Agricultural Policy Monitoring and Evaluation 2015

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BETTER POLICIES FOR BETTER LIVES

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Foreword

This report Agricultural Policy Monitoring and Evaluation 2015 *monitors agricultural policy developments in OECD member countries, and eight emerging economies: Brazil, China, Colombia, Indonesia, Kazakhstan, the Russian Federation, South Africa and Ukraine.*

The OECD uses a comprehensive system for measuring and classifying support to agriculture – the Producer and Consumer Support Estimates (PSEs and CSEs) and related indicators. They provide insight into the increasingly complex nature of agricultural policy and serve as a basis for OECD's agricultural policy monitoring and evaluation.

The "Executive summary" synthesises the key findings of the report. Chapter 1 provides an overview of developments in agricultural policies and analyses the development of the level and structure of support to agriculture across OECD countries and emerging economies. Following chapters summarise the developments in agricultural policies in each individual OECD country (the European Union which has a Common Agricultural Policy is covered in a single country chapter) and in each emerging economy covered by this report. A "Statistical annex" is available only in an electronic form and contains detailed background tables with indicators of agricultural support covering both OECD countries and emerging economies.

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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 arising from policy measures that create enabling conditions for the primary agricultural sector through development of private or public services, institutions and infrastructure, regardless of their objectives and impacts on farm production and income, or consumption of farm products. The GSSE includes policies where primary agriculture is the main beneficiary, but does not include any payments to individual producers. GSSE transfers do not directly alter producer receipts or costs or consumption expenditures. GSSE categories are defined in Box 2.

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).

Box 1. **Definitions of categories in the PSE classification**

Definitions of categories

Category A1, 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.

Category A2, Payments based on output: Transfers from taxpayers to agricultural producers from policy measures based on current output of a specific agricultural commodity.

Category B, 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.

Category C, 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.

Category D, 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.

Category E, 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.

Category F, 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 sub-category 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.

Category G, Miscellaneous payments: Transfers from taxpayers to farmers for which there is a lack of information to allocate them among the appropriate categories.

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.

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

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 constrains 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*).
  - specific practices related to environmental issues
  - specific practices related to animal welfare
  - other specific practices.

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.

Note: A (area), An (animal numbers), R (receipts) or I (income).

Decomposition indicators

Decomposition of PSE

Percentage change in PSE: Percentage change in the nominal value of the PSE expressed in national currency. The percentage change is calculated using the two most recent years in the series.

Contribution of MPS to percentage change in PSE: Percentage change in nominal PSE if all variables other than MPS are held constant.

Contribution of price gap to percentage change in the PSE: Percentage change in nominal PSE if all variables other than gap between domestic market prices and border prices are held constant.

Contribution of quantity produced to percentage change in the PSE: Percentage change in nominal PSE if all variables other than quantity produced are held constant.

Contribution of budgetary payments (BP) to percentage change in PSE: Percentage change in nominal PSE if all variables other than BP are held constant.

Contribution of BP elements to percentage change in PSE: Percentage change in nominal PSE if all variables other than a given BP element are held constant. BP elements include Payments based on output, Payments based on input use, Payments based on current A/An/R/I, production required, Payments based on non-current A/An/R/I, production required, Payments based on non-current A/An/R/I, production not required, Payments based on non-commodity criteria and Miscellaneous payments.

Decomposition of price gap elements

Percentage change in Producer Price: Percentage change in Producer Price (at farm gate) expressed in national currency. The percentage change is calculated using the two most recent years in the series.

Percentage change in the Border Price: Percentage change in Border Price (at farm gate) expressed in national currency. The percentage change is calculated using the two most recent years in the series.

Contribution of Exchange Rate to percentage change in Border Price: Percentage change in the Border Price (at farm gate) expressed in national currency if all variables other than Exchange Rate between national currency and USD are held constant.

Contribution of Border Price expressed in USD to percentage change in Border Price: Percentage change in the Border Price (at farm gate) expressed in national currency if all variables other than Border Price (at farm gate) expressed in USD are held constant.

Definition of GSSE categories

The general GSSE definition is complemented in Annex 1.A1 by more specific implementation guidelines, provided under the different categories in the GSSE classification.

More detailed information on the indicators, their use and limitations is available in the *OECD's Producer Support Estimate and Related Indicators of Agricultural Support: Concepts, Calculation, Interpretation and Use* (the *PSE Manual*) available on the OECD public website (*www.oecd.org/tad/agricultural-policies/psemanual.htm*).

Sources and definitions of contextual indicators

Table X.1. Contextual indicators

Gross Domestic Product – GDP (USD billion): OECD National Accounts, Gross domestic product, national currency, current prices. Spot exchange rates used for conversion in USD. Latest year benchmarked from Economic Outlook projections. For EU member countries, data come from EUROSTAT. UN World Development Indicators (WDI) data for emerging economies.

Population (million): OECD.stat, Demography and population, Population statistics, Population and vital statistics, series on Total population mid-year estimates. For EU member countries, data come from EUROSTAT, population/demography/demography national data/population. UN *World population prospects, 2012 Revision* for emerging economies.

Land area (thousands km^2): FAO, *Land Use Database*, Land area (000 ha) recalculated to thousands km^2. Land area excludes water areas.

Population density (inhabitants/km^2): UN *World Population Prospects: The 2012 Revision*, Population density by major area, region and country, 1950-2010 (persons per square km). For EU members calculated from EUROSTAT population and area.

GDP per capita, PPP (USD): OECD.stat, National accounts, Main aggregates, Gross domestic product (output approach), Per head, USD, current prices, current PPPs. EU countries, EUROSTAT, GDP and main components – Current prices.

Trade as % of GDP: Trade data from *UN COMTRADE Database*. Customs data; Average trade: (exports + imports)/2. EU does not account for intra-EU trade.

Box 2. **Definitions of categories in the GSSE classification**

Agricultural knowledge and innovation system

- ***Agricultural knowledge generation:*** Budgetary expenditure financing research and development (R&D) activities related to agriculture, and associated data dissemination, irrespective of the institution (private or public, ministry, university, research centre or producer groups) where they take place, the nature of research (scientific, institutional, etc.), or its purpose.
- ***Agricultural knowledge transfer:*** Budgetary expenditure financing agricultural vocational schools and agricultural programmes in high-level education, training and advice to farmers that is generic (e.g. accounting rules, pesticide application), not specific to individual situations, and data collection and information dissemination networks related to agricultural production and marketing.

Inspection and control

- ***Agricultural product safety and inspection:*** Budgetary expenditure financing activities related to agricultural product safety and inspection. This includes only expenditures on inspection of domestically produced commodities at first level of processing and border inspection for exported commodities.
- ***Pest and disease inspection and control:*** Budgetary expenditure financing pest and disease control of agricultural inputs and outputs (control at primary agriculture level) and public funding of veterinary services (for the farming sector) and phytosanitary services.
- ***Input control:*** Budgetary expenditure financing the institutions providing control activities and certification of industrial inputs used in agriculture (e.g. machinery, industrial fertilisers, pesticides, etc.) and biological inputs (e.g. seed certification and control).

Development and maintenance of infrastructure

- ***Hydrological infrastructure:*** Budgetary expenditure financing public investments into hydrological infrastructure (irrigation and drainage networks).
- ***Storage, marketing and other physical infrastructure:*** Budgetary expenditure financing investments to off-farm storage and other market infrastructure facilities related to handling and marketing primary agricultural products (silos, harbour facilities – docks, elevators; wholesale markets, futures markets), as well as other physical infrastructure related to agriculture, when agriculture is the main beneficiary.
- ***Institutional infrastructure:*** Budgetary expenditure financing investments to build and maintain institutional infrastructure related to the farming sector (e.g. land cadastres; machinery user groups, seed and species registries; development of rural finance networks; support to farm organisations, etc.).
- ***Farm restructuring:*** Budgetary payments related to reform of farm structures financing entry, exit or diversification (outside agriculture) strategies.

Marketing and promotion

- ***Collective schemes for processing and marketing:*** Budgetary expenditure financing investment in collective, mainly primary, processing, marketing schemes and marketing facilities, designed to improve marketing environment for agriculture.
- ***Promotion of agricultural products:*** Budgetary expenditure financing assistance to collective promotion of agro-food products (e.g. promotion campaigns, participation on international fairs).

Cost of public stockholding: Budgetary expenditure covering the costs of storage, depreciation and disposal of public storage of agricultural products.

Miscellaneous: Budgetary expenditure financing other general services that cannot be disaggregated and allocated to the above categories, often due to a lack of information.

Agriculture share in GDP (%): OECD.stat, Country statistical profiles; Value added in agriculture, hunting, forestry and fishing as % total value added. EU countries: EUROSTAT, Gross value added – Agriculture and fishing – percentage of all branches (NACE). UN World Development Indicators for emerging economies.

Agriculture share in employment (%): OECD.stat, Employment by activities and status (ALFS), share of Agriculture, hunting, forestry (ISIC Rev. 3, A), Employment ('000) (which does not include fishing) in Employment in all activities (ISIC Rev. 3, A-X) ('000). EUROSTAT for the EU corresponds to the share of employed persons aged 15-64, in agriculture, hunting and forestry in total NACE activities. UN World Development Indicators, employment in agriculture percentage of total employment.

Agro-food exports in total exports (%): UN COMTRADE. Agro-food definition does not include fish and fish products. Agro-food codes in H0: 01, 02, 04 to 24, 3301, 3501 to 3505, 4101 to 4103, 4301, 5001 to 5003, 5101 to 5103, 5201 to 5203, 5301, 5302, 290543/44, 380910, 382360.

Agro-food imports in total imports (%): UN COMTRADE. Agro-food definition does not include fish and fish products.

Agro-food trade balance (USD million): UN COMTRADE. Agro-food definition does not include fish and fish products.

Crop in total agricultural production (%): Share of value of total crop production (including horticulture) in total agricultural production. National data.

Livestock in total agricultural production (%): Share of value of total livestock production in total agricultural production. National data.

Agricultural area (AA) (thousand ha): FAO, *Land Use Database*, Agricultural area.

Share of arable land in AA (%): FAO, *Land Use Database*, arable land in percentage of agricultural area.

Share of irrigated area in AA (%): OECD, Environmental indicators.

Share of agriculture in water consumption (%): OECD, Environmental indicators.

Nitrogen balance (kg/ha): OECD, Environmental indicators.

Figure X.2. Main macroeconomic indicators

Real GDP growth (%): OECD.stat, Country statistical profiles, real GDP growth. EU countries: Eurostat, GDP volumes, percentage change over previous period. Emerging economies: WDI. GDP growth %.

Inflation rate (%): OECD *Analytical DataBase* (ADB), Annual average rate of change in Harmonized Indices of Consumer Prices (HICPs), EUROSTAT for the European Union, WDI for emerging economies.

Unemployment rate (%): OECD *Analytical DataBase* (ADB), labour force statistics; EUROSTAT for the European Union.

Figure X.3. Agro-food trade

Agro-food exports (USD billion): UN COMTRADE. Agro-food definition does not include fish and fish products.

Agro-food imports (USD billion): UN COMTRADE. Agro-food definition does not include fish and fish products.

