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AGRICULTURAL POLICIES IN OECD COUNTRIES: MONITORING AND EVALUATION 2009  
Part I. Evaluation of Recent Developments in Agricultural Policy and Support - Chapter 1

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**NOTE BY THE SECRETARIAT**

This document presents *Chapter 1. Evaluation of Recent Developments in Agricultural Policy and Support* of the report entitled ***Agricultural Policies in OECD Countries: Monitoring and Evaluation 2009***. This Chapter covers the main recent changes and new initiatives in agricultural policies in 2008 and 2009 in OECD countries and evaluates developments in the estimated support in terms of its level, composition and changes over time. It is circulated on OLIS as part of the following set of documents forming the 2009 report:

**Executive Summary**

[TAD/CA/APM/WP(2009)10/FINAL]

**Part I. Chapter 1 – Evaluation of Recent Developments in Agricultural Policy and Support**

[TAD/CA/APM/WP(2009)11/FINAL]

**Part I. Chapter 2 – Developments in Agri-environmental Policies in OECD Countries**

[TAD/CA/APM/WP(2009)12/FINAL]

**Part II. Country Focus - Chapters 3 to 14**

[TAD/CA/APM/WP(2009)13/FINAL]

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

[TAD/CA/APM/WP(2009)14/FINAL]

Document [TAD/CA/APM/WP(2009)10/FINAL] contains the draft *Executive Summary* which will appear at the beginning of the report.

Document [TAD/CA/APM/WP(2009)12/FINAL] contains draft *Part I. Chapter 2* of the report with a review of agri-environmental measures in OECD countries.

Document [TAD/CA/APM/WP(2009)13/FINAL] contains draft *Part II. Country Focus* with a description of policy changes and evaluation of support developments for each OECD country.

Document [TAD/CA/APM/WP(2009)14/FINAL] contains draft *Part III* of the report with the additional tables on support estimates.

Documents [TAD/CA/APM/WP(2009)10/FINAL], [TAD/CA/APM/WP(2009)11/FINAL] and [TAD/CA/APM/WP(2009)12/FINAL] were declassified by Working Party on Agricultural Policies and Markets. Documents [TAD/CA/APM/WP(2009)13/FINAL] and [TAD/CA/APM/WP(2009)14/FINAL] were declassified under the responsibility of the Secretary General

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## CHAPTER 1.

### EVALUATION OF SUPPORT POLICY DEVELOPMENTS

#### Key economic and market developments

##### *The world economy was overwhelmed by financial and economic crisis...*

1. Economic growth in the OECD area slowed down significantly in 2008, with real GDP declining in the second half of the year in several countries. The crisis was originally triggered by falling house prices in a number of countries, notably the United States. The turmoil in financial markets in the third quarter of 2007 took a dramatic turn in September 2008, leading to a paralysis in the whole credit market that threatened the day-to-day functioning of the real economy. This financial market crisis is the main force behind the severe and synchronised downturn of the world economy; technically, several OECD countries are in recession and emerging economies are experiencing serious slowdowns (OECD 2008b, 2009a). The crisis is gradually being reflected in all economic indicators: collapse of equity prices and consumer confidence worldwide; fall in industrial production, GDP and trade; increase in unemployment; and higher exchange rate volatility. Despite exceptional measures taken by central banks around the world to ease monetary policy and by governments to help private banks in difficulties, the lack of liquidity has been persistent. Both liquidity constraints and a slump in global demand reduced inflation to negative values in the last months of 2008 in several OECD countries, and raised concerns about risks of deflation in some countries.

2. There is broad agreement that the current economic crisis originates from the financial market crisis and that policy responses should be to strengthen financial institutions and seek greater coordination of macroeconomic policies, particularly monetary and fiscal policies. In this context, several governments have announced and are implementing historically large fiscal stimulus packages to sustain rapidly weakening aggregate demand, while there is also a role for social policies when unemployment increases. As the shock is not centred on a particular sector there seems to be little scope for economic arguments in favour of sector-based policy responses.

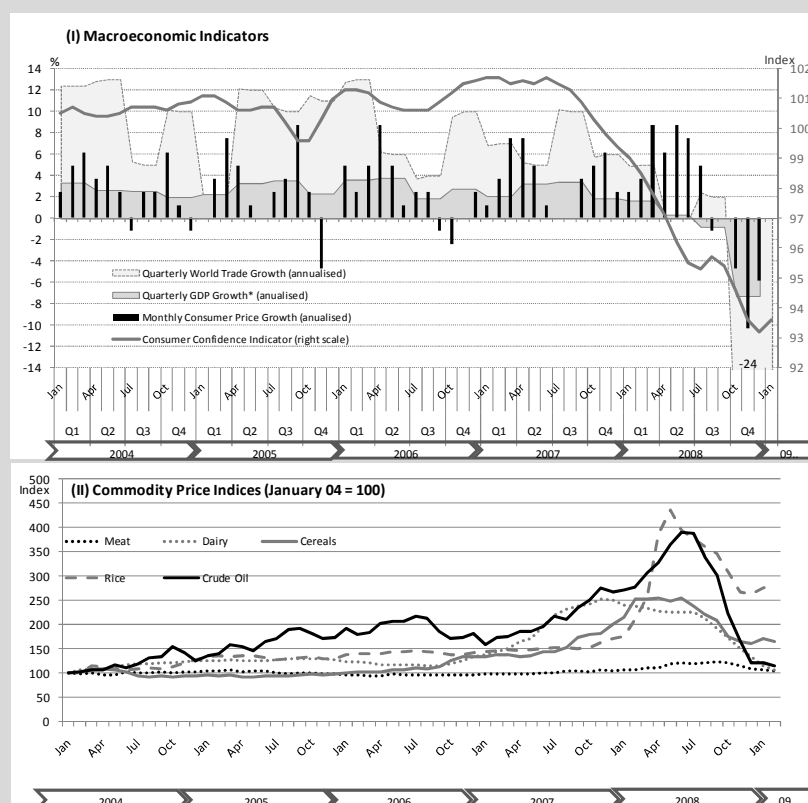
##### *...occurring at a time when commodity prices began falling from their historical peaks...*

3. The financial crisis started at an historical peak of nominal commodity prices. In July 2008, crude oil attained its highest price at a level that had more than doubled in less than two years. Peak prices of main agricultural commodities – excluding meats and sugar – occurred at the same time or with a lag of a few months only (Box 1.1). Earlier in 2008, civil unrest in several developing countries raised alarm about the impact of food price hikes on the poorest. The High Level Conference on World Food Security in June 2008 raised global awareness of the negative impacts of high food prices on poverty levels and on achieving the Millennium Development Goals. However, during the summer of 2008 – only two months before the depth of the financial crisis was revealed – most commodity prices started to fall and by the end of 2008 had reached their early 2007 levels. Nevertheless, average prices for the whole year remained relatively high and were still above historical trend levels in real terms.

### Box 1.1. The timing of the economic crisis and the wide swing in commodity prices

The indicators that describe the development of the financial crisis, the subsequent economic downturn and the evolution of commodity markets in 2008 include both macroeconomic variables and price indexes (Figure 1.1). GDP growth became negative in the second half of 2008, particularly in the fourth quarter; the indicator of consumer confidence has fallen since the third quarter of 2008 to levels that in January 2009 were well below any recorded in the last 30 years; and in the last quarter of 2008 consumer prices fell at significant rates and world trade contracted significantly. The social dimension of the crisis has already been manifested in increasing unemployment in OECD countries. On the other hand, although crude oil prices had nearly quadrupled in July 2008, as compared with January 2004, six months later, in January 2009, the price had fallen back to its level in 2004. Agricultural commodities followed a similar path, with the exception of meats for which there were only moderate price increases. Cereal prices rose by 150% in mid 2008 as compared with early 2004, but decreased rapidly since July 2008, although most prices remain above 2004 levels. The price increase was especially pronounced and rapid for rice (300%). Dairy product prices peaked earlier than cereal prices and returned to 2004 levels in January 2009.

Figure 1.1. Macroeconomic and commodity price indicators in OECD countries



\* Quarterly GDP growth in Q4-2008 covers 7 OECD member countries (Canada, France, Germany, Italy, Japan, United Kingdom and United States). No data are available for 2009.

Source: Macroeconomic indicators are from OECD Stat, Key Economic Indicators, Quarterly and monthly statistics, 2009. The Price Indices for meat, dairy, cereals and rice are from FAO (Food Price Indices, monthly food price index, 2009). The Crude Oil Price Index is from US Energy Information Administration (Official energy statistics, monthly prices, 2009)

The 2008 financial crisis and subsequent economic downturn coincided with the significant movements in commodity prices, from peaks in the first half of the year to rapid downturns in the second. This “coincidence in time” does not imply any causal relationship, but it has raised questions about the functioning of commodity futures markets and their linkage with financial and spot markets (Abbott, 2009). It also means that it is necessary to recognize the broad economic developments when defining the context in which the agro-food sector and agricultural policies operate. During the two years preceding the crisis, the agricultural sector benefited from high market prices that led to higher profits and investments in the sector as a whole, even if higher costs may have limited profits in specific sectors. Despite differences across countries and sub-sectors, agriculture in OECD countries is confronting the economic crisis and current deflationary pressures from an initial position of very high world prices.

4. According to the *OECD-FAO Agricultural Outlook 2009-18* (OECD, 2009d), agricultural commodity prices in real terms are expected to remain in most cases below recent record levels and move

along a new trend that is slightly above the historical levels of the decade preceding the 2007-08 peak years. World grain production is expected to decline in 2009 after a record year in 2008, but is projected to grow steadily in the medium term driven by yield improvements. After a strong supply response in 2008, milk production growth is projected to slow down while dairy prices are expected to rebound from low 2009 levels, stimulated by population growth and an anticipated upturn in global economic prospects. Growth in demand for some meats, particularly beef, is expected to retreat in the short run as a result of the general economic downturn but is to return to its longer term trend levels later; nominal meat prices will continue their increasing trend, but they are projected to decline in real terms. The current agricultural outlook is particularly uncertain due to the extreme macroeconomic conditions and the difficulties of quantifying the impact of financial crisis on agriculture. In such an environment of uncertainty, scenarios using different oil prices and GDP growth have been incorporated in this year's edition of the *Outlook*.

### **Implications of financial and economic crisis, and agricultural policy responses**

#### ***The implications of the crisis for agriculture are still evolving...***

5. The severity of the crisis is such that it could have a significant impact on the agro-food sector that may or may not differ from the impacts in other sectors of the economy. The economic impacts on specific sectors depend in particular on their exposure to credit shortages and demand prospects. The available main indicators describing the scope and nature of the current crisis offer an incomplete picture of the eventual impacts on the agro-food sector. Despite this uncertainty there are good reasons to argue that the agricultural sector in most OECD countries is well placed to confront this crisis, both relative to the past and relative to other sectors. Lower financial exposure, limited decline in food demand, recent high profitability – and the existing set of agricultural support policies – imply that agriculture is probably in a better position to weather the crisis than many other sectors. On the other hand, the weight of primary agriculture in the economies of OECD countries is too small for the sector to play a significant buffering role for the whole economy, a role that it may well play in some emerging and developing economies.

#### ***...and while the agro-food sector is affected by tightened credit, agriculture may fare better than other sectors***

6. Balance-sheet pressures on commercial banks have led to a tightening of lending standards worldwide, affecting both credit conditions and volumes. Credit scarcity is likely to diminish loan volumes to all sectors, including agro-food. However, available information suggests that the financial crisis did not significantly affect credit to agriculture in 2008. Record farm receipts over the past years have prompted investments in the sector and several banks in OECD countries observed an increase in loans (mainly for machinery) in 2008 compared to 2007 (Table 1.1). By early 2009, however, a reverse in loan trends had been reported by some banks. According to Featherstone (2009), in the *United States* “credit is available for the 2009 planting season” and “the lack of opportunities to make loans in other sectors of the *United States* economy has benefited the agricultural sector given its relative strength”, but the situation could be different across countries, particularly in non-OECD countries (OECD, 2009b).

7. The flow of credit to agriculture will depend on the behaviour and financial position of the specific lenders to the sector, such as agricultural banks and co-operatives, and on the business prospects in specific agricultural sub-sectors as compared with other sectors of the economy. In principle, however, low interest rates and economic recession in OECD countries should lead to a prioritisation of investment in favour of sectors with relatively low returns but more secure prospects, such as agriculture. Farmers who are land owners will have easier access to credit, and current investment subsidies and overall government support will further strengthen some farm operations. Nevertheless, this may not prevent contraction in credit for agriculture, particularly if the financial crisis is long and its impacts spread, such that farm land values fall or debt burdens increase. Regardless of the evolution of credit volume to the agro-food sector, lenders are expected to demand more guarantees along the general trend observed for all borrowers. The

tightening of credit can be more significant in food processing, distribution and retailing, sectors that are strongly export oriented, and cooperatives that are vertically integrated. These parts of the food chain are significantly more dependent on credit and some are already suffering from reduced access to loans. The credit contraction could also spill over to those segments in agriculture using finance provided by downstream businesses, as opposed to direct bank borrowing.

**Table 1.1. Credit to agriculture**

Indices, Q4-2006 =100

	Q4-2007	Q4-2008
<b>New loans</b>		
Credit Agricole	114	116
Federal Reserve	122	133
<b>Outstanding loans</b>		
Reserve Bank of Australia	133	-
National Bank of Poland	119	157
<i>Bank of England</i>	105	111
Farm Credit Administration	116	131
Reserve Bank of New Zealand	114	140
Deutsche Bundesbank	102	107

*Source:* Credit Agricole (monthly new credits to agriculture), Federal Reserve (quarterly flows of non-real-estate bank loan volumes to farmers), Reserve Bank of Australia (quarterly credit outstanding to agriculture, fishing, etc from Australian banks and other financial institutions), National Bank of Poland (three-month average stocks of monetary financial institution loans and other claims on farmers), Bank of England (quarterly amounts lending outstanding of UK resident banks, excluding Central Bank, and building societies' sterling and all foreign currency net lending to agriculture, hunting and forestry), Farm Credit Administration (total Farm Credit System's quarterly gross loan volumes), Reserve Bank of New Zealand (three month average credit to agriculture from registered banks and non-bank financial institutions), Deutsche Bundesbank (quarterly amounts of total lending to agriculture, hunting and forestry, fishing and fish farming, from all categories of banks).

***The sector registered record revenues in 2008, although some farmers may be under short run pressure***

8. The financial crisis occurred after a period of peak agricultural prices which saw farming receipts increase over 2007-08 (Table 1.2). However, the impact on farming margins cannot be automatically derived from such revenue data, particularly in a context of large price movements across several commodities and exchange rates. In fact, the *European Union* has already reported reductions in farm income for 2008, with different situations across its member countries. The misalignment in movements of input and output prices may have squeezed short-run margins in some sub-sectors. Livestock producers may have suffered a combination of high feed and other input costs, and not so high output prices. In the crop sector output prices have dropped sharply since summer 2008, while some input prices such as fertilizers have remained relatively high. In some cases, “the rural economy will likely see a larger impact through the loss of jobs in non-agricultural economy than due to changes in agricultural economy” (Featherstone (2009) referring to the *United States*). This may imply the loss of off-farm income opportunities for some farm households.

**Table 1.2. Farm income and farm receipts in selected OECD countries**

EU 27	Net entrepreneurial income of agriculture (nominal EUR, 2004=100)	Output value (current EUR billion)		
		Total Agricultural Goods	Crop	Livestock
2004	100	294	168	126
2005	84	286	157	128
2006	85	293	163	131
2007	90	323	185	138
2008	80	347	197	150

Canada	Agricultural net cash income (nominal CAD, 2004=100)	Farm cash receipts (current CAD billion)		
		Total	Crops	Livestock
2004	100	36	14	17
2005	95	37	13	18
2006	83	37	15	18
2007	103	41	18	18
2008	109	46	23	19

US	Net farm income (nominal USD, 2004=100)	Cash receipts (current USD billion)		
		Total farm sector	Crop	Livestock
2004	100	237	114	124
2005	92	241	116	125
2006	68	241	123	118
2007	101	285	147	138
2008	104	324	181	143

2008 data are estimated or forecast.

Source: Eurostat (Economic Account for Agriculture), Statistics Canada (CANSIM) and USDA (Economic Research Services)

### ***Food demand has low income elasticity, but demand shortfalls will differ across sectors...***

9. In the current recession world GDP and trade are expected to shrink in real terms in 2009 and global demand is expected to weaken (OECD, 2009a). The impacts on product markets are currently driven by falling consumer confidence, but direct response to lower income is expected in the near future. The scale of these impacts will largely depend on income elasticities of demand. A high income elasticity sub-sector like floriculture would suffer more than a low elasticity sector associated with staple foods. Food demand as a whole is normally assumed to have a low income elasticity, but it can differ across final products depending on their value added. Significant substitution effects in demand, as between high quality or high value added food and staple food, may also take place. Additionally, sectors that are more dependent on exports may suffer more from the demand downturn due to higher dependence on credit or the effects of greater exchange rate volatility. Trade contraction is expected to remain much larger than the reduction in global demand (WTO, 2009), which implies that export-oriented sectors will be particularly affected. Depending on their exchange rate regimes and their reliance on credit and exports to finance their trade, net food-importing developing countries may suffer from tighter access to food imports. Demand impacts may not be uniformly transmitted along the food chain and consumers may change their consumption patterns in terms of the preferred distribution and retail channels. Depending on market structures, it is possible that shocks in demand in some parts of the food chain will be partially transmitted through second round lagged effects to primary agriculture.

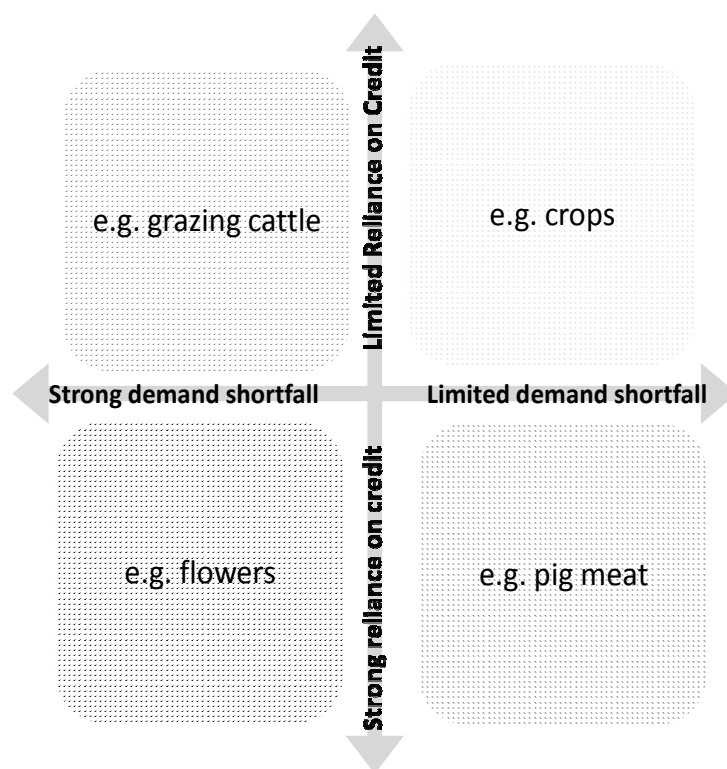
### ***...and relative economic performance will determine the scope and direction of structural adjustment.***

10. When identifying the sectors that are least resilient to the crisis, two interlinked dimensions of the crisis must be considered: first, the financial impact on the viability of the business and, second, the economic impact through the market demand for the outputs. This can be graphically represented with two summary variables such as the reliance on credit (measured by leverage), and the demand shortfall

(determined by the income elasticity of demand). Resilience will determine the scope and direction of economy-wide and sectoral structural adjustment in the wake of the crisis. In brief, within the whole economy and compared to other economic sectors, agriculture is likely to be located in a relative strong position with a relatively limited reliance on credit and a limited demand shortfall.

