



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

FOOD AND AGRICULTURE POLICY: A POSITIVE REFORM AGENDA

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OECD Work on Food and Agriculture

Providing economic and policy information and advice that supports government efforts to improve the domestic and international performance of their policies

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Key Messages

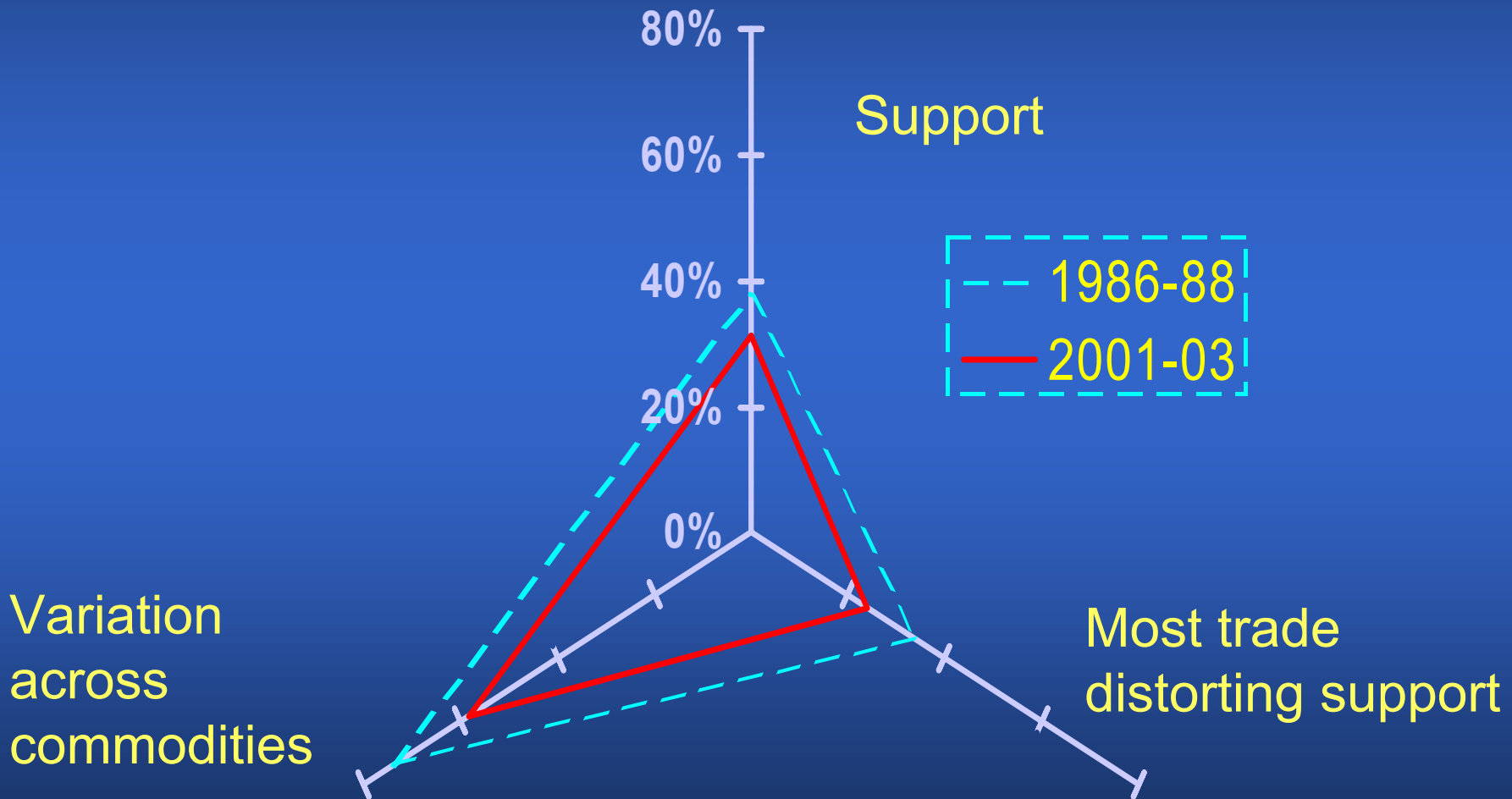
- There are more effective and less trade distorting alternatives to many current farm policies.
- Priorities for policy reform include:
 - Reduce border protection (and related price supports and export subsidies);
 - Adopt more decoupled and targeted measures (including temporary adjustment assistance).
- The benefits of reform are substantial, widespread, and within reach.