OECD indicators of support

ACT	All Commodity Transfers	NPC	Nominal Protection Coefficient
CSE	Consumer Support Estimate	OTP	Other Transfers to Producers
GCT	Group Commodity Transfers	PEM	Policy Evaluation Model
GSSE	General Services Support Estimate	PSE	Producer Support Estimate
MPS	Market Price Support	SCT	Single Commodity Transfers
NAC	Nominal Assistance Coefficient	TSE	Total Support Estimate

Currencies

AUD	Australian dollar	JPY	Japanese yen
BRL	Brazilian real	KRW	Korean wong
CAD	Canadian dollar	KZT	Kazakh tenge
CHF	Swiss franc	MXN	Mexican peso
CLP	Chilean peso	NOK	Norwegian krone
CNY	Chinese yuan renminbi	NZD	New Zealand dollar
COP	Colombian peso	RUB	Russian rouble
EUR	Euro	TRY	New Turkish lira
IDR	Indonesian roupiah	UAH	Ukrainian hryvnia
ILS	Israeli shekel	USD	United States dollar
ISK	Icelandic krona	ZAR	South African rand

List of acronyms and abbreviations

AANZFTA	Australia-New Zealand Free Trade Agreement
ACC	Agricultural Credit Cooperatives (Turkey)
ACEP	Agricultural Conservation Easement Program (United States)
ACP	African, Caribbean, Pacific Group of States
ACRE	Average Crop Revenue Election (United States)
AGF	Direct Government Purchases (Brazil)
AJCEP	ASEAN-Japan Comprehensive Economic Partnership
AMS	Aggregate Measurement of Support
ANCs	Areas of National Constraints (European Union)
APEC	Asia-Pacific Economic Cooperation
ARC	Agriculture Research Council (South Africa)
ARC	Agriculture Risk Coverage (United States)
ASEAN	Association of South East Asian Nations
ASF	African Swine Fever
BCAP	Biomass Crop Assistance Program (United States)
BPS	Basic Payment Scheme (European Union)
BRM	Business Risk Management
BULOG	Indonesian National Logistic Agency
CAN	Andean Community
ChAFTA	China-ASEAN Free Trade Area
CAP	Common Agricultural Policy (of the European Union)
CARICOM	Caribbean Community
CASP	Comprehensive Agricultural Support Programme (South Africa)
CER	Renewable Energy Centre (Chile)
CIS	Commonwealth of Independent States

CNDP	Complementary National Direct Payments (European Union)
COMESA	Common Market for Eastern and Southern Africa
CONAB	National Food Supply Agency (Brazil)
COOL	Country of Origin Labelling
CPI	Consumer Price Index
CRDP	Comprehensive Rural Development Programme (South Africa)
CRP	Conservation Reserve Program (United States)
CU	Customs Union
DAFF	Department of Agriculture, Forestry and Fisheries (South Africa)
DCFTA	Deep and Comprehensive Free Trade Area (Ukraine, EU)
DIRA	Dairy Industry Restructuring Act of 2001 (New Zealand)
DP	Direct Payments
DPDP	Dairy Product Donation Program (United States)
DRDLR	Department of Rural Development and Land Reform (South Africa)
EAC	East Africa Community
EAEC	Eurasian Economic Union (Kazakhstan, Russian Federation)
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EEA	European Economic Area
EFAs	Ecological Focus Areas (European Union)
EFTA	European Free Trade Association
EPA	Economic Partnership Agreement
ETS	Emissions trading scheme (New Zealand)
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FARC	Revolutionary Armed Forces of Colombia
FCC	State agency Food Contract Corporation (Kazakhstan)
FDI	Foreign Direct Investment
FEPs	Commodity Price Stabilisation Funds (Colombia)
FEPM	Government provision of storage financing (Brazil)
FIA	Agriculture Innovation Foundation (Chile)
FINAGRO	Financing Fund for the Agricultural Sector (Colombia)
FMD	Foot and Mouth Disease
FONSA	National Agricultural Solidarity Fund (Colombia)
FPT	Joint Federal, Provincial and Territorial agreements (Canada)
FTA	Free Trade Agreement
FY	Financial (fiscal) year
GAO	Gross Agricultural Output
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GF2	Growing Forward 2 (Canada – new multilateral agricultural policy framework)
GHG	Greenhouse Gases
GMO	Genetically modified organism
GSP	Generalised System of Preferences
HRW	Hard Red Winter (wheat variety)

IAF	Irrigation Acceleration Fund (New Zealand)
IEPA	Interim Economic Partnership Agreement (EU, SACU)
IFSS	Integrated Food Security Strategy (South Africa)
IHS	Import Health Standards (New Zealand)
IMF	International Monetary Fund
INDAP	National Institute for Agricultural Development (Chile)
IPARD	Instrument for Pre-Accession Assistance for Rural Development (Turkey)
LDC	Least Developed Countries
LEADER	Links Between Actions for the Development of the Rural Economy (EU)
LFA	Less Favoured Areas
LRAD	Land Redistribution and Agricultural Development (South Africa)
MAFISA	Micro-Agricultural Financial Institutions of South Africa
MAPA	Ministry of Agriculture, Livestock and Food Supply (Brazil)
MDA	Ministry of Agrarian Development (Brazil)
MERCOSUR	Southern Common Market
MFN	Most Favoured Nation
MILC	Milk Income Loss Contract Program (United States)
MMA	Minimum market access
MOU	Memorandum of Understanding
MPP	Margin Protection Programme (for dairy producers) (United States)
NAFTA	North American Free Trade Agreement
NAIT	National Animal Identification and Tracing (New Zealand)
NAMC	National Agricultural Marketing Council (South Africa)
NAP	Non-insured Crop Disaster Assistance Program (United States)
NDRC	National Development and Reform Commission (China)
NFRS	National Farmer Registration System (Turkey)
NLP	National Land Care programme (South Africa)
NYMEX	New York Mercantile Exchange
ODEPA	Office of Studies and Agrarian Policies of the Ministry of Agriculture (Chile)
OECD	Organisation for Economic Co-operation and Development
PAA	Government purchases from small-scale agriculture (Brazil)
PGPAF	Minimum price programme for family farms (Brazil)
PGP	Primary Growth Partnership (New Zealand)
PIC	Coffee support programme (Colombia)
PLC	Price Loss Coverage (United States)
PND	National Development Plan (Colombia)
PPP	Purchasing Power Parity
PRAN	National Agriculture Revitalisation Programme (Colombia)
PROAGRO	General Agriculture Insurance Programme (Brazil)
PROCAMPO	Programme providing payments based on historical areas (Mexico)
Productive PROAGRO	Programme providing payments based on historical areas, replacing PROCAMPO (Mexico)
PROGAN	Programme providing payments based on livestock numbers (Mexico)

RASKIN	Targeted rice for poor programme (Indonesia)
RCCP	Regional Conservation Partnership Program (United States)
RCEP	Regional Comprehensive Economic Partnership
R&D	Research and Development
RDCs	Rural Research and Development Corporations (Australia)
RDP	Rural Development Plan
RDR	Rural Development Regulation
REAP	Rural Energy Assistance Program (United States)
REID	Rural Enterprise and Industrial Development programme (South Africa)
RID	Rural Infrastructure Development programme (South Africa)
RMA	Resource Management Act 1991 (New Zealand)
SACU	South African Customs Union
SADC	Southern African Development Community
SAFP	Andean Price Band System (Colombia)
SAFTA	South Asian Free Trade Area
SAPARD	Special Accession Programme for Agriculture and Rural Development
SAPS	Single Area Payment Scheme
SASA	South African Sugar Association
SCO	Supplementary Coverage Option (United States)
SEAF	Family agriculture insurance (Brazil)
SFF	Sustainable Farming Fund (New Zealand)
SGA	State Grain Administration (China)
SMP	Skimmed milk powder
SINOGRAIN	China Grain Reserves Corporation
SNAP	Supplemental Nutrition Assistance Program (United States)
SNCR	National System of Rural Credit (Brazil)
SPS	Single Payment Scheme
SPS	Sanitary and Phytosanitary
SSG	Special Safeguard
STAX	Stacked Income Protection Plan (United States)
STE	State Trading Enterprise
TBT	Technical Barriers to Trade
TCZB	Loans at concesional rate of the Ziraat Bank (Turkey)
TFTA	Tripartite Free Trade Africa agreement
TIP	Transition Incentives Program (United States)
TNA	Transitional National Aid (European Union)
TPP	Trans-Pacific Partnership Agreement
TRQ	Tariff Rate Quota
TTIP	Transatlantic Trade and Investment Partnership (EU, US)
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
URAA	Uruguay Round Agreement on Agriculture
USA	United States of America
VAT	Value Added Tax
WTO	World Trade Organization

Executive summary

This report covers OECD countries and a range of emerging economies which are important players on world markets. These 49 countries account for about 88% of global value added in agriculture. Their agricultural policies reflect the heterogeneity of the roles that agriculture plays in their economies. Irrespective of the structural differences across countries, they share a set of common goals that drive their agricultural policies: enabling the economic viability of the agricultural sector and rural areas more generally, producing enough and nutritious food to cater to the needs of growing and more affluent global populations, and improving the long-term environmental sustainability of food production. Policy approaches attach different weights to these shared goals.

Collectively, the countries covered in this report transferred an annual average of USD 601 billion (EUR 450 billion) to agricultural producers in the years 2012-14, as measured by the OECD Producer Support Estimate (PSE), and they spent an additional USD 135 billion (EUR 103 billion) on general services that support the overall functioning of the sector.

Average levels of support to agricultural producers in OECD countries and in emerging economies are converging: emerging economies, on average, have passed from taxing their agriculture in the 1990s to providing significant levels of support, while the historically very high level of support across the OECD area, on average, has declined. In recent years some large emerging economies have begun to reach the average level of support provided by OECD countries. Across all 49 countries covered in this report, 18% of gross farm receipts in 2014 stem from public policies that support farmers.

For the OECD area as a whole, gradual progress has also been made in moving away from policy instruments such as market price support and input subsidies and towards policies that do not directly influence farm production decisions. This has occurred to different degrees and at different speeds, with changes particularly slow in the group of countries with the highest levels of support and protection. Some steps have been made towards addressing expressed long-term priorities such as environmental sustainability, innovation and risk management. Those efforts should be reinforced. At the same time, some emerging economies are moving in the opposite direction, increasing the use of price and production-linked support policies. Across all 49 countries, 67% of support to farmers is directly linked to prices, output, or input use without constraints.

Recommendations

Countries should begin to focus more effort on addressing long-term issues related to improving the productivity and sustainability performance of agriculture. An over-arching aim of policy makers should be to "future-proof" the sector, to help it face multiple challenges. Globally, agriculture will need to: produce more food for a growing and more affluent population demanding a more diverse diet; contribute to economic growth and poverty alleviation in many developing countries; compete for a share of finite natural resources – land and water; and contribute to preserving biodiversity and the quality of land and water, restoring fragile ecosystems, and both adapting to and mitigating climate change.

Improving the capacity of the agricultural sector to respond to those challenges and to realise its full economic potential, in many cases, will require improvements to the wider policy environment in which the sector operates so as to attract financial and human resources and to foster an innovative agricultural sector. A comprehensive approach to improve coherence with other policies (macroeconomic, trade, social and environmental) and to reduce impediments to structural adjustment will be more effective than marginal fine tuning of existing agricultural policies in most countries.

Such a re-orientation requires a clear vision of the end-point of policy reforms at national and international levels. In the more immediate term important gains can be realised:

- Market price support should be reduced with a view to eventual elimination. It is not well targeted and does not reach the intended beneficiaries; it imposes significant costs on consumers, especially in low-income countries, and isolates farmers from market developments, distorting their production decisions.
- Input subsidies should also be reduced with a view to eventual elimination. By reducing costs of selected inputs, such as fertilisers, they contribute to the risk of overuse and misuse of these valuable farm inputs which can, as a result, be environmentally harmful. Concessional credit schemes also pose a large burden on government budgets, tend to increase farm debt and be capitalised into fixed assets, and can create problems of moral hazard.
- The design of income and revenue stabilisation measures should be carefully assessed. They sometimes deliver only modest benefits at high costs to taxpayers. Some of the risks facing agricultural producers can be managed using market mechanisms and government support should focus more on helping farmers to cope with unavoidable, catastrophic events.
- Direct payments, if linked to clear objectives and beneficiaries, and well-tailored to the problem at hand, can be an efficient alternative to achieve a wide range of public goals, including those related to achieving environmental benefits. Concerns about negative impacts of farming on the natural environment should be addressed through a mix of market-based solutions, regulation and taxation.
- Blanket support to land owners is seldom justified, but direct payments can play an important transitory role in the process of reforming agricultural policies. Greater attention should be paid to the wider enabling environment in which the sector operates; farm policy matters a great deal, but wider economic, social and environmental policies also play an important role.

Chapter 1

Developments in agricultural policy and support

The key economic and market developments which provide the framework for the implementation of agricultural policies are analysed in the first part of this chapter. Highlights are then presented of the main recent changes and new initiatives in agricultural policies in 2013-15 in OECD countries and key emerging economies covered in this report. Then the developments in the estimated support (using the OECD Producer Support Estimate methodology) are evaluated in terms of its level, composition and changes over time in OECD countries and the emerging economies included in this report.

Key economic and market developments

Economic developments among the OECD countries and selected emerging economies covered in this report have continued to diverge in 2014. Economic growth has accelerated in the United States and the United Kingdom and these countries have surpassed their pre-crisis levels of GDP. Japan's GDP has approached pre-crisis levels, but in the euro area it is still below. In the People's Republic of China (hereafter "China") and Indonesia activity has been relatively strong albeit slower than in preceding years, but stagnated in Brazil, the Russian Federation and Ukraine, and South Africa's GDP grew only slowly. Falling commodity prices, political uncertainties and sanctions have contributed to lagging growth in those emerging economies.

World trade has grown roughly in line with GDP, which points to markedly different dynamics of global trade compared to pre-crisis levels when it grew twice as fast as global GDP.

Household consumption growth has been slow throughout the OECD area. Continued high unemployment and falling commodity prices, in particular energy prices, have kept inflation low in spite of accommodating monetary policies in OECD countries. While the US dollar has seen a significant appreciation in 2014, reduced monetary stimulus in the United States and further monetary easing in the euro area and Japan may imply further exchange rate movements.

Commodity prices declined broadly in 2014. Energy prices, and in particular oil prices, declined most, bringing an end to a four-year period of stable and high prices (World Bank, 2015). Crude oil prices roughly halved between June 2014 and January 2015 to reach a level below USD 50 per barrel. The low oil prices are spilling over to other energy markets as well, especially natural gas in Europe and Asia, and they reduce the profitability of biofuels produced from grains and oilseeds. The sharp decline in crude oil prices together with low prices of biofuel feedstock pushed ethanol and biodiesel prices down in 2014. The *OECD-FAO Agricultural Outlook 2015* provides analysis of the impact of lower oil prices for agricultural markets (OECD/FAO, 2015). Prices of metals, minerals and agricultural crops all declined to different degrees with high global supplies, slow global economic growth and an appreciating US dollar. The lower natural gas price in the United States has been playing a key role in the declining prices for nitrogen fertilisers, a key input in crop production. The decline of fertiliser prices came to a halt, but prices are still 60% lower than during their high in 2008.