11. The reality faced by each sector, farm or firm will depend on the country and individual specificities, and the sectoral examples in Figure 1.2 are purely illustrative. Nevertheless, the severe economic crisis is likely to also trigger structural adjustments in agriculture, with resources moving within and across sub-sectors.

**Figure 1.2. Resilience of agriculture facing financial and economic crisis: illustrative sectoral examples**



Source: OECD, ABN-AMRO (2009) "Sectors in Stress" and EU Farm Economics Review 2005.

***Governments, particularly in developing countries, have reacted to price fluctuations...***

12. During the first half of 2008, several developing countries took decisions to try to mitigate the impact of high food prices on their consumers. Measures, such as tariff reductions and export barriers, were taken in more than forty emerging and developing economies (Annex Table 1.1). Other domestic measures included price controls and food subsidies. Among OECD countries, *Mexico* took similar types of measures in early 2008, along with preferential credit for small farmers and additional food subsidies for the poor. In principle, support well targeted to poor consumers is preferable to discretionary border measures that may amplify market price responses and create distortions. It is difficult to evaluate the extent to which the measures taken have been effective in ensuring consumers have access to food, particularly the poor. Other OECD countries also responded to commodity price increases. *Japan* reduced the rate of increase in the government sales price of imported wheat for human consumption, while other countries supported certain groups of farmers who were suffering from high input costs, particularly livestock producers confronted with high feed prices. Some OECD countries reduced tariffs on these inputs

(such as in the *European Union* and *Mexico*, for some cereals) and others implemented domestic measures to support specific sectors (*Belgium, France, Japan, Mexico* and *Norway*). In the second half of the year, some OECD countries implemented policy measures in response to falling agricultural prices. This included border measures such as the triggering of export refunds for certain dairy products in the *European Union*, and domestic measures such as the support to livestock producers in the province of Saskatchewan in *Canada*.

*...and some have adopted aid packages for agriculture in response to the financial crisis.*

13. Several OECD countries have announced or implemented measures in response to the financial and economic crisis, some of which include specific measures for agriculture and the agro-food sector. In the *United States* The American Recovery and Reinvestment Act of 2009 was signed into law in February 2009 and the Department of Agriculture was appropriated USD 28 billion (EUR 19 billion), which is 3.5% of the package, mainly for domestic food aid but also for investment in rural areas and technical assistance. In *Belgium*, the Flemish region will implement an aid package for dairy farmers in 2009. The *European Union* announced in January 2009 extra expenditure of about EUR 1 billion (USD 1.5 billion) for rural development as part of the *European Union* economic recovery plan. *France* presented in November 2008 a EUR 250 billion (USD 365 billion) package that included income support, debt relief and fuel rebates. *Spain* implemented in early 2009 a new programme for small and medium enterprises including farms and agro-food businesses in order to facilitate access to credit at subsidised interest rates, Portugal launched new credit lines for intensive livestock in September 2008 and for agribusinesses in March 2009, and *Poland* decreased interest rates and extended reimbursement periods for credit to agriculture. Some emerging economies also announced action plans for agriculture (Annex Table 1.1 and OECD 2009b). In OECD countries, existing support measures, particularly direct payments not linked to world prices, are playing a cushioning role against possible impacts of the financial and economic crisis on some farm households. An important implication of the crisis is that it draws attention to the ability of existing agricultural policies to facilitate – rather than impede – structural adjustments in the agro-food sector.

### **Main changes in agricultural policies**

*Broad new policy frameworks have been agreed in several OECD countries...*

14. Three countries have announced new farm policy legislation or frameworks for agricultural policies (Box 1.2). The *European Union* has continued to implement previously agreed reforms, particularly the 2003 CAP reform, and the new rural development policy for 2007-13 programming period, while agreeing and implementing further reforms of the Common Agricultural Policy (CAP); the reform of the regimes for fruits and vegetables and for wine in September 2007 and April 2008, and the Health Check of the CAP in November 2008. In June 2008, the *United States* approved new farm legislation, the Food, Conservation and Energy Act (FCEA) for 2008-12. *Canada*, the federal and provincial governments reached an agreement on the business risk management elements of the Growing Forward framework for 2008-13.

### Box 1.2. At a Glance: Policy Reforms in Canada, European Union and the United States

**European Union:** The Health Check was launched in 2007 to review the CAP reforms of 2003 and to contribute to the discussions on future priorities in agriculture. The reform proposals were agreed in November 2008 and will apply from January 2009.

- **Intervention** purchases are restricted, abolished for pig meat, set at zero for barley and sorghum, and limited for wheat, butter and skimmed milk powder.
- **Milk quotas** will increase by 1% each year between quota years 2009-10 and 2013-14 and then end in 2015.
- Compulsory **set-aside** is abolished.
- **Single Payment Scheme (SPS)** can be implemented more flexibly by member states by opting for regional implementation from 2010, while new EU member states can continue to apply the Single Area Payment Scheme until 2013 rather than 2010. In addition, member states have the possibility of flattening SPS rates.
- **Commodity-specific payments** that remained are integrated into the SPS, with some exceptions for suckler cow, goat and sheep premiums, assistance to sectors with special problems; commodity-specific direct payments may be used for risk management measures, such as insurance schemes for natural disasters.
- **Modulation** rates are gradually increased from 5% in 2008 to 10% by 2012 and the funds may be used by member states to reinforce programmes in the fields of climate change, renewable energy, water management, biodiversity, and for accompanying measures in the dairy sector.
- **Cross compliance** is simplified by withdrawing standards that are not relevant or not linked to farmer responsibility while new requirements are added to retain the environmental benefits of set-aside and improve water management. Conditions set by countries are harmonized across payments
- **Risk management measures** may be subsidised at member state level using parts of the direct payments envelope.

**United States:** The Food, Conservation and Energy Act came into law in 2008. Two-thirds of the funds are foreseen for the Food Stamp Program, re-named the Supplemental Nutrition Assistance Program.

#### Commodity programmes

- **Direct payments**, countercyclical payments (CCP) and marketing assistance loan benefits are maintained.
- **Loan rates and target prices** remain at 2007 levels for 2009, and several are increased for 2010-12, while the list of eligible commodities is expanded.
- A new revenue support programme, the **Average Crop Revenue Election (ACRE)**, is offered beginning with the 2009 crop year, as an alternative to receiving CCP. Direct payments and marketing assistance loan benefits are also reduced for producers who opt into the programme.
- **Direct payment rates** remain the same, but payment base areas are reduced from 85% to 83% of the base for 2009-2011. Participants have to abide by conservation-compliance requirements.
- **Dairy support** is provided through administered prices for manufactured products, rather than fluid milk, the payment rate and production eligible for payments are increased for the Milk Income Loss Contract programme, and the Dairy Export Incentives Program is extended.

#### Other programmes

- **Conservation:** Emphasises conservation on working land by increasing funding for Environmental Quality Incentives Program and introducing a new Conservation Stewardship Program. Wetland restoration and farmland preservation programmes are increased while the primary land retirement programme will be reduced.
- **Rural development:** Greater emphasis on value-added agricultural activities, including renewable energy and locally and regionally produced agricultural products
- **Organic agriculture:** Funding for certification, data collection and regulatory activities is increased and new programmes are established to tailor conservation programmes to organic practices.
- **Livestock.** Mandatory reporting expands and country-of-origin labelling continues, with some additional commodities added.
- **Biofuels:** Increased funding for bio-fuels research and infrastructure; reduction in blenders' tax credit for ethanol; creates a tax credit for cellulosic biofuels; and extends the duty on ethanol imported for fuel use.
- **Trade:** Export credit programmes are reformed and the Export Enhancement Program (EEP) is eliminated.

**Canada:** The Growing Forward policy framework builds on the previous Agricultural Policy Framework. Spending is shared between the Federal and Provincial governments. There are four main programmes in the area of business risk management under the agreement:

- **AgriInvest** provides a matching government subsidy for farm savings accounts, up to 1.5% of sales per year. Producers may use the funds to compensate for income variability (net income declines of 15% or less) or for on-farm investments, in particular for risk-mitigation.
- **AgriStability** compensates producers when their margin (revenue minus costs) in the programme year is more than 15% lower than their reference margin - their average margin from previous years.
- **AgriInsurance** insures losses to production and farm assets caused by natural perils. In exchange for a premium producers receive a payment when they experience losses during the year.
- **AgriRecovery** provides payments to producers in the case of natural disasters whose impact is not adequately addressed by the other programmes

15. The reforms in the *European Union*, particularly the Health Check and the reforms of the fruits and vegetable and wine regimes, are extensive and complex. They involve an expansion of the Single Payment Scheme (SPS) with integration into the scheme of previously sector specific payments (support for processed fruits and vegetables, distillation and other wine payments, and several remaining crop and livestock payments) and enlargement of the eligible land with hectares previously dedicated to fruits and vegetables and to vineyards. Other reforms also gave farmers more freedom to use their land with the phasing out of the commodity exceptions in land benefiting from the SPS (such as fruits and vegetables), the end of the wine grapes planting rights regime by 2016, and the abolition of compulsory set-aside. The measures also involve less government intervention in domestic markets with the elimination of support to processed fruits and vegetables and the distillation scheme for wine, the phasing out of milk quotas by 2015 (after increasing quotas through to 2014) and the weakening of intervention mechanisms for pig meat, cereals and dairy. At the same time, some decisions give greater flexibility for the use of European funds in different countries: national envelopes for wine can be discretionally used for promotion, restructuring or crisis management; the so-called “article 68” measures, which allow 10% of national budget ceilings to be retained in order to “assist sectors with special problems”, are opened to include risk management measures; and additional funding for countries that joined the *European Union* after 2004 (EU12) that together with any currently unspent money for EU15 countries can be used for these “article 68” measures.

16. The movement away from market interventions and payments associated with the production of specific commodities, and the integration of these latter into the SPS, plus the elimination of the commodity exceptions are all movements of the *European Union*'s Common Agricultural Policy in the direction of more decoupled policies that allow farmers to be more responsive to market signals. The additional modulation and the reinforcement of the “article 68” measures take funds away from the SPS and gives more flexibility to EU member countries in responding to national and regional objectives. This provides the member states with the possibility of targeting these measures to specific market failures or income concerns. The challenge is to ensure that these measures are minimally distorting and avoid the pressure for the expansion of national and regional expenditures.

17. Most of the funds under the new Farm Act in the *United States* (FCEA) are provided for domestic food assistance, rather than for producer support programmes, with increased planned expenditure in this area as compared to the previous legislation. The countercyclical dimension of commodity programmes is reinforced with higher loan rates for several commodities under the Marketing Assistance Loan (MAL), and higher target prices for most commodities in the Counter-Cyclical Payments (CCPs) programme; in addition, a new optional revenue based counter-cyclical program Average Crop Revenue Election (ACRE) will begin in 2009 as an alternative to CCPs. Direct payments and marketing loan benefits are also reduced for producers who opt into the programme. Rates for fixed Direct Payments for crops remain constant, the restriction of producing fruits and vegetables is retained except for a pilot flexibility program in some states, and the payment area is reduced from 85% to 83.3% of base acres. Price support programmes for dairy and sugar are retained, but the way in which they are administered is changed. Disaster Assistance is now based on a permanent whole farm revenue programme for crops (SURE) and there are four additional smaller programmes for other sectors in an attempt to avoid *ad hoc* measures. The FCEA also reinforces environmental conservation programmes, shifting the focus from land retirement to environmental protection of land in production, increasing spending for the Environmental Quality Incentives Program (EQIP) and the Conservation Stewardship Program (CSP) and reducing the maximum set aside area under the Conservation Reserve Program. There is a new mandatory Country of Origin Labelling (COOL) for an expanded list of commodities. The Export Enhancement Program has been repealed and the Export Credit Guarantee programs have been modified with the aim to make them consistent with the ruling of the WTO cotton case.

18. The new Farm Act does not imply a radical change in the set of agricultural policies in the *United States*. The FCEA also does not increase or shift funds towards the more decoupled Direct Payment Programme not requiring production; neither has it expanded the production flexibility of these payments, by retaining commodity exceptions in this programme. On the contrary, commodity programmes that are countercyclical with prices (MAL and CCP) are retained and more commodities are now eligible, while they are complemented with a new optional revenue-based programme (ACRE). Revenue based instruments are better targeted to farmers' risks and they typically imply a lower amount of expected payments, but results depend on specific policy parameters. Targeting could be improved if payments were based on whole farm revenue and farmers' response to market signals may be enhanced by reducing the complexity of their decisions currently subject to several sophisticated programmes and options.

19. *Canada's* Growing Forward framework agreement covers risk management policies, the main set of farm support policies in Canada, and includes elements related to environment, sectoral adjustment, innovation and regulation. Four new government programmes cover a comprehensive set of different layers of risk. The main triggering variable is the calculated whole farm "margin". The AgriInvest programme can be used after small margin declines and for on-farm investment. Larger but less frequent declines trigger AgriStability payments. Additionally, AgriInsurance insures losses due to natural perils. These three programmes do not imply far-reaching policy changes, because they replace similar measures under the previous Canadian Agricultural Income Stabilization program (CAIS) and the crop insurance programmes. However, AgriRecovery provides a new stable framework for payments after a natural disaster not adequately addressed by other programmes. This programme may avoid *ad hoc* payments and facilitate a quick response to disasters, but the performance of the whole package in terms of the efficiency and frequency of these responses and the potential crowding out of other risk management strategies will need to be evaluated.

20. *Mexico* approved a new sectoral programme for 2007-12 that combines objectives on the economic development of rural areas, supply of healthy food, farm income, and environmental and social sustainability; even if it has implied no major policy changes, a common set of policy rules has enhanced transparency. In *Switzerland*, a new policy package (Agricultural Policy Reform AP 2011) is in operation for the period 2008-11 with the aim to reduce budgetary expenditure on market price support by 30% and channel these resources to landscape, animal welfare and compensation for production under difficult conditions.

***Market interventions were somewhat reduced or adapted...***

21. There are still significant market interventions such as administered prices or quotas in some markets of several OECD countries, but some decisions will contribute to their reduction. In 2007, *Japan* abolished administered prices for wheat, barley, sugar beet, sugar cane and starch potatoes while retaining those for pig meat, beef and beef calves. The *European Union* in the context of the Health Check has reduced its intervention mechanisms for cereals and abolished intervention for pig meat, while announcing the phase out of milk quotas by 2015, and implementing intervention price reductions for butter and skimmed milk powder as planned under the 2003 CAP reform. Reforms in the wine, fruit and vegetable sectors reduced or eliminated interventions and payments for distillation and processing. Milk quotas were abolished earlier in *Switzerland* from May 2009, although until 2015 farmers will only be able to sell milk under the terms of contracts drawn up with buyers. The changes in the dairy and sugar price support mechanisms in the *United States'* 2008 Farm Act do not imply a reduction in these mechanisms; sugar purchases by the government are guaranteed through a new sugar-for-ethanol programme to address potential US sugar surpluses after sugar tariffs with *Mexico* were eliminated.

*...but product or sector specific measures remain widespread...*

22. Product or sector specific measures continue to operate widely and new *ad hoc* decisions are frequently invoked in response to specific circumstances. For instance, emergency measures were decided in **Japan** in October 2007 in response to the fall in the domestic price of rice: the government increased purchases and stockholding and subsidised use of rice for feed, while prefectures were called upon to reduce production quota in exchange for increased rice diversion payments. **Switzerland** increased direct payments per livestock unit to dairy producers, to compensate for the reduction in price support expenditures by 20% in the 2007-08 period. In **Turkey**, the purchase prices for cereals, sugar and tobacco set by marketing boards were increased in 2007 and 2008. There are also output and deficiency-type payments in several countries that provide a framework to stabilise domestic producer prices in response to price changes for specific products. Most of these mechanisms were not triggered in OECD countries in the last two years (particularly in **Mexico** and the **United States**), but in some countries additional output payments were provided: for milk, wheat and tea in **Turkey**, and for sugar and milk in **Mexico**.

*...and the focus on more decoupled direct payments differs across countries.*

23. While some countries, particularly the **European Union**, expand their programme of more decoupled direct payments, others like the **United States** and **Mexico** retain their programmes unchanged; there are also examples of countries ending this type of programme (**Turkey**), and starting new schemes (**Japan**). In the context of the recent reforms in the **European Union**, the Single Payment Scheme (SPS) has been expanded with further integration in the scheme of previously sector specific payments, more eligible land, elimination of the commodity exceptions, abolition of compulsory set-aside and new flexibility for opting for a regional implementation of SPS from 2010. Payments will be reduced by up to 10% in 2012 (as compared with up to 5% in 2008) and the funds transferred to rural development programmes. In other countries with similar more decoupled direct payments (Direct Payments in the **United States** and PROCAMPO in **Mexico**) their scope and implementation remains similar to what was established in the 1990s. Three new direct payments were introduced in **Japan** in 2007 for those with farms of a minimum size, replacing specific payments based on output for commodities for which administered prices were abolished. One payment — that is based on historical land - is more decoupled from production, while the others are based on income loss and output. In **Turkey**, the system of Direct Income Support at a flat rate per hectare (ARIP) introduced in 2001 was extended until 2008, but will be discontinued from 2009.

24. Some countries are trying to improve the distribution of these programmes through payment cuts amounts or payment limits. The **European Union** made an additional 4% cut in SPS payments to recipients receiving more than EUR 300 000 (USD 438 600), transferring this money to rural development funds; at the same time, a minimum SPS payment per farm or per hectare is also established. The programmes in the **United States** 2008 Farm Act keep their payment limits in terms of a maximum amount of programme payments per person and a maximum amount of individual income to be eligible for Direct Payments and Countercyclical Payments, including new ACRE programme; however, Marketing Assistance Loan payments limits are abolished.

*Risk-related policies become more prominent amid strong price fluctuations, economic crisis and climate change...*

25. The three OECD countries that have implemented significant new policy legislation or frameworks have sought to reinforce measures related to risk management. In the **United States**, the 2008 Farm Act increases target prices for most commodities and gives farmers the opportunity to change to the revenue-based countercyclical programme ACRE, confirming a commodity-specific risk management approach that now allows price and yield risk to be combined into a revenue programme.

*Canada's* Growing Forward agreed programmes take a whole-farm approach to risk management with measures that cover several risk layers, from small frequent reductions in margins to catastrophic risks. Finally, the Health Check of the *European Union* expands the possible uses of article 68 "Assistance to sectors with special problems" to include co-financing of subsidies to insurance schemes and mutual funds.

