POLICY COHERENCE FOR DEVELOPMENT: THE EFFECT OF OECD COUNTRIES’ AGRICULTURAL POLICIES ON DEVELOPING COUNTRIES

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POLICY COHERENCE FOR DEVELOPMENT: THE EFFECT OF OECD COUNTRIES’ AGRICULTURAL POLICIES ON DEVELOPING COUNTRIES

This paper makes three points regarding the effects of OECD countries’ agricultural policies on developing countries and the corresponding degree of policy coherence for development (PCD):

(i) There have been important changes in OECD country agricultural policies and some of the old concerns regarding policy “incoherence” (such as export subsidies) are now less of an issue;

(ii) There has been a structural shift in world market conditions, which has raised new issues regarding PCD. Some incoherent policies, such as export restrictions and biofuel mandates, have emerged, but coherent agricultural policies can make a positive contribution to improved global food security;

(iii) The increased importance of the BRIICS to world agricultural trade means that PCD can no longer be seen in terms of an OECD versus developing country divide. The BRIICS need to be factored into any analysis of how agricultural policies can further PCD.

1. For more than twenty years, the OECD has recorded and measured agricultural policies in member countries and, on the basis of that policy data, evaluated how effective policies are in achieving their objectives. Much of the analysis has focused on the effectiveness of policies in addressing national objectives, such as raising farmers’ incomes or preserving the countryside, but a considerable amount of work has examined the international spill-over effects of these policies and their coherence with development objectives. This note summarises what we have learned from that work, how the coherence of agricultural policies has evolved over the past decade, and the main challenges to ensuring improved policy coherence in the future. Three features affecting policy coherence for development (PCD) are highlighted: important changes in OECD countries’ agricultural policies; a structural change in world market conditions; and the increased importance of the BRIICS to world agricultural trade.

To what extent are claims of “policy incoherence” justified?

2. For years, the dominant concern in terms of PCD stemmed from high levels of support and protection in OECD countries. This support was seen as being “incoherent” in terms of furthering development for two main reasons:

3. First, high levels of support to the agricultural sector were contrasted with low levels of overseas development assistance and declining aid for agriculture in particular. Total support to the sector surpassed the emblematic threshold of USD 1 billion per day in 2001 – a figure that was six times higher than all ODA. At the same time, the share of ODA going to agriculture was declining. The contrast appeared to symbolise the low priority that OECD countries attached to development objectives.

11 Brazil, Russia, India, Indonesia, China and South Africa.
4. Second, a large share of support to OECD agriculture was extended to farmers in the form of higher prices than those prevailing on world markets. This in turn required the use of trade policy instruments, which were seen to have a range of damaging impacts on developing countries.

   a. High tariffs on agricultural products, typically several times above those levied on industrial goods, restricted market access for developing country farmers with export potential.

   b. Elevated prices led to the accumulation of surpluses, which were subsequently “dumped” on developing country markets with the use of export subsidies (sometimes badged as food aid). This undermined local markets for developing country farmers competing with imports.

   c. Price supports and subsidies, by stimulating production, suppressed prices on world markets, again lowering returns to developing country farmers.

5. The latter two factors implied weaker terms of trade for developing countries that were specialised in agriculture.

6. Analysis undertaken in the Trade and Agriculture Directorate told a more nuanced story than reflected in a great deal of journalism and NGO advocacy, both in explaining what the OECD’s measure of support to agriculture does and does not capture (and hence the kinds of comparisons that are relevant) and in assessing the effects of that support on developing countries. In order to understand those nuances, it is useful to recapitulate what we actually measure.

7. The total level of support provided to agriculture includes support to farmers, which can be provided by supporting prices above world market levels or by public expenditures going directly to farmers. This support is captured by the Producer Support Estimate (PSE). Governments also provide budgetary support to agriculture in the form of “general services”, for example, for research and development, advisory systems, and food inspection. These are captured by the General Services Support Estimate (GSSE). Moreover, in some countries governments also transfer money to poor consumers through food subsidies. Together, the producer support, general services support and the taxpayer transfers to poorer consumers represent the OECD’s Total Support Estimate (TSE).

