consistent application of food laws; levels of enforcement across jurisdictions; and the role of the Australian Government in the food regulatory system.

46. Food safety remains of crucial interest. The US issued compliance guidelines outlining best management practices for each step in the broiler slaughter process and targeting small poultry plants to help them better comply with regulatory requirements regarding salmonella control. The EU banned the use of the last four antibiotics still allowed as feed additives and tightened dioxin legislation. Korea widely applied the HACCP (Hazard Analysis Critical Control Point) system to the livestock industry and launched a traceability scheme for agricultural and livestock products. The Commonwealth of Australia and State governments agreed in 2003 to a risk-based national system for livestock identification and tracing. The system became a mandatory requirement for all cattle produced in June 2005, and for all sheep and goats born after 1 January 2006.

47. In 2004 Norway established a Food Safety Authority, responsible for all matters relating to health, quality and other consumer interests in feed and food production and marketing, bringing together into one organisation responsibilities previously held by several agencies. The Agricultural Authority of Iceland also combined multiple authorities to monitor and gives guidance in areas concerning health and safety of livestock rearing and production.
48. As a response to growing problems with dietary habits among the Japanese and increasing occurrence of life-style diseases, the government is promoting Shokuiku. Shokuiku increases food and nutrition awareness in order to help people to make healthy food choices and thereby improve general well-being. The Basic Law on Shokuiku came into effect in July 2005.

49. Animal welfare initiatives are not limited to actual welfare of farm animals, but embrace tracking and traceability initiatives. In the United Kingdom, the Animal Welfare Act came into effect in April 2007 simplifying animal welfare legislation, applying to farmed and non-farmed animals. In Switzerland, about 40% of total ecological payments are accorded to improve animal welfare. Temporary assistance was available in new EU member states to help farmers meet costs related to compliance with EU environmental, hygiene, welfare, food safety and occupational safety standards. New Zealand developed a new code of welfare for deer in 2005.

Agriculture is still a focus of rural development, although diversification efforts are noticeable

50. As governments seek to enhance the quality of life of rural communities, agriculture remains the main focus of rural development strategies for many of them. However, efforts to increase funds for broader economic development and diversification of activities are becoming noticeable.

51. In the Netherlands, the government, in a major policy document, has asserted that farmers in naturally handicapped areas can expect compensation for their conservation and protection efforts. To secure its rural development objectives, the government provides funding for nature, agriculture, recreation, landscape, soil, water, reconstruction of sandy soil areas and socio-economic vitality.

52. Japan introduced a new rural development programme in 2007 to encourage community initiatives aimed at conserving the quality of rural resources and improve the environment with a view to sustainable rural development. Direct payments to farmers in hilly and mountainous areas aim to prevent the abandonment of agricultural land and to maintain the multifunctional character of agriculture. Korea introduced a pilot project of direct payments for landscape conservation in 2005 to farmers to preserve traditional landscape in selected villages. A direct payment for Less Favoured Areas, introduced on a pilot basis in 2004, became a national programme in 2006.

53. In Turkey the Participatory Rural Development Programme includes land consolidation, institutional reinforcement of farmers’ organisations; and a village-based participatory investment programme supporting community-based activities in small-scale agricultural processing and marketing, as well as the rehabilitation of public infrastructure related to the provision of public services in remote rural areas.

54. As part of a rural development scheme, Korea lowered health insurance premiums for farmers by 50% (the other 50% is paid by the government), expanded government support of pension payments, and implemented a support programme to improve living conditions (e.g. education, medical services, and infrastructure). In particularly disadvantaged mountain areas in Italy social security relief is raised to 75% of employers’ share (as opposed to 70% previously), whereas in disadvantaged agricultural areas and territory in certain municipalities, relief is raised to 68% (compared to 40% previously).

55. The Korean government encouraged the diversification of off-farm income sources through agro-tourism. Lithuania also supported alternative entrepreneurial activities in rural areas in 2006, along with investment in water management systems and rural tourism.

56. The second pillar or Rural Development Regulation of Agenda 2000 includes various measures co-financed by EU member states, drawn from a list of available measures that can be tailored to the specific conditions facing rural areas. The measures that tend to dominate the second pillar are payments to
Less Favoured Area (LFAs), agri-environmental measures, support to young farmers, investment and infrastructure support, extension services, and assistance for forestry, promotion and diversification of agriculture.

57. In EU member states, much of the direct budgetary support is provided in form of LFA payments per hectare of agricultural land. LFAs are defined as mountain areas, areas in danger of abandonment or where conservation of the countryside is necessary, and other areas affected by specific handicaps. In France in 2005 close to 30% of national expenditures were allocated to LFA payments. Greece allocated about 46% of the payments financed by the national budget to LFA. In new member states the share of LFA payments often exceeds 60%.

58. Belgium implemented measures favouring young and woman farmers and supporting investments. Investment assistance and setting up of young farmers in France made up around 15% of national expenditures under the rural development programme (RDP). Sweden supported agri-environmental payments to farmers for public good provision such as bio-diversity, farm investment, set-up aid for young farmers, and business training and investments to improve processing and marketing. Denmark encourages environmentally sustainable farming, organic farming and planting of shelter belts. In Portugal, most expenditure was for investments in farm holdings and development and structural adjustment of rural areas. Estonia offered a vocational educational support conditional upon undertaking to work and live in the country once the studies are completed. The amount of the support depends on academic achievement.

59. The rural development programme in the EU for the new implementation period 2007-13 was agreed in June 2005. Measures are grouped under four thematic axes: (1) improvement of sector competitiveness by using measures to improve human and physical capital (e.g. training, setting-up of young farmers, farm modernisation) and product quality; (2) land management which includes LFAs, agri-environmental schemes, animal welfare, afforestation and non-productive investments; (3) diversification of the rural economy and quality of life in rural areas encompassing measures for micro businesses, tourism, renovation of villages, rural services and the conservation of rural heritage; and (4) Leader: bottom-up strategies for local development, including multi-sectoral, as well as public-private partnerships. The current definition of LFAs will be maintained until 2010.

60. EU member states are supporting rural development tailored to local needs through decentralisation (addressed later) and regionalisation. Germany is promoting bottom-up participation in formulating and implementing the development strategy with sub-regional approaches that are expected to be better suited to sub-regional needs and promote rural public-private-partnerships.

61. The EU rural development programme for the new implementation period continues to focus mostly on the agricultural sector. However, setting minimum shares of expenditures for new priorities based on the different axes should further reinforce sustainable land management and rural diversification efforts and promote cooperative, multisectoral and integrated approaches to rural development.

Making progress towards decentralisation, sharing the cost of delivering policies and improving oversight

62. Decentralisation concerns many policy areas – environmental measures, disaster management, rural development – where regional and local authorities are assumed to have deeper knowledge about issues and how to solve them. Decentralisation also requires co-ordination between national governments, regional and local authorities, and allows for better targeting of the programs. However, strong public administration, and regional and local autonomy are prerequisites of successful decentralisation.
63. The Netherlands concluded a large decentralisation operation in 2006 with the signing of management agreements between the national government and each of the 12 provinces. In these agreements, covering a period of seven years, measurable performance targets are set for each national objective and the government will make financial resources available to help achieve the targets.

64. Reform of public administration and integration of various levels of governance in Italy is one of the policy objectives. The underlying premise is that continuing decentralization of subsidy provision reinforces the principle of assigning competence to the territorial government nearest to where citizens live. The main reasons for the decentralization of responsibilities under the National Environmental Programme in Norway are to raise local public awareness of agri-environmental issues, to better target local needs and to improve the efficiency of delivery. In Sweden, an important element of the rural development program is the increased role of local and regional authorities in planning, decision making, implementation and follow-up of the various measures. The aim is a more efficient use of funds. In Mexico, Alianza programs are designed to decentralise decision-making and implementation through the participation and funding of federal and local governments as well as producers. In Canada, major agricultural policies are delivered through a policy framework agreed with the provinces, who share in the cost of program delivery.

65. In Denmark from 1 January 2007 a major reform of the municipal structure has taken effect. The new larger municipalities assume a number of responsibilities from the former counties including administration of regulations on nature protection, environment and physical planning. Approval in respect of Environmental Impact Assessments, nature and water protection, and odour was combined into a single administration in the new municipalities.

66. In New Zealand most of the responsibilities, such as soil conservation cost-share programmes, flood control and drainage works, and pest plant and animal control programmes, under the Resource Management Act are assigned to regional and district councils. Japanese prefecture and local governments provide infrastructure and extension services. Korea implemented the Regional Agriculture Cluster Programme establishing regional networks among the academic community, research institutes, the industrial sector, and local governments to provide technical or marketing assistance to farmers.

1.2. Developments in trade policy

67. Negotiations on the Doha Development Agenda did not advance significantly in 2005-06. Some areas, such as trade facilitation discussions, have been progressing. Talks paused and then resumed, but agreement has not yet been reached in many areas. Agriculture remains an area of particular difficulty with significant issues still outstanding on all three pillars of the negotiations.

Multilateral minimum access commitments

68. Fill rates of tariff-rate-quotas (TRQs) varied. Japan’s TRQs continued to be under filled in 2006 for some products, including skimmed milk powder due to invocation of a special safeguard measure. Korea’s fill rate was around 67% in 2006. 40% of the EU’s individual TRQs were fully filled in 2001/02. In November 2005, Korea extended special treatment for rice until 2014 and increased minimum market access amounts.

Disciplines on export competition

69. Helped by high commodity prices and World Trade Organisation (WTO) commitments, the use of export subsidies is on the decline, and so is their product coverage. Switzerland applied export
subsidies mainly to dairy products (around 85% of the total in 2005 and 2006), live animal exports, fruits and potatoes. Norway used export subsidies to promote branded cheese, processed agricultural products and surplus meat, eggs and dairy products. Norway used the full volume and value of its URAA commitment on cheese in most years. The EU remained well below its WTO ceiling for export subsidies in the marketing year 2002/03, except in cheese, rice, fresh fruits and vegetables, and wine where over 90% of the allowance was used, in volume. In 2006, Turkey provided export subsidies in the form of deductions in taxes, social insurance premium costs, telecommunication costs or energy costs on 16 commodity groups (e.g. processed fruit and vegetables, fruit juices, olive oil, potatoes, apples, poultry meat and eggs) out of the 44 eligible groups. Canada used the full volume and value of permitted export subsidies on dairy products. In the United States, the total value of products covered by export credit guarantees under the Export Credit Guarantee Program decreased by 26% in 2005 and again by 37% in 2006 to USD 1.4 billion.

A small number of state trading enterprises continues to operate

70. The Canadian Wheat Board markets all wheat and barley grown in designated areas of western Canada, pools sales revenue and returns proceeds to producers through a series of payments, and negotiates rail car supply and allocation. During a plebiscite held in February and March 2007, the majority (62%) of producers voted in favour of the marketing choice option under which they would be able to market barley outside of the CWB.

71. Those who wish to export kiwi fruit from New Zealand (except to Australia) must obtain a permit from the New Zealand Kiwifruit Board to market collaboratively with Zespri, the main exporter of kiwifruit. In Australia there are some statutory and regulatory arrangements (mainly at State level) that allow for export control of a few commodities, including wheat, barley, rice, lupins and canola in certain States. In December 2006 the Government implemented temporary changes to the bulk wheat export marketing arrangements, effective until 30 June 2007, although this does not remove the export single-desk arrangements. These changes provide time for the Government to review its long term export market arrangements, following the Cole Inquiry.

Sanitary and phytosanitary measures in reaction to animal diseases to protect human and animal health

72. The EU banned poultry imports from various countries affected by avian influenza over the period 2005-06. A ban on live birds from all countries was imposed in October 2005 and was maintained until the end of January 2006. To prevent the spread of Newcastle disease, regional bans on poultry imports from Bulgaria and Romania were imposed in spring 2006. Following cases of foot and mouth disease in Brazil and parts of Argentina, the EU temporarily banned beef imports from the regions in 2005 and 2006.

73. The ban on British beef exports to other EU countries introduced in 1996 at the height of the BSE crisis was lifted in spring 2006. After a case of BSE was confirmed in Canada in May 2003 and in the United States in December 2003, Japan suspended imports of Canadian and US beef and related products. Imports resumed in 2005 conditional on the compliance with the agreed Export Program. After detecting specified risk materials in US beef in January 2006, imports from the United States were suspended until measures to prevent any recurrences were taken. Imports were resumed in July 2006.

More transparency in regulations to avoid barriers to trade

74. Japan established a positive list of maximum pesticide residues in May 2006, responding to concerns that the negative list was not providing adequate protection. Australia is helping in the development of international animal welfare guidelines, following efforts to improve animal welfare for
live animal exports at home. In 2005, Switzerland simplified the administration of imports, custom declarations and TRQs.

75. The European Commission proposed new rules on geographical name protection in January 2006. Non-EU producers wanting to register a product as a Protected Geographical Indication, a protected Designation of Origin or a Traditional Specialties Guaranteed will be able to apply directly to the EU and no longer have to have their governments apply on their behalf. In addition, their governments will not have to satisfy the EU that they give similar protection to corresponding European goods in their own market, allowing coffee and other products not grown in the EU to obtain such denominations.

76. Australia introduced a country of origin labelling standard for packaged food and unpackaged fresh and processed fruit, vegetables, nuts, seafood and pork.

A number of dispute settlement procedures were on-going

77. In October 2006, a WTO panel requested by the United States in 2003 ruled that the EU moratorium on the authorisation of new genetically modified crops between 2001 and 2004 hampered trade because of the long approval process for sales and that national bans were inconsistent with the EU Communities’ WTO obligations.

78. In July 2005, the United States announced measures to comply with a WTO ruling on the dispute with Brazil regarding certain US agricultural programmes primarily benefiting cotton. Risk-based fees were introduced to cover long-term operating costs and losses and the upland cotton user marketing certificate was ended as of July 2006.