OECD Agricultural Policies, 2004

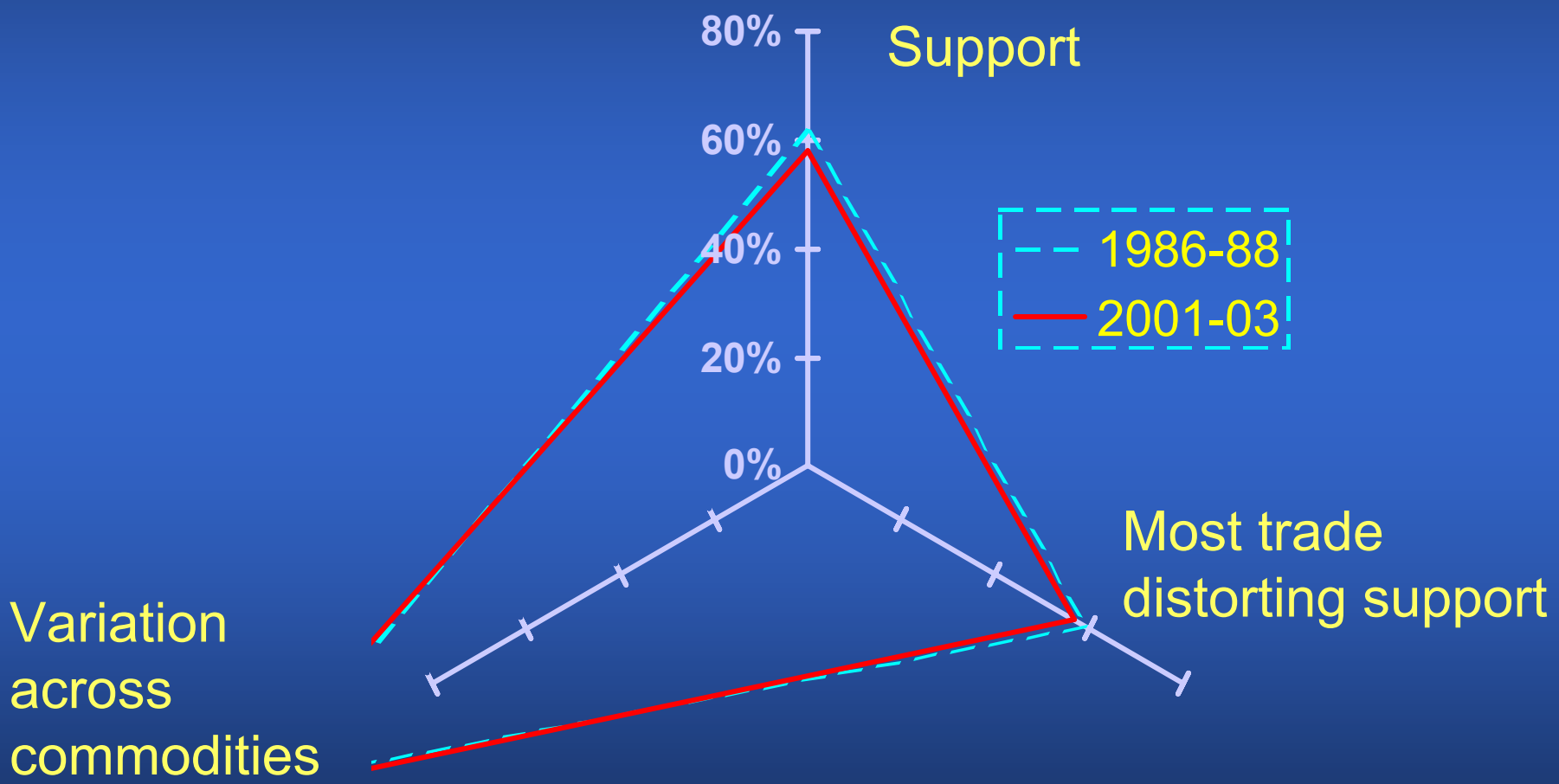
- Overall level of support remains high
- Production and trade distorting policy measures are predominant ...
- ... but some improvements are being made
- Large variations in support across countries and commodities

OECD Producer Support Estimate US \$ 238 bn (2001-03)