8. Until recently more than half of all support to farmers (the PSE) was provided through higher prices rather than via budgetary payments. While a significant resource transfer from consumers to farmers, the support of market prices did not equate to taxpayers’ money that could be shifted readily to alternative uses such as ODA. Moreover, we were careful not to characterise all support as subsidies, as the general services component of the TSE comprised many legitimate public good investments.

9. In terms of the consequences of these policies, the damaging impacts described above are indeed true, but important qualifications were often overlooked: Many of the restrictions on market access are lifted for poorer developing countries via trade preferences – making the constraint more one of supply capacity than trade protection. Moreover, many of the products produced by low income countries (cash crops) do not compete with products produced in developed OECD countries, and for these producers the protection of OECD farmers is largely irrelevant. The critical restrictions on developing country exporters are for products such as grains, sugar and beef, which are produced by larger exporters such as Brazil and Argentina. Furthermore, exported surpluses could be good for urban consumers, while suppressed world food prices were, at least in the short run, of aggregate benefit to food importing countries and of individual benefit to net consumers of food, a group which includes many farmers.
Despite these qualifications, OECD analysis concluded that its members’ agricultural policies—above all market access restrictions—did more harm than good to developing countries (OECD, 2006). From the standpoint of motivating reforms, however, we stressed that the most damaging impacts were to OECD countries’ own economies. In terms of raising farmers’ incomes, the mainstays of policy—price support and input subsidies—were inefficient, with a large share of the benefits leaking away to non-farming landlords or suppliers of purchased inputs. They were also inequitable, paying more to larger and richer farmers than to smaller and poorer ones, and taking money away from consumers and taxpayers to boost the incomes for households whose incomes were already above average (OECD, 2003). Moreover, only a small share of support (less than 5%) was targeted to environmental objectives.

In the early 2000s, we did a range of work assessing particular concerns of developing countries with respect to OECD policies. The issues examined included tariff protection and tariff escalation according to the degree of processing (OECD, 2000), the use of non-tariff measures (such as sanitary and phyto-sanitary restrictions) as barriers to trade, and the impacts of regulations on intellectual property rights (OECD, 2001). Recognising that the effects of OECD countries reforming their agricultural policies on developing countries would be diverse, we sought to quantify the global gains from trade reform, the welfare effects across individual countries and across different households within individual countries (OECD, 2006). Work on the distributional impacts of policies in developing countries remains ongoing (OECD, 2011). A wide range of work on the coherence of countries’ trade, regulatory and aid policies was synthesised in an OECD report prepared by Alan Matthews (2005). This study classifies the policy instruments that need to be examined for impact on developing countries, articulates the “coherence perspective” and offers an analytical framework for policy-makers to make informed decisions.

The evolution of OECD country agricultural policies

So how has the situation evolved? In order to gauge the broad trends, it is helpful to take a long-term perspective and compare the current situation with that in 1986-88, when the Uruguay Round of trade negotiations was just underway.

Total support in nominal US dollars increased from an average of USD 296 billion in 1986-88 to USD 374 billion in 2008-10, and averaged just over a billion dollars a day through the 2000s. The burden of this support on OECD countries, as captured by ratio of total support (TSE) to GDP, declined however from 2.2% to 0.9% over the same period. In other words, OECD country agricultural policies now cost consumers and taxpayers less than one percent of GDP.

Of total support, the share going to farmers declined from 81% in 1986-88 to 66% in 2008-10. Conversely, the share of general services doubled from 12.5% to 24.5%. About two-thirds of those general services are for marketing and promotion, as opposed to public goods such as agricultural research and infrastructure. Over this period, support to farmers has changed little in nominal terms, but has declined in real terms and as a proportion of incomes, with the share of farmers’ gross receipts coming from support falling from 37% to 20%. There are now only three countries (Japan, Norway and Switzerland) where government support accounts for a half or more of farm revenues.
15. The reduction in the degree of support provided has been accompanied by a shift in the ways in which support is provided – support has become less trade-distorting. Whereas in 1986-88 90% of farm support was linked to output or input use (predominantly higher prices for the former, lower for the latter), by 2008-10 that share was down to 59%. However, reform was uneven. For example, the share of support in the European Union linked to output or input use fell from 96% to 38%, whereas the corresponding change in Japan was from 97% to 92%, and the change in the United States was from 64% to 43%.

