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Policy Brief

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Food and agriculture: A new policy paradigm

SHORT-TERM THINKING MUST GIVE WAY TO LONG-TERM APPROACH

- **The agro-food sector is facing both** significant challenges–such as global food insecurity, climate change and resource scarcity–as well as major opportunities, in particular growing global demand.
- **A significant shift in policies** towards long-term strategic investments is key to meeting these challenges and opportunities.
- **Agricultural policy needs to be coherent** with economy-wide policies in order to create an overall enabling environment conducive to achieving multiple goals
- **Policies need to target country-specific constraints** to development and to place greater emphasis on enabling well-functioning markets and innovation systems, and on investing more in people and infrastructure.
- **A focus is also needed on removing obstacles** to structural adjustment while helping those unable to make needed transitions.

What's the issue?

The global food system will face formidable challenges over the coming decades. One is the need to produce more food for a growing and wealthier population that demands a more diverse diet. But in many developing countries, in particular, it must also contribute to economic growth, poverty alleviation, rural employment and development. Added to this, agricultural systems will face increased competition for increasingly limited natural resources, such as land and water, while helping to preserve biodiversity and restore fragile ecosystems. Finally, farmers will have to play their role in mitigating climate change while also adapting to higher average temperatures and more frequent extreme weather events, such as heatwaves, droughts and floods, all of which threaten food security.

But as well as these challenges, there will also be important opportunities. The growing and diversifying demand for food, for example, will see the emergence of potentially valuable new markets for competitive suppliers in all countries. For some, there will be growing niche markets, for example in areas like organic food. Equally, farmers may be able to avail of rising demand for non-food uses of agricultural products coming from the bio-economy.

Why is this important?

These challenges and opportunities, and responses to them, will affect societies and economies in many ways. Food security is a prime example. Significant progress was made towards achieving the Millennium Development Goal of halving the share of undernourished people in developing countries by 2015. However, this progress has been uneven, and the number of hungry people worldwide remains unacceptably high–over 800 million, according to the FAO. Undernourishment will persist unless improvements are made in the access to and availability and use of food. Agriculture has a crucial role to play in food security, reflecting the sector's dual role in supplying food and providing incomes to poor and potentially food-insecure farmers.

In contrast to some other sectors, productivity in agriculture is growing robustly in many parts of the world, including in emerging economies in Latin America, economies of the former Soviet Union and Eastern Europe. Nevertheless, progress has been uneven. In some countries and regions, productivity growth has been low, notably in Africa; in others, growth has been high but unsustainable.

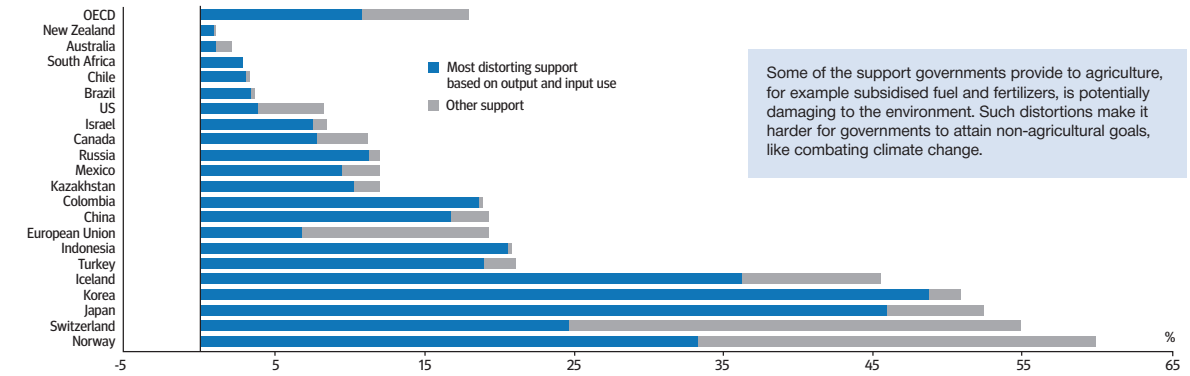
Although the sustainability performance of agriculture in OECD countries has improved on average, there is growing pressure on natural resources that are fundamental to sustainable production, including land, water, marine ecosystems, fish stocks, forests, and biodiversity. These pressures have reached critical levels in some areas. Agriculture and fisheries are also particularly vulnerable to climate change. In spite of this, more than half of agricultural support provided by OECD countries continues to be potentially damaging to the environment, while measures targeting sustainable productivity or climate change goals remain marginal.

What should policymakers do?

Daunting as they may seem, the challenges facing agriculture can be met. But to do so, governments must help by laying the foundations for a strong, competitive, productive and sustainable global agricultural system. This requires a significant shift away from short-term and palliative policies that may stand in the way of market openness and trade, effectively limiting development opportunities for some potentially competitive suppliers. Instead, policy must increasingly favour long-term investments that will create strong, competitive farm businesses while satisfying the growing demand for food and non-food products, conserving natural resources, restoring the environment and coping with climate change, and avoiding trade distortions.

Level and composition of farm support vary widely across countries

Support as a % of gross farm receipts



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.

Source: OECD (2015), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database).

Rather than investing in policies that encourage unsustainable farm production and environmental degradation, resources should instead be channelled into strengthening innovation systems and making sure that farmers have the information and skills they need to farm sustainably. Policies should also facilitate investment in the enabling environment–everything from health and education to infrastructure–and should seek to remove impediments to structural adjustment while helping those who are unable to make the needed transitions. Economy-wide and sectoral policy interventions should also be as coherent and as consistent as possible to ensure that incentives and disincentives are aligned across the economy. For example, agricultural policies should not undercut efforts to combat climate change.

Shift away from production- and trade-distorting policies: Governments need to re-evaluate policies that pose obstacles to sustainable productivity growth. These include market price support and payments based on output, which are burdensome for taxpayers and highly distorting of production and trade. Equally, the subsidised use of inputs, such as fossil energy and fertilisers, can lead to production practices that harm the environment. Across 49 countries analysed by the OECD in 2012-2014, 67% of support provided to farmers was found to be directly linked to prices, output, or input use without any limits on that use.

Develop policies that respect the environment and scarce resources: Policies should foster production systems that use water, land, forest, energy, soil and biodiversity resources sustainably. Prices that reflect the scarcity value of natural resources as well as the positive and negative environmental impacts of the food and agriculture system will contribute to more efficient use of resources, as will the establishment and enforcement of property rights.

Maintain innovation at the heart of policy design: An unprecedented number of innovations are emerging with the potential to generate sustainable growth in productivity. Policies should be innovation-oriented, encouraging organisational change, cross-sectoral co-operation, greater public and private investment in research and development, technology transfer and adoption, education and training, and improvement in advisory services. There is scope to apply known technologies where they have not yet been deployed, such as in Sub-Saharan Africa.

Improve the enabling environment: Special efforts are needed, particularly in less developed economies, to improve the enabling environment in which agriculture operates—from health and education to physical infrastructure and land rights. This is essential to encouraging much-needed public and private investment and to enabling farm households, smallholders in particular, to choose the development path that offers them the greatest opportunity, be it in agriculture or elsewhere.

Ensure policy consistency and coherence: More robust strategies and policies are needed, including within up- and downstream industries as well as the general economy, education, health, environment, trade and others. There needs to be an increased focus on ensuring coherence across these policy fields, while frequent changes in policy direction should also be avoided.

Find out more at **www.oecd.org/agriculture**

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