79. In response to a WTO ruling in March 2006, Mexico eliminated the 20% tax on beverages containing high fructose corn syrup (HFCS) and sweeteners other than sugar. Also responding to a WTO ruling from February 2006, the EU created a new tariff line and adjusted its tariffs on frozen boneless chicken cuts.


81. In January 2005, the EU asked the WTO to establish a new panel on the beef hormone issue stating that Canada and the United States failed to lift their sanctions against the EU despite the fact that the EU had adopted new legislation in 2003. The EU maintains that this new legislation had been based on a comprehensive risk assessment following the conclusion of the first panel. Canada and the United States do not believe that the revised legislation can be considered an implementation of the WTO recommendations and rulings related to beef hormones. A WTO Panel is expected to issue a report on this topic before the end of 2007.

82. In December 2006, the EU requested a dispute settlement panel to investigate extra duties imposed on European olive oil exports by Mexico.

83. In January 2007, Canada requested consultations with the United States on subsidies provided to U.S. corn growers and on the total level of U.S. trade-distorting agricultural support, arguing that these policies are inconsistent with the United States’ WTO obligations.
Other trade issues

84. Exports of dairy products from New Zealand are regulated where importing countries have country specific tariff quotas for New Zealand products. The New Zealand Dairy Board, a wholly owned subsidiary of Fonterra, holds exclusive access to these markets for fixed periods. This legislation is currently under review.

85. Following a European Court of Justice ruling, the EU introduced new import arrangements for its WTO bound tariff rate quota for butter from New Zealand, applicable from 2007. Licences for quota butter imports from New Zealand into the EU will no longer be awarded exclusively to the single European importer that the New Zealand exporter historically chose to trade with. From 2007 onwards, any importer on the European approved list may apply for an import licence. Forty-five per cent of import licences will be allocated to "new" importers.

86. The EU reached a new rice import deal with Thailand in March 2006 after similar arrangements with the United States, India and Pakistan. In March 2006, the EU and the United States signed a bilateral wine trade agreement that includes a partial mutual recognition of names of origin, technical oenological practices and simplified certification rules. Russia and the EU agreed to apply trade bans at the regional rather than national level in the event of animal disease outbreaks, to improve co-operation between veterinary and customs authorities and to work towards creating a standard procedure for reporting frauds. The EU and China agreed to reduce the imports of illegal food products into Europe by improving exchange of information and speed of communication. To provide compensatory adjustment for EU enlargement, the EU offered new TRQs. Some of them are *erga omnes* and some allocated to specific countries such as Australia, Canada, China, New Zealand, Brazil, Thailand and the United States. These TRQs compensate countries for the increase in new member states’ tariffs.

87. Turkey and Australia signed a Memorandum of Understanding in December 2005 proposing exchanges of scientific and technical information, research reports and experts, agricultural trade and investment related activities, and other joint activities. In June 2006, a Breeder Cattle Protocol was agreed to facilitate the export of cattle from Australia to Turkey. In 2006 Australia agreed on Agricultural Technical Cooperation programme with China to share expertise in agricultural development, management of supply chains, quarantine, rural adjustment and the environment. Australia also signed an MoU with Malaysia in March 2006 establishing broad agricultural cooperation between the two countries.

The number of free trade agreements was increasing

88. OECD Members are continuing to negotiate bilateral and regional free trade agreements (FTAs) and conducting studies to determine the feasibility of new ones. Many FTAs contain agricultural provisions, although many omit them. Developing countries, in particular smaller, more disadvantaged countries, are often awarded special concessions on their exports.

89. The EU and Switzerland signed a bilateral agreement in February 2005 complementing the earlier free trade agreement. In 2006, The European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland) signed agreements with the South African Customs Union and with Egypt, and implemented previously signed agreements with Korea. In 2005 and 2006, Japan signed FTAs with several countries mainly in South East Asia requiring Japan to eliminate or reduce tariffs, or to introduce preferential tariff-quotas for several sensitive agricultural products such as poultry meat and several fruits. In 2005 New Zealand finalised a closer economic partnership agreement with Thailand, and a strategic economic partnership agreement with Singapore, Brunei and Chile.
90. The **United States** implemented legislation for the United States-Central America-Dominican Republic FTA covering Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. All but Costa Rica have ratified the agreement. The Agreement makes the existing Caribbean Basin Initiative permanent and the Generalized System of Preferences duty-free benefits and phases out the remaining tariffs. The United States–Oman FTA, eliminating duties and commercial barriers to most bilateral trade in goods and services between the two countries, and providing immediate duty-free access on all current agricultural products from Oman was implemented in 2006.

91. An FTA between **Mexico** and **Japan** entered into force in 2005. In 2006 **Korea** implemented FTAs with Singapore and the European Free Trade Association. In the FTA with ASEAN, 71 sensitive agricultural products for Korea are exempt from tariff reductions. Many other countries were also actively pursuing free trade agreements, preparing to launch new negotiations or exploring feasibility of additional bilateral trade and investment agreements.
CHAPTER 2
EVALUATION OF SUPPORT POLICY DEVELOPMENTS

92. Agricultural policies in 2006 were implemented in the context of generally stronger world prices for agricultural commodities and continued US dollar weakness. On the domestic front, significant progress towards decoupling of support in the European Union is taking place through the introduction of the Single Payment Scheme. The United States is in the final year of the 2002-07 Farm Bill, and Korea and Japan have both recently completed policy reforms related to rice.

93. This chapter evaluates changes in agricultural support in OECD countries, both in the short-term (2006 compared with 2005) and over the longer term (the 2004-06 average compared with the 1986-88 base period) (Box 2.1). It first discusses the level of support provided to producers at the OECD total level and how this varies between OECD countries. Changes in the composition of support are then considered. This is important because the effects of support on production, trade, income and the environment are related to the way in and conditions under which it is delivered to producers. Finally, the chapter investigates the commodity specificity of how support is provided—to specific commodities, groups of commodities, or any (or no) commodity. Estimates are also provided on the level and composition of support to consumers, and to general agricultural services and the total value of support that results from agricultural policies. Finally, some conclusions are drawn about agricultural policy reform progress being made in OECD countries in terms of lowering the level of support, shifting to less production-linked policy measures and increasing the flexibility in commodity production choices available to producers through reducing the commodity-specificity of programmes.

Box 2.1. How are support policy developments evaluated?

In 1987 Ministers stressed the need for a progressive reduction in agricultural support and a move towards those forms of support that are less production and trade distorting in order to let the agricultural sector respond more to market signals. Ministers also recognised that governments need flexibility in the choice of policy measures and in the pace of reform, taking into account the diverse situations in OECD countries, and the need to address a range of policy goals. In 1998 they agreed on a set of principles for agricultural policy reform (Annex 2.1) and a set of operational criteria that should apply in designing and implementing policy measures (Annex 2.2).

The Producer Support Estimate (PSE) and derived indicators are the principal tools used to monitor and evaluate agricultural policy developments. A distinction is made between support provided to producers and its impact on individual production decisions, and support provided to general services for the agricultural sector as a whole. Policy measures within the PSE are classified in terms of how policies are implemented. A new PSE classification system applied for the first time in this report provides new opportunities for evaluation, allowing a closer look at how support is provided with respect to commodity choice and presenting more information regarding the basis and conditions upon which support is provided to agricultural producers.

The key underlying criteria for the new classification is that the policy measures continue to be classified according to the way they are implemented. The proposed categories differ depending on:

- The transfer basis for support: output, input, area/animal numbers/revenues/incomes, non-commodity criteria;
- Whether the support is based on current or historical basis;
- Whether production is required or not.

Further explanations of the new PSE system for classification and measurement of policy support can be found in chapter three of this report.
94. Chapters 4 to 15 in Part II describe, summarise and evaluate trends in policy developments for each OECD country, with additional background tables in Part III.

Levels of producer support have declined modestly…

95. As a share of gross farm receipts (%PSE), the level of producer support has declined in the OECD area from 38% of receipts in the 1986-88 period to 29% in 2004-06. That is, support generated by agricultural policies accounts for just under 30% of current OECD gross farm receipts (Figure 2.1, Tables 2.1 and 2.2). Historically, this measure of support has been trending downward. Deviations from the long term trend can be ascribed in large part to shifts in market conditions affecting the rates of price support and output payment resulting from existing policies (for example, commodity prices were high in 1996 and low in 1999). The advantage of interpreting percentage changes as opposed to monetary values of support is that it avoids exchange rate effects. Specifically, the trend in the PSE level as measured in Euros vs. US dollars is somewhat different.

96. Firmer world prices have resulted in lower market price support levels and in some cases reduced deficiency payments as the price gap between domestic and world prices is reduced. The Producer Nominal Protection Coefficient (NPC), which measures the level of domestic market protection, declined slightly from 1.25 in 2005 to 1.21 in 2006. This reflects a situation where OECD domestic prices are on average 21% above world prices, compared to 1986-88 when the NPC was on average 1.51, reflecting a 51% premium of domestic over world prices.

Figure 2.1. Evolution of OECD Producer Support Estimate (%PSE), Producer Nominal Protection Coefficient (NPCp) and Producer Nominal Assistance Coefficient (NACp)


1. This report also covers those member states of the European Union that are not members of the OECD. However, as indicated in various tables in figures, they are not included in the total for OECD.
Table 2.1. OECD: Estimates of support to agriculture
USD million

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Total value of production (at farm gate)</strong></td>
<td>591 896</td>
<td>843 563</td>
<td>836 079</td>
<td>841 133</td>
<td>853 477</td>
</tr>
<tr>
<td>of which share of MPS commodities (%)</td>
<td>72</td>
<td>68</td>
<td>69</td>
<td>67</td>
<td>67</td>
</tr>
<tr>
<td><strong>Total value of consumption (at farm gate)</strong></td>
<td>561 050</td>
<td>830 995</td>
<td>809 731</td>
<td>824 046</td>
<td>859 208</td>
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<tr>
<td><strong>Producer Support Estimate (PSE)</strong></td>
<td>241 932</td>
<td>280 247</td>
<td>291 976</td>
<td>280 998</td>
<td>267 768</td>
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<tr>
<td>Support based on commodity output</td>
<td>199 357</td>
<td>168 322</td>
<td>186 602</td>
<td>169 128</td>
<td>149 234</td>
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<td>Market Price Support</td>
<td>187 149</td>
<td>155 075</td>
<td>170 319</td>
<td>152 410</td>
<td>142 494</td>
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<tr>
<td>Payments based on output</td>
<td>12 209</td>
<td>13 247</td>
<td>16 283</td>
<td>16 718</td>
<td>6 740</td>
</tr>
<tr>
<td>based on variable input use</td>
<td>9 931</td>
<td>11 516</td>
<td>10 849</td>
<td>11 669</td>
<td>12 031</td>
</tr>
<tr>
<td>based on fixed capital formation</td>
<td>6 556</td>
<td>8 806</td>
<td>8 156</td>
<td>8 388</td>
<td>9 426</td>
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<tr>
<td>based on on-farm services</td>
<td>3 778</td>
<td>8 251</td>
<td>8 352</td>
<td>8 346</td>
<td>8 076</td>
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<td>Payments based on input use</td>
<td>20 265</td>
<td>28 574</td>
<td>27 336</td>
<td>28 852</td>
<td>29 533</td>
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<td>based on non-current A/An/R/I, production required</td>
<td>18 905</td>
<td>42 325</td>
<td>56 580</td>
<td>40 035</td>
<td>30 359</td>
</tr>
<tr>
<td>based on single commodities</td>
<td>13 564</td>
<td>11 413</td>
<td>16 955</td>
<td>9 621</td>
<td>7 656</td>
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<tr>
<td>based on specific group of commodities</td>
<td>3 757</td>
<td>16 056</td>
<td>25 219</td>
<td>15 407</td>
<td>7 542</td>
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<tr>
<td>based on all commodities</td>
<td>1 585</td>
<td>14 856</td>
<td>14 406</td>
<td>15 001</td>
<td>15 161</td>
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<td>Payments based on non-current A/An/R/I, production not required</td>
<td>533</td>
<td>732</td>
<td>667</td>
<td>717</td>
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<td>Payments based on non-current A/An/R/I, production required</td>
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<td>36 920</td>
<td>17 771</td>
<td>38 957</td>
<td>54 032</td>
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<tr>
<td>based on variable payment rates</td>
<td>181</td>
<td>4 088</td>
<td>4 604</td>
<td>5 142</td>
<td>2 517</td>
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<tr>
<td>based on fixed payment rates</td>
<td>1 561</td>
<td>32 833</td>
<td>13 168</td>
<td>33 815</td>
<td>51 515</td>
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<td>Payments based on non-commodity criteria</td>
<td>920</td>
<td>3 699</td>
<td>3 535</td>
<td>3 659</td>
<td>3 904</td>
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<td>based on long-term resource retirement</td>
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<td>3 336</td>
<td>3 196</td>
<td>3 287</td>
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<td>based on a specific non-commodity output</td>
<td>1</td>
<td>275</td>
<td>244</td>
<td>296</td>
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<td>based on other non-commodity criteria</td>
<td>6</td>
<td>88</td>
<td>94</td>
<td>76</td>
<td>93</td>
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<td>Miscellaneous payments</td>
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<td>-324</td>
<td>-516</td>
<td>-351</td>
<td>-106</td>
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<td>29</td>
<td>30</td>
<td>29</td>
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<td>1.51</td>
<td>1.25</td>
<td>1.29</td>
<td>1.25</td>
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<td>1.41</td>
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<td>66 624</td>
<td>63 429</td>
<td>67 027</td>
<td>69 415</td>
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<td>6 619</td>
<td>6 420</td>
<td>6 844</td>
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<td>1 734</td>
<td>1 708</td>
<td>1 751</td>
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<td>Inspection services</td>
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<td>2 709</td>
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<td>21 848</td>
<td>21 418</td>
<td>21 057</td>
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<td>25 942</td>
<td>30 021</td>
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<td>2 466</td>
<td>2 464</td>
<td>2 461</td>
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<td><strong>GSSE as a share of TSE (%)</strong></td>
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<td>17.5</td>
<td>16.3</td>
<td>17.5</td>
<td>18.7</td>
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<td>Transfers to producers from consumers</td>
<td>-172 610</td>
<td>-150 123</td>
<td>-163 110</td>
<td>-149 343</td>
<td>-137 915</td>
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<td>Other transfers from consumers</td>
<td>-22 272</td>
<td>-21 354</td>
<td>-20 381</td>
<td>-21 923</td>
<td>-21 759</td>
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<td>Transfers to consumers from taxpayers</td>
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<td>32 741</td>
<td>34 181</td>
<td>34 787</td>
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<td>Excess feed cost</td>
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<td>2 189</td>
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<td><strong>Percentage CSE</strong></td>
<td>-30</td>
<td>-17</td>
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<td><strong>Consumer NPC</strong></td>
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<td>1.29</td>
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<td><strong>Consumer NAC</strong></td>
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<td>1.24</td>
<td>1.21</td>
<td>1.18</td>
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<tr>
<td><strong>Total Support Estimate (TSE)</strong></td>
<td>298 674</td>
<td>380 774</td>
<td>388 146</td>
<td>382 206</td>
<td>371 970</td>
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<td>Transfers from consumers</td>
<td>194 882</td>
<td>171 477</td>
<td>183 492</td>
<td>171 266</td>
<td>159 673</td>
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<tr>
<td>Transfers from taxpayers</td>
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<td>230 651</td>
<td>225 036</td>
<td>232 863</td>
<td>234 055</td>
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<tr>
<td>Budget revenues</td>
<td>-22 272</td>
<td>-21 354</td>
<td>-20 381</td>
<td>-21 923</td>
<td>-21 759</td>
</tr>
<tr>
<td><strong>Percentage TSE (expressed as share of GDP)</strong></td>
<td>2.51</td>
<td>1.07</td>
<td>1.15</td>
<td>1.08</td>
<td>1.00</td>
</tr>
</tbody>
</table>