16. Some of the reforms implemented over the past 25 years have been as a result of political will and reflect fundamental shifts. But reforms are often easier to implement when world prices are high, and are not necessarily locked in. For example, the United States took the opportunity of strong prices to decouple support from production in 1996 with the Freedom to Farm Act, but then reintroduced a new form of counter-cyclical payment in 2002. Moreover, when domestic prices are fixed, the value of price support – as captured by the gap between domestic and world prices – declines naturally as world prices increase. The OECD has followed countries reforms closely, both through the annual Monitoring of agricultural policies and with country-specific reviews. Reviews of agricultural policies have recently been undertaken for the European Union, Japan, Korea and the United States. In each case, specific recommendations have been made for how reforms can be strengthened and consolidated.

17. The bottom line across OECD countries is that there have been important reforms, and several countries have shifted support towards less trade-distorting instruments. Yet support remains higher than it needs to be, policies look relatively benign because we are in a period of high prices, and there is no need for the continued use of the more trade-distorting instruments. Now is a good time to eliminate them.

The impacts of high food prices

18. In 2007-08 world food markets were exposed to a severe shock that was a symptom of fundamental structural change. World prices for major food staples showed their biggest increase in real terms since the 1970s (Figure 2), and prompted deeper concerns that: (a) the long-term trend of declining real prices has come to a halt and possibly even reversed; (b) that we have entered a new era of increased price volatility. These changes have important implications in terms of policy coherence.
There was swift recognition that while strong prices offer long term benefits for farmers, the short to medium term impacts on poor consumers are predominantly negative. The FAO estimated that the food price spike in 2007-08 caused the number of undernourished people in the world to reach 1.02 billion in 2009, compared with an average of 850 million in 2005-07, although some are now querying this estimate (e.g. Headey, 2011).

In the 1980s and 1990s, OECD – along with other IOs – stressed the adverse consequences of distorting support (which lowers prices) for developing country farmers. The current emphasis on the harm that high prices inflict on consumers has led to charges of inconsistency being levelled at IOs in general (e.g. Swinnen, 2010). But, as noted, our story always was a bit more nuanced. In the short term, poor consumers and food deficit farmers outnumber poor food surplus farmers. But in the long term, higher prices provide an important development opportunity. The OECD/FAO Agricultural Outlook suggests that, while agricultural commodity prices are likely to fall back from recent highs, they are likely to remain higher in the coming decade than in the previous one (OECD and FAO, 2011). Developing country farmers need to be able to respond to these improved incentives; hence the opportunity and need for investment in agriculture.

Work since 2008 has considered both the causes of high food prices and their consequences for incomes, poverty and food security.

The factors driving the recent spike in food prices were complex. They included market fundamentals, with drought in Australia and unfavourable harvests in Russia, Ukraine and the United States contrasting with continued demand growth in the developing world. The spike was aggravated by low stocks and by policies adopted in many countries, including export restrictions and the hoarding of commodities. Further contributing factors were biofuel policies, which diverted agricultural supplies from
food to energy uses, and the increased link of food to energy prices, which reflected both the use of agricultural products in biofuels and rising direct energy costs. There is also a lively debate over the extent to which short-term price movements may have been amplified by speculators on futures markets (OECD, FAO and others, 2011).