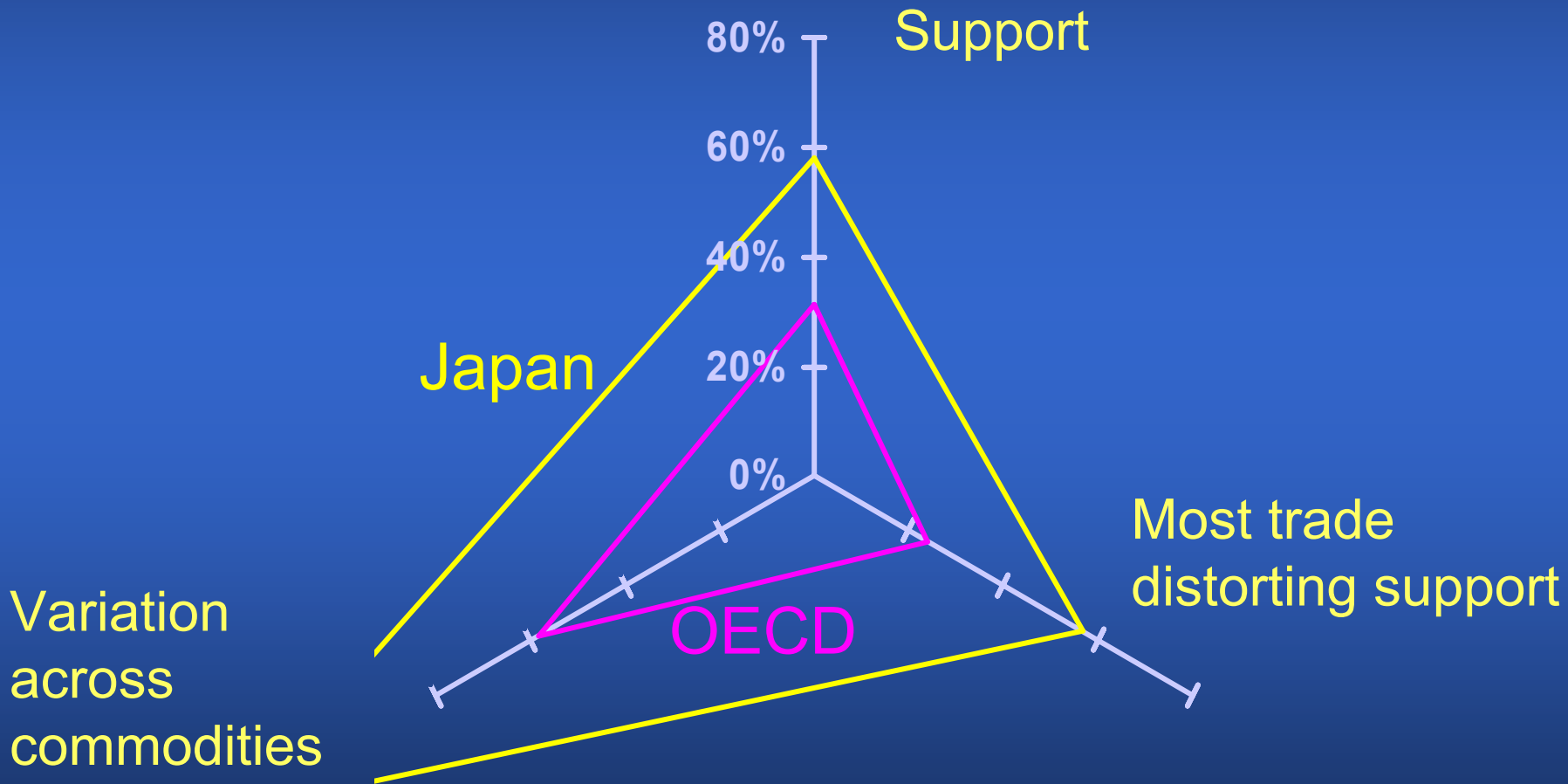


Japan Producer Support Estimate US \$ 44 bn (2001-03)