While global food prices fell on average by about 11% between January 2014 and January 2015 according to FAO statistics (FAO, 2015), the developments differed markedly between crops and livestock products: lower prices for cereals, oilseeds, sugar and cotton, and strong prices for meat. Prices for dairy products dropped in the second half of the year.

Record harvests for maize, wheat and oilseeds resulted in low prices and ample stocks in 2014, with wheat prices reaching their lowest level since 2010. International rice prices remained under pressure. International sugar prices continued their decline as production exceeded consumption and as the Brazilian real depreciated against the US dollar. Global cotton production exceeded consumption in 2014, and international prices remained under pressure with global stocks rising, in particular in China.

Beef prices reached record levels in 2014, driven by slow build-up of herds, especially in the United States, and pig meat prices were pushed upwards by smaller supplies of pig meat in the wake of an outbreak of Porcine Epidemic Diarrhoea virus (PEDv) disease in the United States and African swine fever in Belarus and the European Union. High beef and pig meat prices also pulled poultry prices up.

While the beginning of 2014 was characterised by continued high milk prices, they started to decline amidst lower import demand in China, increasing production in major exporters and the import ban in the Russian Federation on dairy products from several major producing countries. Milk production in the European Union increased in anticipation of the abolition of the milk quota in early 2015.

As will be seen throughout this report, declining agricultural prices on international markets tend to increase the level of transfers from consumers to agricultural producers as the transmission of lower prices to consumers is often happening only slowly or not at all, in particular in those countries where policies disconnect domestic prices from world markets.

While low energy prices are welcome for energy importing countries and contribute to stimulating non-energy consumer spending, weak commodity markets are weighing on economic growth of commodity exporters. Growth has already slowed in many oil-exporting countries, including Canada, Brazil and the Russian Federation, and with the broader fall in commodity prices, exporters of metals, coal and some agricultural commodities also face less favourable growth prospects.

Table 1.1. **Key economic indicators**

OECD area, unless noted otherwise

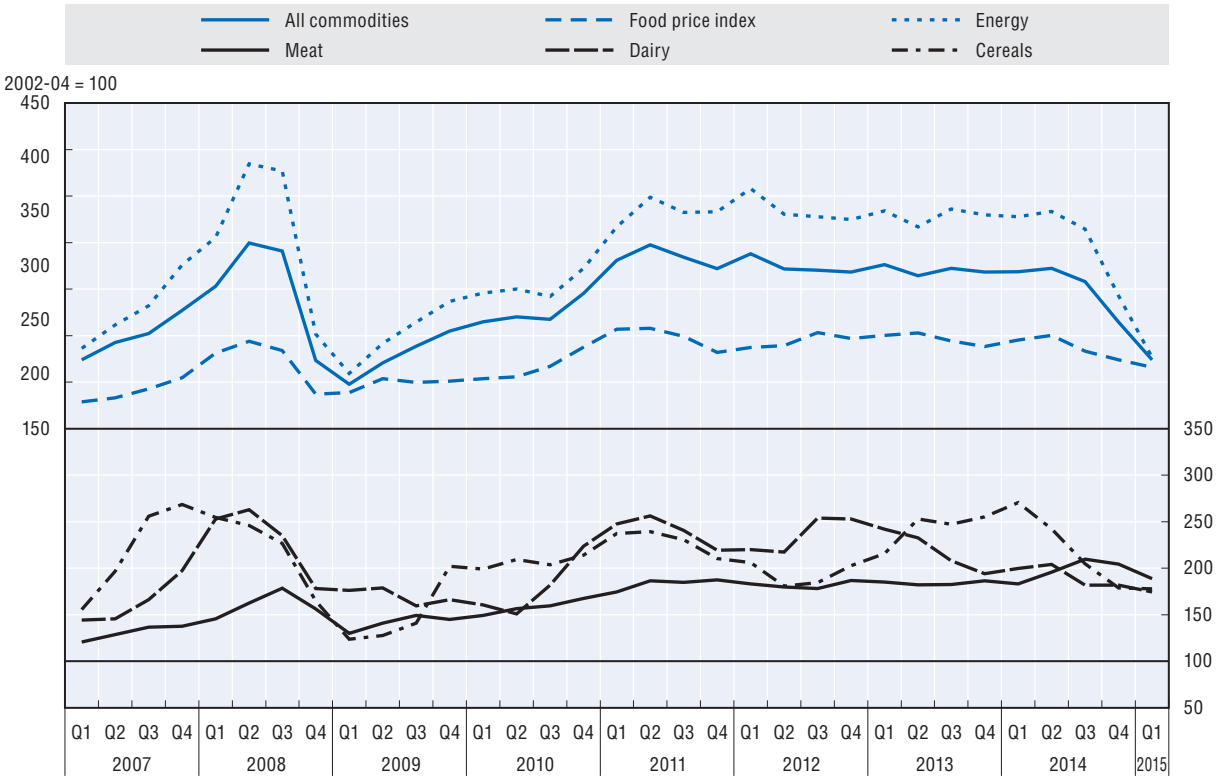
	Average 2002-11	2012	2013	2014
		%		
Real GDP growth[1]				
World[2]	3.8	3.1	3.1	3.3
OECD[2]	1.7	1.3	1.4	1.8
United States	1.7	2.3	2.2	2.2
Euro area	1.1	-0.7	-0.4	0.8
Japan	0.7	1.5	1.5	0.4
Non-OECD[2]	7.1	5.2	5.0	4.8
Brazil	3.8	1.0	2.5	0.3
China	10.6	7.7	7.7	7.3
Colombia	4.6	4.0	4.7	4.9
Indonesia	5.5	6.3	5.8	5.1
Russian Federation	4.8	3.4	1.3	0.3
South Africa	3.6	2.5	1.9	1.3
Output gap[3]	0.3	-2.1	-2.3	-2.3
Unemployment rate[4]	6.9	7.9	7.9	7.3
Inflation[5]	2.1	2.0	1.3	1.6
World real trade growth	5.6	3.0	3.3	3.0

1. Year-on-year increase; last three columns show the increase over a year earlier.
2. Moving nominal GDP weights, using purchasing power parities.
3. Percentage of potential GDP.
4. Percentage of labour force.
5. Private consumption deflator. Year-on-year increase; last 3 columns show the increase over a year earlier.

Source: OECD (2014a), *OECD Economic Outlook*, Vol. 2014/2, OECD Publishing, Paris, *http://dx.doi.org/10.1787/eco_outlook-v2014-2-en* (last updated 25 November 2014).

StatLink http://dx.doi.org/10.1787/888933252556

Figure 1.1. **Commodity world price indices, 2007 to 2014**



Note: The top part of the graph relates to the left scale, while the bottom part of the graph should read from the right scale. Base year is 2002-04.
Source: IMF (2015), *Commodity Market Report*, International Monetary Fund, Washington, DC: for all commodities, food and energy indices *www.imf.org/external/np/res/commod/index.aspx*; FAO (2015), "FAO Food Price Index" dataset, Rome: for meat, dairy and cereal indices. Base year is 2002-04 *www.fao.org/worldfoodsituation/foodpricesindex/en/*.

StatLink http://dx.doi.org/10.1787/888933234257

Main features of agricultural policies

Agricultural policies of the 49 countries covered in this report respond to diverse challenges reflecting the heterogeneity of the roles that agriculture plays in their economies. Lower income countries tend to have a larger share of agriculture in economic activity than high income countries, with a large share of the population deriving its income from farming. Some countries are relatively abundant in natural resources used in agriculture, notably land and water, while in other countries those resources are relatively scarce. Such differences in levels of income and factor endowments influence the size and structure of the agricultural sector and the patterns of specialisation in production and trade, and they influence agricultural policies in a variety of ways.

A broadly shared set of challenges is a common driver of agricultural policies, irrespective of the structural differences across countries: assuring economic viability of the agricultural sector, producing enough and nutritious food to cater to the needs of the population, and improving the environmental sustainability of production. Countries' policy approaches attach different weights to those challenges. Some emphasise the realisation of the economic potential of agriculture as a contributor to jobs and growth, especially in rural areas; others put more weight on dealing with environmental and natural resource constraints within which the sector operates, and yet others emphasise raising the level of domestic food production.

The set of policy instruments used to support these broad objectives has been developing since the OECD started monitoring and evaluating agricultural policies in the mid-1980s. Supporting domestic prices and hence stimulating production and raising farm incomes has been a dominant feature of policy strategies used by many countries, and this continues to be the case for many of the countries covered in this report. Over the years, the policy set has evolved as countries have developed more sophisticated, and less market distorting, ways to address farm income problems, the management of risks, the challenges associated with negative and positive environmental externalities related to agriculture and the long term needs of the sector to innovate in more productive and less environmentally demanding ways. The scope to shift from instruments that effectively transfer resources from consumers to producers through high prices for foodstuffs to instruments that provide direct budgetary transfers to producers is naturally larger for countries that have the fiscal capacity to do so.

Agricultural policy frameworks are well established and stable in most of the countries covered in this report and changes in policies occur only slowly. Several countries have recently renewed their frameworks for agricultural policies for the years ahead, and those adjustments do not generally imply drastic changes from existing policies, but rather adjust the policy set marginally. Those include Canada (2013-18), the European Union (2014-20), Japan (2015-20), Kazakhstan (2013-20), Korea (2013-17), Mexico (2013-18), the Russian Federation (2013-20), Switzerland (2014-17) and the United States (2014-18).

The policies of individual countries and the European Union are documented in detail in the country chapters of this report, and a quantitative assessment based on a set of OECD indicators of support to agriculture is provided in the next section. While many countries have a mix of policy measures and programmes and policy designs differ between countries, the landscape of agricultural policies is roughly characterised by five different approaches:

1. Emphasis on market price support through border measures and domestic market policies. Those policy instruments prevail in China, Colombia, Iceland, Indonesia, Israel, Japan, Kazakhstan, Korea, Norway, the Russian Federation, Switzerland and Turkey.
2. Emphasis on reducing costs of purchased inputs and capital. Subsidies to farm-purchased variable inputs, such as energy and fertilisers have recently become more important in Indonesia and Mexico. Concessional credit schemes to stimulate agricultural investments are a cornerstone of policies in Brazil and Colombia and an important component of the policy set in the Russian Federation and Kazakhstan.
3. Emphasis on policies that mitigate the downside risks to revenue and income. This has recently been reinforced in the renewed policy framework of the United States and is a long-standing feature in Canada.
4. Emphasis on direct payments to farmers. Recent policy changes in the European Union and Switzerland fine tune the support given to farmers through direct payments, including through enhancing provisions to improve the environmental performance of agriculture.
5. Emphasis on enabling business environment for agriculture: Countries that focus their policy instruments on general services with a public good character include Australia, Chile, New Zealand and South Africa.

These broad categories are not mutually exclusive, as most countries combine elements in their policy set. For example, Canada, while emphasising the management of downside risks to farm revenue and income, also has supply management systems in place that lead to high levels of price support in some commodities. Switzerland, while having a very elaborate system of direct payments to farmers also uses import measures to sustain domestic prices. Norway supports market prices for a range of commodities and also uses various forms of direct payments. China, Japan, Korea and the Russian Federation have more recently been introducing direct payments, which complement rather than substitute for market price support schemes. Assisting farmers to cope with risks, especially *ex post* assistance related to offsetting the loss of farm-owned capital though natural disasters or livestock diseases is present in all countries, but only in a few cases are those schemes based on clear definitions of when and to what extent the government provides support.

The specific dualistic nature of the sector in many emerging economies often leads to a twin-pillar policy approach. One set of policies addressing the competitive commercial segment, and another set addressing a struggling small-scale segment. Brazil, Chile and South Africa explicitly differentiate their policies between those segments and typically provide support to small farmers through a variety of measures that reduce costs of capital and other purchased inputs and facilitate better market integration.

Several countries make efforts in agricultural innovation systems to improve productivity and sustainability in the long term. Much of those efforts occur outside the field of more narrowly defined agricultural policies, which would typically cover expenditures on extension and farm advisory services, and is embedded in national innovation strategies. Australia and Canada are amongst the countries that enhance policy effort in that direction, as are the European Union and Brazil.

With agriculture contributing directly and indirectly about a quarter of global greenhouse gas (GHG) emissions, climate change mitigation is increasingly on the agricultural policy agenda. With a few exceptions, actual policy efforts are relatively limited, however. Exceptions include New Zealand where agriculture has started reporting to the national emission trading scheme, and Norway and Japan which are linking support payments to climate-friendly farming practices. Australia includes agriculture in emissions trading and provides funding for mitigation projects through an Emissions Reduction Fund.