23. In terms of the consequences for incomes, poverty and food security, the impact of international price changes in a given country depends chiefly on two things: first, the degree to which price changes on international markets are passed through to domestic markets, and second the impacts of those domestic price changes on the real incomes of households and their consequent ability to afford food they need to meet their dietary requirements. In many cases the first issue has been glossed over. Some countries’ food markets were closely linked to international markets, some – in particular poorer landlocked countries – were in practice isolated. Second, OECD analysis has told a story of diverse short to medium term policy impacts, with the immediate impact depending on the proportion of net buyers and net sellers of food staples (OECD, 2012). Current work on food security [TAD/CA/APM/WP(2012)3] is assessing more carefully what actually happened. A preliminary conclusion is that while there was real hardship, the pass-through of price changes was uneven, other factors (such as general economic growth) offset the adverse impacts in some countries, and households adopted coping strategies of varying degrees of effectiveness. The exact outcomes will take time to gauge, but perhaps the most notable impact was that the price spike finally focused attention on a chronic problem that pre-dates high food prices.

24. In terms of the coherence of OECD countries’ agricultural policies, higher prices have caused the issues to change. The price depressing effects of OECD countries are no longer the immediate concern and the use of export subsidies has all but disappeared. On the other hand, the use of export restrictions – which are only weakly constrained by WTO rules – has become common in emerging economies (Jones and Kwiecinski, 2010), while biofuels absorb an increasing share of global crop production. In 2007-09, the share was 20% in the case of sugar cane, 9% for both oilseeds and coarse grains (although biofuel production from these crops generates by-products that are used as animal feed) and 4% for sugar beet. The increased share of grain and oilseed production going into biofuels has been largely driven by government support policies. This makes world market prices of these products (and their substitutes) substantially higher than they would be if no biofuels were produced. Biofuel mandates also add to price volatility by creating demand that is less responsive to prices. Tackling these two policy issues would improve PCD.

25. A further, and hugely contentious, issue that relates to high food prices is the rise in large scale land acquisitions in developing countries. While land purchases can provide much needed foreign investment, there are legitimate concerns regarding the terms of the deals and their implications for existing rights and livelihoods. Such investments raise coherence issues that extend far beyond agricultural policy and beyond the OECD’s membership, applying in particular to emerging economies without a comparative advantage in agriculture, which see such investments as a way of meeting their food energy demand.

**Greater policy coherence can improve global food security**

26. Ensuring global food security carries obligations for both developed and developing countries. These include the twin track of increasing the availability of food on the one hand, and improving peoples’ access to food via poverty reduction. At the same time, there is a need to increase stability across those dimensions. For OECD countries, those obligations implicitly define a new agenda for PCD.

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2 Improved food security also implies effective utilisation of food, such that consumption translates into optimal nutritional outcomes. However, this dimension has fewer implications for agricultural policy.
27. On the availability side, FAO estimates that global food production will need to grow by 70% between now and 2050 in order to feed a growing world population. This implies a number of challenges for developed and developing countries.

1. Improving productivity and innovation systems. While there is significant potential for new land to be brought into production, mainly in Africa, and to a lesser extent in Latin America and the Black Sea region, there is also strong competition for land from urban and industrial uses. The needed increase in production cannot come predominantly from bringing more land into production. Improved productivity on existing lands is therefore essential. This implies a strengthening of research and development. The majority of the increase in agricultural production will need to come from emerging and developing countries, and will require increased investment, most of which will have to come from private sources. But three kinds of public investments are also needed: (i) investment in agricultural research and development, particularly on practices that enhance the resilience of small-scale agriculture towards climate change and resource scarcity; (ii) investment in sectors strongly linked to agricultural productivity growth and which integrate farmers into markets, such as agricultural institutions, extension services, roads, ports, power, storage and irrigation systems; (iii) non-agricultural investments in complementary areas such as education, particularly of women, sanitation and clean water supply, and health care. The OECD is currently supporting the G20 in defining ways in which productivity can be increased in order to improve global food security.

2. Reducing waste. In developed countries, waste occurs mainly at the retail, food service, and household levels, while in developing countries it is mainly due to post harvest losses, inadequate storage and infrastructure as well as under-developed markets in general.