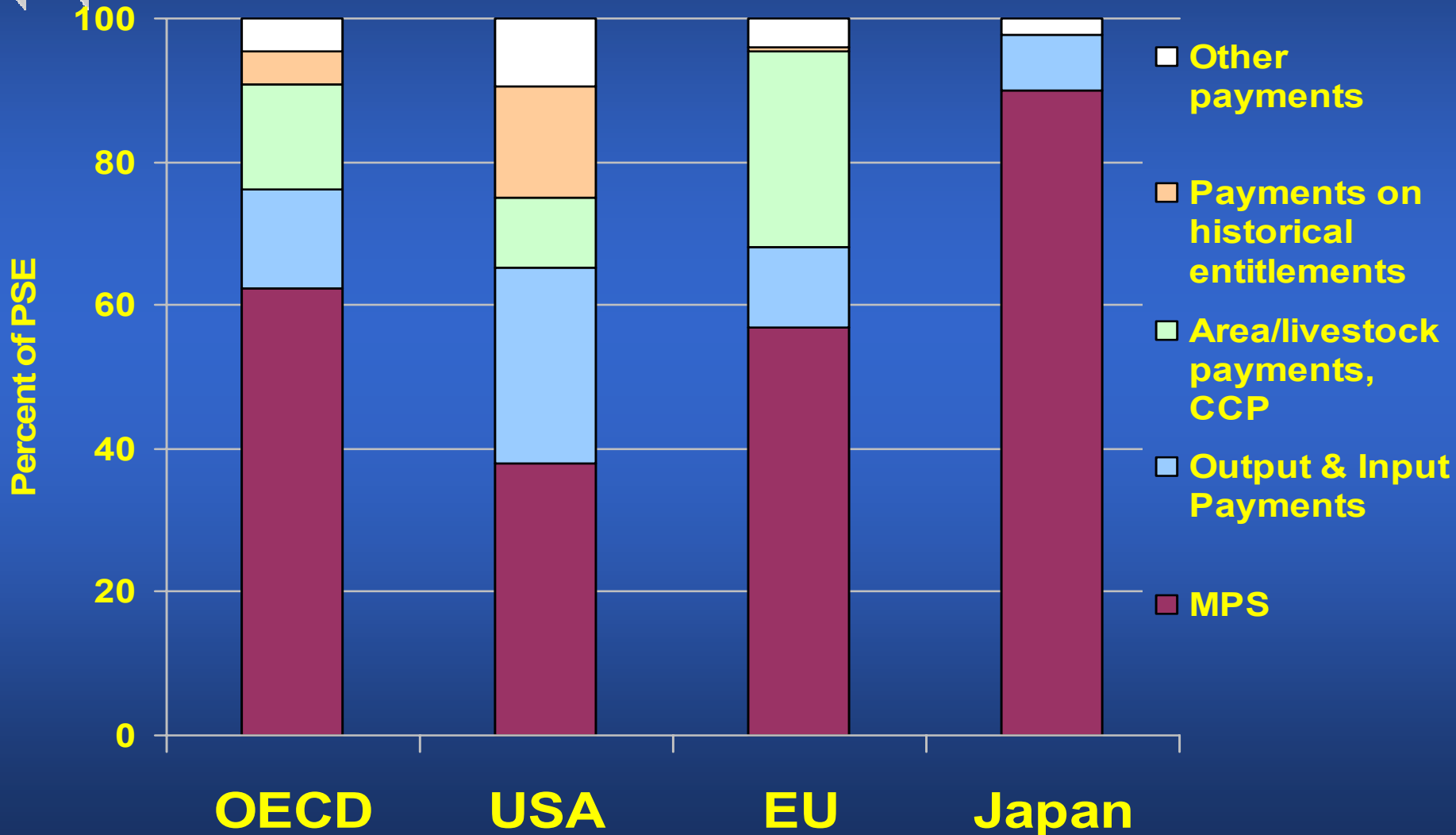




Producer Support Estimate, OECD and Japan (2001-03)