Meanwhile, preparations are ongoing for the 21st annual Conference of Parties (COP21) that will take place in Paris in 2015, with the aim to achieve a climate agreement applicable to all countries, and with legal force, to keep global warming below 2°C. This climate agreement is not expected to have direct sector-specific commitments for GHG reductions, but technical discussions related to agriculture are ongoing (see Box 1.1).

After the ministerial meeting of the members of the World Trade Organization in Bali in December 2013 discussions continued, and by late November 2014 WTO members agreed to implement the trade facilitation agreement and other reforms with a commitment to seek a permanent solution in the issue of stockholding programmes for food security purposes. Members also agreed to develop and agree on the future work programme mandated in the Bali decision by July 2015 (see Box 1.2).

Box 1.1. **Agriculture and COP21**

The 21st annual Conference of Parties (COP21) will take place in Paris in 2015 and will aim at achieving a climate agreement applicable to all countries, and with legal force. Beyond discussions on countries' pledges regarding their emission reductions, also financial pledges to the Green Climate Fund (GCF) with a goal to finance adaptation and mitigation efforts in developing countries are expected to be addressed. More countries will be invited to pledge funds to GCF, which will start mobilizing about USD 10 billion. Several developing countries have also already pledged to GCF in addition to financial pledges by *Annex 1 countries*.*

The potential agreement that countries are striving to achieve in Paris will unlikely be prescriptive about how countries approach sectoral emissions reduction or adaptation. Specific challenges related to agriculture are not expected to be discussed at COP21, despite the sector together with forestry and other land use contributing directly and indirectly to around 24% to global GHGs emissions (IPCC, 2014), and facing potentially serious consequences of climate change, but agriculture is included in the land sector negotiation text . Food security may be raised in the discussions and prepare the way for more in depth negotiations after COP21. Some countries have already submitted their Intended Nationally Determined Contributions (INDC) to the future agreement. These may include countries' strategies to reduce emissions from different sectors. The United States and the European Union are amongst those who have submitted their INDCs and they both make brief reference to the land use sector (agriculture, forestry). The European Commission contribution mentions in particular that: [The European Union] "Policy on how to include Land Use, Land Use Change and Forestry into the 2030 greenhouse gas mitigation framework will be established as soon as technical conditions allow and in any case before 2020" (*www4.unfccc.int/submissions/indc/Submission%20Pages/submissions.aspx*).

The Subsidiary Body for Scientific and Technological Advice (SBSTA) under the COP is going to undertake work of relevance to the agricultural sector in the following areas (*http://unfccc.int/land_use_and_climate_change/agriculture/items/8793.php*):

- Development of early warning systems and contingency plans in relation to extreme weather events.
- Assessment of risk and vulnerability of agricultural systems to different climate change scenarios at regional, national and local levels.
- Identification of adaptation measures, taking into account the diversity of agricultural systems.
- Identification and assessment of agricultural practices and technologies to enhance productivity in a sustainable manner, food security and resilience, considering the differences in agro-ecological zones and farming systems, such as different grassland and cropland practices and systems.

* Austria, Belarus, Belgium, Bulgaria, Canada, Croatia, Cyprus,[1, 2] the Czech Republic, Denmark, Estonia, the European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, the Netherlands, New Zealand, Norway, Poland, Portugal, Romania, the Russian Federation, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, Ukraine, and the United States.

1. Note by Turkey:
The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".
2. Note by all the European Union member states of the OECD and the European Union:
The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Box 1.2. **Developments post the 2013 Bali WTO Ministerial**

In December 2013, an agreement was reached at the 9th WTO Ministerial Meeting in Bali on a package of reforms comprising: trade facilitation, agriculture and food security, and development issues. This package, while covering a much smaller range of issues than the original Doha agenda, represented a partial step towards completing the remaining negotiating issues of the Doha round.

Briefly, the main provisions under the Bali agreement as they related to agriculture and food security were:

- *General services:* a range of programmes related to land reform, drought and flood management and rural employment programmes were explicitly considered as falling within the range of general services permitted in Annex 2, paragraph 2 of the Uruguay Round Agreement on Agriculture (URAA).
- *Public stockholding for food security purposes:* responding to proposals from the G33 an "interim solution" in the form of a peace clause exempting existing public stockholding for food security purposes of food acquired at administered prices from challenge under the terms of Annex 2 of the URAA provided certain conditions are met (including a safeguard requirement that the programmes do not distort trade and do not adversely affect the food security of other members). It was envisaged that a "permanent solution" would later be found.
- *Tariff rate quota administration:* included strengthened provisions concerning publication, notifications and processing of applications, but most significantly, introduced measures to be taken when there is systematic under fill of Tariff-Rate Quotas (TRQs) that cannot be explained by normal commercial conditions. The trigger definition of systematic under fill is less than 65% for two consecutive years. The intent is to ensure an effective re-allocation of quota in these cases.
- *Export competition:* re-affirmed the Ministerial commitment to elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect. Ministers committed to enhanced transparency and improved monitoring in relation to all forms of export subsidies and all export measures with equivalent effect.
- *Cotton decision:* Ministers undertook to enhance transparency and monitoring in relation to the trade-related aspects of cotton and to that end to hold a dedicated discussion on a biannual basis in the context of the Committee on Agriculture in Special Session to examine relevant trade-related developments across the three pillars of Market Access, Domestic Support and Export Competition.
- *Trade facilitation:* an agreement was reached incorporating reforms of border procedures to reduce costs, remove bottlenecks and speed up transit times will apply to all goods, including food and agriculture products. The agreement was a mix of binding commitments and "best endeavours" language.

However, uncertainty over the interim solution with respect to public stocking for food security purposed delayed the implementation of the trade facilitation component of the Bali package and stalled progress in negotiations on other issues. Issues related to the uncertainty over what would happen if no permanent solution was agreed by the 2017 deadline, or if there were delays in reaching agreement.

In late November 2014, the impasse surrounding public stockholdings that delayed the final agreement of the Bali package of reforms was resolved. WTO members agreed to implement the trade facilitation and other reforms with a commitment to honouring the peace clause on stockholding programmes for food security purposes. Further, a commitment was made by members to develop and agree on the future work programme mandated in the Bali decision by July 2015. Members also agreed to separately pursue a solution on public stockholding, with a target date for agreement of December 2015. However, it was agreed that if no permanent solution was found, this should not delay broader agreement in the Doha round.

Source: World Trade Organization (2013), Bali Ministerial Declaration and decisions, Geneva, *http://wto.org/english/thewto_e/minist_e/mc9_e/balipackage_e.htm*.

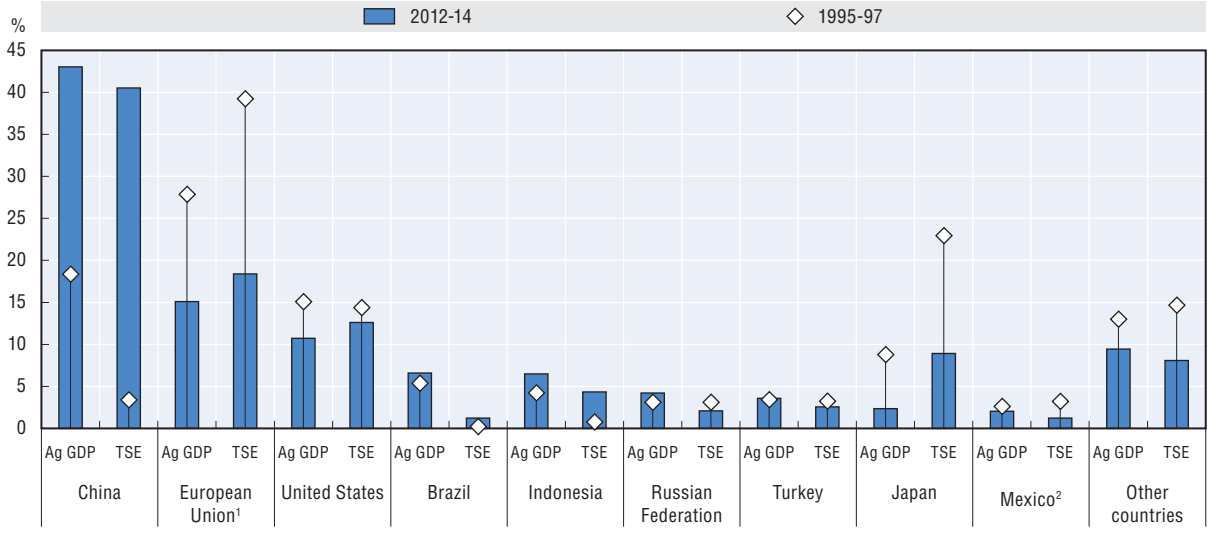
Developments in agricultural support

This section provides a quantitative assessment of policy support to agriculture, based on a set of OECD indicators. These indicators express the diversity of support measures applied in different countries in a few simple numbers that are comparable across countries and over time, with different indicators focusing on different dimensions of support policies. The "Reader's guide" provides definitions of the indicators used in the report, including the recently revised methodology for estimating general services transfers applied for the first time for the emerging economies covered in this report.

Countries' importance in global agriculture has changed since the mid-1990s – and so has their role in supporting agriculture

Countries covered in this report account for about 88% of global value added in agriculture (agriculture GDP). But their relative positions have undergone important changes over time, as can be seen from their shares in aggregate agricultural GDP (Figure 1.2). The European Union, China, the United States and Japan were the key agricultural producers in the mid-1990s, accounting together for more than three-quarters of agricultural GDP among countries covered in this report and contributed respectively, 28%, 18%, 15% and 9% to the total. In recent years, China accounted for more than 43% of the total agricultural GDP of the countries covered, with the European Union, the United States and Japan contributing smaller, but still significant shares (15%, 11% and 2% respectively). This impressive increase in the weight of China is not limited to agricultural production and value added: in parallel China has significantly increased its policy support to the sector.

Figure 1.2. **Country shares in total agricultural GDP and in total TSE, 1995-97 and 2012-14**



Note: Because of data availability, countries are ranked according to their shares in total agricultural GDP in 2011-13. TSE corresponds to 2012-14. Agricultural GDP is measured as agricultural value added.

1. EU15 for 1995-97; EU27 for 2012-13 and EU28 from 2014 when available.
2. For Mexico, 1995-97 is replaced by 1991-93.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*; World Development Indicators (2015).

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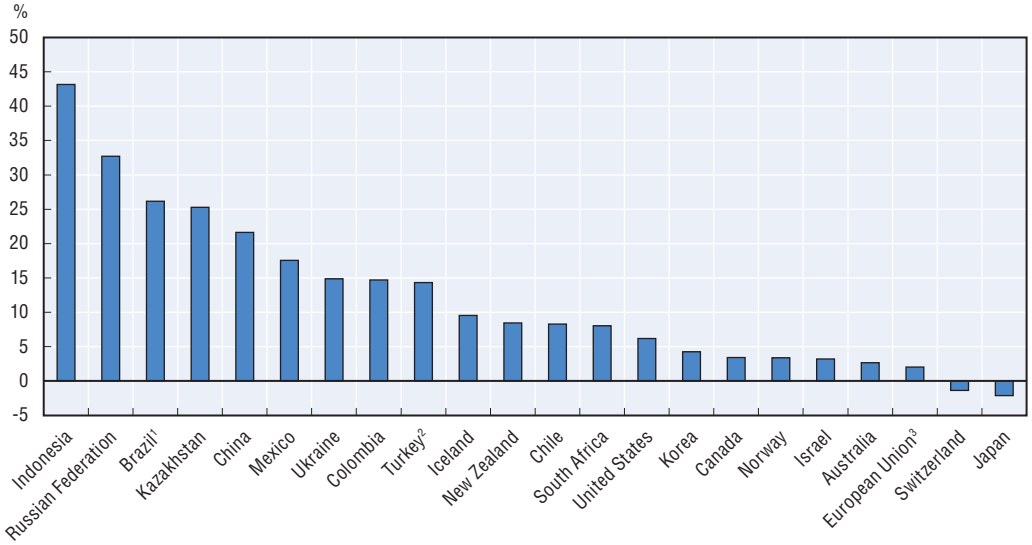
The development of countries' relative weight in supporting the farm sector is illustrated by the broadest indicator of support, the Total Support Estimate (TSE) in Figure 1.2. The TSE combines transfers to agricultural producers individually (measured by the Producer Support Estimate, the PSE), policy expenditures that have primary agriculture as the main beneficiary, but that do not go to individual farmers (measured by the General Services Support Estimate, the GSSE) and budgetary support to consumers of agricultural commodities (the Consumer Support Estimate, the CSE net of the market price element that is already accounted for in the PSE). The European Union, Japan and the United States accounted for most of the transfers related to agricultural policy in the mid-1990s. Their shares in the total TSE for all countries together were 40%, 23% and 14% respectively, while China was relatively small in terms of providing policy support to its farm sector. In the most recent period China's share has risen to 41%, while the European Union, the United States and Japan accounted for smaller shares, with 15%, 13% and 9%, respectively.