26. *Mexico* has a long experience with its price hedging programme, which subsidises up to 100% of the price of options; it attempts to stabilise prices via contract sales, while allowing farmers to benefit from high prices through call options; expenditures under this programme have increased eight-fold in three years in the context of high price expectations in 2007 and the first half of 2008. New subsidized insurance systems were introduced in the three Baltic countries, *Estonia*, *Latvia* and *Lithuania*. The set of commodities benefiting from the insurance scheme for natural disasters, created in *Korea* in 2001, expanded in 2008 with fifteen new fruits and field crops. In terms of border measures, a new project in *New Zealand* seeks to improve risk management at the border while facilitating trade and travel, with the idea of targeting the highest risks and co-management with the industry.

27. Given high world prices, countercyclical payments in some countries were rarely triggered in the context of high world prices in 2008. This is true in particular in the *United States* and in *Korea*, where the variable part of the direct payment for rice was not triggered in 2008 for the first time since it was created in 2005. In *Norway*, in the annual agreements with farmers, a possibility to renegotiate target prices in the case of high fertilisers and feed costs was agreed in 2008; this clause was triggered in January 2009 and the new agreement increased target prices.

*...and there are efforts to find more stable approaches to disaster assistance ...*

28. Several changes in policy frameworks in OECD countries include attempts to introduce more stable and better defined disaster assistance, which may reduce reliance on *ad hoc* programmes. In particular, the *United States* approved a permanent whole-farm revenue programme SURE for crops, which complements other programmes for other sectors, while *Canada* approved AgriRecovery as a mechanism to facilitate payments after natural disasters. Other OECD countries are also reforming their disaster assistance: in July 2007, *New Zealand* introduced a programme to assist with building rural capacity through Rural Support Trusts in each region to respond to adverse events, emphasising that risk management is the responsibility of individual business; *Australia* has embarked on a Comprehensive National Review of Drought Policy; *Korea* passed a new law in January 2009 to create a comprehensive scheme that integrates crop insurance with insurance to protect farmers' income from outbreaks of animal diseases or natural disasters.

29. Along with these attempts to bring disaster assistance within stable frameworks, *ad hoc* emergency packages were implemented following natural disasters or animal diseases. Examples are financial aid to farmer families affected by the 2008 drought and hurricane in *Poland*; expanded quotas for dairy farmers affected by the epidemic of bluetongue in *France*; *European Union's* funds for farmers adversely affected by this same epidemic in 2008; compensation to egg producers for bird slaughtering after an outbreak of Newcastle disease, co-financed by the *European Union* in *Estonia*; support package for farmers affected by movement restrictions in place to control Foot and Mouth Disease in 2007 in the *United Kingdom*.

*...while animal disease control is reinforced*

30. Some OECD countries have taken initiatives to reinforce animal disease control. A biosecurity Science Strategy was launched in *New Zealand* in 2007 establishing formal mechanisms to determine science priorities in biosecurity. In *Iceland*, the Food and Veterinary Authority (MAST) began operations in 2008 with a broad mandate on food safety, and animal and plant health. Several projects were

implemented in *Turkey* to harmonize food safety, quality and other standards with those of the *European Union*, and in 2007 a new Agricultural Quarantine Regulation was published. Disease control and vaccination measures were taken in several OECD countries: in *Canada*, Circovirus inoculation for pigs; in several *European Union* countries (*Belgium, Netherlands, Spain, Denmark, Germany* and *France*) blue tongue virus vaccination with financial aid from *European Union* funds; in *Ireland* disruption of pig meat marketing and storage aid scheme after dioxine was found in pig meat; in *Poland* introduction of a programme for combating Aujeszky' disease in pigs; in *Poland, Estonia* and *Bulgaria*, programmes against varroosis in bees.

***There are attempts to respond to climate change, while agri-environmental programmes expand...***

31. Some OECD countries have implemented programmes attempting to respond to some of the challenges to agriculture arising from climate change. *Australia* implemented a new exit grant package for the Murray-Darling Basin affected by drought and climate change. A research programme on soil carbon, nitrous oxide and reducing emissions of livestock was also started with funding from the climate change research programme, and the programme Farming Future to equip farmers with the necessary tools and information to address mitigation and adaptation to climate change. The *European Union's* Health Check requires that the additional "modulation" funds be spent on specific priorities, the first of which is for climate change adaptation and mitigation. *Slovenia* gave priority to climate change issues in 2008, approving a strategy for adaptation in agriculture.

32. Over and above the measures that focus on climate change mitigation and adaptation, all countries have implemented, expanded or changed agri-environmental programmes. The *United States* 2008 Farm Act re-authorises almost all previous environmental conservation programs, with a further shift in focus from land retirement to environmental protection of land in production. In the rural development programme of the *European Union* for 2007-13, the highest share of funds (46%) has been allocated to Axis 2 which includes agri-environmental payments; cross compliance of the *EU* SPS is maintained and expanded to horticultural land, but simplified by the Health Check, and new requirements are added for set aside land and improving water management. The *United Kingdom* reviewed its payment rates to ensure fair compensation, applied voluntary modulation (reduction of direct payments) to be used for co-financed agri-environmental schemes, and implemented in 2009 the new regulation on Nitrate Pollution Prevention. In 2008, *France* launched a plan (Ecophyto) to reduce pesticide use by 50% in ten years, if possible. Since 2005, *Korea* has quadrupled its budget (from an albeit low base) for direct payments for landscape conservation, based on collective contracts between the municipality and the farmers. *Mexico* has grouped previous programmes into a new soil and water conservation programme to finance on-farm infrastructure for improving efficiency in water management. In 2009, *New Zealand* amended its Resource Management Act as a first step of a wider revision of water management and resource allocation policies. In *Switzerland*, the AP 2011 introduced in 2008 a programme for Sustainable Use of Natural Resources, which finances projects developed by local authorities. Many OECD countries continued to subsidise water and water extraction for agriculture, including through under-charging framers for investments and maintenance, but there is growing recognition that some aquifers are overexploited.

***...and initiatives to support biofuels production continue***

33. Many OECD countries have introduced biofuel policies as part of their climate change mitigation and energy diversification strategies. In this context, in 2008 the *European Union* agreed to introduce a legally binding 10% of renewal energy in the transport fuel mix by 2020. *EU* countries are thus implementing programmes to foster biofuels and bioenergy production: *Estonia* adopted a biomass and bio-energy development plan in 2007 including regulation, tax preferences and support measures to promote the production of bio-energy; the *United Kingdom* implemented the Bio-energy Infrastructure Scheme that will support the biomass industry for heat and electricity generation. Outside Europe, *Canada*

launched the Eco-Agriculture Bio-Fuels Capital initiative for the construction of biofuel production facilities. In February 2007, **Japan** announced an action plan to increase domestically produced biofuel and introduced credit concessions and tax benefits for biofuel producers. The **United States** 2008 Farm Act provides support to buy domestically produced sugar for biofuel production under limited conditions related to the sugar price support programme.

***Other policy initiatives concerned rural development, competitiveness and on-farm investment...***

34. Other policy initiatives are related to the broad economic, environmental and social development of rural areas. The **European Union** includes these measures in its Rural Development Policy, which has adopted a strategic programming framework approach. The design, implementation and follow-up of the rural development programmes across the EU regions and countries present major institutional challenges. The implementation for the 2007-13 programming period started with the approval of all national rural development programmes by November 2008. In addition to agri-environmental payments of Axis 2, Axis 1 measures to improve competitiveness are focused on the agricultural and forestry sectors and will receive 34% of the funds. Twelve per cent is assigned to Axis 3, which is designed to improve the quality of life in rural areas and economic diversification. The remaining 8% of funds will go to the Leader horizontal axis and for technical assistance. However, the distribution of funds across countries is very diverse. Special accession programmes for agriculture and rural development (IPARD) were granted to Croatia, the Former Yugoslav Republic of Macedonia, and **Turkey**.

35. Not all countries have formal rural development programmes, but they all implement policies oriented to the development of rural areas with a different mixture of measures addressing either sectoral agricultural performance, or broader economic activities and development in rural areas. In December 2008, **Japan** announced a Land Policy Reform Plan with the objective of maintaining the current amount of existing farmland and to promote land rental transactions for farm consolidation; stricter land conservation regulations and farmland zoning, long-term land rental contracts and easing conditions to acquire land are also envisaged. **Korea** announced in early 2009 a plan to encourage non-agricultural corporations to invest in the agro-food sector, and made its early retirement programme more generous and opened to producers on all farm land, not just to those farming paddy fields.

36. Some countries have prioritised investment on farms owned by socially disadvantaged farmers. The new Investment and Productive Assets programme in **Mexico** groups together and reinforces several former schemes that partially financed on-farm investment projects; the percentage co-financed by the government depends now on more clearly defined criteria so as to better benefit poorer farmers. The credit policy in the **United States** 2008 Farm Act increases lending limits per individual producer and prioritises those farmers and ranchers who are either just beginning or are socially disadvantaged .

***...new regulations on country of origin labelling were adopted...***

37. Three OECD countries have taken regulatory initiatives that make mandatory the labelling of the country of origin of food products. The balance between consumers' demand for information and trade interests behind these measures are sometime controversial. The **United States**' 2008 Farm Act establishes mandatory labelling on the country of origin (**COOL**) for an expanded list of commodities that has been subject to a request for consultation in WTO from **Mexico** and **Canada**. The **European Union** adopted a new regulation making it compulsory to state the origin of virgin and extra virgin olive oil on product labels as of July 2009. The resumption of imports of US beef in 2008 was controversial in **Korea** and led the government to adopt nation-wide compulsory labelling requiring that all restaurants state the country of origin of meat consumed in their establishment.

*...and some policy procedures simplified*

38. The development of new programmes does not always involve the complete dismantling of previous ones. Some OECD countries face an increasingly complex set of policies and regulations applicable to agriculture that can complicate farmers' decision making, and some countries have taken initiatives towards simplification. A single Common Market Organization (CMO) was introduced in the **European Union** in 2008, replacing 21 different CMOs. Other regulatory simplifications in the **European Union** included the milk regime and the labelling rules for wine. **France** created in 2008 a single paying agency and merged local authorities in charge for agriculture into a single body, FranceAgriMer. Since 2008, **Mexico** has grouped the operational rules for most of the programmes run by the Ministry for Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA) into a single set of operational rules that are published yearly.

*Trade policy was overshadowed by a lack of agreement on modalities for DDA...*

39. WTO negotiations on the Doha Development Agenda in 2007 and 2008 intensified. Revised draft modalities were produced by the Chair of Agricultural negotiations in July 2007 and between November 2007 and January 2008 sixteen working documents were issued on specific issues. Successive draft modalities documents were distributed between February and December of 2008. However, no agreement was reached on modalities in 2008, and negotiations continue with a commitment from G20 government leaders to reach an agreement.

*...and many OECD countries pursued bilateral trade agreements ...*

40. The number of bilateral or regional trade agreements continues to expand with all OECD countries being involved. Several new regional or bilateral trade agreements with agro-food trade implications were concluded or implemented in 2007 and 2008. A new **Australia-New Zealand-ASEAN** Free Trade Agreement (AANZFTA) was concluded in February 2009. The **Korea – ASEAN** free trade agreement was effective as of June 2007. A free trade agreement between **Korea** and the **United States** is awaiting parliamentary ratification. As members of the European Free Trade Association (**EFTA**), **Iceland**, **Norway** and **Switzerland** implemented an agreement with the Southern African Custom Union in 2008. **Norway** signed a new trade agreement with Colombia. In recent years, **Japan** has signed preferential trade agreements with many countries, including ASEAN and Indonesia. Preliminary agreement was reached in 2008 on liberalizing trade in agriculture between the **European Union**, and Egypt and Israel. In 2008, Economic Partnership Agreements (EPA) between the **European Union** and the Caribbean Community, as well as interim agreements with seven groups of African, Caribbean and Pacific (ACP) countries replaced trade preferences by reciprocal free trade agreements. The **European Union** and **Switzerland** are currently negotiating a full free trade agreement. **Canada** carries on-going trade negotiations with a long list of countries. **Korea** is negotiating free trade agreements with several of countries under a multi-track FTA approach, including **Japan**, **Canada**, **Mexico**, India, **European Union**, **Australia** and **New Zealand**. On the other hand, the transitional period of some older regional free trade agreements such as NAFTA ended in 2008, implying full free trade between **United States** and **Mexico** for all agricultural products, some of which were excluded from NAFTA for **Canada**.

*...tariff cuts were announced, but many in response to short run market conditions...*

41. Several announcements of tariff cuts were made by OECD countries: border protection for cheese between the **European Union** and **Switzerland** was abolished in 2007; the threshold price for imported animal feed was reduced in **Switzerland** in 2007; as of mid-2009 all agricultural tariff lines for imports from LDCs to **Switzerland** will be free. Other tariff cuts announcements were made as short-term decisions in response to high market price conditions and they have or could be reverted: in the **European**

*Union*, import duties on several cereals were suspended between December 2007 and October 2008; *Mexico* reduced tariffs for all imports of many agricultural products and fertilizers in May 2008; *Turkey* expanded its zero-duty quota for wheat and maize imports in February 2008, and cut tariffs on feedstuffs.

*...some export subsidies were reduced or abolished, others re-introduced*

42. Export subsidies in the *European Union* were reduced by more than 40% in 2007 and 60% in 2008 as compared to 2006 because of high world prices and in the wake of sugar, wine and dairy reforms. The *European Union* also abolished all export refunds for fruits and vegetables. *Switzerland* will eliminate all remaining export subsidies by 2010. The *United States* abolished the Export Enhancement Programme under the 2008 Farm Act. The US Export Credit Guarantee programmes have been modified with the aim to make them consistent with the ruling of the WTO cotton case. However, some countries continue to use export subsidies: in response to falling world prices the *European Union* Export refunds for certain dairy products were re-introduced in January 2009 (under the WTO limits); in 2008, sixteen commodity groups received export subsidies in *Turkey*.

### **Developments in Agricultural Support**

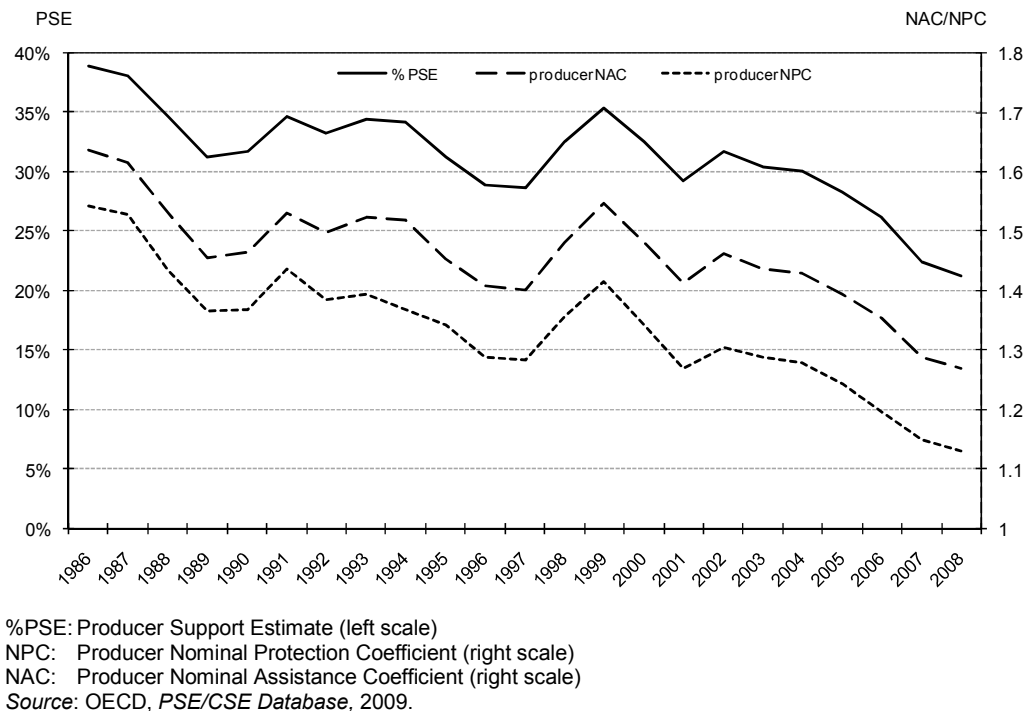
43. This overview of developments in agricultural support begins with the discussion of support levels for the OECD as a whole, as measured by the OECD indicators of agricultural support. The main drivers behind the changes in support levels between 2007 and 2008 are then considered. The way in which support is provided, (*i.e.* its composition) is then analysed, looking at the OECD area as whole and then at country-specific situations. Finally, progress in policy reform in the long-term across the OECD countries is evaluated on the basis of changes in levels and composition of support.<sup>1</sup>

*Producer support continued to decline in the OECD area, but the rate of decline moderated...*

44. The percentage Producer Support Estimate (%PSE) is the key indicator used to measure the level of support to producers. It expresses the monetary value of policy transfers from consumers and taxpayers to producers as a percentage of gross farm receipts. The %PSE was 21% in 2008 for the OECD area, indicating that support comprised about a fifth of gross farm receipts of farmers in these countries. 2008 was the sixth consecutive year of a fall in this measure of support, which is presently down ten percentage points from its recent high of 31% in 2002 (Figure 1.3 and Tables 1.3 and 1.4).

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1. Annex 1.A to this Chapter contains policy principles and operational criteria adopted by OECD Agriculture Ministers in 1998; Annex 1.B provides full definitions of support indicators and Annex 1.C contains a description of the OECD methodology for measurement of support to agriculture.

**Figure 1.3. Evolution of OECD support indicators, 1986-2008**

45. The continued fall in support to producers is also reflected in other indicators that complement the %PSE. The Nominal Assistance Coefficient (NAC) is the ratio of gross farm receipts including support, to farm receipts measured at border prices. The NAC for the OECD area was 1.27 in 2008, indicating that farm receipts were 27% higher than if they had not been supported by policies, a reduction from 1.29 in 2007 and 1.36 in 2006. The Nominal Protection Coefficient (NPC) focuses more specifically on price protection: it is the ratio between the producer price (including payments per unit of output) and the border price and shows the extent to which prices are higher due to agricultural support policies. The NPC for the OECD area was 1.13 in 2008, indicating that OECD farmers received prices that were on average 13% above international levels (15% above in 2007 and 20% in 2006).

46. Comparing recent years to the reference period 1986-88, the %PSE fell from 37% in 1986-88 to 23% in 2006-08. The NAC was 1.31 on average in 2006-08, whereas it was 1.59 in 1986-88. The NPC fell most significantly, from 1.50 in 1986-88, indicating that OECD farmers were receiving prices 50% above world prices at that time, to 1.16 on average in 2006-08, a reduction of 34 percentage points. Therefore, over this period, the decline in transfers made through producer price, such as market price support, has been more pronounced than for budgetary payments as a whole.

