Agricultural Policies at a Glance

Highlights

- OECD analysis estimates that an average of USD 601 billion (EUR 450 billion) was transferred by 49 countries – representing 88% of global value added in agriculture – to agricultural producers annually during 2012-14. A further USD 135 billion (EUR 103 billion) per year was spent on general services that support the overall functioning of the sector.

- During this same period, government support was estimated to average 17% of gross farm receipts. About two-thirds of that support was provided by measures considered to be highly market-distorting.

- Agricultural policies need to move away from market-distorting measures and blanket income transfers towards strategic investments that can help deliver sustainable productivity growth and increased resilience, thereby increasing income opportunities for farm households in more countries.

What’s the issue?

The 49 countries analysed by the OECD in its annual Agricultural Policy Monitoring and Evaluation report share a set of common goals: the economic viability of the agricultural sector and rural areas, the production of sufficient and nutritious food for a growing and more affluent global population, and the long-term environmental sustainability of food production.

Nevertheless, very different weights are attached to these goals, resulting in extremely different policy choices. Among the 49 countries considered, some have traditionally maintained high support levels – although these are falling – and the overall policy package is becoming less distorting. Other countries consistently maintain low support and concentrate efforts on risk management and the overall enabling environment. A middle group, with support estimated around the average of the 49, contains countries on very different trajectories – some with declining levels and use of distorting support, and others with increasing support levels and use of the most distorting measures.

Overall, 67% of the support across the 49 countries is directly linked to prices, output or input use.

Levels and Mix of Farm Support Vary Significantly
Composition of Producer Support Estimate by country, 2012-14

Notes: % Producer Support Estimate in percentage of gross farm receipts. 1. EU27 for 2012-2013; and EU28 from 2014 when available. 2. The OECD total does not include non-OECD EU Member States.

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

What should policy makers do?

Production-linked measures, in particular, mask market signals, harm competitiveness, and can potentially lead to environmentally-damaging production systems. Moreover, such measures can be inequitable and inefficient, as the bulk of the benefits accrue to the largest producers or leak away to unintended beneficiaries in the upstream and downstream sectors or are capitalised in the value of fixed assets. The choice of policy instruments is therefore arguably as important as the level of support.

Policy effort needs to be directed to the development of a competitive, innovative agricultural sector that can respond to future needs. Agricultural policy needs to be coherent with policies in other areas – economic, social and environmental – and to reduce impediments to structural adjustment. This kind of approach will be more effective in most countries than the fine-tuning of existing agricultural policies.

To this end, policy makers should:

- **Reduce the use of market price support with a view to its eventual elimination.** Not only does market price support seldom reach the intended beneficiaries, it also disconnects farmers from market developments and is highly production- and trade-distorting.

- **Move away from the use of input subsidies.** Input subsidies are particularly inefficient ways to transfer benefits to producers, are strongly production-distorting, and increase the risk of environmental damage from over- or misuse of farm inputs.

- **Increase strategic public investments to enhance sustainable productivity growth** with a view to increasing the capacity of the sector to feed a growing and more affluent population, in the context of natural resource scarcities and climate change.

- **Target public policies to address specific goals and intended beneficiaries,** both of which can vary considerably across countries at different stages of development and with different resource endowments. In some countries, policy priorities might include spending on health and education; in others, investments in infrastructure and innovation systems. In other countries, direct payments – if linked to clear objectives and targets, and well-tailored to the problem at hand – can be efficient in specific policy areas, such as environmental protection, and can play a transitory role in facilitating wider agricultural policy reform.

- **Ensure that risk management policies focus on helping farmers to cope with unavoidable and unpredictable risks** and avoid crowding out market solutions and farmers’ own risk management practices. Poorly-designed risk management policies often deliver only modest benefits at high costs to taxpayers.

- **Improve the enabling environment for a business-oriented agricultural sector.** At the same time, concerns about negative impacts of farming on the natural environment should be addressed through a mix of market-based solutions, regulation and taxation, while positive externalities – such as ecosystem services – should be encouraged.

Further reading

This document is based on the evidence and analysis found in a number of OECD reports and papers published in recent years:

- Agricultural Policy Monitoring and Evaluation 2015
- PSE Database and Compare Your Country
- OECD Review of Agricultural Policies Colombia
- OECD Review of Agricultural Policies Indonesia
- OECD Review of Agricultural Policies Kazakhstan
- OECD Review of Agricultural Policies Switzerland
- OECD Review of Agricultural Policies Viet Nam

A complete list of relevant books and papers can be found at http://oe.cd/taking-stock or on the Agriculture Ministerial website at www.oecd.org/agriculture/ministerial.

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