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.
MPS is net of producer levies and excess feed costs. MPS commodities: see notes to individual country tables in Part II.
1. A (area planted), An (animal numbers), R (receipts) or I (income)
2. TSE as a share of GDP for 1986-88 for the OECD total excludes the Czech Republic, Hungary, Poland and the Slovak Republic as GDP data is not available for this period.
### Table 2.2. OECD: Estimates of support to agriculture

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Total value of production (at farm gate)</strong></td>
<td>536 152</td>
<td>677 257</td>
<td>672 928</td>
<td>676 792</td>
<td>682 051</td>
</tr>
<tr>
<td>of which share of MPS commodities (%)</td>
<td>72</td>
<td>68</td>
<td>69</td>
<td>67</td>
<td>67</td>
</tr>
<tr>
<td><strong>Total value of consumption (at farm gate)</strong></td>
<td>507 701</td>
<td>667 132</td>
<td>651 722</td>
<td>663 043</td>
<td>686 631</td>
</tr>
<tr>
<td><strong>Producer Support Estimate (PSE)</strong></td>
<td>219 894</td>
<td>225 027</td>
<td>235 001</td>
<td>226 096</td>
<td>213 985</td>
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<tr>
<td>Support based on commodity output</td>
<td>181 172</td>
<td>135 178</td>
<td>150 189</td>
<td>136 084</td>
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<tr>
<td>Market Price Support</td>
<td>170 034</td>
<td>124 530</td>
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<td>122 632</td>
<td>113 873</td>
</tr>
<tr>
<td>Payments based on output</td>
<td>11 138</td>
<td>10 648</td>
<td>13 106</td>
<td>13 452</td>
<td>5 386</td>
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<tr>
<td>based on variable input use</td>
<td>9 015</td>
<td>9 245</td>
<td>8 732</td>
<td>9 389</td>
<td>9 614</td>
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<tr>
<td>based on fixed capital formation</td>
<td>5 940</td>
<td>7 069</td>
<td>6 564</td>
<td>7 111</td>
<td>7 533</td>
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<tr>
<td>based on on-farm services</td>
<td>3 408</td>
<td>6 625</td>
<td>6 706</td>
<td>6 715</td>
<td>6 454</td>
</tr>
<tr>
<td>Payments based on current A/An/R/I, production required</td>
<td>17 277</td>
<td>34 004</td>
<td>45 539</td>
<td>32 213</td>
<td>24 261</td>
</tr>
<tr>
<td>based on single commodities</td>
<td>12 436</td>
<td>9 170</td>
<td>13 647</td>
<td>7 747</td>
<td>6 118</td>
</tr>
<tr>
<td>based on specific group of commodities</td>
<td>3 372</td>
<td>12 907</td>
<td>20 298</td>
<td>12 397</td>
<td>6 027</td>
</tr>
<tr>
<td>based on all commodities</td>
<td>1 469</td>
<td>11 927</td>
<td>11 595</td>
<td>12 070</td>
<td>12 116</td>
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<tr>
<td>Payments based on non-current A/An/R/I, production required</td>
<td>505</td>
<td>587</td>
<td>537</td>
<td>577</td>
<td>648</td>
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<tr>
<td>Payments based on non-current A/An/R/I, production not required</td>
<td>1 578</td>
<td>29 610</td>
<td>14 304</td>
<td>31 346</td>
<td>43 179</td>
</tr>
<tr>
<td>with variable payment rates</td>
<td>161</td>
<td>3 285</td>
<td>3 705</td>
<td>4 138</td>
<td>2 012</td>
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<tr>
<td>with fixed payment rates</td>
<td>1 417</td>
<td>26 325</td>
<td>10 598</td>
<td>27 208</td>
<td>41 168</td>
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<tr>
<td>Payments based on non-commodity criteria</td>
<td>803</td>
<td>2 970</td>
<td>2 845</td>
<td>2 944</td>
<td>3 120</td>
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<tr>
<td>based on long-term resource retirement</td>
<td>797</td>
<td>2 678</td>
<td>2 573</td>
<td>2 645</td>
<td>2 817</td>
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<tr>
<td>based on a specific non-commodity output</td>
<td>1</td>
<td>221</td>
<td>197</td>
<td>238</td>
<td>228</td>
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<tr>
<td>based on other non-commodity criteria</td>
<td>6</td>
<td>71</td>
<td>76</td>
<td>61</td>
<td>75</td>
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<td>Miscellaneous payments</td>
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<td>-415</td>
<td>-282</td>
<td>-84</td>
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<td>Percentage PSE</td>
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<td>29</td>
<td>30</td>
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<td>27</td>
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<td><strong>Producer NPC</strong></td>
<td>1.51</td>
<td>1.25</td>
<td>1.29</td>
<td>1.25</td>
<td>1.21</td>
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<tr>
<td><strong>Producer NAC</strong></td>
<td>1.60</td>
<td>1.41</td>
<td>1.44</td>
<td>1.41</td>
<td>1.38</td>
</tr>
<tr>
<td><strong>General Services Support Estimate (GSSE)</strong></td>
<td>35 837</td>
<td>53 485</td>
<td>51 051</td>
<td>53 932</td>
<td>55 472</td>
</tr>
<tr>
<td>Research and development</td>
<td>3 218</td>
<td>5 321</td>
<td>5 327</td>
<td>5 165</td>
<td>5 469</td>
</tr>
<tr>
<td>Agricultural schools</td>
<td>802</td>
<td>1 392</td>
<td>1 374</td>
<td>1 409</td>
<td>1 393</td>
</tr>
<tr>
<td>Inspection services</td>
<td>989</td>
<td>2 435</td>
<td>2 181</td>
<td>2 533</td>
<td>2 591</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>12 600</td>
<td>17 215</td>
<td>17 585</td>
<td>17 233</td>
<td>16 827</td>
</tr>
<tr>
<td>Marketing and promotion</td>
<td>10 808</td>
<td>23 488</td>
<td>20 880</td>
<td>24 156</td>
<td>25 428</td>
</tr>
<tr>
<td>Public stockholding</td>
<td>5 955</td>
<td>1 392</td>
<td>1 374</td>
<td>1 409</td>
<td>1 393</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1 464</td>
<td>1 978</td>
<td>1 985</td>
<td>1 983</td>
<td>1 967</td>
</tr>
<tr>
<td>GSSE as a share of TSE (%)</td>
<td>13.2</td>
<td>17.5</td>
<td>16.3</td>
<td>17.5</td>
<td>18.7</td>
</tr>
<tr>
<td>Transfers to producers from consumers</td>
<td>-156 805</td>
<td>-120 553</td>
<td>-131 281</td>
<td>-120 164</td>
<td>-110 214</td>
</tr>
<tr>
<td>Other transfers from consumers</td>
<td>-20 108</td>
<td>-17 144</td>
<td>-16 404</td>
<td>-17 640</td>
<td>-17 388</td>
</tr>
<tr>
<td>Transfers to consumers from taxpayers</td>
<td>19 077</td>
<td>27 218</td>
<td>26 352</td>
<td>27 502</td>
<td>27 800</td>
</tr>
<tr>
<td>Excess feed cost</td>
<td>11 794</td>
<td>1 296</td>
<td>1 762</td>
<td>1 663</td>
<td>463</td>
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<tr>
<td>Percentage CSE</td>
<td>-30</td>
<td>-17</td>
<td>-19</td>
<td>-17</td>
<td>-15</td>
</tr>
<tr>
<td><strong>Consumer NPC</strong></td>
<td>1.54</td>
<td>1.26</td>
<td>1.29</td>
<td>1.26</td>
<td>1.23</td>
</tr>
<tr>
<td><strong>Consumer NAC</strong></td>
<td>1.43</td>
<td>1.21</td>
<td>1.24</td>
<td>1.21</td>
<td>1.18</td>
</tr>
<tr>
<td><strong>Total Support Estimate (TSE)</strong></td>
<td>271 366</td>
<td>305 730</td>
<td>312 404</td>
<td>307 530</td>
<td>297 257</td>
</tr>
<tr>
<td>Transfers from consumers</td>
<td>176 913</td>
<td>137 697</td>
<td>147 686</td>
<td>137 804</td>
<td>127 602</td>
</tr>
<tr>
<td>Transfers from taxpayers</td>
<td>118 003</td>
<td>185 177</td>
<td>181 123</td>
<td>187 366</td>
<td>187 043</td>
</tr>
<tr>
<td>Budget revenues</td>
<td>-20 108</td>
<td>-17 144</td>
<td>-16 404</td>
<td>-17 640</td>
<td>-17 388</td>
</tr>
<tr>
<td>Percentage TSE (expressed as share of GDP)</td>
<td>2.51</td>
<td>1.07</td>
<td>1.15</td>
<td>1.08</td>
<td>1.00</td>
</tr>
</tbody>
</table>

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.
MPS is net of producer levies and excess feed costs. MPS commodities: see notes to individual country tables in Part II.
1. A (area planted), An (animal numbers), R (receipts) or I (income).
2. TSE as a share of GDP for 1986-88 for the OECD total excludes the Czech Republic, Hungary, Poland and the Slovak Republic as GDP data is not available for this period. The OECD total does not include the six non-OECD EU member states.
...and declines in producer support were seen in most countries in 2006...

97. Reductions in support levels were led by reductions in the level of market price support (MPS), which declined in 2006 for most countries except Mexico and Canada, where it increased due to increases in producer prices for maize in Mexico, and a reduced border price for milk in Canada (Table 2.3). Changes in budgetary support levels were mixed among OECD countries. They declined in Japan, Korea, Canada, New Zealand and the United States, (in the latter higher prices for programme commodities reduced certain payments based on output). They increased in Australia, where input payments increased as a response to drought conditions, the European Union, Iceland, Mexico, Norway, Switzerland and Turkey. Mexico was the only OECD country where both market price support and budgetary payments increased. For the OECD as a whole, change in budgetary payments contributed to a 1% fall in PSE (other things being equal), while changes in MPS contributed to a 3% fall in PSE (other things being equal).

98. The overall level of support in 2006 increased in Australia, Canada, the European Union and Mexico. In Australia, an increase in budgetary payments can be largely traced to disaster payments following the prolonged drought experienced there, while in Canada and Mexico higher MPS was behind the increases. The level of support increased slightly in the European Union although the %PSE remained stable. In all other countries, support levels declined, most significantly in the United States, where higher world prices for most program commodities reduced market price support, marketing loan and counter-cyclical payments related to current prices. The European Union decreased payments requiring production by 13% and increased by 90% payments without production requirements—but with requirements to comply with environmental and animal welfare conditions—highlighting the movement towards least distorting policies exemplified by the EU single payment. Taken together, these changes in budgetary payments contributed to a 3.3% increase in PSE (other things being equal), while changes in MPS contributed to a 1.3% fall in PSE (other things being equal) (Table 2.3).