Total monetary transfers to the agricultural sector were stable in some countries, but increased significantly in others

Monetary transfers associated with support to agricultural sector, measured by the nominal TSE, have been relatively stable over time in OECD countries, except for Turkey and Mexico (Figure 1.3). In most of the emerging economies, however, the monetary value of total agricultural support has been increasing over time. The increase was particularly rapid in Indonesia, the Russian Federation, Brazil, Kazakhstan and China where the average annual real growth rates of the TSE over the 1995-97 to 2012-14 period were 43%, 33%, 26%, 25% and 22%, respectively.

Figure 1.3. **Evolution of Total Support Estimate, 1995-97 to 2012-14**

Average annual real growth rate



1. For Brazil 1995-97 is replaced by 1996-98.
2. For Turkey 1995-97 is replaced by 2002-04.
3. EU15 for 1995-97; EU27 for 2012-13; and EU28 from 2014 when available.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

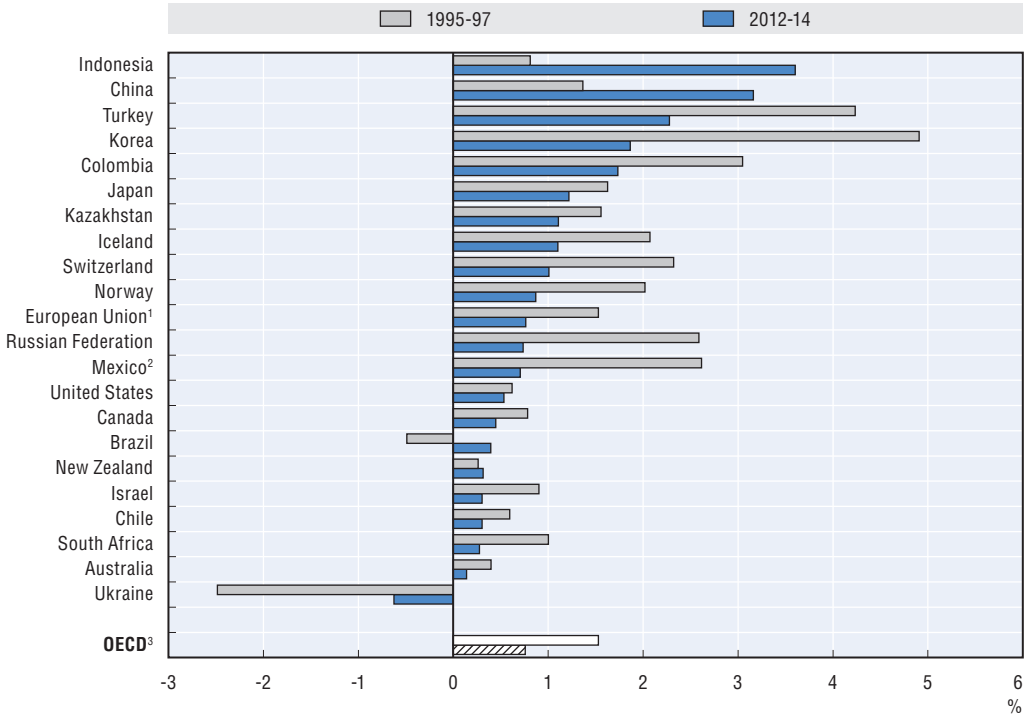
StatLink http://dx.doi.org/10.1787/888933234270

However the relative cost of agricultural support for the economies has decreased significantly over time in most of the countries

The TSE expressed as a percentage of GDP (%TSE) measures the overall burden of the support to agriculture on the economy. In most countries covered in this report %TSE has decreased, but there are some striking exceptions (Figure 1.4). In Indonesia, the %TSE has increased strongly between 1995-97 and 2012-14 from 0.8% of GDP to 3.6% of GDP placing Indonesia at the top in terms of transfer of resources to agriculture relative to the size of the economy. A similarly significant increase occurred in China, where the %TSE rose from 1.4% of GDP in 1995-97 to 3.2% of GDP in 2012-14. These increases occurred despite the rapid expansion of the two economies during that period and against a shrinking share of the agricultural sector in the economy, to a lesser extent in Indonesia than in China. Brazil, which used to tax its agriculture sector in the mid-90s, now provides positive support to agriculture of around 0.4% of its GDP. In other emerging economies the %TSE fell to 1.7% in Colombia, 1.1% in Kazakhstan, 0.7% in the Russian Federation and 0.3% in South Africa in the most recent period.

Figure 1.4. **Total Support Estimate by country, 1995-97 and 2012-14**

Percentage of GDP



Note: Countries are ranked according to the TSE levels in 2012-14.

1. EU15 for 1995-97; EU27 for 2012-13; and EU28 from 2014 when available.
2. For Mexico, 1995-97 is replaced by 1991-93.
3. The OECD total does not include the non-OECD EU member states. The Czech Republic, Estonia, Hungary, Poland, the Slovak Republic and Slovenia are included in the OECD total for both periods and in the EU from 2004.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234285

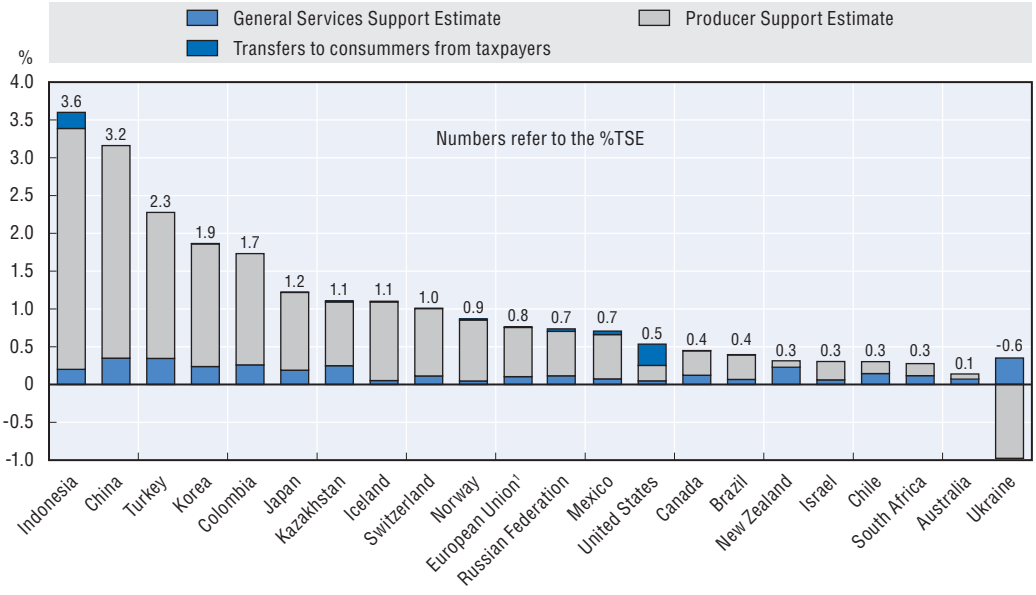
In OECD countries the relative importance of total support to agriculture halved from 1.5% of OECD aggregate GDP in 1995-97 to less than 0.8% in 2012-14. The most significant reductions occurred in countries where historically the relative cost of the overall agricultural support was the highest, including Korea, Mexico and Switzerland. Nevertheless, the %TSE was still relatively high in several OECD countries: in Turkey, Korea, Japan, Iceland and Switzerland the TSE exceeds 1% of GDP. For Turkey, this mostly reflects the relatively large share that agriculture occupies in the overall economy, while for remaining countries where agriculture represents a far smaller share, it is mostly due to high support.

The total agricultural support is dominated by support to agricultural producers, while expenditures on key general services to the sector are relatively small

Figure 1.5 decomposes the aggregate Total Support Estimate into its main elements. In most of the countries covered, the PSE predominates, accounting, on average, for more than 80% of the total support. Exceptions are the United States, where a large share of the TSE is devoted to supporting consumers and New Zealand, where expenditures on general services constitute most of the support to agriculture. GSSE expenditures are also relatively important in Australia, Chile and South Africa, accounting for about half of the TSE.

Figure 1.5. **Composition of Total Support Estimate by country, 2012-14**

Percentage of GDP



1. EU27 for 2012-13 and EU28 from 2014 when available.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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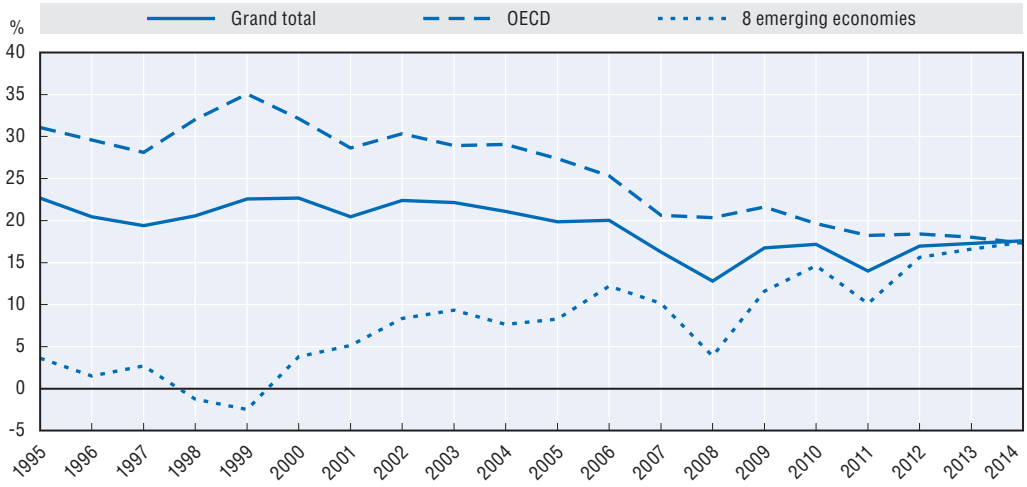
Average support to agricultural producers in OECD countries and emerging economies is converging

In the countries covered in this report, about one-sixth of gross farm receipts on average is due to public policies that support farmers (Figure 1.6). The percentage Producer Support Estimate (%PSE) was around 17% in 2012-14, edging up slightly in the most recent

Figure 1.6. **Evolution of Producer Support Estimate, 1995 to 2014**

Percentage of gross farm receipts



1. The OECD total does not include the non-OECD EU member states. The Czech Republic, Estonia, Hungary, Poland, the Slovak Republic and Slovenia are included in the OECD total for all years and in the EU from 2004.
2. The emerging economies are Brazil, China, Colombia, Indonesia, Kazakhstan, the Russian Federation, South Africa and Ukraine.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234301

year and reaching USD 601 billion (EUR 450 billion) in value terms. This year-on-year increase is mostly related to developments in world prices for agricultural commodities, increased output of supported commodities and exchange rate movements, rather than explicit policy changes.

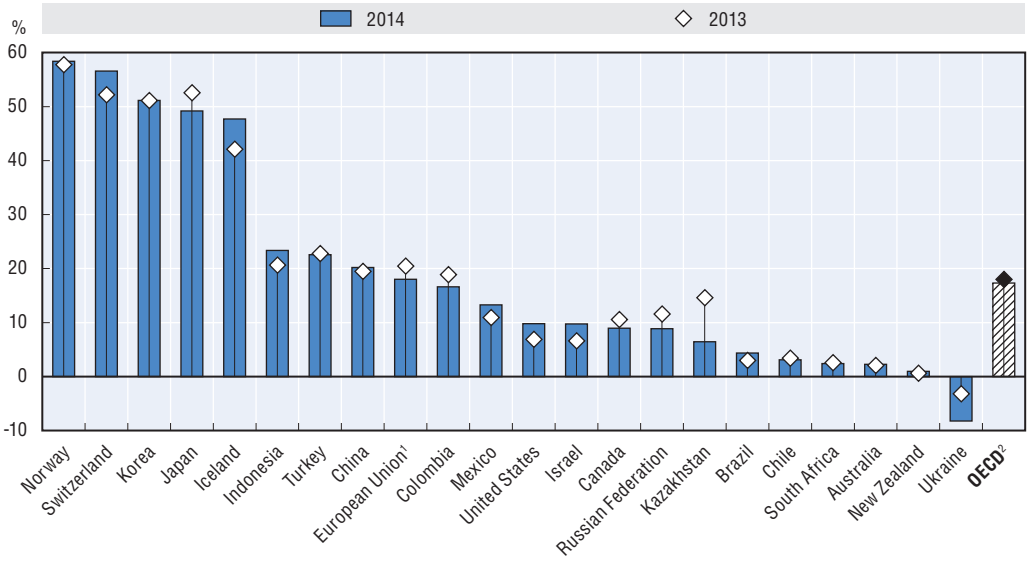
Over the longer term, the level of support has, on average, been following a downward trend: the %PSE for all countries has decreased from 21% in 1995-97 to 17% in 2012-14. However, these average results hide an important difference between OECD countries and emerging economies: while in the former support levels have been, on average, declining, the latter, on average, have passed from taxing their agriculture to providing significant levels of support that in most recent years have begun to converge to the levels of support provided by the OECD countries. This trend was mostly driven by increasing support in Indonesia and China, but also in Kazakhstan.

