



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

OECD AGRICULTURAL POLICIES: DEVELOPMENTS AND PROSPECTS

Ken Ash

Deputy Director for Food, Agriculture and Fisheries

Washington, June 2004



OECD Work on Food and Agriculture

- Providing economic and policy information and advice that supports government efforts to improve the domestic and international performance of their policies
 - OECD Agricultural Policies, 2004
 - OECD Agricultural Outlook 2004-13
 - Analysis of the 2003 EU CAP Reform

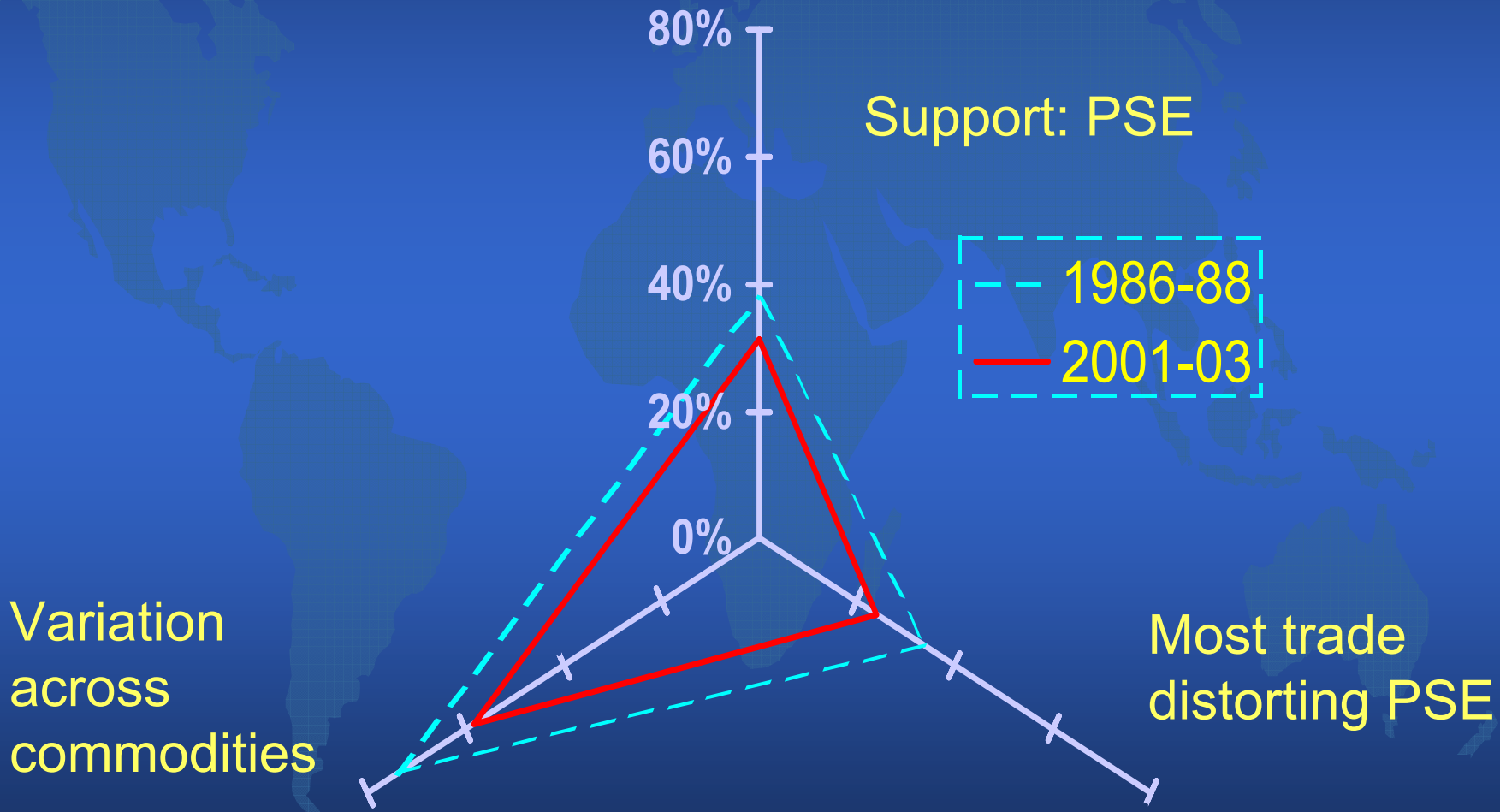