Table 2.3. Contribution to change in Producer Support Estimate by country, 2005 to 2006

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>USD mn, 2006</td>
<td>% change</td>
<td>% change in PSE if all other variables are held constant</td>
</tr>
<tr>
<td>Australia</td>
<td>1 317</td>
<td>3.1</td>
<td>-0.2</td>
</tr>
<tr>
<td>Canada</td>
<td>7 531</td>
<td>7.8</td>
<td>10.7</td>
</tr>
<tr>
<td>European Union</td>
<td>137 970</td>
<td>2.0</td>
<td>-1.3</td>
</tr>
<tr>
<td>Iceland</td>
<td>213</td>
<td>-1.1</td>
<td>-1.6</td>
</tr>
<tr>
<td>Japan</td>
<td>40 652</td>
<td>-4.9</td>
<td>-4.7</td>
</tr>
<tr>
<td>Korea</td>
<td>25 403</td>
<td>-1.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>7 154</td>
<td>30.9</td>
<td>26.1</td>
</tr>
<tr>
<td>New Zealand</td>
<td>87</td>
<td>-36.6</td>
<td>-21.5</td>
</tr>
<tr>
<td>Norway</td>
<td>2 965</td>
<td>-0.9</td>
<td>-1.4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>4 996</td>
<td>-9.7</td>
<td>-10.1</td>
</tr>
<tr>
<td>Turkey</td>
<td>10 131</td>
<td>-18.4</td>
<td>-25.8</td>
</tr>
<tr>
<td>United States</td>
<td>29 289</td>
<td>-30.1</td>
<td>-9.5</td>
</tr>
<tr>
<td>OECD</td>
<td>267 768</td>
<td>-4.7</td>
<td>-3.4</td>
</tr>
</tbody>
</table>

1. Percent changes in national currency.
2. Percent changes in national currency weighted by the value of PSE in the previous year i.e. not equivalent to the variation in OECD PSE in any common currency.
3. Per cent changes in national currency weighted by the value of PSE in the previous year i.e. not equivalent to the variation in OECD PSE in any common currency.

### Table 2.4a. Contribution to change in Market Price Support by country, 2005 to 2006

<table>
<thead>
<tr>
<th></th>
<th>Market Price Support (MPS)</th>
<th>Contribution to % change in MPS of:</th>
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<th></th>
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<tr>
<td></td>
<td></td>
<td>Quantity</td>
<td>Unit MPS</td>
<td></td>
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<tr>
<td>%change</td>
<td></td>
<td>if all other variables are held constant</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td>-50.7</td>
<td>-87.8</td>
<td>37.1</td>
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<tr>
<td>Canada</td>
<td>25.1</td>
<td>-1.3</td>
<td>26.4</td>
<td></td>
</tr>
<tr>
<td>European Union²</td>
<td>-2.5</td>
<td>0.4</td>
<td>-2.8</td>
<td></td>
</tr>
<tr>
<td>Iceland</td>
<td>5.7</td>
<td>6.1</td>
<td>-0.4</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>-7.8</td>
<td>-4.2</td>
<td>-3.5</td>
<td></td>
</tr>
<tr>
<td>Korea</td>
<td>-4.8</td>
<td>-4.0</td>
<td>-0.9</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>17.0</td>
<td>1.6</td>
<td>15.4</td>
<td></td>
</tr>
<tr>
<td>New Zealand</td>
<td>-39.7</td>
<td>1.7</td>
<td>-41.4</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>-7.4</td>
<td>0.9</td>
<td>-8.4</td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>-13.2</td>
<td>-0.3</td>
<td>-12.9</td>
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<tr>
<td>Turkey</td>
<td>-12.4</td>
<td>-3.1</td>
<td>-9.2</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>-44.5</td>
<td>3.9</td>
<td>-48.4</td>
<td></td>
</tr>
<tr>
<td>OECD³</td>
<td>-6.8</td>
<td>-1.5</td>
<td>-5.3</td>
<td></td>
</tr>
</tbody>
</table>

1. Percent changes in national currency.
2. Percent changes in national currency weighted by the value of PSE in the previous year i.e. not equivalent to the variation in OECD PSE in any common currency.
3. Percent changes in national currency weighted by the value of MPS in the previous year i.e. not equivalent to the variation in OECD MPS in any common currency.


99. Total MPS is calculated as the level of production multiplied by the price gap, measured as the difference between the price at the border and the price at the farm gate of an agricultural commodity. In 2006, border prices were higher for most countries, leading to a reduction in the gap between world and domestic prices. Changes in unit MPS in 2006 drove changes in total MPS in most cases (Table 2.4a). Exceptions were Australia, where drought conditions impacted production such that total MPS declined while unit MPS actually increased, and Iceland, which was the only other country where unit MPS and total MPS moved in different directions, total MPS increasing and unit MPS decreasing.

100. The increase in border prices resulted in most cases from changes in the world price of commodities rather than exchange rate movements (Table 2.4b). On average for the OECD, border prices increased by 10%, of which over 9% was due to world price movements and less than 1% to changes in exchange rates. Turkey saw an increase in average border prices of almost 30%, while average border prices declined in Canada, Korea, and the United States (though in the United States the border prices of most program commodities increased). Changes in border prices can affect a country’s support level only when border protection is in place that insulates domestic prices against changes in world prices.
### Table 2.4b. Contribution to change in Border Price by country, 2005 to 2006

<table>
<thead>
<tr>
<th>Country</th>
<th>Border Price(^1)</th>
<th>Exchange Rate</th>
<th>World Price (USD)</th>
</tr>
</thead>
<tbody>
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<td>Australia</td>
<td>12.7</td>
<td>1.6</td>
<td>11.2</td>
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<tr>
<td>Canada</td>
<td>-15.8</td>
<td>-6.2</td>
<td>-9.6</td>
</tr>
<tr>
<td>European Union(^2)</td>
<td>12.0</td>
<td>-0.7</td>
<td>12.7</td>
</tr>
<tr>
<td>Iceland</td>
<td>12.4</td>
<td>10.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Japan</td>
<td>15.4</td>
<td>6.1</td>
<td>9.4</td>
</tr>
<tr>
<td>Korea</td>
<td>-4.3</td>
<td>-7.1</td>
<td>2.8</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.6</td>
<td>0.2</td>
<td>1.4</td>
</tr>
<tr>
<td>New Zealand</td>
<td>9.5</td>
<td>9.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Norway</td>
<td>9.0</td>
<td>-0.1</td>
<td>9.1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>15.9</td>
<td>1.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Turkey</td>
<td>29.0</td>
<td>7.5</td>
<td>21.5</td>
</tr>
<tr>
<td>United States</td>
<td>-4.4</td>
<td>0.0</td>
<td>-4.4</td>
</tr>
<tr>
<td>OECD(^3)</td>
<td>10.2</td>
<td>0.7</td>
<td>9.5</td>
</tr>
</tbody>
</table>

1. Percent changes in national currency.
2. Percent changes in national currency weighted by the value of PSE in the previous year i.e. not equivalent to the variation in OECD PSE in any common currency.
3. Per cent changes in national currency weighted by the value of PSE in the previous year i.e. not equivalent to the variation in OECD PSE in any common currency.


...but the level of support still varies widely across countries

101. The average percentage PSE in 2004-06 was below 10% in **Australia** and **New Zealand**, was 14% in the **United States** and **Mexico**, 22% in **Canada**, 24% in **Turkey**, 34% in the **European Union**, and above 50% in **Norway**, **Japan**, **Korea**, **Switzerland**, and **Iceland**. (Figure 2.2) Overall, the OECD average was 29%. While support has declined compared with 1986-88 in all OECD countries except **Turkey**, proportionally larger reductions in %PSE have been made in the countries that already have the lowest levels of support.
Figure 2.2 Producer Support Estimate by Country

Countries are ranked according to 2004-06 levels. For more detail, see Annex Table III.1.
2. For Mexico, 1986-88 is replaced by 1991-93.
3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.

On the other hand, the greatest reductions in the Producer Nominal Assistance Coefficient (NAC) were seen in countries providing the highest level of support (Box 2.2). The NAC measures the monetary value of support [transfers] from consumers and taxpayers to producers relative to current production valued at border prices. In 2004-06, the OECD average NAC was 1.41, reflecting a situation where farm receipts were 41% higher than they would have been if generated entirely from the prevailing market conditions (Figure 2.3). In 1986-88 the OECD NAC was 1.60. The NAC shows that there has been a significant decline in the value of support levels relative to the value of agricultural production between the base and current periods in Switzerland and Iceland, the NAC in both countries declining by more than 1.4 (140 percentage points). In both countries, total farm receipts were 4.4 times the value of market receipts in 1986-88, but only 2.9 times market receipts in 2004-06. In Iceland, this resulted despite an increase in the monetary value of the PSE by 82% (market receipts increased by much more – 207%)². In Switzerland, market receipts increased by 41% while the monetary value of the PSE decreased by 20%.

2. Readers should take care when looking for these figures in the estimates of support to agriculture—market receipts are the total value of production at the farm gate minus market price support.
Box 2.2. How are the %PSE and NAC measured?

While the %PSE and the NAC are complementary measures that always move in the same direction, the %PSE is relatively sensitive to changes in support levels when support is low relative to receipts, whereas the NAC is relatively sensitive to changes in market receipts when support is high. In order to understand changes in policy support over a broad range of support levels, both measures should be considered.

The %PSE is the share of the PSE in total receipts, and so measures the ratio of the PSE to total receipts, including support:

\[
\% PSE = \frac{PSE}{Y + PSE}
\]

where \(Y\) equals market receipts at world prices, i.e. excluding market price support. The PSE includes MPS, so \(Y\) excludes it to avoid double-counting. The %PSE approaches the value of 1 as the PSE gets large relative to \(Y\). When the PSE is large relative to market receipts, changes in the PSE will move the %PSE by a relatively small amount as the change in PSE impacts both the numerator and denominator of the ratio that defines the %PSE. As a result, the %PSE is relatively insensitive to PSE changes when the PSE is significantly larger than \(Y\). For example, a %PSE value of 75 indicates a situation where the PSE is three times the level of market receipts. This was approximately the case in Switzerland in the 1986-88 period. To reduce the %PSE from 75 to 66, nine percentage points, which reflects the situation for Switzerland in 2004-06, either the PSE has to reduce by half, or market receipts must increase by 50%.

The NAC is the extent to which receipts come from the marketplace, and so measures the ratio of total receipts to market receipts:

\[
NAC = \frac{Y + PSE}{Y}
\]

The NAC approaches a value of 1 as the PSE becomes small relative to market receipts. When the PSE is large relative to \(Y\), changes in the PSE will affect the NAC approximately linearly, but changes in market receipts can affect the NAC asymptotically (consider the denominator of the equation to see why this is so). For example, for the same situation described above where the PSE is three times the level of market receipts (%PSE=75), the NAC has a value of 4, reflecting a situation where total receipts are 400% the market receipts. Increasing market receipts by 50% would reduce the NAC to 3, a reduction of 100 percentage points and 25% of the value of the indicator.

Steady reductions in production-linked support have not applied to all commodities…

103. Support based on commodity output (market price support and payments based on output) continues to be the largest part of transfers resulting from agricultural policy in most countries. This type of support has been shown to be the most distorting of production and trade, a relatively inefficient means of increasing farm household income, and most damaging to the environment. Notwithstanding considerable progress in reducing support based on commodity output, and a general recognition of the desirability of more decoupled policies, this is not the case for certain commodities, in particular rice, sugar and milk which continue to be heavily supported through price protection policies (see Figure 2.8 below). Border measures such as tariffs increase the domestic price of these commodities in countries where high tariffs exist, but the resulting impact on domestic production and consumption in the protected markets means that these tariffs also reduce the world price for these goods, disadvantaging producers in other countries.
104. Support based on commodity output, mostly MPS, has declined overall as a share of the PSE from 82% to 56% (26 percentage points) from 1986 to 2006 (Figure 2.4). Overall, payments not requiring production have seen the largest gains, but have started from a very small base. This form of payments only emerged to a significant degree after 1994, though their use has accelerated significantly after 2004, subsequent to their adoption in the European Union (in the form of single payments).

105. For the OECD as a whole, the use of payments based on area, animal numbers, receipts or income (either current or not) increased by a factor of four between 1986-88 and 2004-06. However, as this support includes different measures with different conditions they cannot be considered as a single homogenous group. Increases have occurred in support offered on the basis of all four of these parameters—ranging between an increase of 320% for payments based on animal numbers, to payments based on farm receipts, which increased by 460%. Payments based on area, which are also very diverse, dominate this category, forming nearly 80% of its total, and these have increased by more than 400% during the period. Clearly, support offered on the basis of these characteristics is becoming a more important part of support in the OECD area.
106. Payments based on area are the most important of these forms of support in most countries. However, these policies often differ in terms of the associated implementation criteria and their stated policy objectives. Payments based on income are particularly important in Canada, where they comprised one-third of the PSE in 2006. Australia also makes significant use of payments based on income where they are 24% of the PSE. Payments based on farm receipts are less commonly used, but are relatively more important in Australia, where they form about 12% of the PSE, in Norway (5%), and the United States (3%).

Figure 2.4. OECD: Composition of Producer Support Estimate

… nor has progress been even across countries

107. Canada has made the most progress in reducing the proportion of support that is based on output or variable input use, with just nearly half of support being based on criteria other than output or variable input use in the 2004-06 period (Figure 2.5). The United States, Switzerland, Norway and the European Union also have significant proportions—more than 40% of support—that are made on bases other than output or variable input use. On the other hand, Japan and Korea have made the least progress in moving away from output based support. In these countries, market price support continues to make up around 90% of the total PSE, notwithstanding recent reforms in those countries (Figure 2.5). In Turkey, the share of support based on output increased from the base period 1986-88 and stands at about 80% of support.
108. The reduction in the prevalence of market price support in the PSE can most clearly be seen in the reduction in the Nominal Protection Coefficient (NPC), which shows the degree of domestic market protection provided to producers expressed as the ratio between the producer price at farmgate (including payments per unit of output) and the border price (Figure 2.6). This measure is similar to the NAC, the difference being that the NAC includes all forms of budgetary support while the NPC contains only those that affect the producer price. The trends in the NAC are closely aligned with those of the overall PSE, while the NPC reflects more closely the changes in the level of output support. In 1986-88, five countries – Iceland, Norway, Korea, Switzerland, and Japan – had an NPC greater than two, indicating domestic market prices more than double world prices. These same countries continued to have an NPC greater than 2 in 2004-06, although the decline from the base period is significant for all of them, and in particular for Switzerland and Norway. In Australia and New Zealand, domestic prices were less than 1% above world prices in 2004-06, while in the United States, and Mexico, they were less than 10% above world prices.
Figure 2.6. Producer Nominal Protection Coefficient by country

Countries are ranked according to 2004-06 levels. For more detail, see Annex Table III.1.
2. For Mexico, 1986-88 is replaced by 1991-93.
3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.