Price and Output Measures Dominate OECD Farm Support, 2001-03

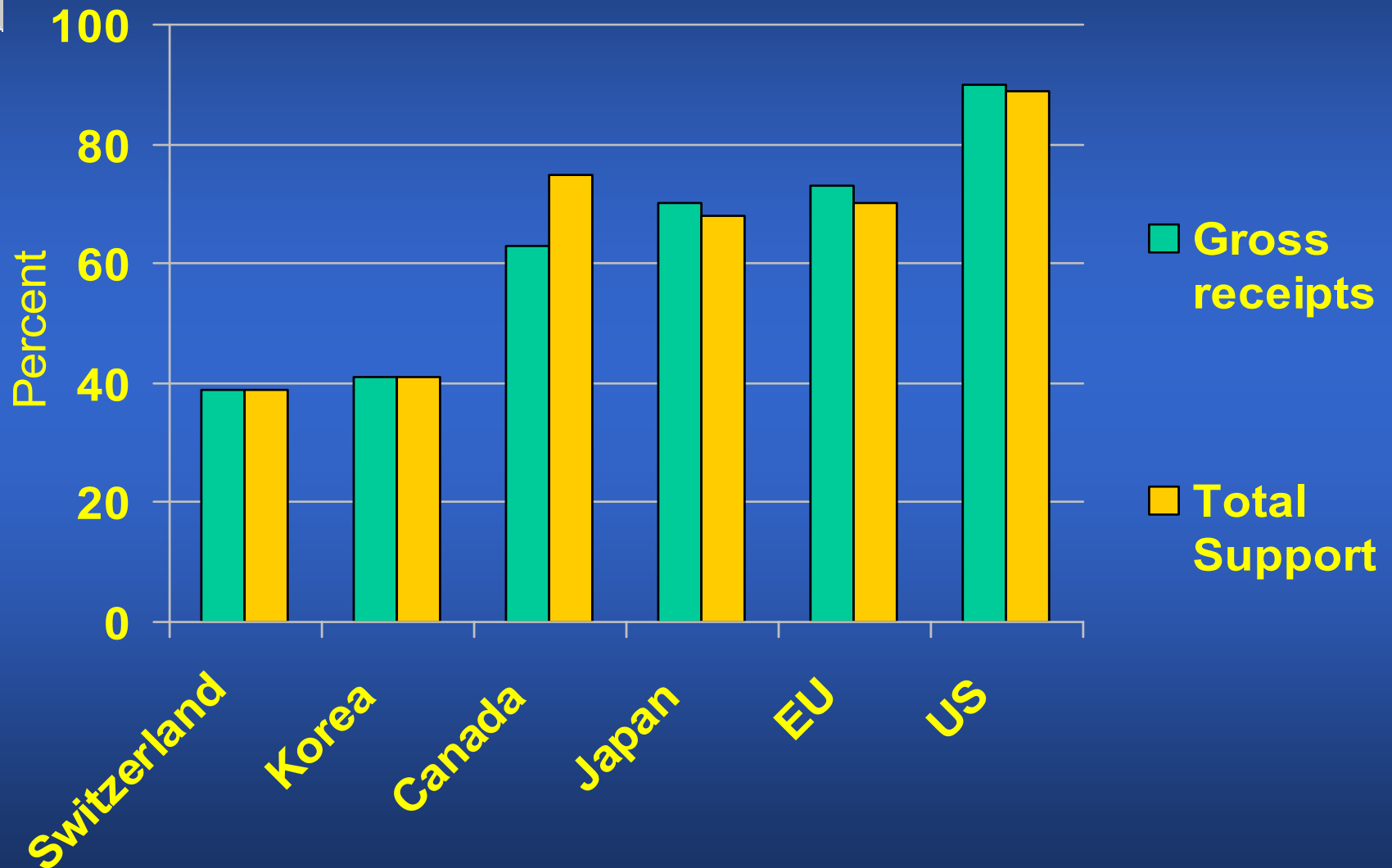




Price and output based support is...

- Inefficient: only 25% goes to farm household income.
- Ineffective: capitalization increases costs and reduces profitability ... can harm the environment.
- Inequitable: largest (often wealthiest) farms receive most support.
- Highly production and trade distorting.

Share of 25% largest farms in ...



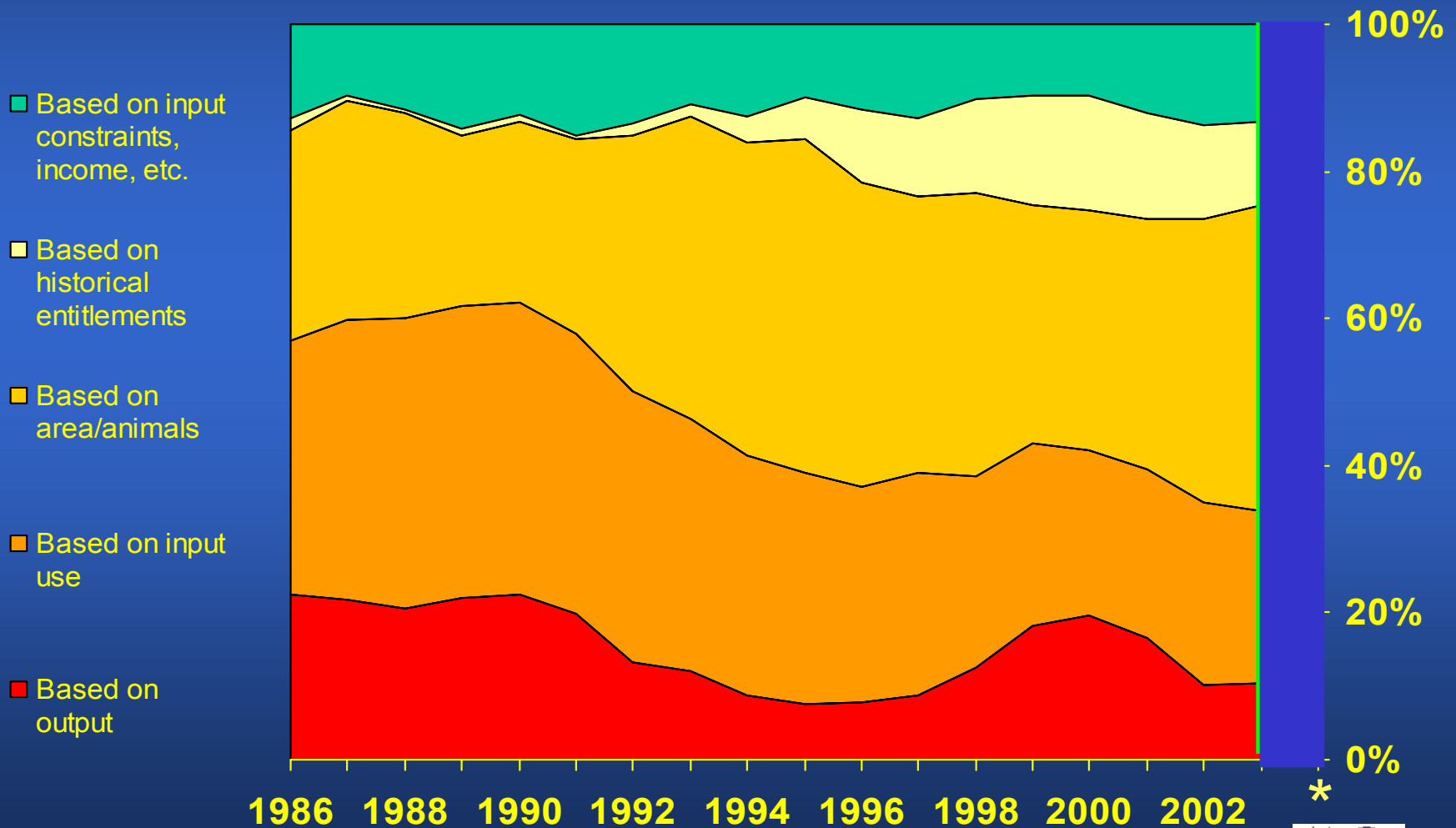


Price support requires border protection.....