OECD Agricultural Policies, 2004

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



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



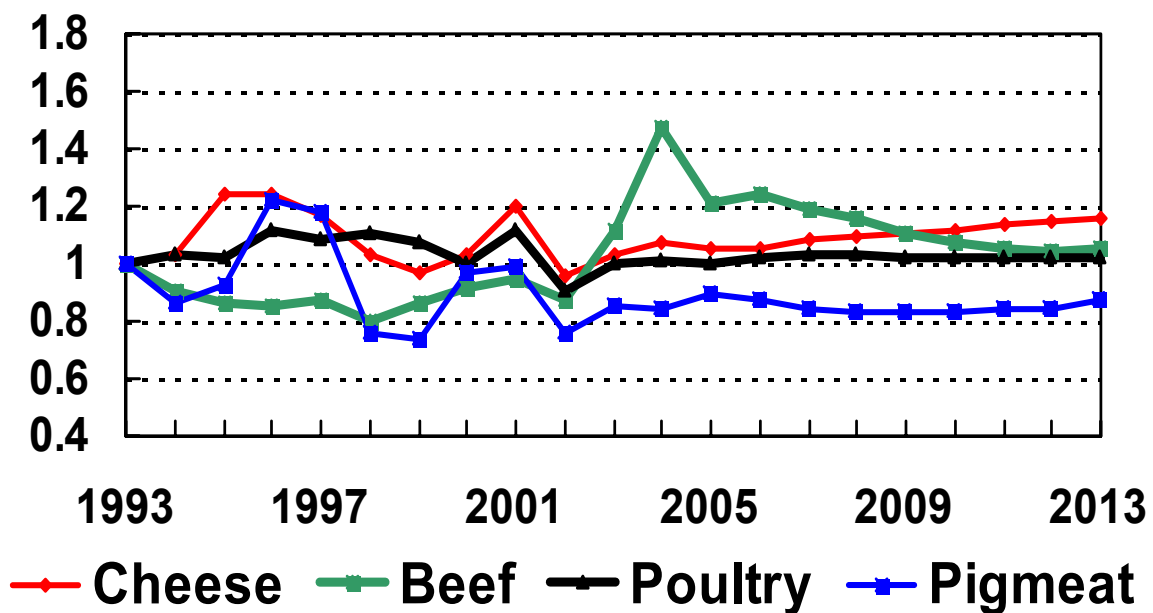
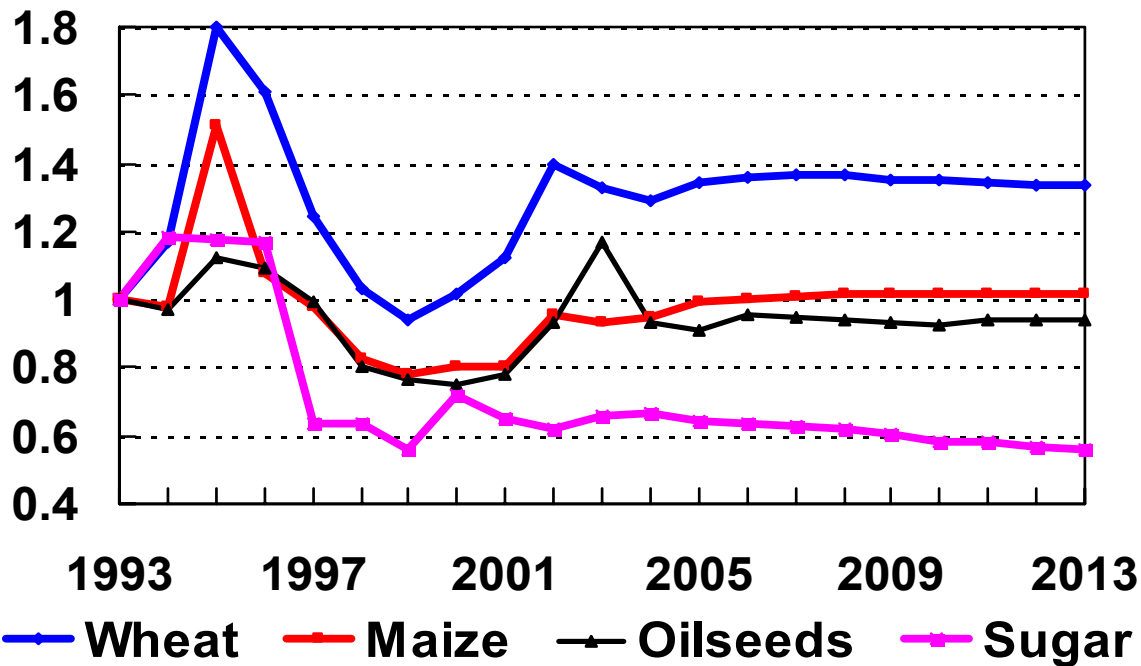


Agricultural Outlook 2004-13

- Global income and demand growth
- ...but only moderate price increases.
- Increased trade between OECD and non-OECD countries.
- Preferences shifting to value added product.
- Persistent wide gaps between world and domestic prices for some “sensitive” products.