109. Trends in producer support have important implications for the consumer. In virtually all cases, implicit taxation of consumers (negative consumer support estimates, measured at the farm gate) stem from the effects of market price support policies that raise prices for domestic consumers and producers (Figure 2.7). These policies more than offset the benefits of any pro-consumer policies. Only in the United States, where domestic food aid programmes for low-income consumers are significant, is this not the case. Other countries with important transfers from taxpayers to consumers are the European Union, Iceland, Korea, Norway and Switzerland, although these countries remain among those with the largest negative consumer support estimate. In most countries, the implicit tax on consumers as measured by the CSE was smaller than in 1986-88, Turkey being the only exception.
Most support is for specific commodities, though its share in producer support has declined…

110. Single commodity transfers (SCT) remain the most important component of the PSE. These are transfers based on the production of a single commodity such that the producer must produce the designated commodity in order to receive the support. The dominant policy is market price support, which necessarily refers to specific commodities. SCT as a proportion of the PSE has declined from a high of 88% in 1986-88 to 64% in 2004-06. The share of SCT in the PSE exceeds the share of support based on output in the PSE as a result of commodity specific support based on input use, area, animal numbers, receipts, or income. Of these, the most important is payments based on area.

111. The reduction in transfers targeted to a single commodity has not been homogeneous across commodities compared with 1986-88 (Figure 2.8). For example, SCTs for milk, eggs, maize, wheat, other grains, soybeans and rapeseed fell by more than half. However, other traditionally protected sectors such as rice and sugar have experienced only a small decline in this support. In fact, these two commodities remain those with the highest percentage SCTs. However, the European Union implemented reforms to its sugar policies in 2006 by reducing the guaranteed price. With the exception of sheepmeat, which experienced a reduction by one third in the per unit support, single commodity transfers to livestock production (beef, pigmeat, poultry) remained stable with a slight increase for pigmeat. The role of market price support
relative to other SCT measures is substantially lower for commodities relying increasingly on headage payments (beef and veal, and sheep meat) and for maize and wheat.

112. Single-commodity transfers other than market price support and payments based on output mostly involve payments based on area or animal numbers.

**Figure 2.8. OECD: Single Commodity Transfers, 1986-88 and 2004-06**

For each commodity the first horizontal top bar represents 1986-88, the bottom bar 2004-06. Commodities are ranked according to 2004-06 levels.


113. Those commodities showing the largest decreases in the level of support are also those with the most significant decreases in the level of price support as indicated by the producer NPC (Figure 2.9). For example, in 1986-88 prices received by wheat producers were on average 68% higher than border prices. By 2004-06 they were only 7% higher. Similarly, the average producer price for milk was nearly three times the border prices in 1986-88. By 2004-06 they were on average only 39% higher, down from 65% in 2002-04, indicating a continuing convergence between producer and border prices for milk in OECD countries. Producers of some commodities (wheat, maize, other grains, oilseeds, sheepmeat, beef and veal) increasingly receive a larger share of commodity-specific support that is not dependent upon the amount produced of the commodity. Examples of this type of payments could include headage payments for sheep meat, or area payments for maize for ethanol production.
...and policies allowing more flexibility to producers are growing in importance

114. Support over the years has evolved towards budgetary payments that are less tied to producing a specific commodity, either by allowing for a group of commodities (or all commodities) to be eligible for a payment, or by having no production requirements to receive payments (Figure 2.10). The shift away from the most production distorting policies began in the early 1990s with an increase in payments requiring production of a commodity from a defined set of commodities (Group Commodity Transfers – GCT), but it has recently given way to policies not linked to the production of any commodity. The most significant change in this direction is the introduction of the Single Payment Scheme in the European Union starting in 2005, a change reflected in the growing importance of Other Transfers.
Figure 2.10. OECD: Composition of producer support degree of commodity flexibility

Percent of total PSE


115. In the 1986-88 period, only a small portion of support provided by OECD countries was made on a basis that did not require production (Figure 2.11). By 2004-06, this share has increased to 15% of the PSE for the OECD as a whole, and many key national policies fall under this category. The trend towards policies allowing more flexibility to producers becomes particularly apparent at the country level. In particular, the share of support that does not require production, was over 30% in Australia and the United States and over 20% in Switzerland and Mexico. At the other end of the spectrum, Iceland, Korea and Japan have less than 5% of support in this category. The sharpest increase in the use of such policies has been in the European Union, with the increase in the level of OTP registered in the OECD after 2004 due almost entirely to the introduction of the Single Payment Scheme. Payments based on non-commodity criteria form a smaller share of support, and are more than 5% of the PSE only in the United States. It is also the case that some of the policies in other categories, such as per-hectare payments with input constraints, have the stated objective of addressing non-commodity objectives.
Figure 2.11. Use of payments not requiring production, by country

In percentage of PSE

- Payments based on non-current A/An/R/I, production not required (Category E) (4)
- Payments based on non-commodity criteria (Category F)

The top bar represents 1986-88 and the bottom bar 2004-06. Countries are ranked according to 2004-06 levels.

2. For Mexico, 1986-88 is replaced by 1991-93.
3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.
4. A (area planted), An (animal numbers), R (receipts) or I (income).

Support for general services to agriculture is increasing…

116. While support received individually by producers has been falling, there has been an increase in the share of support for general services to the agricultural sector (General Services Support Estimate, GSSE) as a whole and not received individually by producers (Annex Table III.4). This category at the overall OECD level has increased from 13% of the Total Support Estimate (TSE) (%GSSE) in 1986-88 to 18% in 2004-06.

117. The average %GSSE in 2004-06 was 60% in New Zealand, around 30% in Australia, Canada and the United States, around 15% in Japan and Mexico, and less than 15% in all other countries. For all countries, this was constant or higher than in 1986-88 as a share of the TSE.

118. There have been some notable changes in the composition of support within the GSSE (Table 2.5). Support for marketing and promotion has driven the increase in the GSSE since the mid-1980s, rising from 30% in 1986-88 to 44% of the overall GSSE in 2004-06. It has always been the most important form of GSSE support in Turkey and the United States, and now also in Mexico. The costs associated with public stockholding of agricultural products (a major part of the public budgetary costs of maintaining MPS to producers) is now a fifth of its 1986-88 level at 3% of the overall GSSE in 2002-04, reflecting lower public stocks as a result of a combination of policy and market developments.

119. About one-third of overall GSSE support is for infrastructure. It is particularly important in Japan and Korea, and has been increasing in the European Union, partly as a result of financing available through the Rural Development Regulation and associated national expenditures. Support for research and development, and for education remained stable at 9-10% of the overall GSSE, but is around 50% or more of the GSSE in Australia and Norway. While the share of inspection services in the overall GSSE remains small at just 3-4%, its share rose in a number of countries, reflecting a greater public policy focus on food safety and on maintaining sanitary and phytosanitary standards, especially given the increase in traded commodities.

120. Support for general services to agriculture does not vary with respect to individual farmers’ production decisions regarding output or use of factors of production, and does not directly affect farm receipts. Included in the GSSE are efforts to ensure plant, animal and human health, which benefit both consumers and producers alike. Advisory services, training, research and development, and inspection services can improve long-term productivity or expand the sector’s production capacity.

...while total support to agriculture has decreased slightly

121. For the OECD as a whole, transfers to agriculture as measured by the Total Support Estimate (TSE) amounted to USD 372 billion (EUR 297 billion) in 2006 (Annex Table III.5). When measured as a share of GDP (%TSE) overall support decreased slightly from 1.1% of GDP in 2005 to 1% in 2006. This is less than half the 1986-88 average of 2.5%. Since then there has been a decrease in the value of transfers from consumers, and an increase in transfers from taxpayers, reflecting the change in the composition of producer support.
Table 2.5 Composition of General Support and Services Estimate by country
Percentage of GSSE

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Table 2.5. Composition of General Support and Services Estimate, by country (cont.)
Percentage share in GSSE

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p: provisional.
2. For Mexico, 1986-88 is replaced by 1991-93.
3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the six non-OECD EU member states.

122. In 2004-06, the %TSE ranged from less than 0.3% in Australia and New Zealand to approximately 3.5% in Turkey and Korea (Figure 2.12). Across all OECD countries, the %TSE has fallen by 40% or more since 1986-88 (averaging 50%) with the exception of Turkey where it has decreased only slightly. This reflects a combination of factors including overall GDP levels and growth, changes in the relative contribution of agriculture to GDP, and changes in the amount of support from agricultural policies.

**Overall, there has been progress in policy reform...**

123. In 1987, Ministers stressed the need for a progressive reduction in agricultural support and a move towards those forms of support that are less production and trade distorting in order to let the agricultural sector respond more to market signals. The overall PSE and changes in its component parts provide information that enables an evaluation of the progress made by OECD countries towards this goal. Specifically, an overall view can be achieved by evaluating progress since 1986-88 in terms of how much support is provided (level of PSE), how support is provided (composition of PSE), and how much...
flexibility support allows farmers (commodity specificity). These three aspects of support together determine to a large degree the market and trade impacts of agricultural policy.

**Box 2.3. What has OECD analysis concluded about the impacts of producer support?**

The OECD has been collecting and analysing information regarding support to agriculture for twenty years. In that time, it has tried to answer the question of what effect this support has on production, prices, trade and the welfare of agricultural producers, and, more recently, on the environment. The lessons learned from this data collection and analysis has assisted member countries in the ongoing process of policy reform as OECD member countries continue to improve the efficiency and effectiveness of their agricultural policies.

In Decoupling: A Conceptual Overview (OECD 2001), three potential mechanisms through which policies affect production and trade are highlighted. These are **static effects**, that occur whenever policies affect the incentive prices of agricultural outputs or inputs, **risk effects** stemming from the risk-reducing or income-enhancing effects of policies, and **dynamic effects** that occur through changes in investment decisions caused by policy expectations.

In Decoupling: Policy Implications (OECD 2006), the following summation was made:

- **For static effects**, it was found that payments based on area could be less distorting than all other forms of support, and that among these payments, those that impose fewer conditions on the use of land are likely the least distorting. Further, MPS and payments based on output could have similar impacts on production and trade that are higher than the corresponding effects associated with any category of payments based on land. Payments based on variable inputs were found to potentially be the most production and trade distorting among the five categories considered. It was found that high initial levels of one type of support could reduce the marginal impact on production of an increase in that category of support and could potentially reverse these results.

- When farmers are risk averse, **risk effects** can be important. Adding risk aversion parameters to the OECD Policy Evaluation Model (PEM) demonstrated that large risk-related effects are possible for some PSE categories (OECD 2002). Insurance effects seem to be more important than wealth effects.

- **For dynamic effects** it was found that the effects of price expectations could be significant. Under this assumption, OECD (2002) found that expectations of future payments—and especially their correlation with market prices—can have important effects on current production decisions.

In the Synthesis Report of the Case Studies on the Pig, Dairy, and Arable Crop Sectors (OECD 2006), it was found that, despite the complexities involved in quantifying the environmental effects of the linkages between agriculture, trade, and the environment:

- On balance, agricultural trade liberalisation could be beneficial to the environment, in terms of the scale and intensity of input use, pesticide use, nitrogen uptake and off load, and GHG emissions.

- Decoupling agricultural support from production decisions, the provision of information, and investment in human capital would reduce environmental pressures and facilitate the adoption and diffusion of environmentally benign farming systems.

- The simulation analysis undertaken in the arable crop study suggests that whenever payments decrease the average variable costs of production, production and trade flows could potentially be affected.

124. For the OECD as a whole, progress has been made in both reducing the level of support and the share of support that is more directly connected to production (Figure 2.13). The level of the PSE as measured by the %PSE has fallen from 38% in 1986-88 to 29% in 2004-06. Policies have become less directly tied to commodity production and prices, as measured by the share of the PSE that most directly affects these support based on output and payments based on the use of variable inputs (without

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3. The term “commodity specificity” is used in this report in a qualitative manner to denote the preponderance of single commodity transfers (more commodity specific) relative to other types of support.
constraints). The share of such support, which has the greatest potential to distort markets and trade, has declined from 91% to 63% (Box 2.3). And support is also being delivered in a way that is less or even not at all commodity-specific, i.e. puts less constraints on the choices farmers have regarding what to produce, as indicated by the growing levels of All Commodity Transfers (ACT) and Other Transfers to Producers (OTP), which place no restriction on commodities that farmers choose to produce or have no requirement to produce (Figure 2.10).

125. Despite this progress in policy reform, there remains scope for improvement. Meeting the OECD Ministers’ vision for agricultural policies to be targeted and tailored to specific objectives, will require greater emphasis on policies based on meeting clearly defined goals. It should be recalled, however, that market price support, considered to have the greatest potential effects on markets and to be the least effective in improving farm income, remains the dominant component of the PSE. Similarly, support (in accordance with Table III.7) based on the production of a single commodity also represent the largest share of the PSE. Producers receive nearly 30% of their revenue in the form of transfers from taxpayers and consumers as a result of agricultural policy.

Figure 2.13. OECD: Changes in the level and composition producer support

![Figure 2.13](image)

1. The level of support is measured by the %PSE. The composition of support is measured by the share of market price support, payments based on output and payments based on variable input use (without constraints) in gross farm receipts.


