

OECD Background Note

Agricultural policy and trade reform: Potential effects at global, national and household levels

- The average Producer Support Estimate (PSE) in the OECD area is 30 percent. This means that almost one-third of farm receipts are derived from government intervention. This is an improvement on the levels seen before the Uruguay Round of trade negotiations which averaged 37%. Most of the support, 65%, comes through measures that raise producer prices, including tariffs, export subsidies and domestic output subsidies. These measures seriously distort production, markets and trade. In this regard there was also some improvement as these policies represented 83% of all support before the Uruguay Round.
- Support levels differ enormously across countries. Australia reports a PSE of only 4% and New Zealand 2%, the European Union 34% and the United States 17%. The highest levels are reported by Norway, Switzerland, Korea and Japan, all around 60% or higher.
- Farm incomes, the quality of the agricultural environment and landscape, and prosperity in rural areas are often quoted as the *raison d'être* for these high levels of intervention. In practice, the existing policy set is quite inefficient in advancing these goals. Income effects are often perverse, granting most of the support to those who have the largest farms, and generating large leakages to upstream and downstream agents who were not the intended beneficiaries, or to people who own but do not farm land. Environmental effects are sometimes the opposite of what was intended as subsidies stimulate intensive production. Rural development is more effectively fostered by measures such as investment in infrastructure, education and social services.
- A simultaneous reform involving a halving of trade protection and domestic support across all sectors (i.e. agriculture and manufacturing) has been estimated as potentially generating US\$44 billion in welfare gains globally. Most of these gains arise from agricultural reform. Within agriculture the gains are dominated by reform of market access measures, not surprising as these are both the most distorting and the most dominant type of support. Also unsurprisingly, it is the countries with the highest levels of support and protection that benefit most from reform. Japan, the EU, and several smaller OECD countries are all likely to make significant welfare gains as a result of multilateral reform.
- The most efficient agricultural exporters are also likely to gain significantly from agricultural reform. Among these, countries like Australia, Brazil, the US and Thailand figure prominently. Almost all countries gain overall, but for many developing countries (in particular those for whom domestic agriculture production is largely consumed at home and those that are large net food importers), the immediate gains are relatively small and originate more in manufacturing than in agricultural trade.

- Land rental values fall significantly in many countries as a result of reform, suggesting that programme benefits are capitalised to a significant degree. The largest effects are in the European Union, the United States, Canada and Japan.
- Understanding the different ways in which reform may impact on different segments of the population is important in gathering support for reform. It allows beneficiaries to be identified but also draws attention to groups that may be adversely affected. This gives governments the opportunity to design and implement more targeted adjustment or transition measures, where they are needed.
 - OECD results suggest that all household groups in Brazil would benefit from multilateral reform but the households of commercial farmers and of agricultural workers would benefit the most.
 - In the United States, despite the loss of the (trade-distorting) payments that a reform would induce, all types of household, whether involved in commercial, hobby or retirement farming, gain. This is because the increases in commodity prices more than compensate for the losses in payments.
 - The incidence of impacts is complex in some of the other countries studied. In Mexico, prices of maize and cash crops fall. The impact differs between regions and between commercial and subsistence farms, with commercial farms who sell most of their produce being the most affected. In Malawi where tobacco is the main cash crop, commercial farmers benefit from multilateral reform, as do poorer households that supply agricultural labour.
- The case for continuing farm policy and trade reform is compelling. Decoupled and targeted policies would generate better outcomes across a broad spectrum of domestic objectives – income, equity, competitiveness, environment and rural development. Trade would flow better, following comparative advantage. Almost all countries gain from reform, including the great majority of developing countries. With a better understanding of who might gain or lose, and why, individual countries and the international community have considerable scope to design and implement accompanying measures to alleviate any hardship and to facilitate adjustment to new market conditions.

Contact: Stefan Tangermann (Email: Stefan.tangermann@oecd.org; Tel: (33 1) 45 24 95 00)
 Ken Ash (Email: ken.ash@oecd.org; Tel: (33 1) 45 24 95 20). The full report, **Agriculture policy and trade reform: potential effects at global, national and household levels**, is available on the OECD website (<http://www.oecd.org/dataoecd/28/43/36884483.pdf>).