However short- and long-term changes across individual countries remain very uneven

Changes between 2013 and 2014 were very uneven across individual countries, with increases in some, while decreasing in others (Figure 1.7). In particular, producer support has increased significantly in Iceland and Switzerland (by 6 and 4 percentage points respectively), but also in Israel, Indonesia and the United States (by 3 percentage points each), and to a lesser extent in Mexico, Brazil, China and Norway (by 2 percentage points in Mexico and 1 percentage point in each of the other three). On the other hand, the producer support decreased significantly in Kazakhstan (8 percentage points) and to a lesser extent in Japan (3 percentage points), the Russian Federation (3 percentage points), the European Union (2 percentage points), Colombia (2 percentage points) and Canada

Figure 1.7. **Producer Support Estimate by country, 2013 and 2014**

Percentage of gross farm receipts



1. EU27 for 2013 and EU28 from 2014 when available.
2. The OECD total does not include the non-OECD EU member states.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234314

(2 percentage points). In Ukraine, taxation of farmers has further increased reflecting economic and political instability. Support to producers in other countries stayed almost the same.

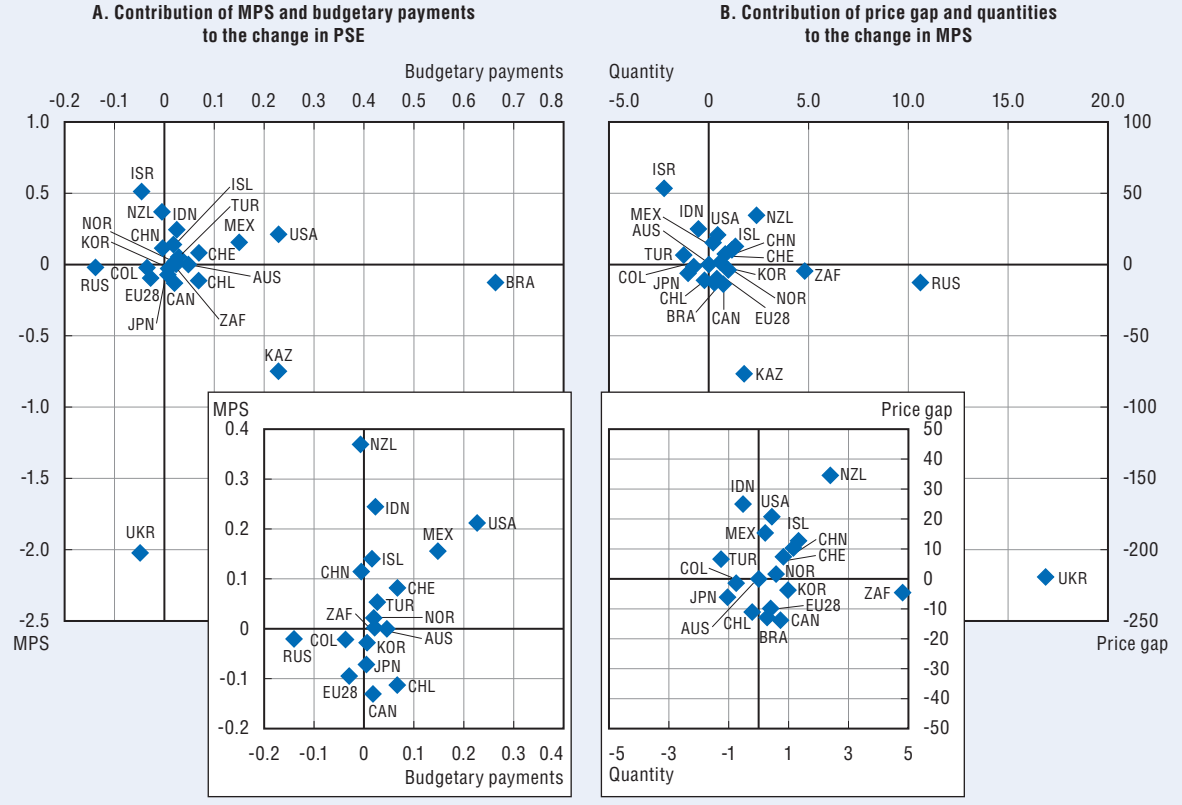
Box 1.3 demonstrates that these changes were driven to a large extent by price developments on international markets and exchange rate movements, but also by changes in budgetary payments in some countries, particularly in Brazil, the United States, Kazakhstan and Mexico.

As countries get richer they have more policy options at hand. Some may choose to provide more support to producers or maintain it at high levels, while others may choose to reduce it and invest instead in the enabling environment for agriculture to develop into a modern competitive sector. Figure 1.9 plots the relationship between countries' income levels, measured by per capita GDP at constant prices, and the level of producer support, measured by the Nominal Assistance Coefficient (NAC), which is a ratio that indicates by how much total gross farm receipts are higher than if they were generated at world market prices and without budgetary support. The data pools all observations for all countries and years between 1986 and 2013. At lower levels of economic development, support to agriculture is rather small and some countries even tax the sector by transferring resources into other sectors of the economy. This is shown by the data points just above or below the value of 1, which indicates no support to agricultural producers. With increased income levels, on the other hand, data points become very scattered: some still remaining at low levels, while others reaching very high levels, indicating a wide spread of policy approaches. Some of the extreme points illustrate countries that historically used to provide large support, but have reduced it over time. In some countries this was dictated by systemic changes rather than changes in agricultural policy. Such was the case, for

Box 1.3. **What drove changes in the monetary value of producer support in 2014?**

Figure 1.8 presents contributions of various factors to the annual changes in the monetary value of support. Panel A maps the contributions of market price support (vertical axis) and budgetary payments (horizontal axis) to the total PSE. Two diagonal lines are the locus where these contributions are equal. The farther the country points are from the horizontal axis, the higher the contribution of changes in market price support to the change in PSE, while the farther the country points are from the vertical axis, the higher the contribution of budgetary payments.

Figure 1.8. **Contribution of various factors to the change in the Producer Support Estimate in 2014**



Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234324

In 2014 the changes in monetary support across countries covered in the report were driven both by changes in market price support and changes in budgetary payments, though to a different extent for different countries. Both factors contributed to increase of support in the United States, Mexico, Switzerland, and to a lesser extent in Turkey and Norway. Kazakhstan, Chile and Canada have raised their budgetary support, while lower market price support lead to an overall decrease in support to agricultural producers. The European Union and Colombia have experienced a modest decrease in both market price support and budgetary payments. Support in the Russian Federation has decreased mainly due to lower budgetary payments, while in Australia more budgetary support lead to a small increase in overall support. In New Zealand,* Indonesia, Iceland and China the overall support increased mainly due to higher market price support, while this contributed to marginally lower support in Japan and Korea and to a much larger decrease in support in Ukraine.

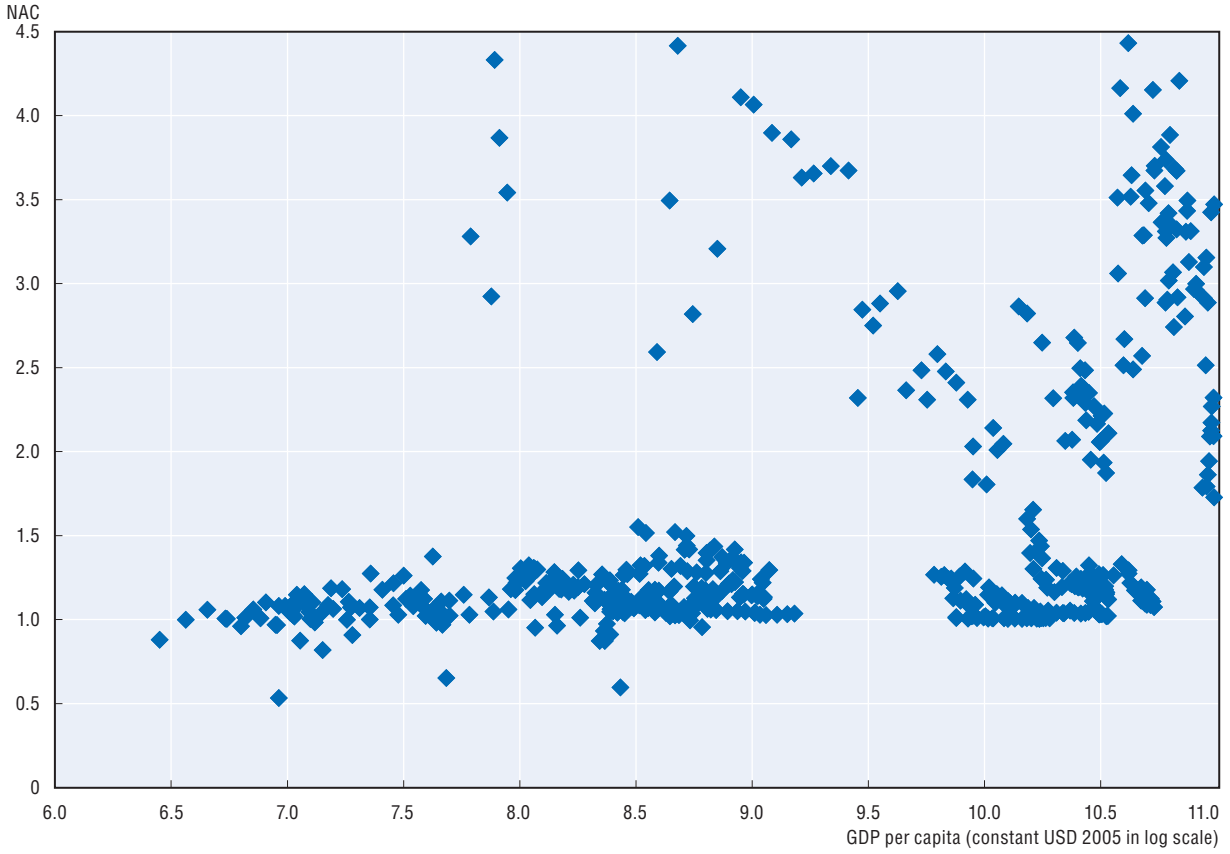
Box 1.3. **What drove changes in the monetary value of producer support in 2014?** *(cont.)*

Panel B further disaggregates changes in the market price support by its two components – the gap between domestic and border prices (vertical axis) and quantities of production which receive this support (horizontal axis). Country points are clustered around the vertical axis, indicating that the variations in market price support were predominantly driven by the changes in the price gaps and to a smaller degree by changes in quantities. The effect of larger price gaps on support was particularly important in New Zealand, Indonesia, the United States, Mexico and Iceland. This was mostly driven by the decrease of world prices, particularly for dairy. Ukraine has experienced an enormous decrease in the price gap leading to even more negative support to producers. This was only partially compensated by smaller quantities of products receiving negative support. More narrow price gaps have contributed to a decrease in support in Brazil, Canada, Chile and the European Union. A higher quantity produced also contributed to the increase, or the dampened reduction of support to producers, in South Africa and New Zealand, and to a lesser extent in Iceland, China and Korea.

* In New Zealand, price support is measured only for poultry and eggs and is due to non-tariff protection applied on SPS grounds.

Figure 1.9. **Evolution of producer support at different stages of economic development, 1986 to 2013**

Nominal Assistance Coefficient



Note: Nominal Assistance Coefficient (NAC): the ratio of gross farm receipts inclusive of market price support and budgetary payments over gross farm receipts without such support. Each data point corresponds to a NAC observed for a country in any given year between 1986 and 2013.

Source: World Development Indicators (2015) and OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

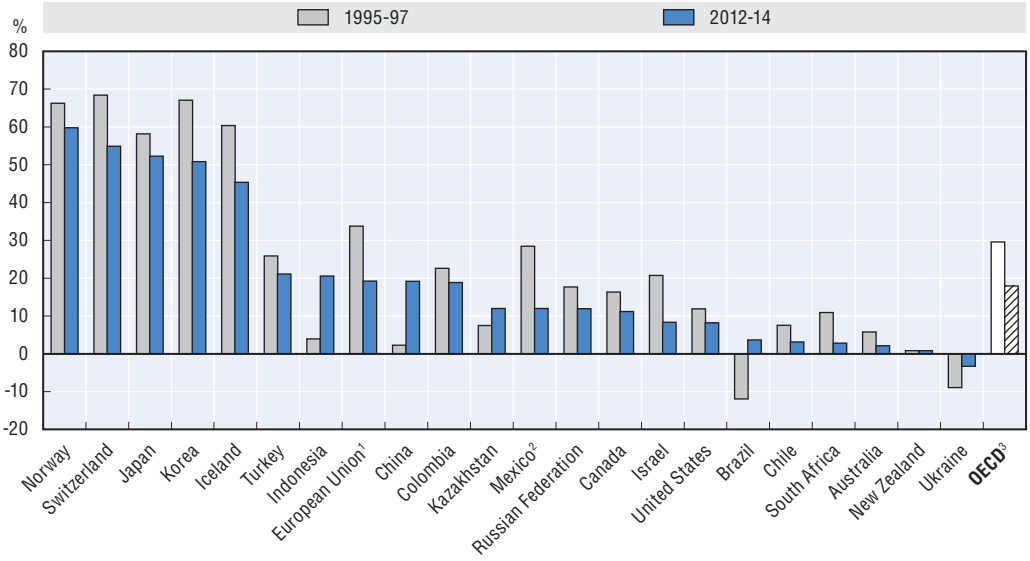
StatLink http://dx.doi.org/10.1787/888933234332

example, for Ukraine and the Russian Federation, where the collapse of the Soviet Union and the associated rapid economic adjustments led to a sharp decrease in the overall support levels. In Korea, too, there has been a significant decrease in support, but this was mainly driven by increasing international prices that led to fall of the market price support as domestic prices remained high. Other countries, such as Switzerland, have reformed their agricultural policies, which gradually reduced the large gap between domestic and international prices and moved the NAC from about 4 to about 2.