… while some countries have made more progress than others…

126. Different patterns of support and reform are evidenced across OECD countries as shown by changes in the level of support, its composition, and the extent of commodity-specific transfers between 1986-88 and 2004-06. In almost all countries there has been some progress in policy reform, i.e. an improvement in one or more of the three elements, but the extent to which further progress is necessary
varies considerably. For more detail, see the Summary of policy developments section for each country in Chapters 4-15.

- **Australia**: the level of producer support is the second lowest among OECD countries and domestic and border prices are generally aligned, but Australia has seen increases, though relatively small ones, in recent years due to the severity of drought.

- **Canada**: progress has been made in reducing the level of producer support and reliance on the most distorting forms of support, with the exception of producer support for milk, eggs and poultry.

- **European Union**: the level of producer support has fallen gradually relative to historical levels, and bold steps have been made in recent years to decouple support from production. Nonetheless, the level of production and trade distorting support remains significant for livestock, milk, sugar, and rice production, even though support to sugar has declined as a result of reforms to the sugar support regime that were implemented late in 2006.

- **Iceland**: a significant reduction occurred in support levels relative to the value of agricultural production. However, the level of producer support is one of the highest in the OECD and has only fallen slightly, while the most distorting forms of support continue to dominate.

- **Japan**: there has been a gradual fall in the level of producer support, but with little or no movement to less distorting forms of support especially for rice, although a substantial reduction did occur in the support for beef.

- **Korea**: the level of producer support has fallen slightly, but remains high, together with a small reduction in the overall importance of the most distorting forms of support, reflecting a reduction in market price support for rice along with increases for some livestock products.

- **Mexico**: progress has been made by halving the level of producer support, reducing support linked to production and decreasing differences in support levels between commodities, although there is still some reliance on production-linked and input subsidies.

- **New Zealand**: the level of producer support is the lowest among OECD countries, having been reduced from a relatively low base, domestic and border prices are closely aligned.

- **Norway**: the level of producer support is the second highest among OECD countries and there has been little change over time, but progress has been made in lowering the importance of the most distorting forms of support and allowing more flexibility in the choices farmers have regarding what to produce.

- **Switzerland**: while the level of producer support has only fallen slightly, significant improvements have been made in shifting away from commodity-specificity of support, which is the most production distorting. The proportion of support relative to market receipts of the sector has fallen significantly.

- **Turkey**: While below the OECD average, the level of producer support has increased over time, as has the importance of the most distorting forms of support, and support for specific commodities. Total support accounts for the largest share in GDP of OECD countries, reflecting the relative importance of agriculture in the economy.

- **United States**: producer support as a percentage of farm receipts is relatively low. There has been a significant reduction over time in reliance on the most distorting forms of support and in the commodity specificity of support. Recent high commodity prices contributed to a renewal of the downward trend in support, in particular in 2006, as several policies connect support to price levels.
127. Government intervention continues to be significant, as does its potential impact on production, trade and the environment. Although progress has been made since 1986-88, about three-quarters of the total support to agriculture transferred from taxpayers and consumers is provided to individual producers. Producer support accounts for just under 30% of farm receipts, of which over 60% is generated by the most distorting forms of commodity and input linked support. Wide differences remain in the level of support between commodities.

128. While the overall consumer and taxpayer costs of agricultural support policies have fallen for the OECD economy as a whole, most producer support continues to be provided through policies generating higher producer prices. This can bear heavily on low-income consumer households, for whom food constitutes a larger share of their total expenditure. Moreover, as most of the support provided to producers is still either output- or input-linked, a high share of support goes to larger farms, which may increase farm income and wealth disparities.

129. OECD governments are increasingly focusing on environmental performance, the contribution of agriculture to rural development, animal welfare and food safety and quality issues. These reflect consumer and citizen concerns, and are having an increasing impact on the requirements for receiving producer support. For example, in 2006 approximately 26% of PSE support in OECD countries involved constraints on use of inputs such as fertilizer and pesticides, or maintaining land according to best management practices, up from 4% in 1986-88. For the European Union, Switzerland, and the United States, the share of PSE support constraining the use of inputs was above 35% in 2006. However, despite the greater emphasis on environmental performance, the majority of support remains linked to production or factors of production. In such a policy environment, producer support constraining the use of inputs is unlikely to offset the environmental impact linked to higher production levels arising from production-linked support. In this respect, increasing the share of payments not requiring production (20% in 2006 for OECD) would enable countries to continue pursuing rural development objectives while providing additional environmental improvements. Reform offers further opportunities to better target environmental, animal welfare, and rural development objectives in ways that are effective and economically efficient.
ANNEX 2.1.

POLICY PRINCIPLES

OECD Agriculture Ministers in 1998 adopted a set of policy principles, building on the agricultural policy reform principles agreed by OECD Ministers in 1987. These principles stress the need to:

- Pursue agricultural policy reform in accordance with Article 20 of the Uruguay Round Agreement on Agriculture and the commitment to undertake further negotiations as foreseen in that article and to the long-term goal of domestic and international policy reform to allow for a greater influence of market signals.
- Address the problem of additional trade barriers, emerging trade issues and discipline on export restrictions and export credits.
- Strengthen world food security.
- Promote innovative policies that facilitate responsiveness to market conditions by agricultural producers.
- Facilitate improvement in the structures of the agriculture and agro-food sectors.
- Enhance the contribution of the agro-food sector to the viability of the rural economy.
- Take actions to ensure the protection of the environment and sustainable management of natural resources in agriculture.
- Take account of consumer concerns.
- Encourage increased innovation, economic efficiency, and sustainability of agro-food systems.
- Preserve and strengthen the multifunctional role of agriculture.

*The full text from the relevant Ministerial Communiqués can be found in www.oecd.org/agr/ministerial
ANNEX 2.2.

OPERATIONAL CRITERIA

OECD Agriculture Ministers in 1998 agreed that policy measures should seek to meet a number of operational criteria, to apply in both the domestic and the international contexts, which should be:

- **transparent**: having easily identifiable policy objectives, costs, benefits and beneficiaries;
- **targeted**: to specific outcomes and as far as possible decoupled;
- **tailored**: providing transfers no greater than necessary to achieve clearly identified outcomes;
- **flexible**: reflecting the diversity of agricultural situations, be able to respond to changing objectives and priorities, and applicable to the time period needed for the specific outcome to be achieved;
- **equitable**: taking into account the effects of the distribution of support between sectors, farmers and regions.

*The full text from the Ministerial Communiqués can be found at www.oecd.org/agr/ministerial
CHAPTER 3.
THE NEW PSE CLASSIFICATION

3.1. Introduction

130. Each year since the mid-1980s the OECD has measured the monetary transfers (support) associated with agricultural policies in OECD countries (and increasingly, in non-OECD countries), using a standard method. For this purpose the OECD has developed several indicators of transfers, the most important and central one being the Producer Support Estimate (PSE). The results, published annually by the OECD, are the only available source of internationally comparable and transparent information on support levels in agriculture. The support estimates have provided an important contribution to the international policy dialogue on agriculture and trade.

131. Over the years, while the fundamental methodology to measure support has not changed, policy measures have evolved. This has been partially reflected in the component parts of the overall PSE, which are categorised to improve the evaluation of policy reform and for use in policy analysis. With the further evolution of policies, following a two-year period of discussion among experts, OECD countries decided to adopt significant changes in the classification of the generic policy categories in the PSE, to change the measure of support to commodities, and to improve the presentation of the relevant indicators. These changes reflect the evolution of agricultural policies in OECD countries and are incorporated into the 2007 report on Agricultural Policies in OECD Countries: Monitoring and Evaluation. This chapter explains the new PSE classification, and how the data and indicators can be used to monitor policy developments.

3.2. Measuring agricultural support

132. The Producer Support Estimate (PSE) estimates the annual monetary transfers to farmers from three broad categories of policy measures that:

- Maintain domestic prices for farm goods at levels higher (and occasionally lower) than those at the country’s border (market price support (MPS) estimation).
- Provide payments to farmers based on, for example, the quantity of a commodity produced, the amount of inputs used, the number of animals kept, the area farmed, an historical (fixed) reference period, or farmers’ revenue or income (budgetary payments).
- Provide implicit budgetary support through tax or fee reductions that lower farm input costs, for example for investment credit, energy, and water (budgetary revenue foregone estimation).

133. A crucial point to emphasise is that support not only comprises budget payments that appear in government accounts (which is often the popular understanding of support), but also estimations of budgetary revenues foregone, and estimation of the gap between domestic and world market prices for farm goods – market price support.
134. The PSE indicators are expressed in both absolute monetary terms (in national currencies, in US dollars and in Euros) and in relative terms – in the case of the %PSE as a percentage of the value of gross farm receipts (including support payments) in each country for which the estimates are made. The % PSE shows the degree to which farmers are supported in a way that is not influenced by the sectoral structure and inflation rate of the country concerned, making this estimate the most widely acceptable and useful indicator for comparisons of support across countries and time.

135. Additional indicators are derived from the PSE, such as the Producer Nominal Assistance Coefficient (producer NAC) and the Producer Nominal Protection Coefficient (producer NPC). The producer NAC is expressed as a ratio between the value of gross farm receipts (including all forms of measured support) and the gross farm receipts valued at border prices (without support). The producer NPC is defined as a ratio between the average price received by the producers (including payments based on current output) and the border price. The complete set of OECD indicators of support is described in Annex 3.1.

136. The main purpose of the calculations is to show the estimates and composition of support each year, and to compare the trends across countries and through time, in order to monitor and evaluate the extent to which OECD countries are making progress in policy reform to which all OECD governments are committed. The PSE data (various indicators of support) are also used as inputs in models used by the OECD (PEM, GTAP, SAPIM) to analyse the effects of different policy instruments on production, trade, farm incomes and the environment.

3.3. Changes in the PSE methodology applied in this report

137. In its work on monitoring and evaluating agricultural policy developments, the OECD has always not only estimated the overall level of support, but also shown how that support was composed of different categories of agricultural policy measures. The classification of support into the different categories under the PSE is based on how policies are actually implemented – and not on the objectives or impacts of those policies. Changes in the composition of support have over time become an increasingly important element in assessing progress towards reforming agricultural policies. Yet, as the nature of agricultural policies continues to evolve, the policy categories used for classifying support may have to adjust as well. This is why the nature of the policy categories shown under the PSE has now been revised, as described in the following. It should be noted that the number and definition of policy categories under the PSE, and hence the breakdown of support according to its composition, is the only change to the PSE methodology that has been made – the overall PSE level is not affected by that change.

Previous classification of PSE and related indicators

138. The PSE classification that has been used in recent years (including the 2006 report on Agricultural Policies in OECD Countries: at a Glance) is shown in Box 3.1.
Box 3.1. Previous classification of PSE and related support indicators

**Producer Support Estimate (PSE) (A-H)**

A. Market price support estimation
   - of which MPS commodities
B. Payments based on output
C. Payments based on area planted/animal numbers
D. Payments based on historical entitlements
E. Payments based on input use
F. Payments based on input constraints
G. Payments based on overall farm income
H. Miscellaneous payments

Percentage PSE (PSE as a % of gross farm receipts)

**Producer Nominal Protection Coefficient (NPC)**

**Producer Nominal Assistance Coefficient (NAC)**

**General Services Support Estimate (GSSE)**

**Consumer Support Estimate (CSE)**

- Transfers to producers from consumers
- Other transfers from consumers
- Transfers to consumers from taxpayers
  - Excess feed costs

Percentage CSE (CSE as a % of farm-gate value of consumption)

**Consumer NPC**

**Consumer NAC**

**Total Support Estimate (TSE)**

- Transfers from consumers
- Transfers from taxpayers
  - Budget receipts

Percentage TSE (as a share of GDP)
New classification of PSE and related indicators

139. In recent years in the process of policy reform, policies in many OECD countries have been moving – to different degrees and at different speeds – towards providing support that is less dependent on producing specific commodities. Policies are also increasingly providing support based on farm area or on historical (fixed) criteria, which may be land, animal numbers, or income, for example. In some cases, production is required (but the actual commodities produced – currently or in the past – are not specified), in other cases no agricultural commodity production is required or support is provided for the production of non-commodity outputs. In many cases, there are other criteria that farmers must also meet in order to be entitled to support, such as implementing constraints on the use of inputs, or leaving land idle from commodity production but kept in “good agricultural or environmental condition”.

140. The thrust of many of the changes in policies has been to move in the direction of decoupling support from specific commodity production, and to base support on other criteria. While there is increasingly more flexibility in what farmers can produce in order to be entitled to support, there is often less flexibility in how farmers manage their operations, with greater regulatory constraints or conditions. The consequence is that policies have become more varied and complex, and more difficult to group into the previous PSE classification in ways that would permit a more accurate monitoring and evaluation of policy reform and its use in quantitative policy analysis.

141. In reflecting these policy developments, a new PSE classification has been devised and agreed, as outlined in Boxes 3.2 and 3.3. The key underlying criteria for the new classification is that the policy measures continue to be classified according to the way they are implemented. The proposed categories differ depending on:

- The transfer basis for support: output (category A), input (category B), area/animal numbers/revenues/incomes (categories C, D and E), non-commodity criteria (category F);
- Whether the support is based on current (categories A, B, C, F) or historical (fixed) basis (categories D and E, as well as F, depending on implementation conditions);
- Whether production is required (categories C and D) or not (category E).

142. In addition to categories, the new PSE classification includes labels that may be applied to individual policies to provide further specification on the way each measure is implemented: with or without production limits or input constraints, whether payments are at fixed or variable rates (Box 3.3). The applied labels are provided in the PSE database. Labels may be used alternatively as additional sub-categories of the classification as needed, either in the standard tables or for special purposes (e.g. production of “satellite” tables, use in further quantitative or empirical analysis).