**Table 1.3. OECD: Estimates of support to agriculture**

	USD million				
	1986-88	2006-08	2006	2007	2008p
<b>Total value of production (at farm gate)</b>	<b>591 827</b>	<b>995 974</b>	<b>859 454</b>	<b>1 023 701</b>	<b>1 104 766</b>
<i>of which share of MPS commodities (%)</i>	72	68	67	69	69
<b>Total value of consumption (at farm gate)</b>	<b>557 761</b>	<b>965 467</b>	<b>833 331</b>	<b>985 335</b>	<b>1 077 736</b>
<b>Producer Support Estimate (PSE)</b>	<b>239 921</b>	<b>261 222</b>	<b>258 185</b>	<b>259 995</b>	<b>265 487</b>
Support based on commodity output	197 104	133 152	140 148	131 754	127 555
<i>Market Price Support</i>	184 702	127 285	132 278	126 980	122 596
<i>Payments based on output</i>	12 401	5 867	7 870	4 774	4 959
Payments based on input use	20 172	32 360	29 524	32 654	34 903
<i>Based on variable input use</i>	9 745	12 756	12 269	12 618	13 380
<i>with input constraints</i>	739	512	518	502	517
<i>Based on fixed capital formation</i>	6 863	11 083	9 629	11 409	12 210
<i>with input constraints</i>	1 235	1 829	1 694	1 669	2 124
<i>Based on on-farm services</i>	3 563	8 521	7 625	8 626	9 312
<i>with input constraints</i>	439	1 081	1 107	1 055	1 082
Payments based on current A/An/R/I <sup>1</sup> , production required	18 744	32 036	29 521	30 733	35 856
<i>Based on Receipts / Income</i>	2 058	3 737	3 873	3 132	4 206
<i>Based on Area planted / Animal numbers</i>	16 686	28 299	25 647	27 601	31 649
<i>with input constraints</i>	3 719	22 173	20 751	21 056	24 712
Payments based on non-current A/An/R/I, production required	533	1 052	819	1 414	923
Payments based on non-current A/An/R/I, production not required	2 080	57 379	53 402	57 799	60 936
<i>With variable payment rates</i>	181	1 378	2 119	1 686	328
<i>with commodity exceptions</i>	0	900	1 604	1 011	84
<i>With fixed payment rates</i>	1 899	56 001	51 283	56 113	60 607
<i>with commodity exceptions</i>	1 561	31 417	32 812	34 632	26 808
Payments based on non-commodity criteria	1 077	5 234	4 992	5 574	5 137
<i>Based on long-term resource retirement</i>	1 076	4 274	4 155	4 635	4 033
<i>Based on a specific non-commodity output</i>	1	790	686	792	893
<i>Based on other non-commodity criteria</i>	0	170	151	147	211
Miscellaneous payments	211	9	-220	67	178
<b>Percentage PSE</b>	<b>37</b>	<b>23</b>	<b>26</b>	<b>22</b>	<b>21</b>
<b>Producer NPC</b>	<b>1.50</b>	<b>1.16</b>	<b>1.20</b>	<b>1.15</b>	<b>1.13</b>
<b>Producer NAC</b>	<b>1.59</b>	<b>1.31</b>	<b>1.36</b>	<b>1.29</b>	<b>1.27</b>
<b>General Services Support Estimate (GSSE)</b>	<b>40 023</b>	<b>76 665</b>	<b>76 043</b>	<b>74 416</b>	<b>79 536</b>
Research and development	3 551	7 856	7 170	8 113	8 284
Agricultural schools	842	2 131	1 679	2 467	2 247
Inspection services	1 045	3 207	3 077	3 251	3 292
Infrastructure	13 963	21 991	22 473	20 726	22 774
Marketing and promotion	13 164	37 808	38 021	36 032	39 371
Public stockholding	5 872	1 066	1 160	1 181	856
Miscellaneous	1 587	2 607	2 462	2 647	2 712
<b>GSSE as a share of TSE (%)</b>	<b>13</b>	<b>21</b>	<b>21</b>	<b>20</b>	<b>21</b>
<b>Consumer Support Estimate (CSE)</b>	<b>-160 828</b>	<b>-116 712</b>	<b>-123 909</b>	<b>-118 240</b>	<b>-107 989</b>
Transfers to producers from consumers	-171 210	-125 568	-130 313	-126 515	-119 877
Other transfers from consumers	-22 187	-22 846	-23 765	-24 620	-20 154
Transfers to consumers from taxpayers	19 674	29 951	29 019	29 903	30 929
Excess feed cost	12 894	1 751	1 150	2 992	1 112
<b>Percentage CSE</b>	<b>-30</b>	<b>-13</b>	<b>-15</b>	<b>-12</b>	<b>-10</b>
<b>Consumer NPC</b>	<b>1.54</b>	<b>1.19</b>	<b>1.23</b>	<b>1.18</b>	<b>1.15</b>
<b>Consumer NAC</b>	<b>1.43</b>	<b>1.15</b>	<b>1.18</b>	<b>1.14</b>	<b>1.12</b>
<b>Total Support Estimate (TSE)</b>	<b>299 618</b>	<b>367 838</b>	<b>363 247</b>	<b>364 314</b>	<b>375 953</b>
Transfers from consumers	193 397	148 414	154 078	151 135	140 030
Transfers from taxpayers	128 408	242 270	232 934	237 800	256 076
Budget revenues	-22 187	-22 846	-23 765	-24 620	-20 154
<b>Percentage TSE (expressed as share of GDP)<sup>2</sup></b>	<b>2.48</b>	<b>0.89</b>	<b>0.96</b>	<b>0.88</b>	<b>0.84</b>

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

1. A (area planted) / An (animal numbers) / R (receipts) / I (income).

MPS is net of producer levies and Excess Feed Cost. MPS commodities: see notes to individual tables in Part II.

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 for these countries is not available for this period.

Source: OECD, PSE/CSE database, 2009.

**Table 1.4. OECD: Estimates of support to agriculture**  
EUR million

	1986-88	2006-08	2006	2007	2008p
<b>Total value of production (at farm gate)</b>	<b>536 113</b>	<b>729 388</b>	<b>684 725</b>	<b>747 799</b>	<b>755 640</b>
<i>of which share of MPS commodities (%)</i>	72	68	67	69	69
<b>Total value of consumption (at farm gate)</b>	<b>504 857</b>	<b>706 946</b>	<b>663 912</b>	<b>719 773</b>	<b>737 152</b>
<b>Producer Support Estimate (PSE)</b>	<b>218 064</b>	<b>192 402</b>	<b>205 695</b>	<b>189 922</b>	<b>181 589</b>
Support based on commodity output	179 139	98 382	111 655	96 244	87 245
<i>Market Price Support</i>	167 836	93 999	105 385	92 757	83 854
<i>Payments based on output</i>	11 303	4 383	6 270	3 487	3 392
Payments based on input use	18 270	23 749	23 521	23 853	23 873
<i>Based on variable input use</i>	8 847	9 381	9 775	9 217	9 152
<i>with input constraints</i>	679	378	413	367	354
<i>Based on fixed capital formation</i>	6 207	8 119	7 672	8 334	8 352
<i>with input constraints</i>	1 124	1 341	1 350	1 219	1 453
<i>Based on on-farm services</i>	3 217	6 249	6 075	6 301	6 369
<i>with input constraints</i>	397	798	882	771	740
Payments based on current A/An/R/I <sup>1</sup> , production required	17 110	23 498	23 519	22 450	24 525
<i>Based on Receipts / Income</i>	1 912	2 750	3 086	2 288	2 877
<i>Based on Area planted / Animal numbers</i>	15 197	20 748	20 433	20 162	21 648
<i>with input constraints</i>	3 300	16 272	16 532	15 381	16 903
Payments based on non-current A/An/R/I, production required	505	772	652	1 033	631
Payments based on non-current A/An/R/I, production not required	1 900	42 148	42 545	42 221	41 679
<i>With variable payment rates</i>	161	1 048	1 688	1 232	225
<i>With commodity exceptions</i>	0	691	1 278	739	57
<i>With fixed payment rates</i>	1 739	41 100	40 857	40 990	41 454
<i>With commodity exceptions</i>	1 417	23 258	26 141	25 298	18 336
Payments based on non-commodity criteria	942	3 854	3 977	4 072	3 514
<i>Based on long-term resource retirement</i>	941	3 152	3 311	3 386	2 758
<i>Based on a specific non-commodity output</i>	1	578	546	578	611
<i>Based on other non-commodity criteria</i>	0	124	120	108	144
Miscellaneous payments	198	-1	-175	49	122
<b>Percentage PSE</b>	<b>37</b>	<b>23</b>	<b>26</b>	<b>22</b>	<b>21</b>
<b>Producer NPC</b>	<b>1.50</b>	<b>1.16</b>	<b>1.20</b>	<b>1.15</b>	<b>1.13</b>
<b>Producer NAC</b>	<b>1.59</b>	<b>1.31</b>	<b>1.36</b>	<b>1.29</b>	<b>1.27</b>
<b>General Services Support Estimate (GSSE)</b>	<b>36 284</b>	<b>56 448</b>	<b>60 583</b>	<b>54 360</b>	<b>54 401</b>
Research and development	3 216	5 768	5 712	5 926	5 666
Agricultural schools	762	1 559	1 338	1 802	1 537
Inspection services	946	2 359	2 451	2 375	2 252
Infrastructure	12 670	16 207	17 904	15 140	15 577
Marketing and promotion	11 959	27 847	30 291	26 321	26 929
Public stockholding	5 294	791	924	863	585
Miscellaneous	1 438	1 917	1 962	1 933	1 855
<b>GSSE as a share of TSE (%)</b>	<b>13</b>	<b>21</b>	<b>21</b>	<b>20</b>	<b>21</b>
<b>Consumer Support Estimate (CSE)</b>	<b>-145 937</b>	<b>-86 317</b>	<b>-98 718</b>	<b>-86 372</b>	<b>-73 862</b>
Transfers to producers from consumers	-155 545	-92 744	-103 820	-92 417	-81 993
Other transfers from consumers	-20 033	-16 901	-18 933	-17 985	-13 785
Transfers to consumers from taxpayers	17 852	22 039	23 119	21 844	21 155
Excess feed cost	11 790	1 288	916	2 186	761
<b>Percentage CSE</b>	<b>-30</b>	<b>-13</b>	<b>-15</b>	<b>-12</b>	<b>-10</b>
<b>Consumer NPC</b>	<b>1.54</b>	<b>1.19</b>	<b>1.23</b>	<b>1.18</b>	<b>1.15</b>
<b>Consumer NAC</b>	<b>1.43</b>	<b>1.15</b>	<b>1.18</b>	<b>1.14</b>	<b>1.12</b>
<b>Total Support Estimate (TSE)</b>	<b>272 200</b>	<b>270 890</b>	<b>289 398</b>	<b>266 126</b>	<b>257 145</b>
Transfers from consumers	175 578	109 644	122 753	110 402	95 778
Transfers from taxpayers	116 655	178 146	185 578	173 709	175 152
Budget revenues	-20 033	-16 901	-18 933	-17 985	-13 785
<b>Percentage TSE (expressed as share of GDP)<sup>2</sup></b>	<b>2.48</b>	<b>0.89</b>	<b>0.96</b>	<b>0.88</b>	<b>0.84</b>

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

1. A (area planted) / An (animal numbers) / R (receipts) / I (income).

MPS is net of producer levies and Excess Feed Cost. MPS commodities: see notes to individual tables in Part II.

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 for these countries is not available for this period.

Source: OECD, PSE/CSE database, 2009.

**World prices drove changes in 2008 support level, together with exchange rate movements.**

47. A downward trend in levels of support, both in terms of nominal values (the PSE in monetary terms) and of relative shares of gross farm receipts (the %PSE) is evident in many OECD countries (Table III.1 in Part III). Variations in market price support were the main cause of changes in the monetary value of the PSE in 2008, both in countries where it increased (in *Japan, Norway, Switzerland* and *Turkey*) and where it declined (in *Canada, Iceland, Korea, New Zealand* and *the United States*) (Table 1.5). One exception is *Mexico* where increased budgetary payments largely offset the fall in MPS, leaving only a small net change (increase) in total support. Another case is *Australia* where the change (fall) in the PSE was entirely due to the fact that the estimated budgetary allocations for 2008 are smaller than the actual expenditure in the previous year when larger drought relief assistance was provided. In several other countries changes in budgetary payments, although not the principal driver of the PSE variation, were also relatively important. In the *European Union* higher budgetary support was related to the phase-in of payments in new member states; new direct payments were provided in *Japan*, while a significant reduction in payments occurred in *Canada*.

**Table 1.5. Contribution to the change in the Producer Support Estimate by Country, 2007 to 2008**

	Producer Support Estimate (PSE)		Contribution of		Contribution of budgetary payments (BP) based on:						
			MPS	BP	Output	Input use	Current A/An/R/I, production required	Non-current A/An/R/I, production required	Non-current A/An/R/I, production not required	Non-commodity criteria	Miscellaneous
	USD mn, 2008	% change <sup>1</sup>	% change in PSE if all other variables are held constant								
Australia	2,213	-10.9	0.0	-10.9	0.0	-3.8	0.0	0.0	-7.4	0.4	0.0
Canada	5,532	-25.8	-15.4	-10.4	0.0	-1.8	9.6	-6.5	-11.8	0.0	0.1
European Union <sup>2</sup>	150,445	4.3	2.1	2.1	0.1	0.2	0.5	0.0	2.2	-0.8	0.1
Iceland	166	-3.8	-6.7	2.9	-0.1	-0.1	0.1	2.5	0.0	0.6	0.0
Japan	41,622	2.7	1.9	0.8	-0.2	-0.2	1.2	0.0	0.0	0.0	0.0
Korea	18,354	-16.4	-16.8	0.5	0.0	0.1	0.4	0.0	0.0	0.0	0.0
Mexico	6,339	0.5	-12.1	12.6	-0.3	12.5	1.0	-0.6	0.0	0.0	0.0
New Zealand	92	-16.3	-16.7	0.3	0.0	0.2	0.2	0.0	0.0	0.0	0.0
Norway	3,742	13.8	10.4	3.4	1.4	0.7	0.9	0.3	0.0	0.0	0.0
Switzerland	5,640	8.8	10.7	-1.9	0.1	-0.6	0.0	0.0	-1.7	0.2	0.1
Turkey	16,347	38.3	38.9	-0.6	0.8	-0.3	2.2	0.0	-3.3	0.0	0.0
United States	23,259	-31.5	-34.3	2.7	-0.5	0.2	4.9	0.0	-2.8	0.9	0.0
OECD <sup>3</sup>	265,487	-2.1	-3.5	1.5	0.0	0.3	1.5	-0.2	0.1	-0.3	0.0

1. Per cent changes in national currency.

2. EU27 for 2007 and 2008.

3. An average of per cent changes in individual country PSEs in national currencies, weighted by the shares of the country PSEs in the OECD PSE in the previous year; not equivalent to the variation in OECD PSE in any common currency.

Source : OECD, PSE/CSE Database, 2009.

48. Further breakdowns of the changes in market price support confirm that fluctuations in the US dollar-denominated border prices were the main drivers of change (Annex Tables I.2 and I.3). The dramatic run-up in commodity prices seen in 2007 and into 2008, which was so influential in reducing support levels in that year, continued for the first part of 2008 before retrenching in the second half. Nevertheless, prices remained above their long-term averages and this resulted in downward pressure on the level of measured support in 2008. In the context of the financial crisis, a number of countries also saw strong exchange rate movements *vis à vis* the US dollar in 2008 which either strengthened or mitigated the effects of rising border prices on measured support levels.

49. The effect of higher world commodity prices was most strongly felt in *Korea*, where sharply higher rice prices in 2008 was the major factor behind a significant fall in support. This effect was even stronger given the depreciation of the Korean won. In *Iceland*, an increase in border prices was also very

important, but in this case driven more by the depreciation of local currency. In countries with counter-cyclical policies, such as the *United States* and *Canada*, higher prices also contributed strongly to downward shifts in support. It is notable though that in several countries (*Japan, Switzerland, Norway* and the *European Union*), appreciation of domestic currencies substantially offset the impact of high border prices on measured support.

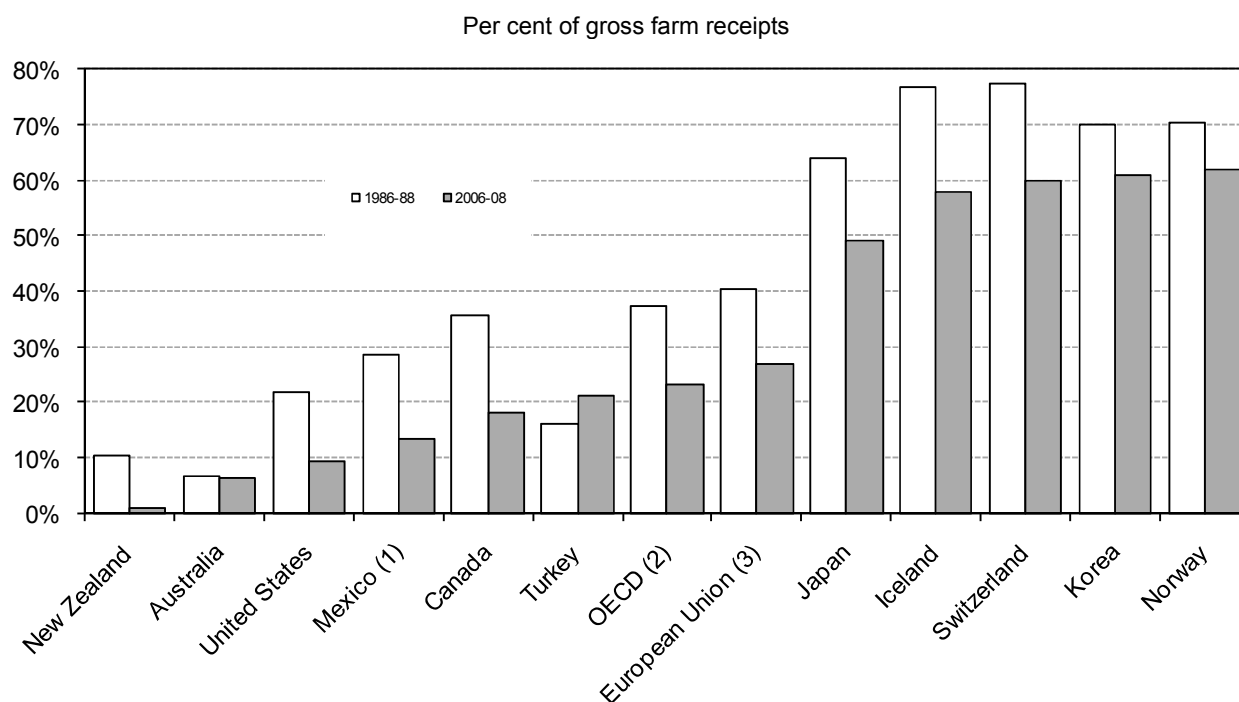
50. *Turkey* stands apart from other OECD countries in that domestic factors contributed most to an increase in the market price support because purchase prices administered by marketing boards were substantially increased in 2008 and larger quantities of output received support.

***Large variations in support levels across the OECD remain***

51. The largest reductions in the monetary value of the PSE in 2008 were observed in *Canada, Iceland, Korea* and the *United States*, implying also reductions in relative levels of support (%PSE). On the other hand, there were increases in nominal support in the *European Union, Japan*, and *Mexico*. This did not result in higher %PSE in these countries, as gross farm receipts also increased (in *Mexico* support even fell slightly as a share of gross farm receipts). *Norway, Switzerland*, and *Turkey* saw rising levels of support in 2008, both in nominal and relative terms.