- Aim is to benefit domestic producers, through higher prices.
- Also leads to higher production....
- ... and often to export subsidies.
- Isolates domestic producers, forces others to adjust, and can restrict development opportunities.



Composition of Payments in OECD Countries (*)

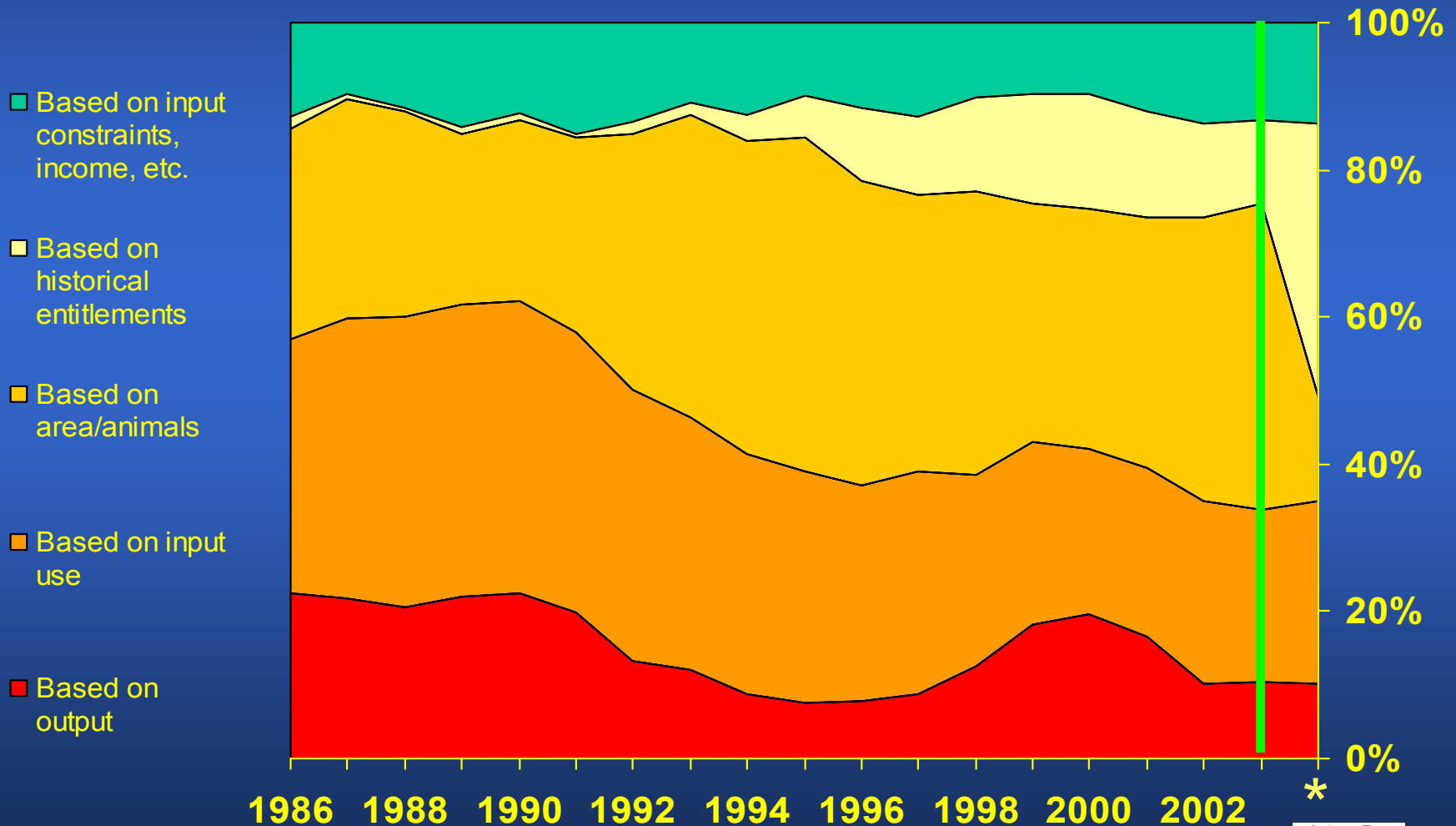


*

1986 1988 1990 1992 1994 1996 1998 2000 2002



Composition of Payments in OECD Countries (*)