143. The new classification has been implemented in the 2007 report on Agricultural Policies in OECD Countries: Monitoring and Evaluation and will be also implemented in the report on Agricultural Policies in non-OECD Countries: Monitoring and Evaluation.
Box 3.2. New PSE classification

A. Support based on commodity output
   A.1. Market price support (MPS)
   A.2. Payments based on output

B. Payments based on input use
   B.1. Variable input use
   B.2. Fixed capital formation
   B.3. On-farm services

C. Payments based on current A/An/R/I, production required
   C.1 of a single commodity
   C.2 of a group of commodities
   C.3 of all commodities

D. Payments based on non-current A/An/R/I, production required

E. Payments based on non-current A/An/R/I, production not required
   E.1. Variable rates
   E.2. Fixed rates

F. Payments based on non-commodity criteria
   F.1. Long-term resource retirement
   F.2. Specific non-commodity output
   F.3 Other non-commodity criteria

G. Miscellaneous payments

Labels to be attached to each programme in the above categories of policy measures:

-- With/without L (with or without current commodity production limits).
-- With V/F rates (with variable or fixed payment rates).
-- With/without C (with or without input constraints).
-- With/without E (with or without any commodity exceptions).
-- Based on A/An/R/I (based on area, animal numbers, receipts or income).
-- Based on SC/GC/AC (based on a single commodity, group of commodities or all commodities).

*Note: A (area), An (animal numbers), R (receipts) or I (income).

The definitions of the categories and labels in the new PSE classification are shown in Box 3.3.
Box 3.3. Definitions of categories in the new PSE classification

Definitions of categories:

*Market price support (MPS):* transfers from consumers and taxpayers to agricultural producers from policy measures that create a gap between domestic market prices and border prices of a specific agricultural commodity, measured at the farm gate level.

*Payments based on output:* transfers from taxpayers to agricultural producers from policy measures based on current output of a specific agricultural commodity.

*Payments based on input use:* transfers from taxpayers to agricultural producers arising from policy measures based on on-farm use of inputs:

  -- *Variable input use* that reduces the on-farm cost of a specific variable input or a mix of variable inputs.

  -- *Fixed capital formation* that reduce the on-farm investment cost of farm buildings, equipment, plantations, irrigation, drainage, and soil improvements.

  -- *On-farm services* that reduce the cost of technical, accounting, commercial, sanitary and phyto-sanitary assistance and training provided to individual farmers.

*Payments based on current A/An/R/I, production required:* transfers from taxpayers to agricultural producers arising from policy measures based on current area, animal numbers, revenue, or income, and requiring production.

*Payments based on non-current A/An/R/I, production required:* transfers from taxpayers to agricultural producers arising from policy measures based on non-current (i.e. historical or fixed) area, animal numbers, revenue, or income, with current production of any commodity required.

*Payments based on non-current A/An/R/I, production not required:* transfers from taxpayers to agricultural producers arising from policy measures based on non-current (i.e. historical or fixed) area, animal numbers, revenue, or income, with current production of any commodity not required but optional.

  -- *Variable rates:* payments rates vary with respect to levels of current output or input prices.

  -- *Fixed rates:* payments rates do not vary with respect to these parameters.

*Payments based on non-commodity criteria:* transfers from taxpayers to agricultural producers arising from policy measures based on:

  -- *Long-term resource retirement:* transfers for the long-term retirement of factors of production from commodity production. The payments in this subcategory are distinguished from those requiring short-term resource retirement, which are based on commodity production criteria.

  -- *A specific non-commodity output:* transfers for the use of farm resources to produce specific non-commodity outputs of goods and services, which are not required by regulations.

  -- *Other non-commodity criteria,* transfers provided equally to all farmers, such as a flat rate or lump sum payment.

*Miscellaneous payments:* transfers from taxpayers to farmers for which there is a lack of information to allocate them among the appropriate categories.

*Note:* A (area), An (animal numbers), R (receipts) or I (income).
Box 3.3. Definitions of categories in the new PSE classification (cont.)

Definitions of labels

*With or without current commodity production limits*: defines whether or not there is a specific limitation on current commodity production (output, area or animal numbers) that is eligible to receive payments or MPS. Applied in categories A – D.

*With variable or fixed payment rates*: defines whether payments rates vary with respect to levels of current output or input prices or production/yields and/or area (variable rates); or do not vary with respect to these parameters (fixed rates). Applied in categories A – D (in E it is a specific subcategory).

*With or without input constraints*: defines whether or not there are specific requirements for the reduction, replacement, or withdrawal in the use of inputs for commodity production eligible to receive payments. Applied in categories A – F.

*With or without commodity exceptions*: defines whether or not there are prohibitions upon the production of certain commodities as a condition of eligibility for payments based on non-current A/An/R/I of commodity(ies). Applied in Category E.

*Based on area, animal numbers, receipts or income*: defines the specific attribute (i.e. area, animal numbers, receipts or income) on which the payment is based. Applied in categories C – E.

*Based on a single commodity, a group of commodities or all commodities*: defines whether the payment is granted for production of a single commodity, a group of commodities or all commodities. Applied in categories A, B and D (in C it is a specific subcategory).

Changes in the commodity indicators related to the PSE and CSE

144. Up until the 2005 report on Agricultural Policies in OECD Countries: Monitoring and Evaluation the data on PSEs and related indicators were also shown by commodity, in monetary values and in percentages (or ratios). These commodity data were calculated from adding the commodity specific levels of support (market price support and payments based on output of individual commodities) to the levels of support to commodities for all other policies estimated using various allocation keys (for example, on the basis of a given commodity’s share in the value of total production of all commodities, or of crops or livestock only depending on the commodity coverage of a particular policy measure).

145. To reflect the way in which policies are evolving, with the gradual shift away from direct commodity-linked support, the total PSE will no longer be broken down into commodities. Instead the total PSE is broken down into four categories reflecting the flexibility given to farmers’ production decisions within the various policy measures. These categories are:

- **Single Commodity Transfers (SCT)**: the annual monetary value of gross transfers from policies linked to the production of a single commodity such that the producer must produce the designated commodity in order to receive the transfer. This includes broader policies where payments are specified on a per-commodity basis.

- **Group Commodity Transfers (GCT)**: the annual monetary value of gross transfers from policies whose payments are made on the basis that one or more of a designated list of commodities is produced. That is, a producer may produce from a set of allowable commodities and receive the transfer that does not vary with respect to this decision.
• **All Commodity Transfers (ACT):** the annual monetary value of gross transfers from policies that place no restrictions on the commodity produced but require the recipient to produce some commodity of their choice.

• **Other Transfers to Producers (OTP):** the annual monetary value of gross transfers made under policies that do not fall in the above three cases (SCT, GCT, ACT). That is, transfers that do not require any commodity production at all.

146. These four PSE breakdown categories are mutually exclusive in the sense that payments included in one category are not included in others (i.e. transfers to wheat in the SCT are not included in transfers to cereals as a group in the GCT category). In this way, there are no overlaps between the categories and they therefore add up to the total PSE.

147. The Group Commodity Transfers include transfers to different commodity groups and the PSE database provides information on transfers to these groups. The transfers to different groups within the GCT are also mutually exclusive in the sense that payments included in one group are not included in the others (i.e. transfers to grains are not included in transfers in a group grains and oilseeds). The composition of the groups varies by country, depending on countries' programmes. The detailed lists (by country) of commodity groups included in the GCT are provided in Annex 3.2.

3.4. **Indicators used in policy analysis**

*Indicators related to total support*

148. The new PSE classification does not change the total PSE. The only change is its breakdown into new categories based on well-established implementation criteria (Box 3.2). The relative indicators linked to the total PSE (%PSE, producer NPC and producer NAC) and CSE (%CSE, consumer NPC and consumer NAC) continue to be calculated as previously. The GSSE is also still expressed as a share of total TSE and the %TSE in relation to GDP. The Annex 3.1 provides definitions of these indicators.

*Commodity specific indicators*

149. The changes in the application of the methodology do not allow a breakdown of the total PSE by commodity. Therefore, the %PSE by commodity and the producer NAC by commodity are no longer calculated, but the producer and consumer NPCs remain.

150. The Producer Single Commodity Transfer (Producer SCT) is by definition available for specific commodities, as well as the derived relative indicator the %SCT. As mentioned above, the SCT is the sum of transfers to producers through policies granted to a single commodity, the most important element of which is in most cases the market price support. The %SCT is the commodity SCT expressed as a share of gross farm receipts for the specific commodity. Compared to the previously used commodity %PSE (which included all PSE support), the %SCT includes only support provided through commodity specific policies.

151. For the CSE, in the absence of transfers from taxpayers to consumers (i.e. the situation in most cases), the CSE is the mirror image of the MPS and hence by definition is commodity specific. By applying the same principle of not using allocation keys to distribute transfers from taxpayers to consumers to commodities the commodity %CSE and the consumer NAC by commodity is no longer calculated. However, in most cases the consumer NPC is equal to the consumer NAC by commodity and captures all the transfers to (from) consumers. Hence, the consumer NPC is the main tool used to analyse support to consumers by commodity.
Use of labels in the PSE database

152. The use of labels gives considerable flexibility to break down the total PSE into categories reflecting specific characteristics of policies in an ad hoc manner (i.e. whether the policy includes a constraint on input use or not, or whether it is applied with or without production limits – see the definition of labels in Box 3.3.). When desired, the labels in the database may be used alternatively as additional sub-categories in the main classification framework. Currently labels are used in this way as subcategories in C and E.

153. The labels applied in the database can be used to produce specific aggregations of payments for the tables in the Monitoring and Evaluation report (see Annex Tables III.7, and III.20 – III.31) to give emphasis to a specific implementation criteria used in the policies applied. The label information can be used also in quantitative analysis based on the PSE database, e.g. PEM work or when linking policies with environmental issues (SAPIM).

3.5. The use of the new classification and related indicators in policy analysis

154. The new classification of categories of policy measures, based, as ever, on how the policies are implemented, has the potential to show the degree of flexibility that farmers have in their production choices and thus how different policies influence farmers’ decisions to produce commodities and other goods and services using farm resources.

155. Some policy measures deliver support directly related to the amount of a specific commodity produced (market price support and payments based on commodity production) or variable inputs used. As shown by the results of the Policy Evaluation Model (PEM) on decoupling, these policy measures are the ones that potentially (ex ante) have the strongest influence on commodity production incentives although this effect is weakened in those countries that place constraints on output produced or inputs used. Policy measures that are designed to deliver support based on current parameters, such as area or animal numbers and require commodity production, have a potentially somewhat weaker influence on production incentives. Policy measures providing support based on historical parameters, such as the overall farm area or income situation of the farmer, have potentially much less influence on production incentives, while those that provide support based on non-commodity criteria (such as the provision of trees, stone walls and hedges), have potentially the least influence on production. Clearly, the actual impacts (ex post) will depend on many factors that determine the aggregate degree of responsiveness of farmers to policy changes – including any constraints on production. Neither the total PSE nor its composition in terms of different categories of policies can, therefore, be interpreted as indicating the actual impact of policy on production and markets. Policy analysis based on support composition can only provide information on the potential of some of the individual policy categories (A, part of B) to influence producer decisions, while for other categories (C) this potential is less clear, as they group more heterogeneous policies. It is only through model-based analysis (such as provided in the OECD’s PEM) or empirical analysis and the use of labels, that firmer conclusions can be drawn regarding production and market impacts of given policy measures.

156. Against this background, the new classification of policy measures and the use of labels will be able to better reflect the evolution of the policy mix. It is thus possible to assess policy reform not only in terms of the trends in the overall level of support, but also in terms of whether there were shifts towards policies that have less potential to distort commodity production and trade. Identifying policy measures that provide support based on a mixture of current and past production variables and those that deliver support not based on farm commodity production provides a rich source of data to help to evaluate progress in policy reform. Moreover, the data base can be marshalled to illustrate developments on matters where specific policy interests within a country or across countries are important.
157. Policies in the PSE are classified according to the basis on which support is delivered (implementation criteria) and not on policy objectives or impacts. The new PSE data base will provide a wealth of material to engage in model-based analysis of the effects of different policy instruments on variables such as production, trade and the environment. Increasingly, countries are interested in knowing the extent to which policy measures are targeted to achieve the range of policy objectives (effectiveness), assessing the costs and benefits of those efforts (efficiency), and understanding the implications for the distribution of income (equity). In addressing these issues, it is important to recognise that the PSE needs to be complemented with other data, as well as with information on the overall policy mix. Moreover, the use and interpretation of PSE and associated indicators in comparisons across countries and time needs to be undertaken with care.
ANNEX 3.1.

Definitions of the OECD indicators of support

Nominal indicators

**Producer Support Estimate (PSE):** the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income. It includes market price support, budgetary payments and budget revenue foregone, i.e. gross transfers from consumers and taxpayers to agricultural producers arising from policy measures based on: current output, input use, area planted/animal numbers/revenues/incomes (current, non-current), and non-commodity criteria.

**Market Price Support (MPS):** the estimated annual monetary value of gross transfers from consumers and taxpayers to agricultural producers arising from policy measures that create a gap between domestic market prices and border prices of a specific agricultural commodity, measured at the farm gate level. MPS is also available by commodity.

**Single Commodity Transfers (SCT):** the annual monetary value of gross transfers from policies linked to the production of a single commodity such that the producer must produce the designated commodity in order to receive the payment. This includes broader policies where transfers are specified on a per-commodity basis. SCT is also available by commodity.

**Group Commodity Transfers (GCT):** the annual monetary value of gross transfers from policies whose payments are made on the basis that one or more of a designated list of commodities is produced. That is, a producer may produce from a set of allowable commodities and receive a transfer that does not vary with respect to this decision.