The long-run changes in levels of producer support are even more visible in Figure 1.10. In the long run, the support declined in most countries, although the observed reduction was more pronounced in some countries than in others. In Norway, Switzerland, Japan, Korea and Iceland over 40% of gross farm receipts are still derived from agricultural support, while Australia, New Zealand, South Africa and Chile today have support levels lower than 3% of their gross farm receipts. Indonesia, China, Kazakhstan, and Brazil have seen their support levels increase over time and, in the case of Indonesia and China, exceeding the average for the OECD countries. Ukraine is the only country that still taxes its agricultural sector, though the taxation level decreased to about 3% of gross farm receipts.

Figure 1.10. **Producer Support Estimate by country, 1995-97 and 2012-14**

Percentage of gross farm receipts



Note: Countries are ranked according to 2012-14 levels.

1. EU15 for 1995-97; EU27 for 2012-13; and EU28 from 2014 when available.
2. For Mexico, 1995-97 is replaced by 1991-93.
3. The OECD total does not include the non-OECD EU member states. The Czech Republic, Estonia, Hungary, Poland, the Slovak Republic and Slovenia are included in the OECD total for all years and in the EU from 2004.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234348

Differences in policy approaches are also reflected in policy instruments

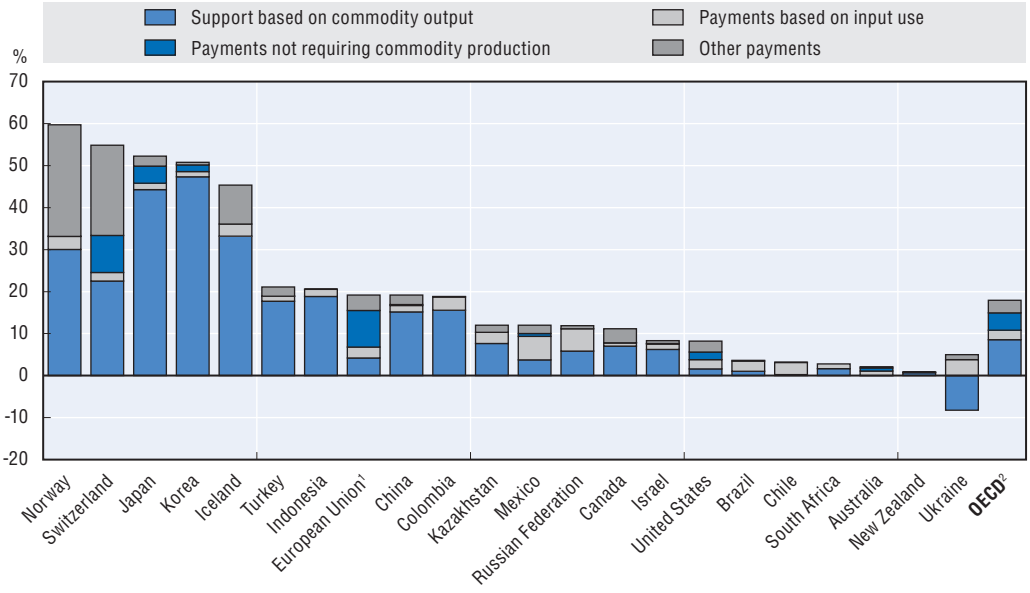
The composition of support is arguably as important as the total level. Assistance may be provided by supporting market prices, or by giving a subsidy to reduce the cost of inputs; support may take the form of a payment per hectare, per animal, or as a top-up to farmers' income. Support may be given under the condition that farmers are actually engaged in

production, or without such a condition. Payments can be conditional on the respect of specific production practices. These distinctions are important as support delivered in these various ways has different impacts on agricultural production, trade and incomes. Also, some forms of support are more suitable for targeting to specific objectives and beneficiaries. For example, support based on farming area, animals kept, or farm income can be targeted to specific farms or locations, and the amount of outlay can be tailored to the problem at hand. In contrast, blanket price support cannot discriminate between beneficiaries.

Figure 1.11 shows that countries differ greatly in the way they provide support to their producers. Japan, Korea, Indonesia, Israel, Turkey, Colombia, China, Kazakhstan and Iceland are among countries that provide most of their support in the form of influencing market prices and through output-linked payments, accounting for over 70% of the total PSE in 2012-14. These transfers are also important in the composition of support in Switzerland, the Russian Federation, Norway and Canada where they account for between a third and two-thirds of all the producer support (41%, 49%, 50% and 63% respectively). In Ukraine, the market price support is negative indicating that producers receive prices below those prevailing on international markets and are *de facto* taxed. Support to input use constitutes an important share of support measures in Chile (over 90% of total PSE), Brazil (66%) and Mexico (47%) and to a lesser extent in the Russian Federation and Ukraine.

Figure 1.11. **Composition of Producer Support Estimate by country, 2012-14**

Percentage of gross farm receipts



1. EU27 for 2012-13; and EU28 from 2014 when available.
2. The OECD total does not include the non-OECD EU member states.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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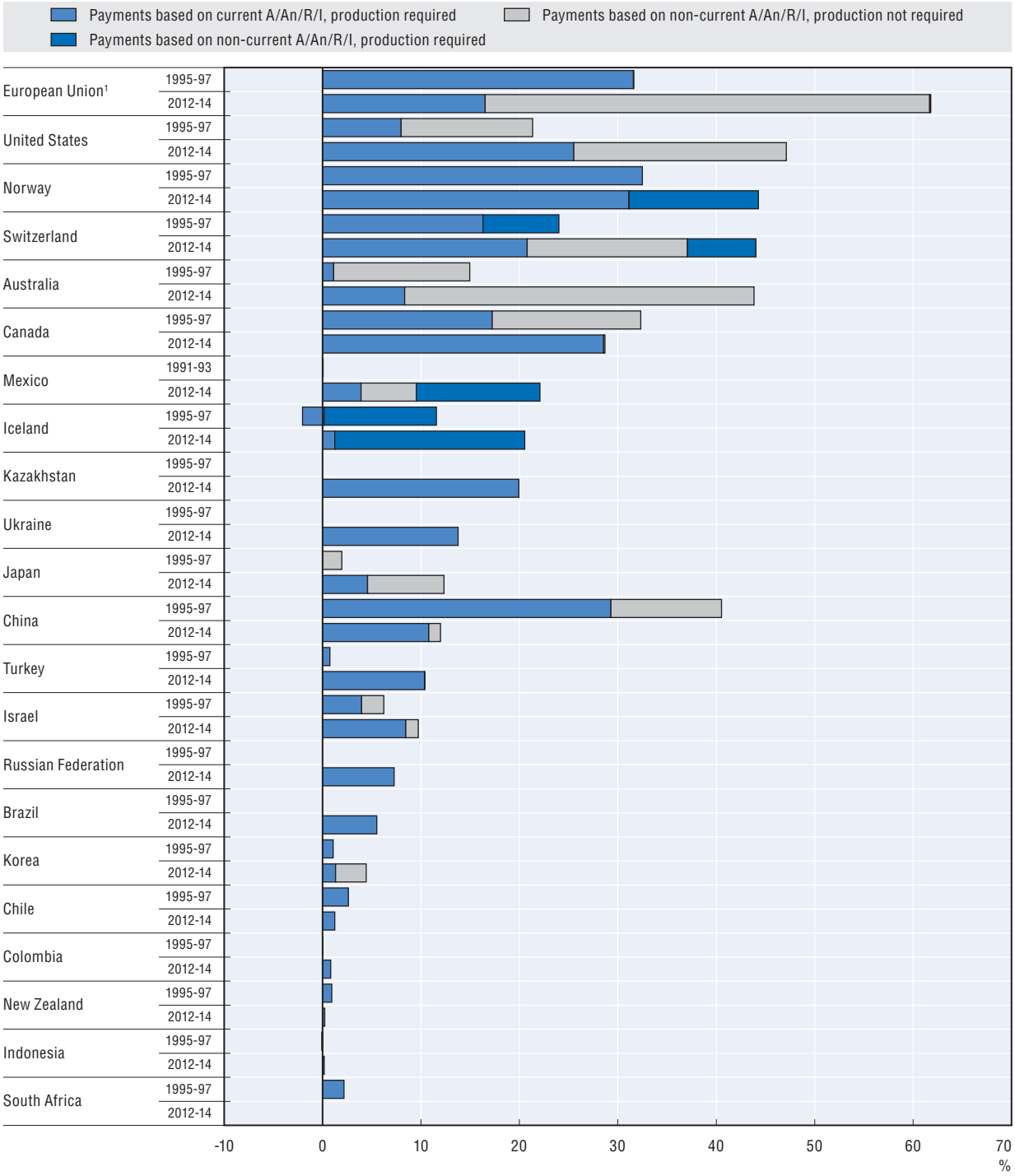
Other countries covered in this report provide most of the support via tax-financed payments based on area, animal numbers, farm receipts or farm income. The share of such payments in the overall PSE has increased significantly since 1995-97 in a number of countries (Figure 1.12). The increase was the most significant for the European Union (from 32% of PSE in 1995-97 to more than 60% of PSE in 2012-14), the United States

Figure 1.12. **Composition of payments based on area, animal numbers, receipts and income by country, 1995-97 and 2012-14**

Percentage of PSE



Note: Countries are ranked according to 2012-14 levels.

1. EU15 for 1995-97; EU27 for 2012-13; and EU28 from 2014 when available.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

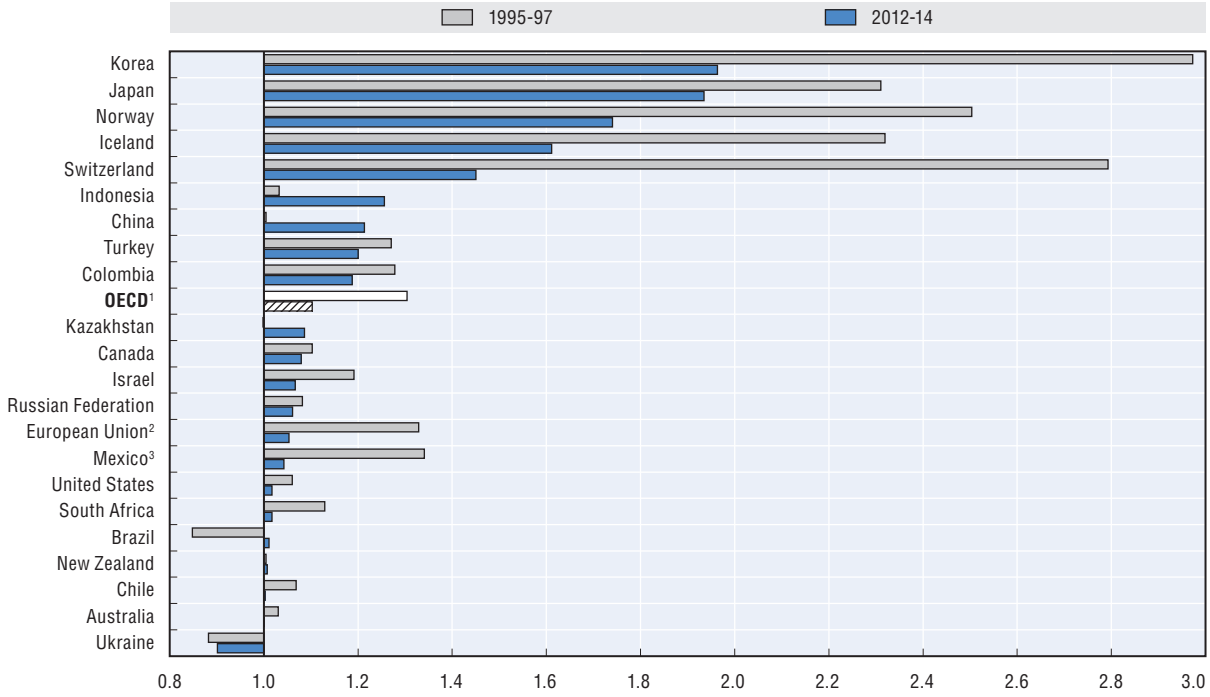
StatLink http://dx.doi.org/10.1787/888933234366

(from 21% to 47%), Switzerland (from 24% to 44%) and Australia (from 15% to 44%), though the latter is very small in the value terms. Kazakhstan and Mexico have also seen a big increase, but these payments account for less than a quarter of the overall PSE, and the Russian Federation introduced a new area payment in 2013. Further, some important programmes such as Single Payment Scheme in the European Union, Direct Payments in the United States, which are now phased out, area payments in Switzerland and exceptional circumstance payments and environmental payments in Australia do not require farmers to produce in order to obtain the support.