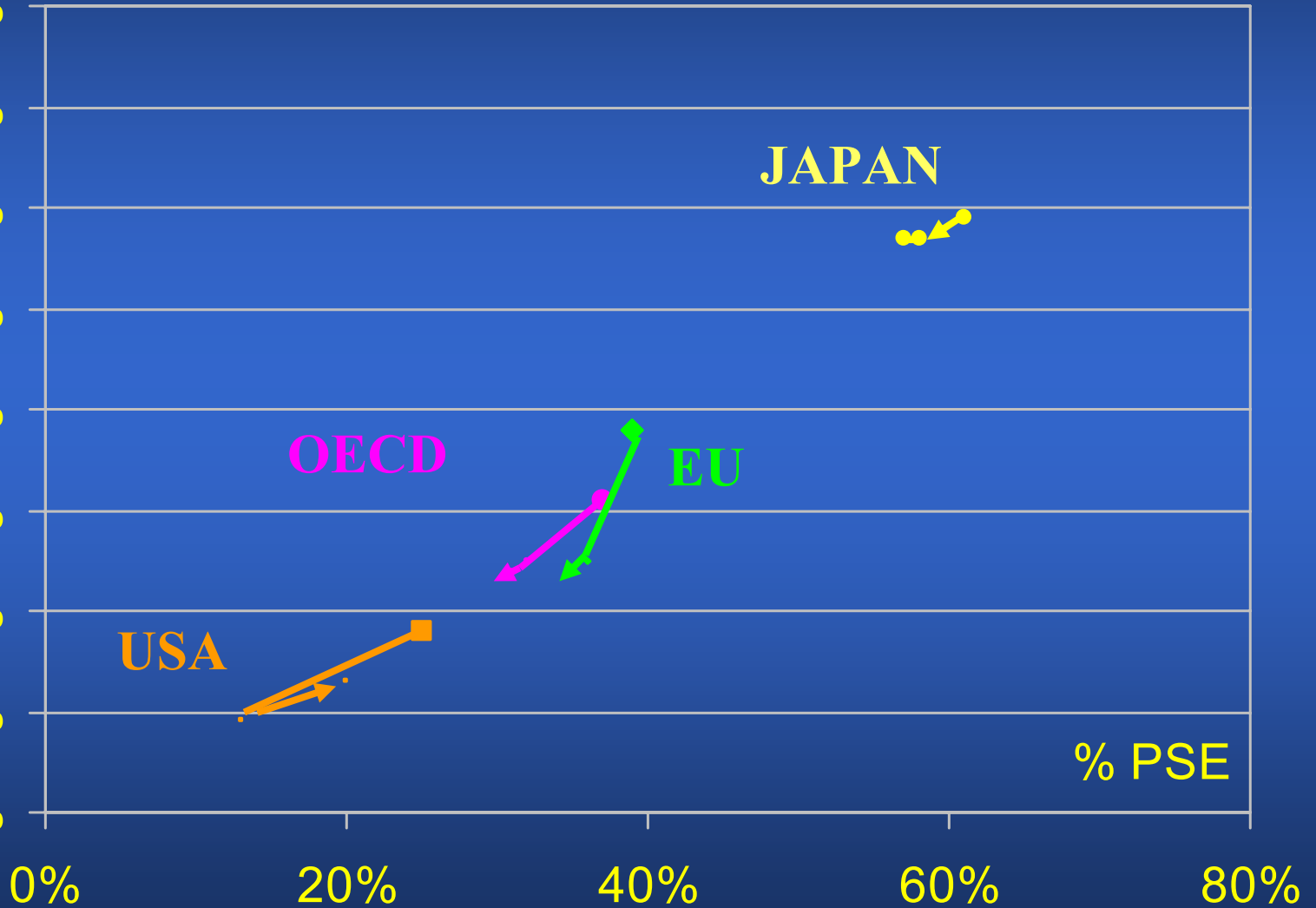
1986 1988 1990 1992 1994 1996 1998 2000 2002 *

Reform Progress

Share of price + output support in gross farm receipts



1986-88 → 1995-97 → 2001-03





Alternative policy approaches...

- “Decoupled” policies do not require border protection nor export subsidies.
- Policies targeted to specific goals and intended beneficiaries can cost less and be more effective.



Farm Household Income: Which Policies?

- avoid broad, output based measures
- target severe income risks
(commodity markets, income insurance)
- target on-farm performance (skills, technology)
- target systemic low incomes
(social safety nets, adjustment assistance)
- diversify income sources (rural development)



Rural Communities: Which Policies?

- agriculture policy is not rural policy
- target root causes of economic disadvantages (local, multi-sectoral initiatives)
- target systemic policy bias against rural and remote areas (infrastructure, public services)



Environmental Sustainability: Which Policies?

- avoid production-linked measures
- target source of negative impacts of farm production
(“polluter-pays” taxes, regulations)
- target provision of environmental benefits
(targeted direct payments, market creation)
- integrate policy approaches
(sector and broader environmental policies)



Decoupled and targeted policy design....

- Clear goals and beneficiaries.
- Support tailored to the objective, in scope, amount and duration.
- Any adjustment assistance to facilitate change – not prevent it.
- Any compensatory payments fully and permanently delinked from production, limited duration.



Introducing more decoupled and targeted policies...

