OECD Agriculture Policy Monitoring and Evaluation 2017

Summary

The OECD has been monitoring and evaluating countries’ agricultural policies since 1987. This report – the 30th in the series – includes all OECD and EU member countries, as well as 11 emerging and developing economies. The 52 countries covered by this report account for around two-thirds of global agricultural value added. On average, they provided USD 519 billion (EUR 442 billion) per year in support to individual farmers in 2014-16. As a result, 16% of producer revenues came from public policy support – somewhat lower than the corresponding level of support in the mid-1990s, when 21% of producer revenues came from public policy support. Across countries, however, levels of support vary widely, ranging from negative support – effectively taxing farmers – to support levels of 50% and higher.

Agricultural policy packages need to be both effective and efficient to enable the sector to develop its full potential and achieve key public objectives. The sector is facing a number of challenges related to meeting future demands in a more sustainable manner in the context of a changing climate. The 2017 Agricultural Policy Monitoring and Evaluation report shows that considerably more effort is needed to better align the policy levers used by countries with the underlying objectives of government intervention. Most countries continue to provide most of the support to producers through measures that have a high potential to distort production and trade, with relatively modest investment in sustainability, competitiveness and climate change. In particular, there is continued strong use of market price support in many countries – almost 60% of all farm support is provided by maintaining prices on domestic markets higher than those on international markets.
Countries do also invest in general services for agriculture, in particular, agricultural infrastructure and innovation systems, and inspection and control systems, but not enough. Within the total support provided to the sector, only a small share goes to these and other general services – an average of USD 90 billion (EUR 77 billion) per year in 2014-16 across the countries covered, or 12% of total support.

Recommendations

- Countries need to ensure an integrated approach to agricultural and food policies that is coherent with economy-wide policies, such as those related to social security, economic development and rural industries.

- Greater efforts are required to shift support to key general services for the agricultural sector where countries can demonstrate net benefits for their societies from doing so. Among others, well-functioning agricultural innovation systems broadly defined, appropriate science-based biosecurity efforts and investments in adequate physical infrastructure are required to prepare the agricultural sector to respond to future challenges and opportunities. Redirecting producer support to general services can also provide a pathway to transition the sector away from production and trade distorting forms of support.

- Market price support should be reduced and eventually eliminated in order to ensure a well-functioning domestic market and international trading system, and to enhance food security of the poorest.

- Output payments and input subsidies, particularly those which are potentially environmentally harmful should also be reduced. They generally represent an inefficient use of government budgets and fail to achieve desired policy outcomes in the most effective manner. In addition, they can contribute to unsustainable resource use. Therefore, their replacement with policies better targeted and tailored to the intended outcomes should be considered.

- Countries should develop risk management policies which define the limits between normal business risks, marketable risks and catastrophic risks, in a transparent and operational manner. Government support should focus on managing catastrophic risks for which private solutions cannot be developed. Care should be taken that public support does not crowd out private solutions based on market tools. Governments should also play a proactive role in providing information on climate and market risks for farmers and the private sector to facilitate the development of risk management strategies and tools.

- Countries should seek to target the market failures that may lead to persistent low incomes in agriculture, and to understand how these differ from those of non-agricultural households, rather than provide across the board income support. A better understanding of the financial situation of farm households is critical to define specific policy objectives and related policy instruments.

- Governments also need to define clearly the non-market goods and services sought when designing payments aimed at improvements in environmental performance, animal welfare, or other societal concerns. Payments should also be conditional on delivery of the outcomes and public goods demanded by society. Tailoring the payments requires information on both the nature and scale of the problem and the marginal costs of reducing it. Such information may not always be readily available or accessible economically. However, both appropriate proxies (often already applied for objectives related to natural resources) and better data availability that comes with modern information technology will help to overcome such shortcomings.
Focus 1: Single Commodity Transfers (SCT)

Support targeting individual agricultural commodities – or single commodity transfers (SCT) – represents the largest component of support to farmers (PSE). The use of single commodity support is considered to be one of the most production and trade distorting forms of support. In 2016, on average close to 62% of the PSE has been made up of support targeted to individual commodities. While this share has fallen since 2000, when it stood at 73%, the fall has been uneven.

Over the period 2014-16, rice, cotton and sugar were the most supported sectors (Figure 1.18). For some of the top supported commodities, relative support levels have also trended up since 2000-02. For others (and in total), relative support has fallen – particularly in the milk and sheep meat sectors.

Across the main supported commodities (top 11), the absolute real value of support provided to four commodities – those of cotton, milk, sugar and poultry – show signs of decline to varying degrees and a movement away from market price support. The reasons behind the falls vary, but policy reforms have played a central role for all but poultry, where, by contrast, falls have been brought about by a strong rise in world prices and a subsequent fall in the measured market price support.

On the other hand, for a number of other commodities, market price support and other measures have been rising. For maize, pig meat, beef, wheat and rapeseed, for example, market price support has been rising. For rice, support across various categories fell to negative levels during the food price spikes of 2007-08, but subsequently plateaued since 2012 after rebounding to higher levels. The report provides detailed information on underlying policies changes (or lack of changes) in specific countries.

Note: Absolute dollar values are expressed in real 2000 USD using the United States GDP deflator.
Focus 2: New Countries

**Producer support estimate as % of gross farm receipts, 2000-2016**

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**Costa Rica**

Costa Rica is a small country with a population of 5 million in 2015. The country’s long democratic tradition and political stability have underpinned its important economic progress – including the development of its agricultural sector. Agriculture still plays a relatively strong role in the economy, contributing 5.5% to the country’s GDP and employing 12.7% of its work force in 2015.

**Main policy instruments**

Costa Rica applies important border measures, mostly tariffs to the main agricultural products and sets a minimum reference price for rice. This protection generates market price support which is the dominant part of agricultural support in Costa Rica. The country also provides some subsidies for fixed capital formation mostly directed to smallholders, payments for environmental protection, and subsidies through credit to famers at preferential interest rates. Around 80% of government spending finances general services to the sector.

**Support to agriculture**

Policies to support agricultural producers generated an average of 10% of gross farm receipts in 2014-16. While this is around a half of the OECD average, Market Price Support represents 97% of support. Most supported products are rice, poultry, pig meat and sugar. The remaining 3% of support is provided through capital grants and payments for environmental services.

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**The Philippines**

The Philippines is a mid-size country in terms of land area, but its population of 101 million makes it the world’s 12th most populous country. In recent years, the Philippines has achieved strong annual GDP growth, rebounding from the global economic crisis of 2008-09. Agriculture is a key sector for the Philippines, at almost one-third of total employment and one-tenth of GDP.

**Main policy instruments**

Price support policies dominate and focus mainly on rice and sugar. The rice price support policy is implemented through price support for producers, government procurement, and import restrictions. Price support for sugar is implemented through production quotas and trade regulations. For other products import tariffs are the main tool for price support. Budgetary support, both payments to farmers and to the whole agricultural sector, is very low compared to the value of market price support transfers.

**Support to agriculture**

The level of support to agriculture as measured by the share of policy-driven transfers from consumers and taxpayers in gross farm revenues averaged 25% in 2014-16, one of the highest among all emerging economies covered by the OECD support indicators. Market price support is the dominant form of support. It is strongly focused on rice producers.

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**Further reading**