3. Trade is an essential component of any food security strategy. There is significant potential for increased production in many parts of the world, but not all countries everywhere can or should aspire to supplying all their own needs. Doing so may be excessively costly, and will reduce choice and quality, without providing the reliability needed to achieve food security. Trade provides an excellent buffer for fluctuations originating in domestic production. Experts concur that climate change will lead to a worsening of conditions for agricultural production in some countries or regions and an increase in the incidence of extreme events such as drought, heat-waves, and floods. This underscores the importance of allowing food to be moved from surplus to deficit regions through cross-border, regional and international trade. It also means reducing behind-the-border trade costs.

4. Increased agricultural productivity needs to be reconciled with other, potentially competing, objectives. Biofuel policies have been referred to. Climate change will provoke some adjustment of production patterns around the world, and lead to increased risks of local or regional food security problems in some countries. Water scarcity is emerging as an issue in some parts of the world and will require significant changes in the way water is used and priced. This will have to be achieved while also adapting to climate change.

28. Across the developing world, there is widespread recognition that the core underlying cause of food insecurity is poverty, although other, connected, factors may exacerbate the situation. In order to define the role that agricultural policies can play in poverty reduction, we have widened our policy advice, so that we have a set of recommendations tailored to countries at different stages of development and not just aimed at high income countries (OECD, 2012). In the case of OECD countries, our analysis has shown that market interventions, such as price controls and subsidies for fertiliser and other inputs, tend to

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3 The conclusions of this work were presented to a joint meeting of the Committee for Agriculture and the DAC in 2011.
be inefficient at raising farmers’ incomes, inequitably distributed, and impose negative spill-overs on other countries. OECD analysis has concluded that policies should instead provide targeted income assistance to poorer households via social programmes, and invest in public goods, such as research and development and rural infrastructure, in order to improve the competitiveness of the sector. It is also essential to facilitate the transition to more remunerative activities when farm operations are not inherently viable. In poorer countries, this is also a preferred strategy, but there may be problems implementing it. Under-developed institutions and endemic market failures have therefore led to “second best” options being explored, including the use of price stabilisation schemes and time-bound subsidies for fertiliser and other inputs. Our conclusion is that, while there may be circumstances that warrant such interventions, the associated expenditures should not crowd out essential investments in support of long-term agricultural development.

29. Work in 2012 will synthesise what we know so far about the role of governments in addressing each of the dimensions of food security.

The changing structure of world trade

30. As both exporters and importers, the BRIICS are becoming more important to world agricultural trade (Table 1). Whereas trade between OECD countries accounted for 58% of world agricultural trade in 1999, by 2009 that share had fallen to less than half. The BRIICS’ share of world agricultural exports increased from 8.9% in 1999 to 14% in 2009, while that of other non-OECD developing countries increased more slowly, from 18.3% to 21.2%. Over the same period, the BRIICS’ share of world agricultural imports increased from 6.3% to 10.9%, while the corresponding share of other non-OECD countries increased from 21.2% to 25.9%. Most of the increase in the BRIICS’ share of world agricultural exports has come from exports to other BRIICS countries (notably exports from Brazil to China), with the share increasing from 0.9% to 2.6%, and from exports to other non-OECD developing countries, with the share rising from 2.8% to 5.9% of global agricultural exports. In the case of other non-OECD developing countries, there has been a significant increase in imports coming from the BRIICS and in the share of trade that occurs with other non-BRIICS developing countries. Adding across the two groups, the share of South-South trade (defined here as trade not involving OECD countries) in world agricultural trade increased from 12.8% in 1999 to 21.1% in 2009. This pattern is fairly similar to the one observed for total trade, where the share of trade taking place between countries outside the OECD area increased from 10.9% to 20.9%.