- from consumer support to taxpayer financing
- from decoupled payments to targeted policies
- from permanent support to temporary assistance
- protection → compensation → adjustment

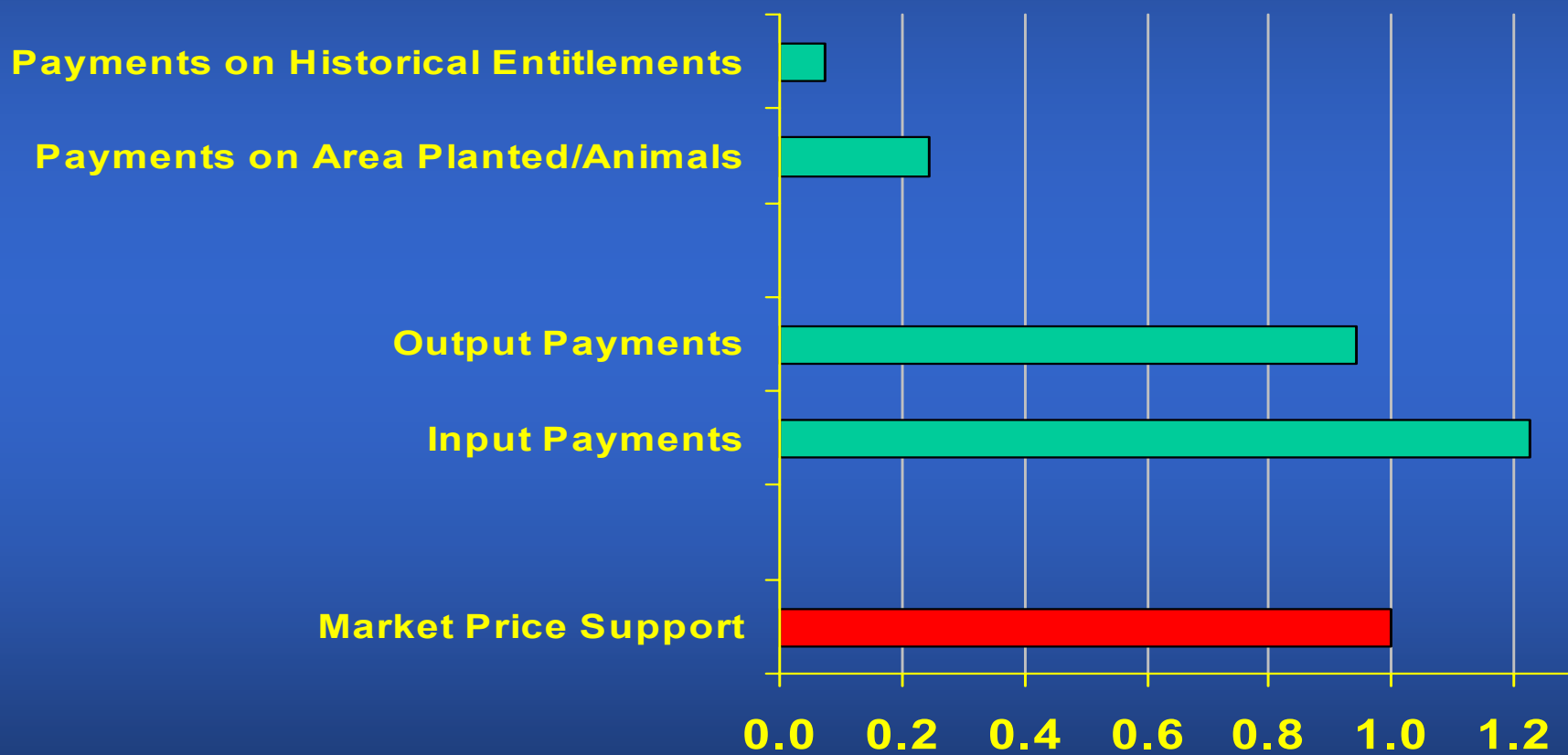


Decoupled and targeted policy effects...

- Any payment contingent on being a farmer has some effect.
- But there are big differences across policies – **the choice of policy instrument is key.**



POLICY EVALUATION MODEL



Trade effect of additional transfer, MPS=1



Benefits of reform....

- Most countries gain – a lot – from unilateral as well as multilateral reform.
- Not all countries gain, immediately, nor do all suppliers within countries.
- For many developing countries, OECD policy reform is essential – but insufficient.



The situation in developing countries...

- Export subsidies undermine markets.
- Market access is a necessary beginning.
- Developing country policies may need reform and capacity building may be required.
- Adjustment assistance should be considered (e.g. when preferences are lost).
- S&DT should be considered.



Conclusion

- Good domestic policy is good trade policy.
- Decoupling and targeting are key to
 - Improve market access,
 - Remove export subsidies,
 - Lower the cost of support,
 - Achieve societal goals.
- Significant gains result, but not everyone gains equally, nor immediately.
- Adjustment assistance, capacity building and S&DT should not be overlooked.
- The case for comprehensive reform is strong.