52. Considering the period since 1986-88, the level of support as measured by the %PSE has declined in all OECD countries, with the exception of *Turkey* (Table III.1 in Part III). Despite this progress, support remains high in many OECD countries and there are significant differences in the way support is delivered (Figure 1.4). *New Zealand* and *Australia* have consistently had the lowest %PSEs, although recent reductions in the level of support in the *United States, Mexico* and, to a lesser extent, *Canada* have considerably eroded the differences in the %PSE between these countries. The *European Union* has reduced its level of support that remains slightly above the OECD average. Support remains relatively high in *Norway, Korea, Switzerland, Iceland*, and *Japan* where market price support is the key policy instrument.

Figure 1.4. Producer Support Estimate by country, 1986-88 and 2006-08



Countries are ranked according to PSE levels in 2006-08.

1. For Mexico, 1986-88 is replaced by 1991-93.

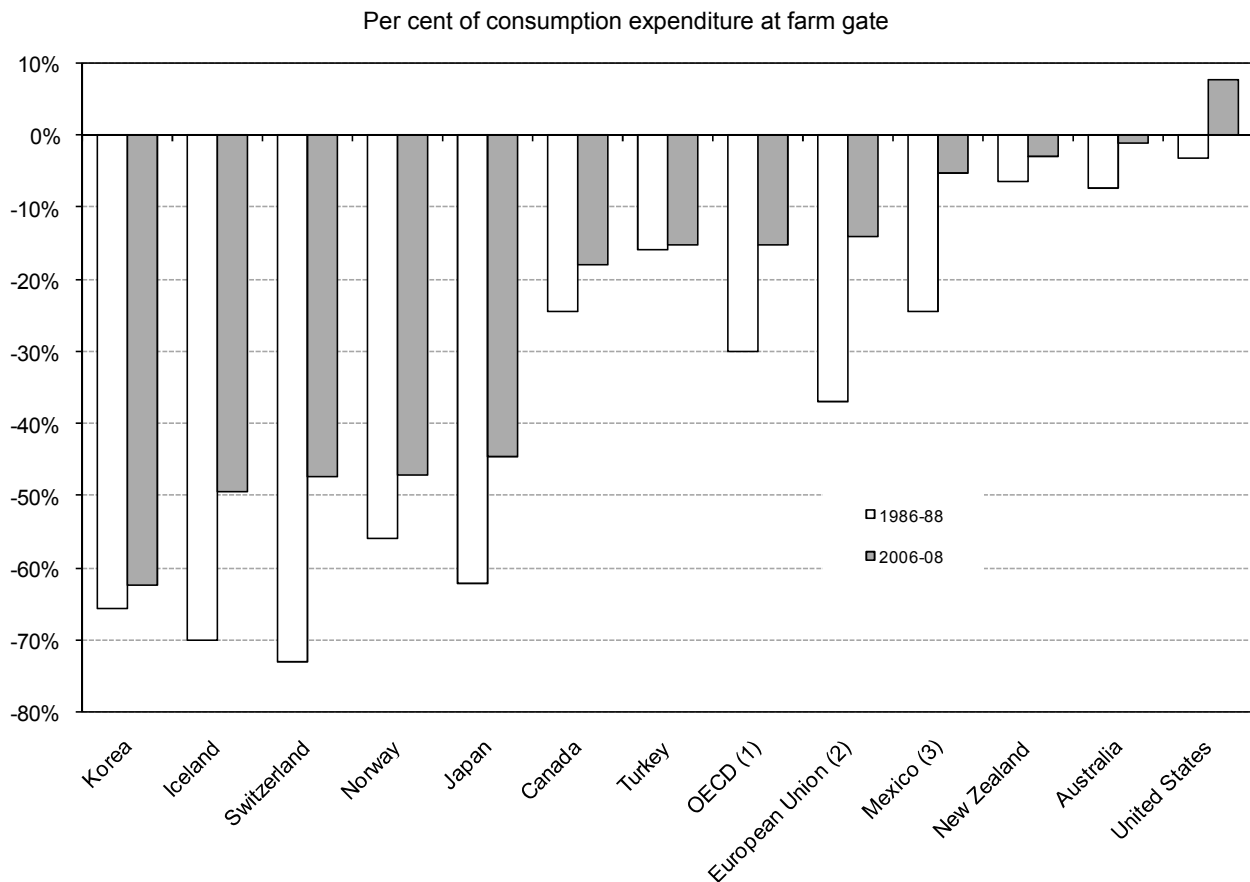
2. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The Czech Republic, Hungary, Poland and the Slovak Republic are included in the OECD total for all years and in the EU from 2004. The OECD total does not include the non-OECD EU member states.

3. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 for 2004-06 and EU-27 from 2007.

Source : OECD, *PSE/CSE Database*, 2009.

### ***Consumer cost of policies fell in line with changes in MPS***

53. The cost of agricultural policies to consumers largely mirrors market price support, which is a transfer from consumers to producers. The Consumer Support Estimate (CSE) measures the monetary value of these costs, which may also be expressed as a percentage of consumption expenditure (measured at farm gate prices) using the %CSE. When the CSE or %CSE is negative, it indicates an implicit tax on consumers imposed by agricultural policies that support domestic prices. The %CSE is negative for all countries except the *United States*, and for all countries the %CSE reports that the implicit tax on consumers has declined since 1986-88 (Figure 1.5 and Table III.2 in Part III). In the case of the *United States*, spending on domestic food aid programmes more than offset the consumer cost of market price support, resulting in net transfers to consumers.

**Figure 1.5. Consumer Support Estimate by country, 1986-88 and 2006-08**

Countries are ranked according to CSE levels 2006-08. A negative percentage CSE is an implicit tax on consumption.

1. 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.

2. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 for 2004-06 and EU-27 from 2007.

3. For Mexico, 1986-88 is replaced by 1991-93.

Source : OECD, *PSE/CSE Database*, 2009.

54. Since 1986-88, the %CSE has fallen strongly in the OECD area as a whole, from an implicit tax of 30% to a tax of 13% in 2006-08. *Australia*, *Mexico*, the *European Union* and *New Zealand* saw the largest declines in %CSEs. *Turkey* remains the country with the slowest change in the rate of implicit taxation of consumers.

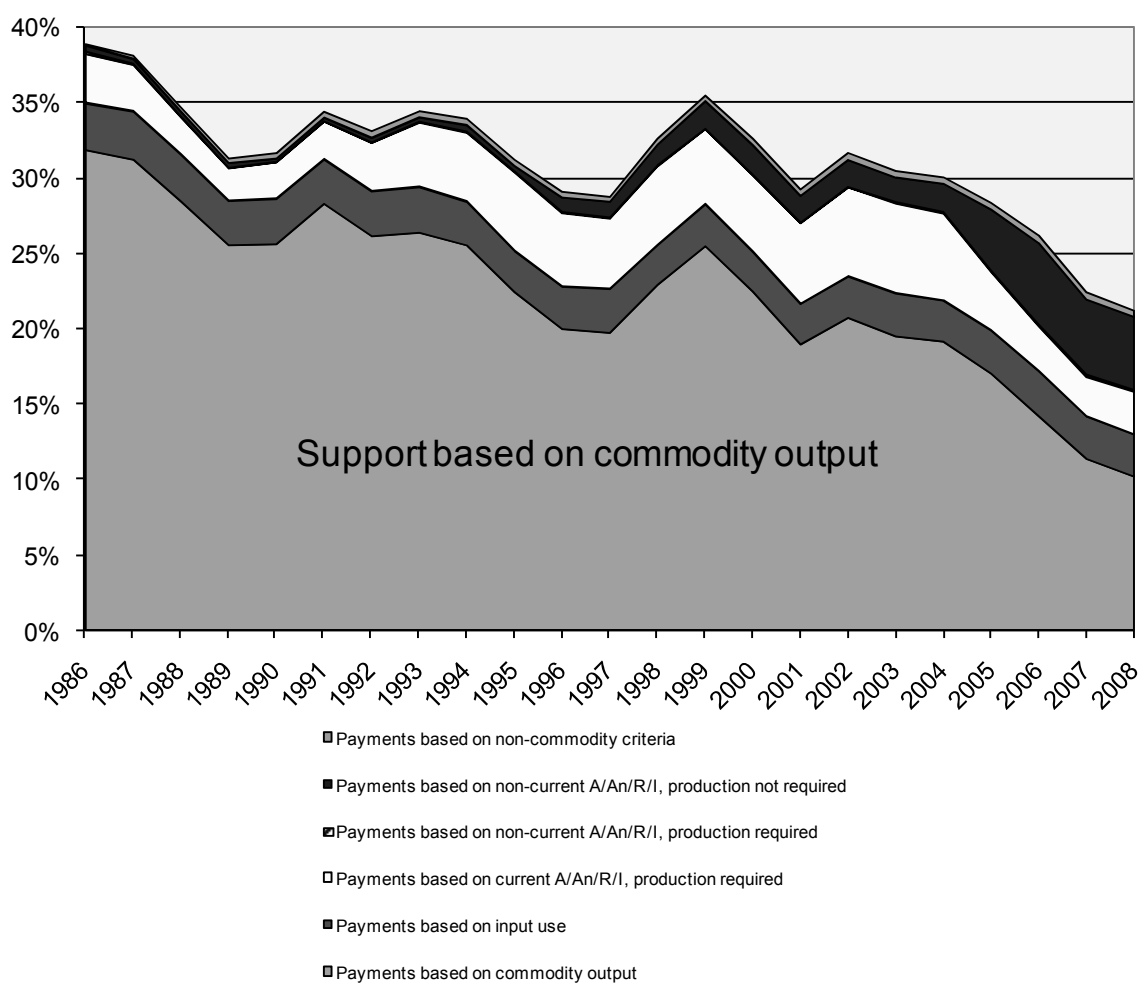
55. A falling CSE or %CSE does not directly imply lower food costs for the consumer, as recent increases in food prices can attest. It is an indication that the first buyer of agricultural primary products pays a price that is nearer the world market price. In fact, as noted earlier, it is the recent increase in the price of agricultural commodities that is behind the fall in this implicit tax on consumers, but final consumer prices have increased in many cases.

*The share of support based on commodity output is declining in OECD area...*

56. Higher commodity prices not only have had a strong influence on the level of the PSE but their effect has been equally significant on the composition of support. Support based on commodity output (market price support and payments based on output), considered one of the most distorting forms of support in terms of production and trade, has long formed the largest part of support as measured by the PSE. In 2008, this type of support made up less than half of the PSE for the first time since the PSE was estimated (Figure 1.6 and Table III.5 in Part III). Taking a longer term perspective, support based on commodity output remains the largest single category of support, comprising 51% of the overall OECD PSE in 2006-08, down from 82% in 1986-88. At the other end of the spectrum, there are payments based on non-current area, animal numbers, receipts or income that do not require production. They have grown from an essentially insignificant share of the PSE in 1986-88 to the second largest category of support in 2008. This type of support is considered to be among the more decoupled and least production and trade distorting forms of support, as recipients cannot alter the size of the payment by changing production patterns.

**Figure 1.6. OECD: Composition of Producer Support Estimate, 1986-2008**

Percentage share in PSE

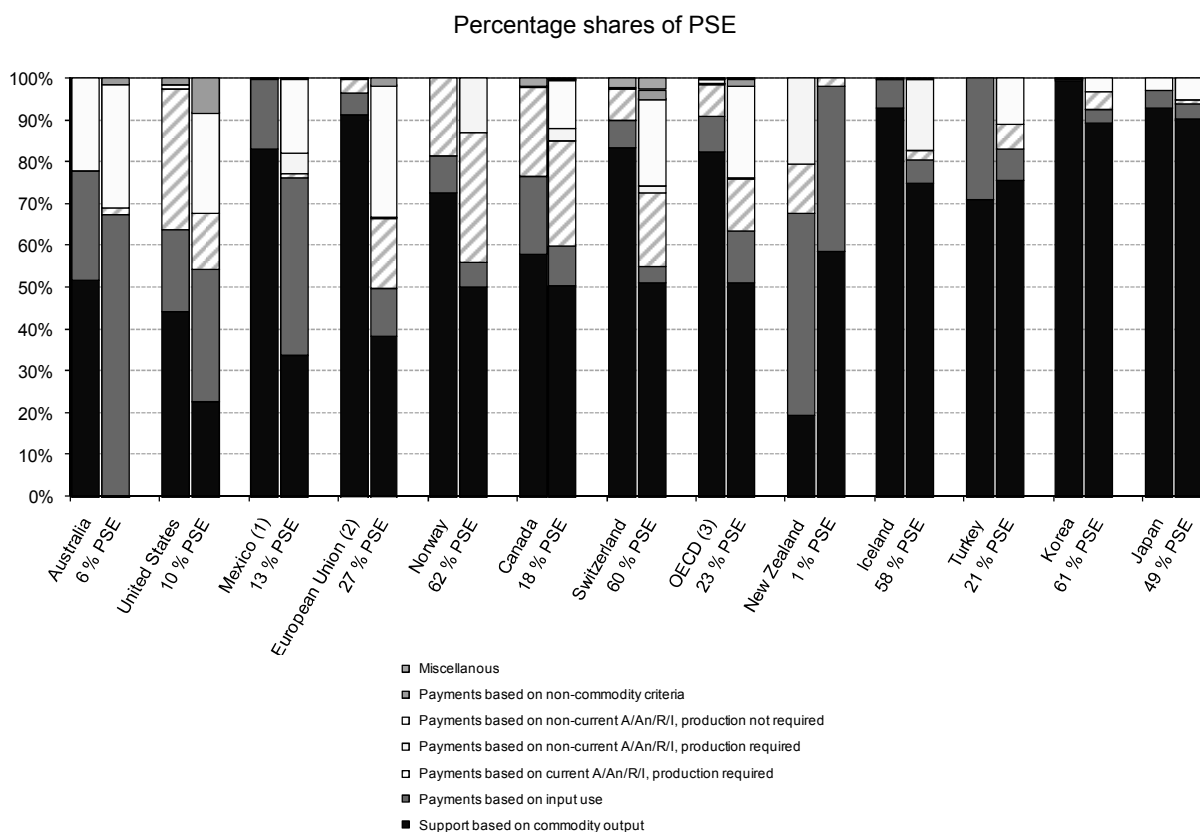


Source: OECD, PSE/CSE Database, 2009.

...but the shift away from distorting support is uneven across countries.

57. The trend in the composition of support seen in the OECD as a whole is not evident in all countries. In particular, market price support has proved to be a form of support that is often resistant to reform, perhaps because the transfer is implicit as being paid by consumers rather than involving explicit budget payments. *Australia*, through dairy policy reforms, *Mexico*, through the introduction of PROCAMPO payments and the *European Union* in introducing the SPS, have seen the most progress in reducing support based on commodity output as a share of total support, though in the case of *Mexico* increases in input payments are also a significant driver (Figure 1.7 and Table III.5 in Part III).

Figure 1.7. Composition of Producer Support Estimate by country, 1986-88 and 2006-08



Countries are ranked according to 2006-08 shares of Market Price Support and Payments based on output in the PSE. The left bar shows 1986-88 period and the right bar shows 2006-08 period.

1. For Mexico, 1986-88 is replaced by 1991-93.

2. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 for 2004-06 and EU-27 from 2007.

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 non-OECD EU member states.

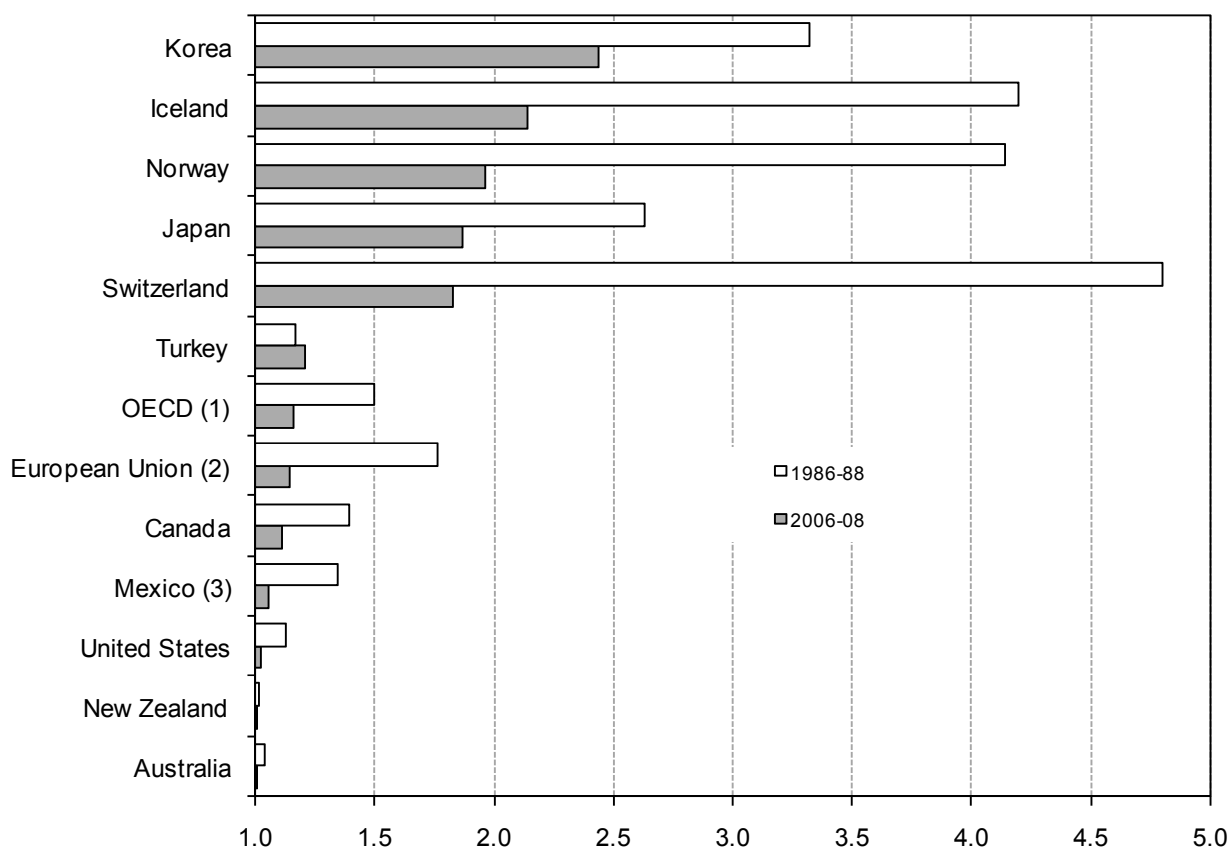
Source: OECD, PSE/CSE Database, 2009.

**Overall, the level of price protection is falling...**

58. The shift away from output-based support is well captured by the producer NPC (Figure 1.8 and Table III.1 in Part III). The degree of market protection has declined markedly in countries where such protection was high in the mid 1980s (*Switzerland*, *Iceland*, *Norway*, *Korea* and *Japan*) even if the composition of support and / or the level of support as measured by the %PSE indicate that there is still

potential for further reform in these countries. Indeed, market protection is down significantly in all countries except *Turkey*, where the increase in the level of support has been driven by higher price support, and *Australia* and *New Zealand*, where it was never high. The degree of market protection was highest in *Korea*, where domestic prices were 2.4 times the world prices in 2006-08. The largest decline took place in *Switzerland*, where domestic prices were nearly five times world prices in 1986-88, but only 83% above world prices in 2006-08, still a significant level of protection.

**Figure 1.8. Producer Nominal Protection Coefficient by country, 1986-88 and 2006-08**



Countries are ranked according to 2006-08 levels.