**All Commodity Transfers (ACT):** the annual monetary value of gross transfers from policies that place no restrictions on the commodity produced but require the recipient to produce some commodity of their choice.

**Other Transfers to Producers (OTP):** the annual monetary value of gross transfers made under policies that do not require any commodity production at all.

**Consumer Support Estimate (CSE):** the annual monetary value of gross transfers to (from) consumers of agricultural commodities, measured at the farm gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on consumption of farm products. If negative, the CSE measures the burden (implicit tax) on consumers through market price support (higher prices), that more than offsets consumer subsidies that lower prices to consumers.

**General Services Support Estimate (GSSE):** the annual monetary value of gross transfers to general services provided to agriculture as a sector (such as research, development, training, inspection, marketing and promotion), arising from policy measures that support agriculture regardless of their nature, objectives.
and impacts on farm production, income, or consumption. The GSSE does not include any payments to individual producers.

**Total Support Estimate (TSE):** the annual monetary value of all gross transfers from taxpayers and consumers arising from policy measures that support agriculture, net of the associated budgetary receipts, regardless of their objectives and impacts on farm production and income, or consumption of farm products.

**Relative indicators**

**Percentage PSE (%PSE):** PSE transfers as a share of gross farm receipts (including support in the denominator).

**Percentage SCT (%SCT):** is the commodity SCT expressed as a share of gross farm receipts for the specific commodity (including support in the denominator).

**Producer Nominal Protection Coefficient (producer NPC):** the ratio between the average price received by producers (at farm gate), including payments per tonne of current output, and the border price (measured at farm gate). The PNPC is also available by commodity.

**Producer Nominal Assistance Coefficient (producer NAC):** the ratio between the value of gross farm receipts including support and gross farm receipts (at farm gate) valued at border prices (measured at farm gate).

**Percentage CSE (%CSE):** The %CSE measures the implicit tax (or subsidy, if CSE is positive) on consumers as a share of consumption expenditure at the farm gate.

**Consumer Nominal Protection Coefficient (consumer NPC):** the ratio between the average price paid by consumers (at farm gate) and the border price (measured at farm gate). The CNPC is also available by commodity.

**Consumer Nominal Assistance Coefficient (consumer NAC):** the ratio between the value of consumption expenditure on agricultural commodities (at farm gate) and that valued at border prices.

**Percentage TSE (%TSE):** overall transfers to farming sector as a percentage of GDP.

**Share indicators** (these indicators express a share of a specific nominal indicator in the total PSE)

**Share of SCT in total PSE (%):** share of Single Commodity Transfers in the total PSE. This indicator is also available by commodity.

**Share of GCT in total PSE (%):** share of Group specific transfers in the total PSE.

**Share of ACT in total PSE (%):** share of All commodity transfers in the total PSE.

**Share of OTP in total PSE (%):** share of Other transfers to producers in the total PSE.

**Percentage GSSE (%GSSE):** share of expenditures on general services in the Total Support Estimate (TSE).
ANNEX 3.2.

Commodity groups applied in Member-countries

This annex provides illustrative information on the commodity groups identified in member countries. This grouping is based on a common set of groups which are most commonly to be found in the policies applied within OECD member-countries but leaves flexibility to reflect specific policy mixes. The purpose is to use these generic categories as a menu and use only those which are relevant. The selection of groups should provide an opportunity to categorise all programmes summed up as transfers to groups of products and may vary from year to year as new programmes are added and continuing programmes may be modified. The Secretariat will continue its effort to improve the consistency of the groups used in the different countries (i.e. the same group name should have the same meaning in terms of commodities covered).

Australia

Three different commodity groups have been defined for Australia based on the policies in place over the period starting in 1986. These are:

- **All crops:** Includes mostly disaster payments and weed strategy payments;
- **Fruits and vegetables:** Disease control and eradication payments;
- **All livestock:** Payments related to animal identification and control and disease control and eradication;
- **Ruminants:** Disease control and eradication payments.

Canada

Three different commodity groups have been defined for Canada based on the policies in place over the period starting in 1986. These are:

- **Crops:** This includes any policy that is available to producers of any grain or oilseed crop.
- **Livestock:** This group includes policies directed at producers of livestock, including cattle, pigs, dairy, and poultry. Some examples are the BSE Recovery Program (2003), and the Feed Freight Assistance Program (until 1995).
- **All commodities except supply managed:** This includes Canada’s major agricultural support policies, including the stabilisation component of the Canadian Agricultural Income Stabilisation (CAIS) programme (started 2003) and the Net Income Stabilization Account (NISA) programme (1994-2002).
Twelve different commodity groups have been defined for the EU based on the policies in place over the period starting in 1986. These commodity groups are:

- **All crops**: This includes any policy that is available to producers of any crop, such as measures for irrigation, pest control or environmentally friendly crop farming.

- **All arable crops**: This includes any policy that is available to producers of any crop. This group is only used for measures such as payments for crop rotation, as most area payments under Agenda 2000 were restricted to COP (see below).

- **Cereals, oilseeds and protein crops (COP)**: This includes any policy that is available to producers of any COP crop, such as set-aside payments and Agenda 2000 area payments after 2003.

- **Grains**: This includes payments per hectare of cereals, with a rate per ha for any cereal different from that for oilseeds or protein crops. They were introduced by the 1992 reform. In 2004, these payments became part of the COP group.

- **Oilseeds**: This includes payments per hectare of oilseeds, with a rate per ha for any oilseed different from that for cereals or protein crops.

- **Protein crops**: This includes payments per hectare of protein crops, with a rate per ha for any protein crops different from that for cereals or oilseeds.

- **All fruits and vegetables**: This includes measures for the whole fruit and vegetable sector, such as measures for orchard improvement.

- **Other crops**: This group includes payments to non-commodity specific crops other than COP, including grass and forage crops.

- **All livestock**: This group includes policies directed at producers of livestock, including cattle, pigs, dairy, and poultry. Examples are measures for disease control, breeding improvement, compensating losses or manure handling, as well as some regional payments.

- **Ruminants**: This includes payments for beef, sheep and goats such as less-favoured area payments before 2000, which per paid per livestock unit.

- **Non-ruminants**: No payment is made specifically to non-ruminants in EU member states.

- **Milk and beef**: This includes payments to the dairy sector, which cannot be associated to either milk production or meat production, such as investments in stables.
Iceland

Three different commodity groups have been defined for Iceland based on the policies in place over the period starting in 1986. These commodity groups are:

- **Livestock**: This group includes policies directed at producers of livestock, including cattle, pigs, dairy, and poultry. An example is the animal breeding programme.
- **Ruminants**: This group includes policies directed at producers of cattle, dairy and sheepmeat.
- **Sheepmeat and poultry**: This group includes policies directed at producers of sheepmeat and poultry. An example is the animal disease control programme.

Japan

Two different commodity groups have been defined for Japan based on the policies in place over the period starting in 1986. These commodity groups are:

- **Livestock**: This group includes policy directed at producers of livestock, including cattle, pigs, dairy, and poultry. Animal disease control programme is an example.
- **Wheat, barley and soybeans**: This group includes policy that is available to producers of wheat, barley and soybeans.

Korea

Four different commodity groups have been defined for Korea based on the policies in place over the period starting in 1986. These commodity groups are:

- **All crops**: This includes any policy that is available to producers of any crop. This set of transfers includes payments based on input use such as fertilizer, seeds and pesticides. In more recent years (starting from 1999), this group includes also payments for set-aside, direct payment for environment-friendly farming practices, paddy-field environmental conservation payment and direct payment for landscape preservation.
- **All livestock**: This includes policies directed at producers of livestock, including cattle, pigs, dairy, and poultry. The transfers in this category include three programmes; direct payment for environment-friendly livestock practices, payments for management of livestock waste, and credit concessions to livestock farmers.
- **Beef and pigmeat**: This includes payments in the meat quality enhancement programme. It is the payments per head of animal to encourage good quality beef and pigmeat.
- **Beef and milk**: This includes payments in the cattle reproduction programme which includes artificial insemination.
Mexico

Two main commodity groups have been defined for Mexico based on the policies in place over the period starting in 1986. These commodity groups are:

- **Crops:** This includes any policy that is available to producers of any grain or oilseed crop. Most of the policies in this group belong to ALIANZA. This group of policies decreased in importance in the GCT between 1991-93 and 2004-06, decreasing from 6 to 2%.

- **Livestock:** This group includes policies directed at producers of livestock, including cattle, pigs, dairy, and poultry. Some examples are ALIANZA programs such as the Livestock Improvement, and the Genetic Improvement. This group of policies has become an important part of the GCT in 2004-06, but was not used at all in the base period of 1991-93.

- Several smaller groups of commodities emerged, such as fruits, flowers, industrial crops, and alternative crops. Some of these payments are subnational to take advantage of specific agroclimatic conditions. None of these payments was materialized recently.

New Zealand

Two different commodity groups have been defined for New Zealand based on the policies in place over the period starting in 1986. These commodity groups are:

- **All livestock:** This category represents the payments on animal disease control programmes that seek to safeguard the health of the agricultural animal population. These programmes include export quality assurance for live animals, the reduction of production limiting diseases, disease surveillance and disease eradication. This payment represented 100% of GCT since 1993 when the payments for the other group (sheepmeat, wool, beef and milk) were completely stopped.

- **Sheepmeat, wool, beef and milk:** This category included policies directed at producers of sheep and cattle. The transfers in this category represent payments in seven programmes; labour subsidy programme, fertilizer price subsidy programme, livestock incentive scheme, land development and encouragement loan scheme, interest concession programme from the rural bank and finance corporation, debt discounting write-off programme from the rural bank and finance corporation, the debt write-off programme for producer boards. The payments for this category were completely stopped in 1992 as the reform of these sectors was accomplished.

Norway

Eleven different commodity groups have been defined for Norway based on the policies in place over the period starting in 1986. The main commodity groups are:

- **All crops:** This includes any policy that is available to producers of any crop, such as measures for irrigation, pest control or environmentally friendly crop farming.

- **Grains:** This group includes payments based on output, payments per hectare of grains, transport subsidies, and regional subsidies.
• **All livestock:** This group includes payments to producers of livestock, including cattle, pigs, dairy, and poultry. Examples are deficiency payments, headage payments, and the vacation and temporary substitute scheme for livestock producers, as well as some regional payments.

• **Feed crops:** Here are included all subsidies to coarse feed, including acreage support to mountain farming, and support to meadowseed storage.

**Switzerland**

Eight different commodity groups have been defined for Country based on the policies in place over the period starting in 1986 (6 of them were used in 2004-06). These commodity groups are:

• **All livestock:** This set of transfers includes policies that are available to livestock raised in difficult conditions (Livestock in mountain areas, 1986-98; livestock in difficult conditions, 1999-2006). At a later stage this group includes also payments for animal welfare (Payments for Animal housing systems, from 1996; Payments for keeping animal outdoors, from 1999).

• **Ruminants:** The transfers in the category represent payments of two programmes: Base area payment for grassland (1993-98) and Payments for roughage eating animals (from 1999). The programme consists of headage payments available to all producers for ruminants (beef, sheep and goats, horses, lamas, alpagas, etc.).

• **All crops:** This includes any policy that is available to producers of any crop. This set of transfers includes payments based on input use such as fertilizer, seeds and pesticides. However, the most important part of transfers within this group were the payments for integrated production (1992-98).

• **Arable crops:** Transfers to this group are mainly the Base area payment to arable land applied in the 1992-98 period.

• **Grains:** This represents mainly the Base premium for coarse grains (1986-2000), a relatively small amounts of payments were for Extensive production of grains (1992-98).

• **Oilseeds:** Area payments for oilseeds (from 1999).

• **Grains and oilseeds:** Area payments for extensive grains and rapeseed cultivation (from 1999).

• **All crops except wine:** Payments for crop production on steep slopes.

**Turkey**

Six different commodity groups have been identified, based on the policies in place over the period starting in 1986.

• **All Crops:** This primarily includes support for input use, such as fertiliser subsidies, pesticide subsidies, hybrid seed subsidies and support for natural disasters.

• **All Livestock:** This entails transfers to livestock producers in the form of input support, such as support for feed, capital grants, livestock replacement and control of disease.
• **Milk, beef and sheepmeat:** This group includes support to producers of cattle, dairy and sheep for animal replacement due to natural disasters through the Livestock Replacement Programme and for pasture improvement.

• **Irrigated crops:** Electricity and irrigation Subsidies

• **Wheat, Sugar, Cotton, Sunflower:** It includes payments under the On Farm Development Support Programme.

• **Hazelnuts and tobacco:** It includes payments under the Transition Programme.

**United States**

There are eight different commodity groups, based on the policies in place over the period starting in 1986. Of these, the first four accounted for all of GCT support in 2004-06.

• **All Crops:** This primarily includes payments for environmental conservation and protection purposes. Examples of programmes in this group include the Farmland Protection Program, Conservation Security Program, Environmental Quality Improvement Program and Conservation Technical Assistance Program.

• **Programme crops:** This includes payments to producers of wheat, feed grains, upland cotton, rice, oilseeds tobacco and peanuts under the Crop Disaster Payments Program.

• **Irrigated crops:** This includes support for irrigation provided through the Reclamation Program.

• **Milk, beef and sheepmeat:** This includes support to producers of cattle, dairy and sheep under the Feed Assistance Program and the Grassland Reserve Program.

• **Non-program crops:** It includes payments under the Non-insured Crops Disaster assistance program.

• **Milk and beef:** It includes payments under the Livestock Indemnity Program.

• **Beef and sheepmeat:** It includes payments for grazing support.

• **Tree and vineyard:** It includes payments under the Tree and Vineyard Disaster Payments Program.