Table 1. Bilateral shares of agricultural trade between OECD and BRIICS countries

<table>
<thead>
<tr>
<th></th>
<th>1999 Imports</th>
<th></th>
<th>2009 Imports</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>OECD</td>
<td>BRIICS</td>
<td>Other</td>
</tr>
<tr>
<td>Exports</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OECD</td>
<td>57.6</td>
<td>2.7</td>
<td>12.4</td>
</tr>
<tr>
<td>BRIICS</td>
<td>5.2</td>
<td>0.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Other</td>
<td>9.2</td>
<td>3.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Total</td>
<td>72.1</td>
<td>6.7</td>
<td>21.2</td>
</tr>
</tbody>
</table>

Source: UN ComTrade database

31. In terms of country rankings, Brazil is now the third largest agricultural exporter in the world, after the EU and the US, with more than USD 50 billion of agricultural exports per year. China is simultaneously the fourth largest exporter and the fourth largest importer (with a net deficit), exporting labour intensive products and importing land intensive products in line with its comparative advantage. Indonesia is among the top ten exporters, while India is in the top ten importers (despite being a net exporter). In some cases, particular bilateral relationships are becoming very important. For example, in 2009, 14% of Brazil’s total agricultural exports went to China (accounting for 15% of China’s agricultural imports), with more than half (55%) of Brazil’s oilseed exports destined for China (corresponding to 34%
of China’s imports of oilseeds). From these figures, it is clear that the developed (OECD) versus developing country distinction is becoming a less and less relevant lens through which to view the links between agricultural policies, trade and development.

32. In recent years, OECD has undertaken reviews of agricultural policies in each of the BRIICS (with the exception of India), as well as for Kazakhstan, Russia and Ukraine. Following a peer review on the basis of these studies, each is now incorporated in the regular cycle of policy monitoring that OECD employs for its member countries, although non-member policies are monitored on a biennial basis compared with an annual basis for member countries. Figure 3 shows the evolution of support in these emerging economies.

![Graph showing the evolution of support in emerging economies](image)

**Figure 3 OECD and Emerging Economies: Evolution of PSE, 1995 – 2010.**

1. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

2. 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 non-OECD EU member states. Chile and Israel are included in the OECD total from 1995.

Source: OECD, PSE/CSE database, 2011.

33. The broad lines of agricultural policy are correlated with levels of economic development, and the pattern of comparative advantage. Developing country governments have often taxed their agricultural sectors by suppressing food prices, as concerns for the welfare of urban consumers have weighed more heavily than considerations over farm incomes. However, as incomes have grown, this tendency has diminished and many middle income developing countries now support prices to farmers, implicitly taxing
consumers. As they become wealthier, these countries also have more financial resources with which to support their agricultural sectors and address other objectives (such as those related to environmental sustainability). The emerging economies monitored by OECD all provide positive support to their farmers, although the degree of support is in most cases much lower than the average in OECD countries (Figure 3). The net exporters typically provide modest support (as in Brazil), while support levels are relatively higher among net importers. For net exporters, the rate of support has declined over recent years whereas for some net importers, notably China and Russia, it has risen. The five emerging economies rely relatively heavily on farm support delivered through market price support and payments based on inputs. More decoupled forms of support, such as direct payments to farmers, are less important than in OECD countries.

34. Across OECD and developing countries there are significant gaps between bound and applied tariffs (so called “water” in the tariff). Those gaps are particularly large in the case of developing countries, and the latitude they give to policymakers adds to volatility and uncertainty in world markets.

Conclusion

35. To summarise, OECD countries’ agricultural policies have changed and they inflict less damage on developing countries than before. Some reforms have occurred by design, although in recent years they have been facilitated by strong market conditions. With high food prices a new set of policy challenges has come to the fore, not least that of ensuring global food security. This implies obligations on the part of both developed and developing countries, in addressing both the availability and access sides of food security, and sets a wide agenda for PCD. In terms of the spill-over effect of countries’ agricultural policies, and questions over their coherence or otherwise with development objectives, the BRIICS are now key players.
Further reading

OECD reports


OECD and FAO (2011), *Agricultural Outlook*.

Other


World Bank (2009), *Distortions to Agricultural Incentives*, Anderson and Masters editors, World Bank, Washington DC.