1. 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.

2. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 for 2004-06 and EU-27 from 2007.

3. For Mexico, 1986-88 is replaced by 1991-93.

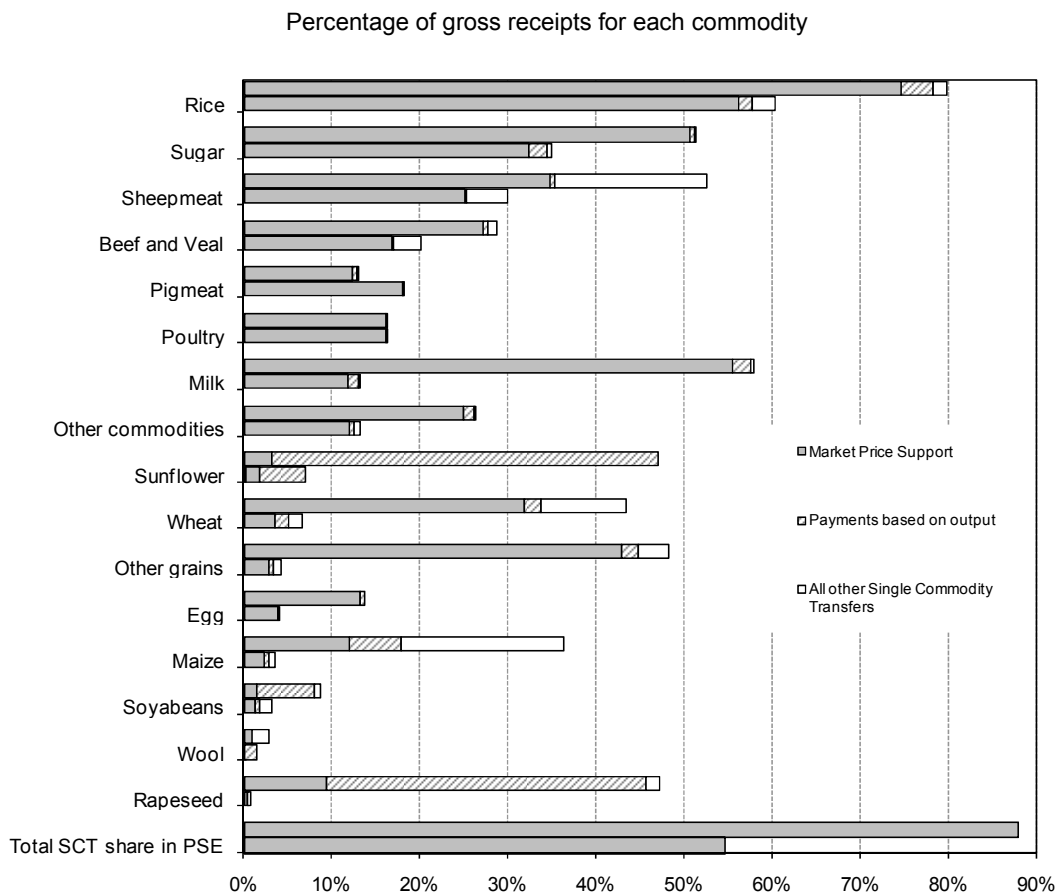
Source : OECD, PSE/CSE Database, 2009.

### ***...but many commodities continue to receive specific support from policies***

59. Support directed at specific commodities (Single Commodity Transfers, SCT) has declined significantly in the OECD since 1986-88, and this reduction in support was seen across all commodities for which support is measured, except pig meat (Figure 1.9 and Tables III.8 – III.21 in Part III). For the OECD area as whole, the decline in support requiring production of a specific commodity was the greatest for grains and oilseeds. Oilseeds such as rapeseed and sunflower received significant output-based payments

in the base period of 1986-88. This development was for the most part due to the reforms that took place in the *European Union* over the past two decades. On the other hand, rice, sugar, and livestock products still receive high levels of specific support. In the case of rice, the %SCT amounted to more than 60% for the OECD as whole in 2006-08. SCT delivered via payments per output unit declined in importance, leaving market price support as the main vehicle through which SCT support is delivered. The large decline in market price support for milk in recent years is a result of the significant rise in the world price of dairy products; SCT for milk in 2003-05 was over 40% but only 13% in 2006-08.

**Figure 1.9. OECD: Single Commodity Transfers, 1986-88 and 2006-08**



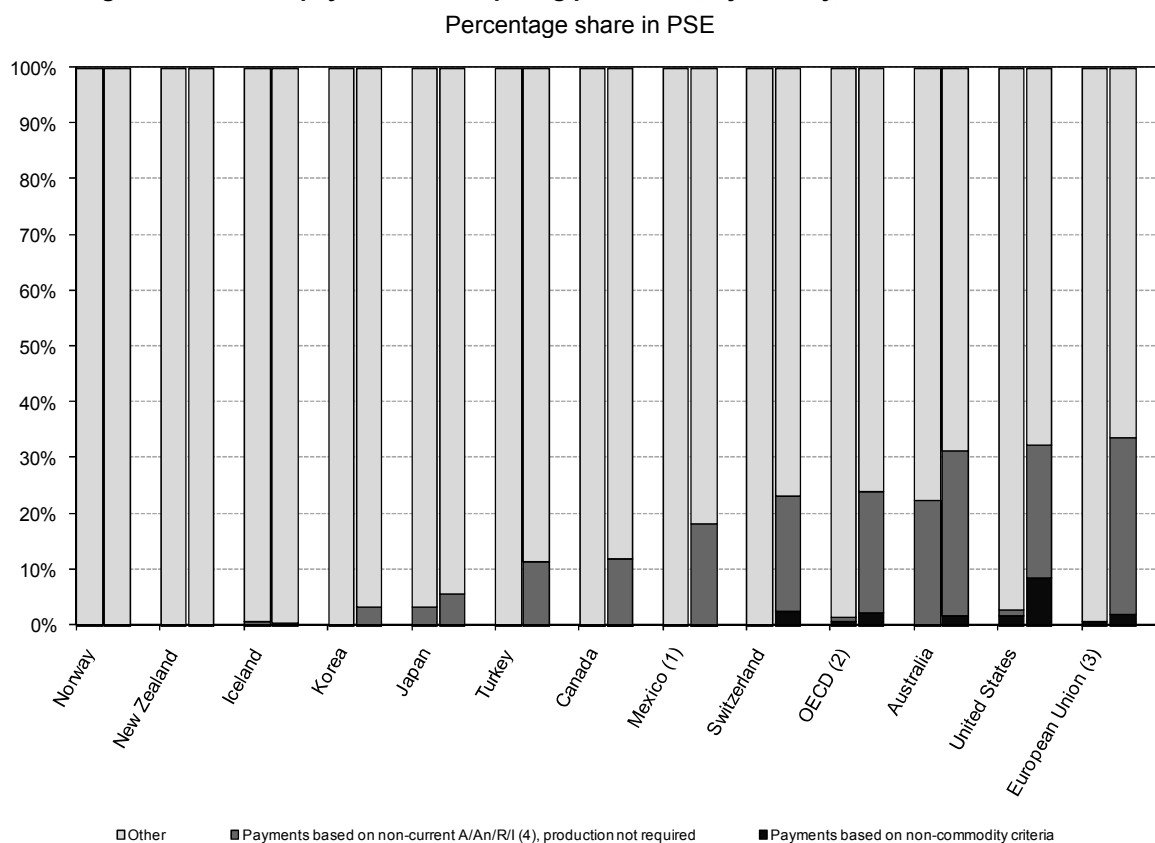
Commodities are ranked according to 2006-08 levels. Top bar corresponds to 1986-88, bottom bar to 2006-08.  
Source : OECD, PSE/CSE Database, 2009.

### ***More support is provided with no requirement to produce...***

60. From a longer term perspective, the evolution in the composition of support is not only due to changes in world commodity prices, but also due to a series of reforms that have taken place in many OECD countries. The growth in the importance of payments that do not require production reflects this and is mainly driven by the introduction and development of the Single Payment Scheme in the *European Union* and the increased importance of payments based on non current parameters particularly in the *United States* and *Mexico*. Support not requiring production made up more than 20% of total support in *Switzerland*, the *European Union*, the *United States*, and *Australia* in 2006-08 (Figure 1.10 and Table III.6 in Part III). This category of support is currently provided in almost all countries except *New Zealand* and *Norway* (where a small programme of that type was in place only in the 1990s). This category concerns payments based on non-current parameters of production with the intention of

supporting farm incomes, and payments based on non-commodity criteria, which include environmental services derived from agricultural activities. Payments based on non-commodity criteria are relatively minor, and are important only in the *United States*, *Switzerland* and the *European Union*. Payments not requiring production are quite diversified across the OECD area in terms of the specific implementation features of such payments. For example, such payments may be provided with fixed rates or rates that vary depending on certain parameters such as current market prices; while not obliging farmers to produce, these payments may at the same time impose restrictions on production of certain commodities. A closer look at this category of support can be found in individual country chapters in Part II.

**Figure 1.10. Use of payments not requiring production, by country, 1986-88 and 2006-08**



Countries are ranked according to 2006-08 levels. Left bar corresponds to 1986-88, right bar to 2006-08.

1. For Mexico, 1986-88 is replaced by 1991-93.

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.

3. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 for 2004-06 and EU-27 from 2007.

4. A (area planted), An (animal numbers), R (receipts), I (income).

Source: OECD, PSE/CSE Database, 2009.

### ***...and policies progressively impose various constraints on producers***

61. Farmers must increasingly meet certain production requirements, such as extensive grazing, minimum tillage or minimum cage sizes for animals, in order to receive support. This is done in pursuit of broader societal objectives, such as preservation of the environment, animal welfare or food safety, and usually involves imposing some kind of constraint on the use of farm inputs. Payments with input constraints comprised only 4% of OECD aggregate PSE in 1986-88, a share which has gone up to 32% by

2006-08, with the *European Union* accounting for the majority of these payments (Figure 1.11, panel A and Table III.6 in Part III).

62. Among OECD countries, the *United States*, the *European Union* and *Switzerland* implement the largest number of programmes with conditions attached. Payments under these programmes constituted nearly half of the total support to producers in these countries in 2006-08, and about half of these were based on non-current parameters. In 1986-88, however, these programmes mostly represented support based on current production parameters (output, inputs used, area or animal numbers) and were mainly implemented in the *United States* (Figure 1.11, panel B).

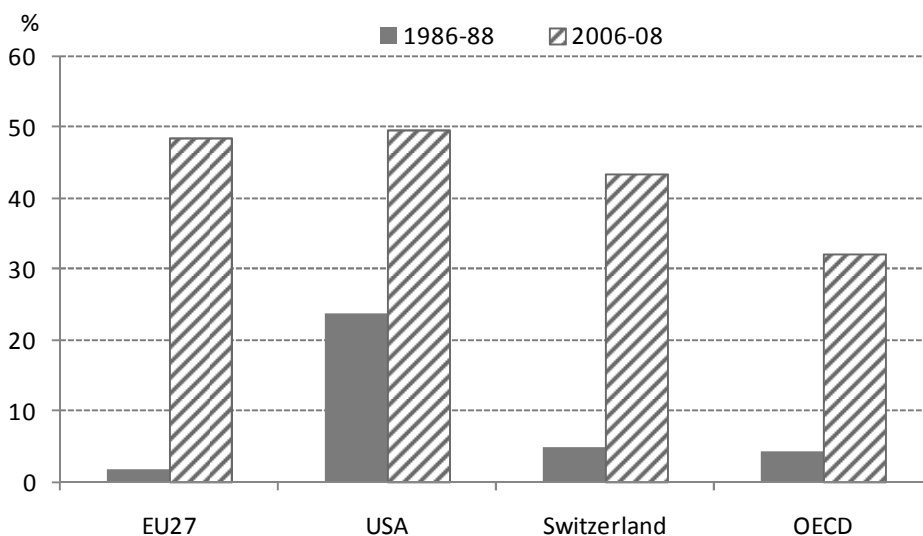
63. For the OECD as whole, more than 70% of support provided with constraints in 2006-08 involved mandatory constraints, *i.e.* requirements stemming from the existing legislation. It is important to note, however, that the scope and rigidity of these requirements differ across countries. In the *European Union*, most direct payments are provided on the basis of cross-compliance. This approach involves partial or full loss of payment if the farmer fails to comply with mandatory standards set in the existing legislation and to maintain land in good agricultural and environmental condition. The mandatory standards in the EU cross-compliance approach encompass various areas, such as the environment, animal and plant health, public health, and animal welfare. The majority of programmes with “conditional” support in the *United States* also link support and compliance with certain mandatory standards, mostly environmental. This is the case for all main payments based on output (commodity loans and deficiency payments), as well as counter-cyclical and direct payments. The cross-compliance approach is also strongly present in *Switzerland* where farmers are entitled to receive direct payments only if their production methods satisfy basic environmental standards and farm-management practice requirements (known as “integrated production”).

64. There are also programmes in all three countries which involve voluntary actions by farmers, that usually require them to go beyond the mandatory standards in order to benefit from support. One large programme of that type in the *United States* is the Environmental Quality Incentives Programme (EQIP), that encourages the adoption of new conservation practices by farmers on a cost sharing basis. Most agri-environmental payments in the *European Union*, such as for the adoption of environmentally friendly practices, extensive management of grassland, as well as support to LFAs, involve voluntary participation by farmers benefiting from such payments. In *Switzerland*, the largest programme with voluntary participation is focused on animal welfare, where special payments are provided to livestock farmers who keep animals outdoors for a given period of time. Those who do not comply with this condition are not therefore eligible for such payments.

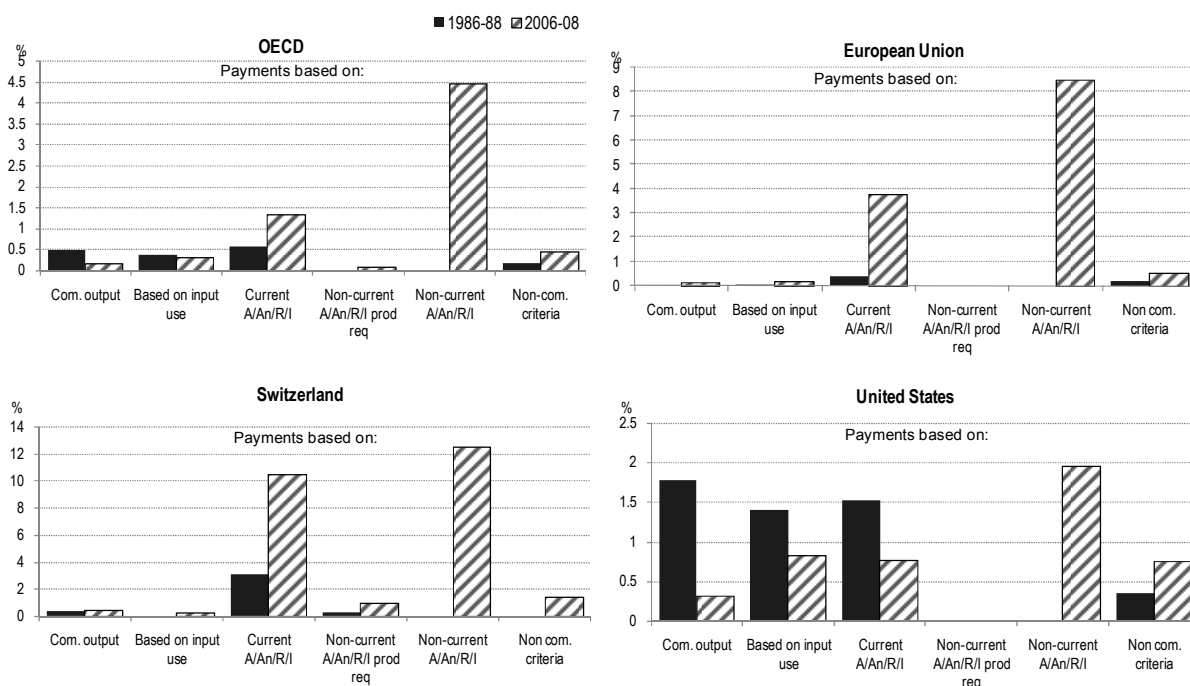
65. The use of “conditional” support in other OECD countries is either marginal or far less pronounced (in terms of the scope of programmes and the amounts of support transfers involved). The share of support with input constraints in total PSE ranges from zero in *New Zealand* or close to zero in *Turkey* to 11% in *Norway*. In most of the cases, constraints relate to the environment, such as adopting organic farming practices (*e.g. Japan, Korea, Norway*), farm waste management (*e.g. Canada, Korea*), observing limits on livestock density (*Mexico*), land conservation (*Turkey*), and maintenance of landscape (*Norway*).

Figure 1.11. Payments with input constraints, 1986-88 and 2006-08

**A. Total payments with input constraints as percentage of PSE**



**B. Payments with input constraints in different support categories in per cent of gross farm receipts**



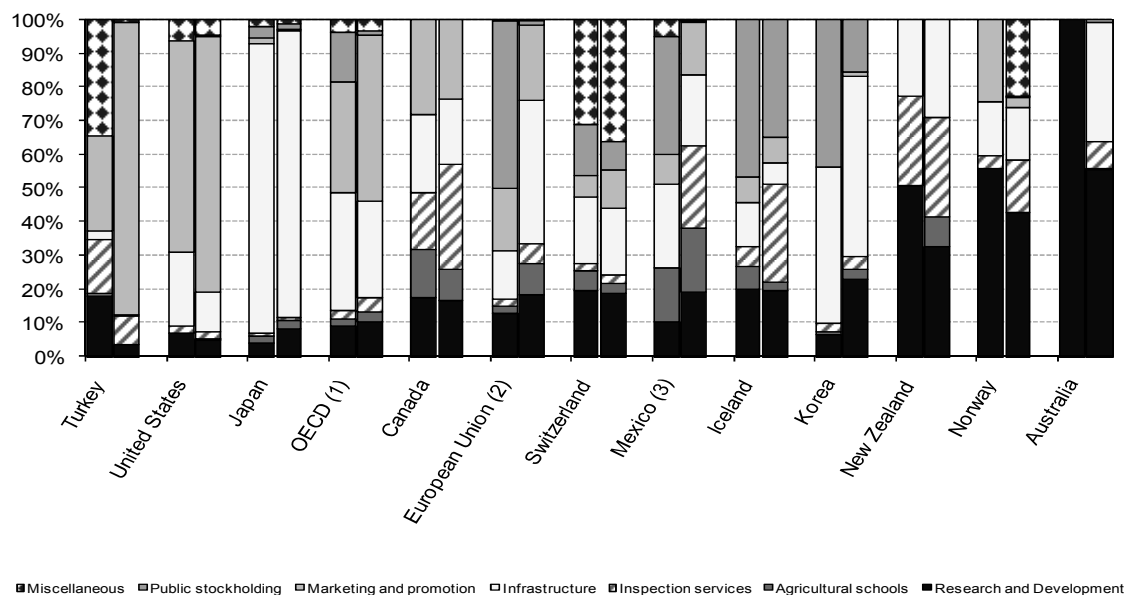
Source: OECD, PSE/CSE Database, 2009.