Outlook (1993 = 1)





2002 US Farm Act: Provisions

- loan rate changes
- base acreage and yield updates
- counter-cyclical payments
- extension of payments to other crops
- conservation, rural development, country of origin labelling, etc.



2002 US Farm Act: Impacts

- institutionalises earlier emergency payments
- ...and reduces farm risk
- links support more closely to production
- reduces market orientation
- ...and can encourage increased output



2003 EU CAP Reform: Provisions

- Reductions in intervention prices for cereals, rice and dairy products
- Introduction of a Single Farm Payment based on historical entitlements
- Compulsory cross-compliance
- Modulation of most payments
- Additional rural development measures



2003 EU CAP Reform: Impacts

- Movement from crop land to pasture, significant extensification.
- Modest market impacts except for rice. Slight increase in world prices for crops.
- No change in support level, but large changes in composition of support.



2003 CAP Reform: Evaluation

- Progress towards decoupling, allowing for:
 - a greater role for market forces
 - improved income transfer efficiency
 - a potential for more targeting and more equal distribution of support

BUT

- No overall reduction in support
- Limited improvement in market access
- Distorting support remains for some commodities
- Most support remains linked to size

Reform Progress



1986-88

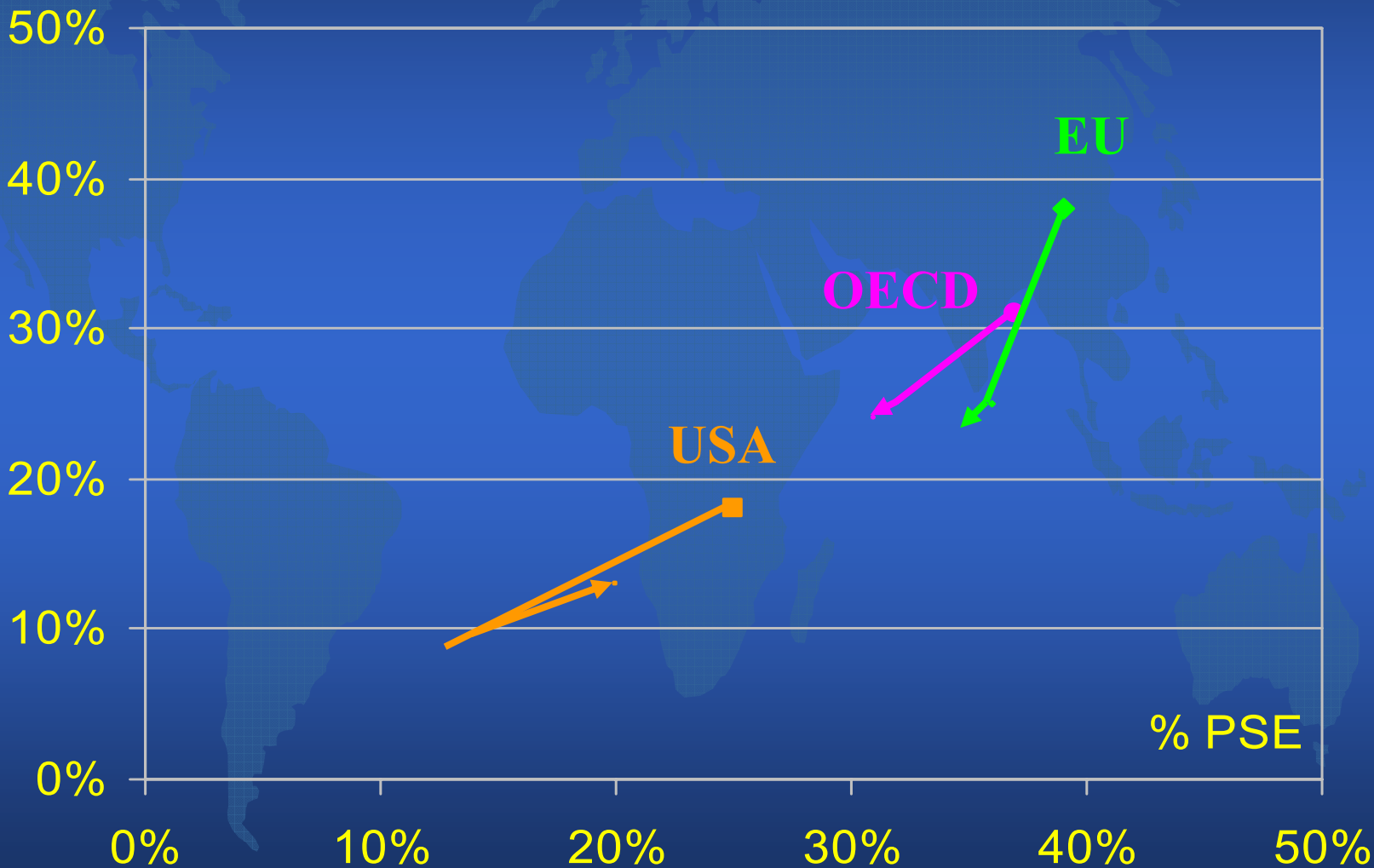


1995-97



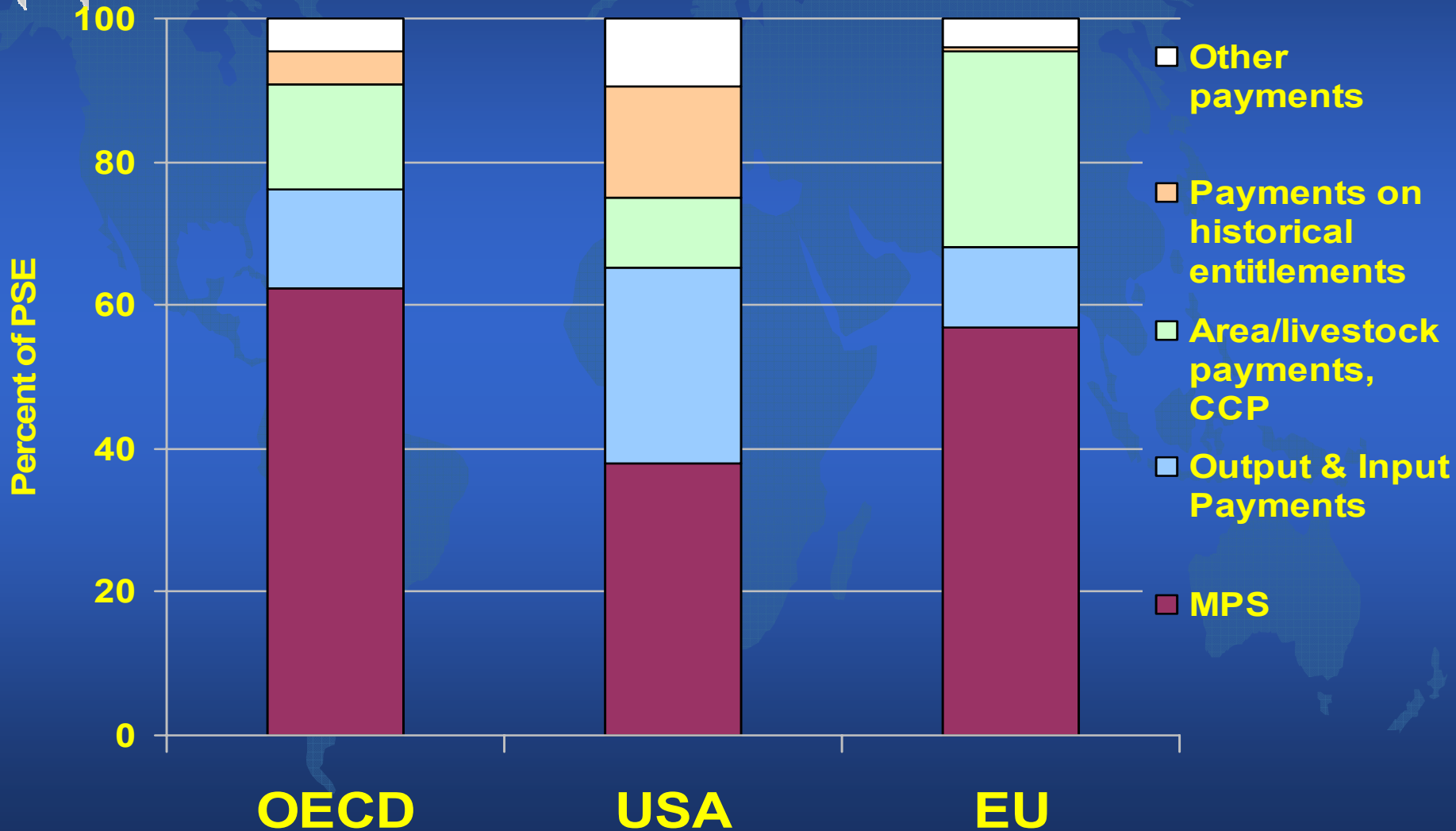
2001-03

Share of price + output support in gross farm receipts



% PSE

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

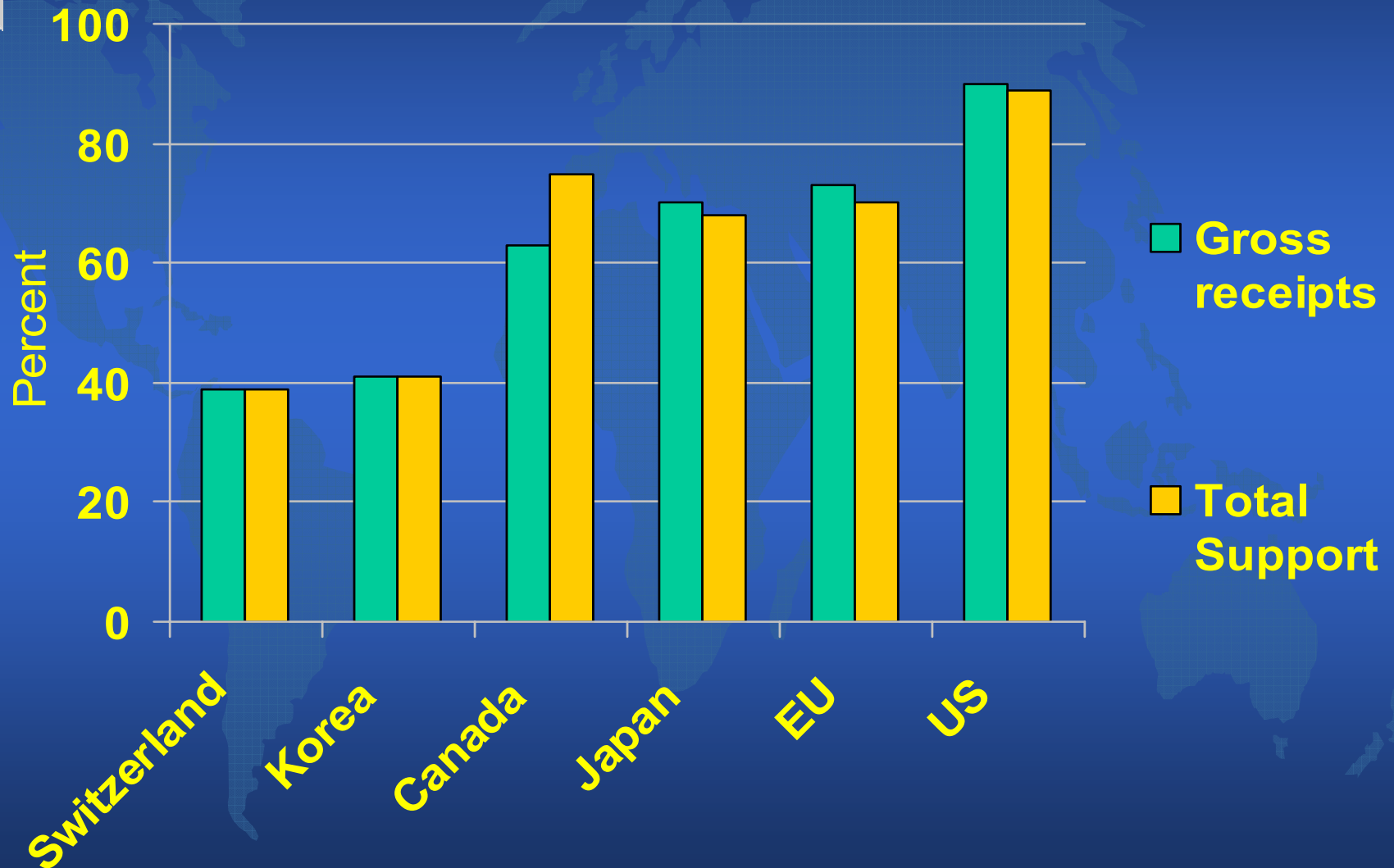




Price and output based support is...

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

Share of 25% largest farms in ...





Alternative policy approaches...

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



Farm Household Income: Which Policies?

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



Rural Communities: Which Policies?

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



Environmental Sustainability: Which Policies?

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



Conclusion

- There are more effective alternatives to many current farm policies.
- Decoupling and targeting are key to
 - Improve market access,
 - Remove export subsidies,
 - Lower the cost of support,
 - Achieve societal goals.
- Significant gains result, but not everyone gains equally, nor immediately, and adjustment assistance may be required.