*The weight of general support to the sector has increased...*

66. Support provided to the sector as a whole and not to individual producers is classified in the General Services Support Estimate (GSSE). This support is intended to benefit the agricultural sector in general and includes policy areas such as research and development, infrastructure, marketing and promotion of agricultural products, public stockholding, training, and inspection services. GSSE support to the agricultural sector has been growing in importance. In 2006-08 GSSE transfers comprised slightly over 20% of total support to agriculture, compared with 13% in 1986-88 (Tables 1.3 and 1.4 and Table III.3 in Part III). While all elements of the GSSE except public stockholding have seen increased expenditure, expansion in the GSSE is most pronounced in marketing and promotion, which made up nearly half of all GSSE spending in the OECD area in 2006-08, followed by development of infrastructure which comprises 29% (Table III.7 in Part III).

67. Approaches to general services support vary across the OECD area (Figure 1.12). Research and development is the key focus in *Australia* and *Norway*, while infrastructure carries the largest weight in *Japan* and *Korea*. The majority of general support to the sector in the *United States* and *Turkey* is concentrated on marketing and promotion. In contrast, expenditures in *Canada*, *Mexico*, *Iceland* and *New Zealand* are more evenly spread across various areas. One feature common to almost all OECD countries is the rising importance of support for inspection services, underscoring greater concerns about food safety, prompted also by animal disease scares that occurred in recent years. Notable also is the reduction in the share of spending for stockholding in all countries where this is important (in the *European Union*, *Switzerland*, *Iceland* and *Korea*), an evidence of both declining importance of price intervention in recent years as well as explicit efforts to shift away from such policies.

**Figure 1.12. OECD: Composition of General Services Support Estimate by country, 1986-88 and 2006-08**  
Percentage share in GSSE



Countries are ranked according to the percentage shares of Research and Development in 2006-08.

Left bar represents 1986-88 and right bar represents 2006-08.

1. 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.

2. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 for 2004-06 and EU-27 from 2007.

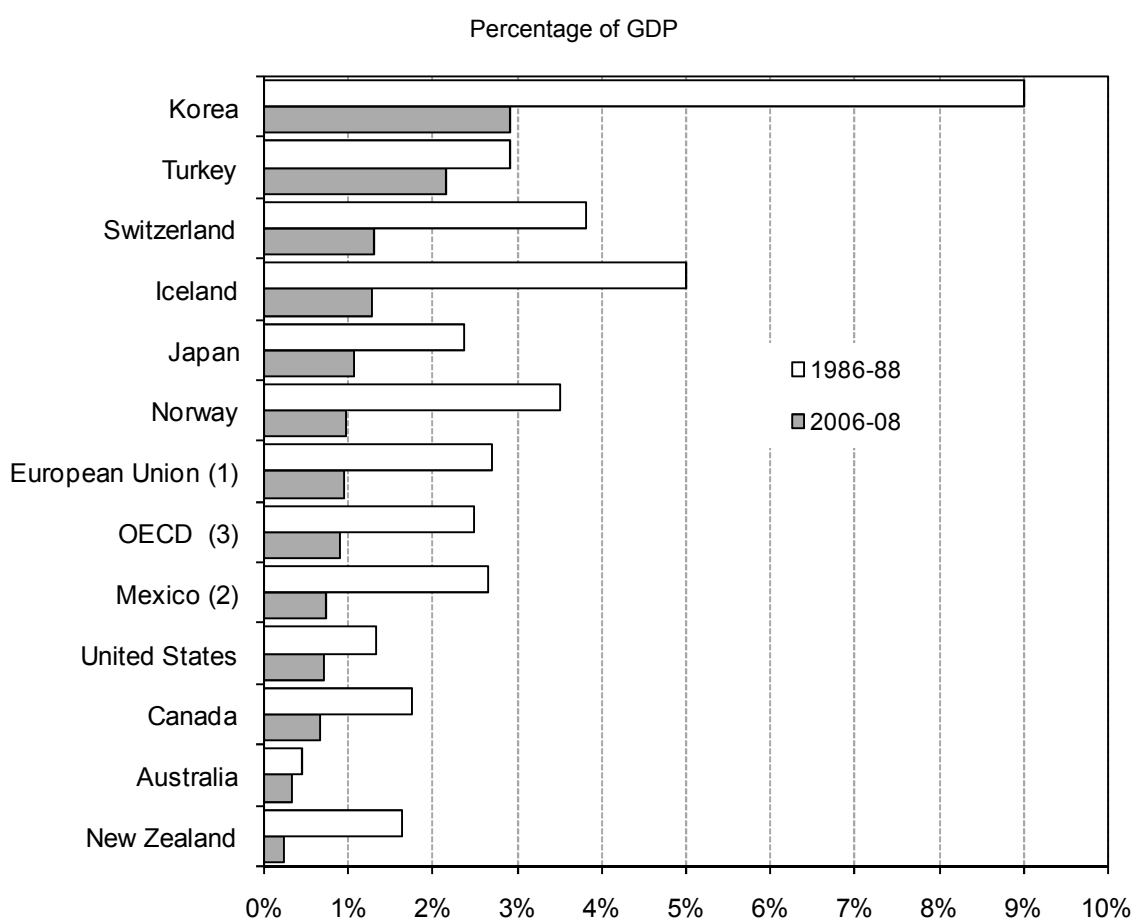
3. For Mexico, 1986-88 is replaced by 1991-93.

Source : OECD PSE/CSE Database 2009.

*...and the total burden of agricultural support on OECD countries has fallen*

68. Total support provided to the agricultural sector (Total Support Estimate, TSE) is the broadest indicator of support, being the sum of the PSE, GSSE, and direct budgetary transfers to consumers. The trend in the TSE can be more clearly evaluated when expressed in real terms as a share of total GDP. %TSE has fallen by more than half, from 2.5% of GDP in 1986-88 to 0.9% of GDP in 2006-08 (Figure 1.13 and Table III.4 in Part III). This share has been consistently falling in all OECD countries, reflecting not only policy reform, but also the shrinking importance of the agricultural sector in the overall economy. This can be seen in particular in *Korea*, which has seen very strong growth in the non-agricultural sectors of the economy and where the TSE as a percent of GDP has fallen from 9% to slightly less than 3%, a factor of three.

**Figure 1.13. Total Support Estimate by country, 1986-88 and 2006-08**



Countries are ranked according to %TSE levels in 2006-08.

1. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 for 2004-06 and EU-27 from 2007.

2. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The OECD total does not include the non-OECD EU member states. TSE as a share of GDP for the OECD total in 1986-88 excludes the Czech Republic, Hungary, Poland and the Slovak Republic as GDP data is not available for this period.

3. For Mexico, 1986-88 is replaced by 1991-93.

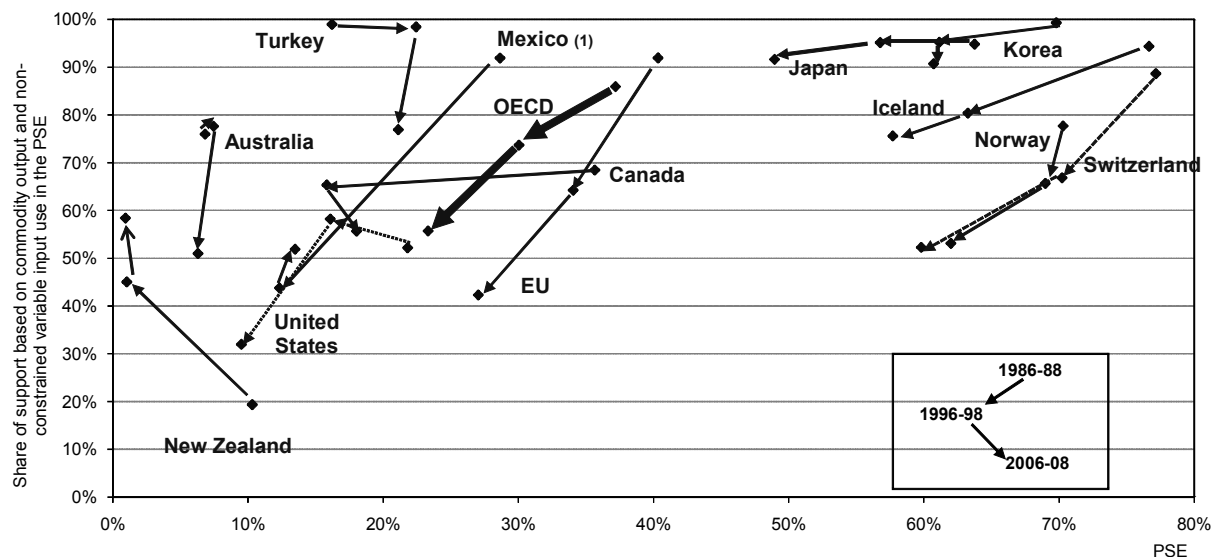
Source : OECD, *PSE/CSE Database*, 2009

## Assessment of reform progress

### *The overall trend towards less production and trade distortion continued...*

69. Progress since 1986-88 towards less production and trade distorting policies is assessed in terms of how much support is provided (support level) and how it is delivered (support composition). These two dimensions of support can be illustrated using the PSE indicators, where support level is shown by the %PSE and support composition is characterized by the share of the most production and trade distorting forms in the total PSE. The latter is represented by the sum of PSE transfers based on output (market price support and payments based on output) and payments based on variable input use with no constraints attached. Figure 1.14 juxtaposes these two dimensions of the PSE and shows the evolution over time, highlighting two ten-year periods, from 1986-88 to 1996-98, and from then to most recent years 2006-08.

**Figure 1.14. OECD: Changes in level and composition of producer support**



1. For Mexico, the change is measured between 1991-93, 1996-98 and 2006-08.

Source: OECD, PSE/CSE database, 2009.

70. Progress has been made in both dimensions of reform since 1986-88 in the OECD as a whole. The %PSE fell in roughly equal steps in both decades: from 37% to 30% in the first decade and down to 23% in the second decade. The share of the most production and trade distorting support also decreased, particularly in the last decade: respectively from 86% of total PSE to 74% and then to 56%. While in the majority of OECD countries there has been progress in both dimensions, the degree and pace of reform was uneven:

71. **Australia:** the level of support is the second lowest amongst OECD countries; reforms progressed in the most recent decade with substantial reduction in the use of the most production distorting forms of support; in the context of persistent droughts, innovative research and development approaches to climate change were implemented, and while substantial progress has been made in reforming water policies, more remains to be done.

72. **Canada:** a marked reduction in the level of support took place in the first decade, while a re-instrumentation of support occurred mainly in the last ten years; the support level is five percentage points

below the OECD average; however, progress varies across sectors and generally higher prices now provide an opportunity for reforming remaining price support in the milk, poultry and eggs sectors in particular.

73. **European Union:** momentum in both dimensions of reform — the level and composition of support — has been achieved over both decades; there has been significant progress in decoupling support from production following full implementation of the Single Payment Scheme and reform has been extended to more commodity sectors; efforts have been made on improving sustainable land management; the producer support level exceeds the OECD average, and the share of the most production distorting support is below the OECD average; there is scope for improving market openness in several sectors.

74. **Iceland:** some reduction in the level of support and in the share of most production distorting support, but mainly due to current high prices and a sharp devaluation of the domestic currency; both the level and composition of support remains among the highest in the OECD; the shift away from support to single commodities is limited; there is considerable potential for further reform.

75. **Japan:** there has been limited progress in reducing the level of producer support, particularly in the last ten years, and it is still twice the OECD average; the recent efforts to move away from single commodity support have not reduced significantly the share of the most production distorting support, currently the highest among OECD countries; recent reforms that eliminate some administered prices may improve the functioning of domestic markets and should continue, but border protection remains high; the recent reform efforts need to be accelerated.

76. **Korea:** the level of support and the share of the most production distorting measures are the second highest among the OECD countries; there have been relatively small improvements in both dimensions of support, except for a reduction in price support for rice in 2008, due to extremely high border rice prices in 2008; however, some progress in de-linking support from single commodities has been made recently with introduction of direct payments that are better targeted to farm income; there is considerable scope for further reforms.

77. **Mexico:** substantial reduction in the level of support and substantial progress in moving away from the most production distorting support, particularly in the first decade; the level of support is currently ten percentage points below the OECD average; in the most recent decade input-based payments have increased, most of them based on fixed capital formation; market price support fell significantly in recent years because of higher world prices and the end of the transitional period of NAFTA; further efforts to advance reforms, with better targeting of policies towards investment for development, poverty alleviation and environmental protection are possible.

78. **New Zealand:** support was the lowest among the OECD countries already in the first decade and remains such at present; reforms of statutory producer organisations have brought deregulation to almost all sectors, except kiwi; it is the only OECD country where the majority of support is provided in the form of general services; market-based approaches to water management may offer opportunities to improve the environmental performance of agriculture.

79. **Norway:** the level of support and the share of the most distorting forms of support have declined since 1986-88, particularly in the last ten years; steps have been taken towards provision of more targeted policy measures such as through individual farm conservation plans; nevertheless, the level of support remains the highest among OECD countries and there is considerable scope for further reform.

80. **Switzerland:** the level of support has fallen, but remains one of the highest in the OECD; there has been progress in moving away from the most distorting forms of support and support linked to single commodities, while support that does not require production have increased; the elimination of dairy

quotas and export subsidies will enhance market orientation of the sector and its economic efficiency; there is potential for further reform.

81. **Turkey:** while below the OECD average, the level of producer support has been increasing over time; there has been some reduction in the share of most distorting support; overall progress in policy reform has been variable due to frequent changes in policy settings within the context of high inflation; given the high economic importance of agriculture, the burden placed by agricultural support on the overall economy (as reflected by the %TSE) is the highest among OECD countries; there is considerable potential for policies to better target the economic development of rural areas.

82. **United States:** producer support is currently the third lowest in the OECD, and less than half the OECD average; reduction in support levels has occurred in both decades, but the share of most distorting support decreased only in the last ten years; the fact that several policies are countercyclical to market prices has helped to reduce support and improve the way in which it is delivered in recent years, particularly compared with 1998-2001, a period when payments were triggered by low world prices; the new 2008 Farm Act did not address reforms to the milk and sugar sectors, which continue to receive high price support; there is potential to reform and simplify commodity programmes.

***The move towards decoupling and targeting is playing a leading role in reform...***

83. The implementation of more decoupled policy instruments has played a very important role in the reform process in OECD countries. This allowed shifting support away from most production distorting forms while providing compensation through support that grant producers more freedom to respond to market signals. Better targeting of policies to specific income objectives or market failures remains a major challenge of ongoing policy reforms in OECD countries. Both decoupling and targeting are among the policy principles that have shown to improve effectiveness, efficiency and equity of policies and should continue to inspire future policy design<sup>2</sup>.

***...however recent reduction in policy distortions is partly due to high prices***

84. In 2007 and in 2008, both the level of support and the share of most production distorting support fell in the OECD as a whole. However, a significant part of these reductions and in the share of most production distorting support was a consequence of high world prices. The increase in border prices in 2007 and 2008 across all OECD countries was not fully transmitted into all of their domestic markets. This is reflected in the reductions in support based on commodity output in the whole OECD area<sup>3</sup>. Some of the output payments — deficiency payments — were therefore not triggered. In other words, a substantial part of the reduction in support in several countries occurred without any explicit policy change decided by the government. This means that if prices move back to their lower trend levels, higher support levels will return in those countries.

85. Discretionary border measures in response to recent world price fluctuations have also been widespread, although mainly in non-OECD countries. These include *ad hoc* export restrictions and export subsidies, which also mitigate transmission of world market price signals to domestic markets, either when they are high or when they are low. Both discretionary and non-discretionary measures that impede full demand and supply responses exacerbate world price fluctuations and mask market price signals to producers and consumers. However, the extent to which such policy actions contribute to world price volatility is difficult to estimate precisely.

2. These principles were agreed by OECD Agricultural Ministers in 1998 (Annex 1A). See also OECD (2008a).

3. For 2007, see Table A1 in OECD (2009c), and for 2008 see Tables 1.3 and 1.5 in this Chapter.

***Recession and price spikes were not main drivers of the new agricultural policy frameworks in 2008...***

86. Some countries — particularly *Canada*, the *European Union* and the *United States* — changed their agricultural policy legislation or frameworks in 2008. These changes do not respond to recent price spikes and current economic recession, since they were decided through processes that started well before these recent events. The scope of these reforms varies due to the different institutional and decision making processes: reforms in the *European Union* — particularly the Health Check — mainly concern commodity programmes and direct payments in the first pillar of the CAP and some changes in the second pillar, while the 2008 *US* Farm Act is the most comprehensive policy framework, and risk management programmes are the major focus of the agreement in *Canada*. Each package develops the previous main directions of policy in each country, and they are not fully reflected in the estimations of support for 2008.

87. The expansion of the Single Payment Scheme is the cornerstone of the long - run reform of the *European Union* Common Agricultural Policy, and it reinforces the principle of decoupling as the main driving force in the evolution of the Common Agricultural Policy. Some developments reduce or allow the reduction in the amount of the SPS payments to transfer funds to rural development and other measures, leaving more freedom to *European Union* member states to determine the exact nature of the applied measures. These latter measures respond to the subsidiarity principle, and should ensure that they are well targeted to different national or regional objectives. The *United States* retains its main commodity programmes, emphasising their countercyclical dimension with the new optional ACRE programme; this measure adds complexity to farmers' decision making and does not contribute to the market orientation of producers. The new risk management programmes in *Canada* mainly relates to the development of a more comprehensive framework, including a stable programme for disaster assistance, but its ability to deliver an efficient triggering mechanism will need to be evaluated.

***...but are unlikely to be neutral for the reform process***

88. The financial and economic crisis is unlikely to hit primary agriculture in the OECD area with the severity that is observed in some other sectors, and thus far specific agricultural policy responses have been limited. But both recession and price fluctuations are expected to have an unprecedented amplitude and economic and social impact worldwide. They are also unlikely to be neutral for the OECD agricultural reform process in the future.

89. Global recession and price volatility are having serious negative repercussions on the poorest people around the world who, even prior to these developments, had been unable to secure adequate access to food. The issue of food insecurity worldwide is gaining increasing attention amongst national governments and international organisations, although the implications for agricultural (and development) policies are unclear thus far.

90. The global economic crisis will trigger structural adjustment, with resources moving within and across all sectors of the economy. Despite its likely higher resilience, agriculture will not be an exception and will undergo adjustment in the context of economy-wide adjustments and increased commodity price volatility. These developments should not put into question the achievements of two decades of progressive policy reforms, but provide an opportunity to facilitate structural adjustments while taking into account the achievement of other policy objectives.

91. Finally, as we move beyond the economic crisis and governments confront more difficult fiscal situations, competition for scarce government budgets might result in a closer and more critical re-examination of sectoral support in many areas, including agriculture. This could represent an opportunity for governments to ensure that their policy actions are best suited to their evolving economic, social, and environmental policy goals.

92. Clearly, there are a number of important variables that will shape the environment for further policy reform within and beyond the OECD area. As the next Chapter outlines further, environmental considerations will also have an important role to play.

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Annex Table 1.1. Selected policy responses to agricultural price fluctuations and the financial crisis

(a) Responses when agricultural commodity and input prices increased	
<b>Austria</b>	Increased the tax rebate on diesel fuel used in agriculture from EUR 19.9 cents to EUR 24.9 cents per litre in <b>July 2007</b> , leading to a budget increase for this measure from EUR 39 million to EUR 44 million.
<b>Belgium</b>	In <b>June 2008</b> the Flemish government announced extra short-term assistance to help farmers adjust to rising costs: <ul style="list-style-type: none"> <li>• EUR 14 million to support energy saving investments in agricultural and horticultural farms;</li> <li>• EUR 150 000 would be available for promotional campaigns.</li> </ul>
<b>Bulgaria</b>	BGN 42.2 million (USD 31.6 million) were spent in <b>2008</b> to compensate milk producers for high feed prices.
<b>European Union</b>	Trade measures in response to food prices fluctuations: <ul style="list-style-type: none"> <li>• Export refunds had been re-introduced for fresh pig meat at the end of 2007, and were suspended in <b>August 2008</b>;</li> <li>• Import duties on all cereals except oats, buckwheat and millet were suspended between the end of December 2007 and October 2008, and were reintroduced as a reaction to price decreases.</li> </ul>
<b>France</b>	In <b>March 2008</b> , measures were taken to help producers in the greenhouse sector affected by high energy prices: <ul style="list-style-type: none"> <li>• EUR 1.5 million for short term assistance and to reduce farmers' social security contributions;</li> <li>• EUR 2.5 million of investment assistance to improve energy efficiency.</li> </ul>
<b>Japan</b>	To mitigate the adverse impacts of high food prices on consumers, the Japanese government halved the rate of increase in government sales price of imported wheat between <b>October 2008</b> and <b>March 2009</b> . In response to the high input costs, particularly fuel and animal feed, it implemented the following measures to assist producers between <b>2007 and 2008</b> . <ul style="list-style-type: none"> <li>• Financing the adoption of energy saving technology such as new farm machine;</li> <li>• Increase of the administered prices and subsidy rates for live stock commodities such as beef calves, manufacturing milk, pig meet and beef and some additional payments to these livestock farms.</li> </ul>
<b>Korea</b>	Between <b>April and July 2008</b> the government reduced import duties for milling wheat from 4.5% to 0%; maize from 1.8 to 0%; soybeans and feed maize from 5 to zero percent.
<b>Mexico</b>	President Calderón announced actions to confront high price conjuncture in <b>May 2008</b> : <ul style="list-style-type: none"> <li>• Reduction of tariffs on food and fertilizers;</li> <li>• Preferential credit to small farmers, fertilizers subsidies and strengthening of agricultural investment programs;</li> <li>• More resources to food subsidies for the poor (DICONSA).</li> </ul>
<b>Norway</b>	In <b>May 2008</b> , as a result of high fertilizer cost and high feed prices, the government and farmers' organisations agreed to re-negotiate the agreement if these costs increased beyond some limits. The clause was triggered in <b>January 2009</b> , and resulted in a further increase in target prices of NOK 500 million (USD 89 million) from 1 January 2009 relative to the original agreement.
<b>Portugal</b>	In September 2008, a line of credit for intensive livestock with special conditions and in March 2009 another line of credit to support agri-businesses, farming and processing.

<b>Emerging economies</b>	<p>In late <b>2007</b> and in <b>2008</b>, Brazil, China, India, Indonesia, Russia and South Africa took a number of measures to reduce the impact of higher food prices (see “Agricultural Policies in Emerging Economies: Monitoring and Evaluation, OECD 2009):</p> <ul style="list-style-type: none"> <li>• Reduced or removed import tariffs on selected agro-food products (all six countries);</li> <li>• Introduced price controls on some food products (China, India, Russia);</li> <li>• Imposed export taxes on grains (China, India, Russia) and quantitative export controls such as licenses (China) and bans (India, Russia);</li> <li>• Increased food subsidies (Chile, India, South Africa) and released grain stocks (Brazil, China, Russia);</li> <li>• Increased input subsidies (China, India, Russia);</li> <li>• Increased minimum producer prices (Brazil, China, India).</li> </ul>
<b>Other countries</b>	<p>Many governments from non OECD countries have implemented policies on agricultural commodities, particularly grains and oilseeds, to shelter domestic markets from food price inflation over <b>2008</b>:</p> <ul style="list-style-type: none"> <li>• Tariff reductions or removals (Argentina, Azerbaijan, Bahamas, Belize, Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Cambodia, Cape Verde, Djibouti, Ecuador, El Salvador, Gambia, Ghana, Guatemala, Guinea, Honduras, Iran, Ivory Coast, Jordan, Kenya, Lebanon, Liberia, Libya, Madagascar, Mauritania, Morocco, Nicaragua, Niger, Nigeria, Pakistan, Peru, Philippines, Rwanda, Saudi Arabia, Senegal, Trinidad &amp; Tobago, Yemen);</li> <li>• Export barriers (Argentina, Bangladesh, Bolivia, Brazil, Cambodia, Cameroon, Djibouti, Ecuador, Egypt, Ethiopia, Gambia, Guinea, Iran, Jordan, Kazakhstan, Kenya, Laos, Lebanon, Madagascar, Malawi, Malaysia, Myanmar, Nepal, Pakistan, Philippines, Syria, Tanzania, Thailand, Ukraine, Vietnam, Zambia);</li> <li>• Price controls (Bangladesh, Belize, Benin, Cape Verde, Costa Rica, Djibouti, El Salvador, Ethiopia, Ivory Coast, Jordan, Kenya, Malawi, Malaysia, Morocco, Pakistan, Saint Lucia, Senegal, Sri Lanka, Sudan, Tajikistan, Togo, Zimbabwe);</li> <li>• Food subsidies, tax reduction and distribution/stock release (Algeria, Azerbaijan, Bangladesh, Benin, Bolivia, Burkina Faso, Cambodia, Cameroon, Congo, Costa Rica, Djibouti, Dominican Republic, Ecuador, Egypt, Eritrea, Ethiopia, Guatemala, Guyana, Honduras, Iraq, Ivory Coast, Jordan, Kenya, Lebanon, Lesotho, Madagascar, Malaysia, Malawi, Mauritania, Mongolia, Morocco, Mozambique, Myanmar, Nepal, Nigeria, Pakistan, Philippines, Senegal, Sierra Leone, Sudan, Surinam, Tajikistan, Thailand, Togo, Uganda, Vietnam, Yemen);</li> <li>• Grain buffer stocks creation (one fifth of developing countries);</li> <li>• Scaled up existing targeted programs such as Conditional Cash Transfers (Ecuador, Paraguay, Haiti).</li> </ul> <p>Resilience packages with support from development assistance, input subsidies or distribution (Benin, Burundi, Ghana, Liberia, Madagascar, Mozambique, Pakistan, Senegal, Somalia, Zambia), building storage facilities (Mozambique), technical support (Benin, Madagascar, Mozambique).</p>
<b>(b) Responses when agricultural commodity and input prices decreased</b>	
<b>Canada</b>	<p>In <b>February 2009</b> the Government of Saskatchewan announced a CAD71 million provincial support program for cattle and hog producers with low profitability due to low output prices, increased input costs and restricted market access:</p> <ul style="list-style-type: none"> <li>• CAD 40 per head payment for all beef breeding cows and bred beef heifers owned as of 1 January 2009;</li> <li>• CAD 20 per market hog sold ;</li> <li>• CAD 10 per head for all iso-weanlings, weanlings and feeder hogs produced from 1 July 2008 to 31 January 2009.</li> </ul>
<b>European Union</b>	<p>In response to the fall of producer prices, the EU made use of existing mechanisms to stabilize domestic markets for some products in <b>January 2009</b>:</p> <ul style="list-style-type: none"> <li>• Export refunds for milk and dairy products (in the limits set by the World Trade Organization);</li> <li>• Private storage schemes for butter and skimmed milk powder;</li> <li>• Import tariffs applied to wheat.</li> </ul>

**(c) Responses to the financial crisis**

<b>Belgium</b>	<p>In response to the economic downturn, the Flemish region is planning to bring forward an aid package worth EUR 20 million for dairy farmers (a series of measures will come from the Flemish Agricultural Investment Fund -VLIF):</p> <ul style="list-style-type: none"> <li>• A total of EUR 7.5 million in capital premium payments will be brought forward to March;</li> <li>• Subsidies for agricultural management agreements (EUR 8 million) and Suckler cow premia will be paid will be paid earlier than previously planned.</li> </ul>
<b>European Union</b>	<p>In <b>January 2009</b>, the Commission proposed additional funding of EUR 1 billion for rural development projects as part of the EU Economic Recovery Plan. Funding would target high speed Internet in rural communities, energy, biodiversity, climate change, water management and dairy measures.</p>
<b>France</b>	<p>The EUR 250 million emergency plan presented by the French Minister of Agriculture and Fisheries in <b>November 2008</b> aims to consolidate the agrofood sector in the context of the financial crisis. It consists of:</p> <ul style="list-style-type: none"> <li>• Farm income support for the ovine sector (EUR 50 million, half from the EU Single Payment Scheme);</li> <li>• Debt relief and reduction of social security contributions for livestock farms in difficulties (EUR 75 million);</li> <li>• Re-conduction of social security contribution exoneration for young farmers (EUR 5 million);</li> <li>• Fuel tax rebate (EUR 75 million).</li> </ul>
<b>Poland</b>	<p>In addition to decreasing minimal interest rate from 3.5 to 2% for preferential credits and extending the period of loan reimbursement by 2-3 years, the Ministry of Agriculture and Rural Development is discussing a series of additional measures in <b>early 2009</b>.</p>
<b>Spain</b>	<p>In response to the financial crisis, the Government opened in <b>March 2009</b> a new credit line with advantageous conditions for any agro-food enterprise, including farmers.</p>
<b>United States</b>	<p>The American Recovery and Reinvestment Act of 2009 was signed into law on 17 February 2009. USDA was appropriated USD 28 billion (3.5%) of the package. In particular, the Act provides USD 19.7 billion to increase the monthly amount of nutrition assistance to 31.8 million people; enables expanded opportunities for broadband loans and grants to rural communities; expands funding opportunities to develop rural water and waste facilities; provides funding to protect and conserve the nation's forests and farm land; and provides free technical assistance in the development of business adjustment plans to producers of raw agricultural commodities and fishermen who have been adversely affected by import competition.</p>
<b>Emerging economies</b>	<p>In <b>December 2008</b>, <b>Indonesia</b> presented national action plan to respond to the food-fuel and financial crises In, including:</p> <ul style="list-style-type: none"> <li>• Short term responses such as food subsidy, cash transfers, reduced import tariff, reduced value added tax for imported and exported commodities, subsidized soybean price to micro and small processors;</li> <li>• Medium term responses namely subsidized fertilizers, farm credits with subsidized interest, guaranteed farm gate price, domestic food stocks.</li> </ul> <p>At the <b>beginning of 2009</b>, <b>Russia</b> adopted a series of measures to facilitate in-flow of finance to the agricultural sector:</p> <ul style="list-style-type: none"> <li>• Allocated budgetary funds for capitalisation of the two largest banks lending to agriculture;</li> <li>• Increased amounts of federal funds for subsidising interest rates on agricultural loans;</li> <li>• Extended repayment periods for certain types of subsidised loans;</li> <li>• Agricultural enterprises included in the list of key national enterprises were given the possibility to receive government guarantees on their borrowings.</li> </ul> <p><b>Brazil</b> adopted provisions to increase supply of rural credit:</p> <ul style="list-style-type: none"> <li>• Increased the obligatory share of sight deposits in the banking and rural savings systems that can be used exclusively for agricultural lending;</li> <li>• Increased budgetary allocations for preferential credit to agriculture.</li> </ul>

Source: press releases, in-country information and publications from OECD (2009b), WFP, World Bank, USDA and FAO

Annex Table 1.2. Contribution to the change in Market Price Support by Country, 2007 to 2008

	Market Price Support (MPS)	Contribution to % change in MPS of:	
		Quantity	Unit MPS
	% change <sup>1</sup>	if all other variables are held constant	
Australia	366.5	337.8	28.7
Canada	-32.1	0.4	-32.5
European Union <sup>2</sup>	6.0	0.5	5.5
Iceland	-14.8	-8.1	-6.7
Japan	2.3	2.3	-0.1
Korea	-18.7	-2.1	-16.6
Mexico	-36.3	1.5	-37.8
New Zealand	-26.5	1.5	-28.0
Norway	26.2	5.5	20.7
Switzerland	26.3	-5.6	31.9
Turkey	65.0	42.2	22.8
United States	-93.4	0.0	-93.4
OECD <sup>3</sup>	-7.1	2.7	-9.8

1. Per cent change in a country total MPS is the average of per cent changes in MPS for individual commodities in national currencies, weighted by the shares of individual commodity MPS in the country's total MPS in the previous year.

2. EU27 for 2007 and 2008.

3. An average of per cent changes in individual countries' MPS, weighted by the shares of the countries' MPS in the OECD total MPS in the previous year; not equivalent to the variation in OECD MPS in any common currency.

Source: OECD, PSE/CSE Database, 2009.

Annex Table 1.3. Contribution to the change in border price by country, 2007 to 2008

	Border Price	Contribution to % change in Border Price <sup>1</sup> of:	
		Exchange Rate	Border Price
	%change <sup>2</sup>	if all other variables are held constant	
Australia	28.7	0.2	28.5
Canada	31.6	-0.7	32.4
European Union <sup>3</sup>	8.4	-6.8	15.1
Iceland	46.4	38.6	7.9
Japan	0.6	-13.1	13.7
Korea	55.3	21.3	34.0
Mexico	8.7	2.1	6.6
New Zealand	14.2	5.0	9.3
Norway	10.2	-3.9	14.0
Switzerland	6.8	-10.6	17.4
Turkey	5.9	-0.1	6.0
United States	23.9	0.0	23.9
OECD <sup>4</sup>	17.4	-1.9	19.3

1. Border price at farm gate, *i.e.* price excluding marketing margins between border/wholesale market and farm gate.

2. An average of per cent changes in Border Prices for individual commodities in national currencies, weighted by the shares of individual commodity MPS in total MPS in the previous year.

3. EU27 for 2007 and 2008.

4. An average of per cent changes in Border Price for individual countries, weighted by the value of countries' MPS in OECD total MPS in the previous year.

Source : OECD, *PSE/CSE Database*, 2009.

## ANNEX 1.A POLICY PRINCIPLES AND OPERATIONAL CRITERIA

OECD Agriculture Ministers in 1998 adopted a set of policy principles, building on the agricultural policy reform principles agreed by OECD Ministers in 1987<sup>4</sup>. 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.

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.

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4. The full text from the relevant Ministerial Communiqués can be found in [www.oecd.org/agr/ministerial](http://www.oecd.org/agr/ministerial)

## ANNEX 1.B

## DEFINITIONS OF OECD INDICATORS OF AGRICULTURAL SUPPORT

**Nominal indicators used in this report**

***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/receipts/incomes (current, non-current), and non-commodity criteria.

***Market Price Support (MPS):*** the 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.

***Producer Single Commodity Transfers (producer SCT):*** the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising 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. Producer SCT is also available by commodity.

***Group Commodity Transfers (GCT):*** the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policies whose payments are made on the basis that one or more of a designated list of commodities is produced, *i.e.* 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 consumers and taxpayers to agricultural producers, measured at the farm gate level, arising 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 from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policies that do not require any commodity production at all.

***Consumer Single Commodity Transfers (consumer SCT):*** the annual monetary value of gross transfers from (to) consumers of agricultural commodities, measured at the farm gate level, arising from policies linked to the production of a single commodity. Consumer SCT is also available by commodity.

***Consumer Support Estimate (CSE):*** the annual monetary value of gross transfers from (to) 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 agricultural producers collectively (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.

### Ratio indicators and percentage 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).

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

**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 Producer NPC 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):** CSE transfers as a share of consumption expenditure on agricultural commodities (at farm gate prices), net of taxpayer transfers to consumers. The %CSE measures the implicit tax (or subsidy, if CSE is positive) placed on consumers by agricultural price policies.

**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 Consumer NPC 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):** TSE transfers as a percentage of GDP.

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

## ANNEX 1.C

### THE PSE CLASSIFICATION<sup>5</sup>

#### Introduction

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.

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.

#### Measuring agricultural support

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).

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

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5 For a full description of the methodology, see the "PSE Manual" (*OECD's Producer Support Estimate and Related Indicators of Agricultural Support: Concepts, Calculation, Interpretation and Use*), available on the web-site [www.oecd.org/tad/support/psecse](http://www.oecd.org/tad/support/psecse).

budgetary revenues foregone, and estimation of the gap between domestic and world market prices for farm goods – market price support.

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.

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 1.B.

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.

### **Changes in the PSE methodology implemented in 2007**

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***

The PSE classification that has been used before 2007 (including the 2006 report on *Agricultural Policies in OECD Countries: at a Glance*) is shown in Annex Box 1.A.

**Annex Box 1.A. Classification of PSE and related support indicators applied until 2006**

***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***

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”.

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.

In reflecting these policy developments, a new PSE classification has been devised and agreed, as outlined in Annex Boxes 1.B and 1.C. 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).

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 (Annex Box 1.C). 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).

**Annex Box 1.B. Classification of PSE applied from 2007**

- 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  
with input constraints
  - B.2. Fixed capital formation  
with input constraints
  - B.3. On-farm services  
with input constraints
- C. Payments based on current A/An/R/I, production required**
  - C.1. Based on current revenue/income
  - C.2. Based on current area/animal numbers  
with input constraints
- 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  
with commodity exceptions
  - E.2. Fixed rates  
with commodity exceptions
- 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 programmes in the above categories of policy measures:

- With/without L (with or without current commodity production limits and/or payment limits).
- With V/F rates (with variable or fixed payment rates).
- With/without input constraints (C) (With Mandatory/ With Voluntary/ 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).

\* 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 Annex Box 1.C.

#### Annex Box 1.C. 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.

**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).

**Annex Box 1.C. Definitions of categories in the new PSE classification (cont.)**

**Definitions of labels**

**With or without current commodity production limits and/or limit to payments:** defines whether or not there is a specific limitation on current commodity production (output) associated with a policy providing transfers to agriculture and whether or not there are limits to payments in the form of limits to area or animal numbers eligible for those payments. Applied in categories A – F.

**With variable or fixed payment rates:** Any payments is defined as subject to a variable rate where the formula determining the level of payment is triggered by a change in price, yield, net revenue or income or a change in production cost. Applied in categories A – E.

**With or without input constraints:** defines whether or not there are specific requirements concerning farming practices related to the programme in terms of the reduction, replacement, or withdrawal in the use of inputs or a restriction of farming practices allowed. Applied in categories A – F. The payments with input constraints are further broken down to:

- Payments conditional on compliance with basic requirements that are mandatory (*with mandatory*);
- Payments requiring specific practices going beyond basic requirements and voluntary (*with voluntary*).

**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 – D.

***Changes in the commodity indicators related to the PSE and CSE***

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).

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:

- **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 consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policy measures whose payments are made on the basis that one or more of a designated list of

commodities is produced, i.e. 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 consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policy measures 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 from consumers and taxpayers to agricultural producers, measured at the farm gate level, arising from policy measures that do not require any commodity production at all.

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.

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.

## Indicators used in policy analysis

### *Indicators related to total support*

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 (Annex Box 1.C). 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. Annex I.B provides definitions of these indicators.

### *Commodity specific indicators*

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.

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.

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*

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 Annex Box 1.C). 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 category E.

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

### **The use of the new classification and related indicators in policy analysis**

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.

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.

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.

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.