Most countries are moving towards less distortive policy mix by reducing agricultural protection and providing less support tied to production of specific commodities

The Nominal Protection Coefficient demonstrates how much output prices received by farmers differ from those prevailing in international markets. Figure 1.13 shows that only prices received by producers in Australia, Chile, New Zealand and Brazil are closely aligned with international levels. In all other countries prices received by producers are on average higher than border prices, except for Ukraine where producer prices were lower than border prices. In a number of countries the divergence between domestic and border prices has fallen sharply, particularly those countries that have had historically high levels of price support including Korea, Japan, Norway, Iceland and Switzerland. Despite these reductions,

Figure 1.13. **Producer Nominal Protection Coefficient by country, 1995-97 and 2012-14**



Notes: Countries are ranked according to 2012-14 levels.

1. The OECD total does not include the non-OECD EU member states. The Czech Republic, Estonia, Hungary, Poland, the Slovak Republic and Slovenia are included in the OECD total for all years and in the EU from 2004.
2. EU15 for 1995-97; EU27 for 2012-13; and EU28 from 2014 when available.
3. For Mexico, 1995-97 is replaced by 1991-93.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

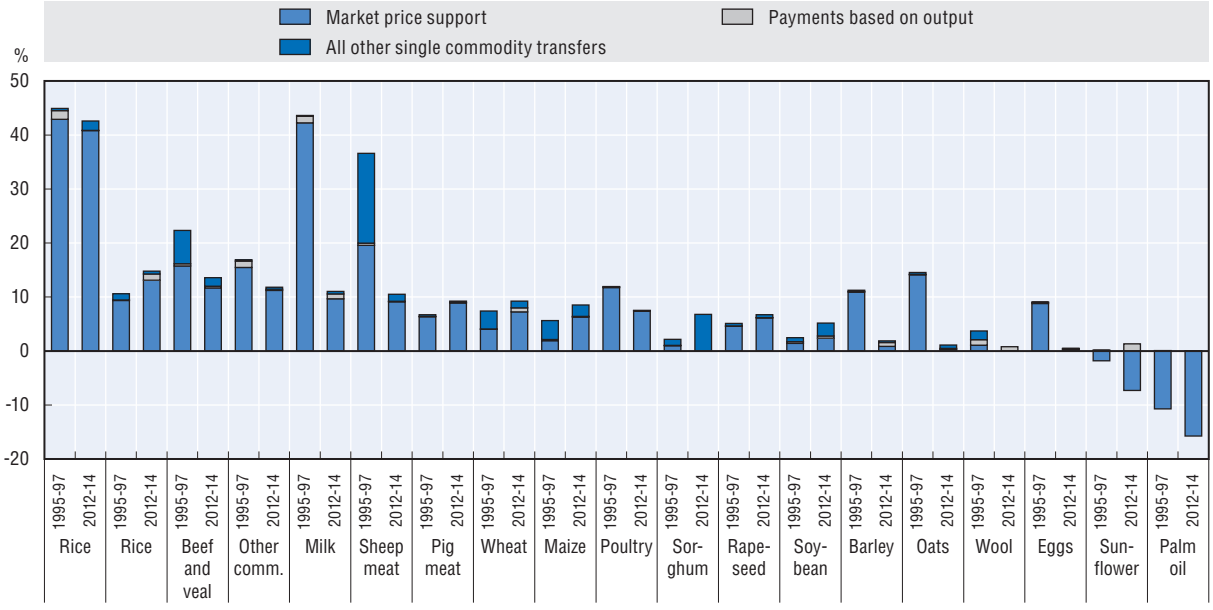
StatLink *http://dx.doi.org/10.1787/888933234376*

positive gaps between domestic and international prices remain significant in these countries, particularly in Korea and Japan, where domestic prices are almost twice the international level. Significant progress has also been made in Mexico, the European Union, South Africa, Israel and the United States. On the contrary, domestic prices in China and Indonesia that were close to international levels in 1995-97 have significantly increased in the most recent period, and are now more than 20% above the international level.

As most countries shift away from support based on commodity output towards other types of transfers that are to different degrees delinked from commodity production, farmers have more flexibility in their production choices, thus strengthening the role of market signals in guiding their decisions. As a consequence, support tied to individual commodities as measured by the producer Single Commodity Transfers (SCT) has, on average, decreased over time from 15% to 11% of gross farm receipts (for the OECD total it was 24% and 11% respectively). Individual commodity SCTs have generally fallen, though for several commodities an increase can be observed. This is particularly the case for soybean and sorghum, where the average SCT more than doubled mainly thanks to a significant rise in China (soybeans), the United States (both soybeans and sorghum) and Mexico (sorghum). Export taxation was a driver of the negative transfers to sunflower seeds (taxed in the Russian Federation and Ukraine) and palm oil (taxed in Indonesia). Those were the only two commodities that were taxed, and the taxation has increased over time. In value terms, the average commodity SCTs were all below 20% of gross commodity receipts except for rice, for which support still accounts for two-thirds of the gross receipts (Figure 1.14). Reductions of market price support and payments per tonne of output were the most important drivers of lower SCTs, but for rice those policy measures show remarkable persistence.

Figure 1.14. **Single Commodity Transfers, all countries, 1995-97 and 2012-14**

Percentage of gross farm receipts for each commodity



Note: Commodities are ranked according to % SCT levels in 2012-14.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

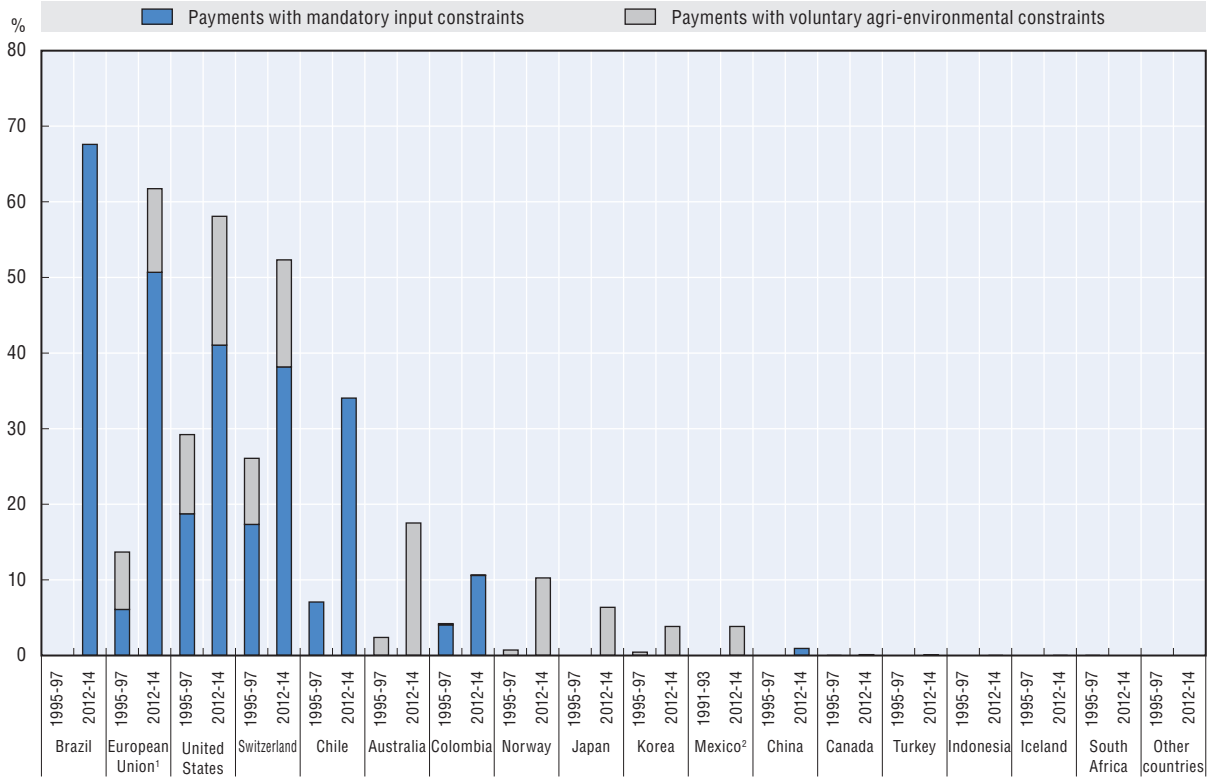
StatLink http://dx.doi.org/10.1787/888933234382

Countries are also making payments conditional on specific production practices

Payments are increasingly used to stimulate specific production practices considered to improve environmental performance or the treatment of animals. There are three main approaches: the first is to make receipt of direct payments fully or partially conditional on the adoption of certain production practices. Chile, the European Union, Switzerland and the United States are increasingly using such "cross-compliance" conditions, which can cover up to half of the total support to farmers, see Figure 1.15. Second, support to farmers provided through subsidies to inputs can be subjected to constraints that limit the total amount used or the type of input purchased with the subsidy, for example seeds, fertilisers or pesticides. While subsidies to variable inputs have been playing a diminishing role in OECD countries some support to fixed capital formation is tied to investments in environmental and animal welfare friendly production facilities. A form of conditional input subsidies is also provided in Brazil that has recently made all its credit and insurance programmes subject to complying with an elaborate zoning scheme that determines the best time of planting based on a set of criteria related to weather, soil and the crop cycle. Third, payments can be made available to farmers who opt-in to specific agri-environmental programmes, and are hence subject to voluntary environmental constraints. In many cases those three approaches co-exist.

Figure 1.15. **Support conditional on the adoption of specific production practices, 1995-97 and 2012-14**

Percentage of total support to producers



Note: Countries are ranked according to 2012-14 levels.

1. EU15 for 1995-97; EU27 for 2012-13 and EU28 from 2014 when available.
2. For Mexico, 1995-97 is replaced by 1991-93.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234391

Limited resources are devoted to general services for the sector and priority areas differ

In addition to support provided to producers individually (the PSE), the agricultural sector is assisted through public financing of services to the sector (the GSSE). The methodology used to measure the GSSE has been revised to clarify the definition of the indicator and its components and applied for the first time to OECD countries in the 2014 edition of the report. The 2015 edition applies the new methodology for the first time to the emerging economies covered in the report. Box 1.4 summarises the main characteristics of the new methodology, while Annex 1.A1 describes in more detail the various implications of the more restricted definition and data improvements on estimates of the level and composition of GSSE by country.

As discussed above, GSSE accounts for a much smaller share of total support to agriculture than the PSE, except for New Zealand, Australia, Chile and South Africa where a large proportion of support is devoted to the provision of services and infrastructure that are crucial for longer term sector development. Priorities attached to these expenditures differ (Figure 1.16). In 2012-14 the agriculture knowledge and innovation system was the most supported category of general services in Australia, Norway, New Zealand, Mexico, Switzerland, Ukraine, Israel and the Russian Federation (see Box 1.5). Expenditures on infrastructure were the most important in Turkey, Indonesia, Japan, Colombia, Brazil, Chile and Korea. Kazakhstan devoted large shares of the GSSE spending to inspection and control services. The latter were also major GSSE elements in Iceland and Canada, together with costs of public stockholding (Iceland) and agriculture knowledge and innovation systems (Canada). South Africa and China allocated most of the resources to agriculture knowledge and innovation systems and on infrastructure. In the European Union and the United States GSSE spending was mainly allocated to agricultural knowledge and information systems, infrastructure, marketing and promotion, and inspection and control.

Consumers of agricultural commodities are still bearing the costs of support to producers in many countries

Agricultural policies also affect consumers as they buy agricultural commodities on domestic markets at prices which are altered by the policies aiming at supporting producer prices. The Consumer Support Estimate (%CSE) expresses the monetary value of consumer costs to support agricultural prices as a percent of consumption expenditures (measured at the farm gate). When the %CSE is negative, it indicates an implicit tax imposed by policies that support agricultural prices. Consumers may be partially compensated, for example via direct budgetary subsidies to food processors or various forms of food aid programmes which are also taken into account when calculating the CSE.

Most countries covered in this report tax their consumers (Figure 1.18), however, the level of this taxation differs significantly. In general, the majority of countries reduced their implicit taxation on consumers between 1995-97 and 2012-14, though in a number of countries the %CSE is still very substantial including Iceland, Japan, Korea, Norway and Switzerland where the %CSE is around -30% or more. In Indonesia and China, consumers are increasingly taxed, with the %CSE reaching around -20% in 2012-14. This trend is particularly worrying, as many agricultural producers in emerging economies are also consumers and may be net buyers of agricultural products as was demonstrated in the 2014 study on Indonesia (OECD, 2015b). As a result, the support to agricultural producers may be ineffective in reaching those in need, while introducing significant distortions into the economy. Australia, Chile and New Zealand are among the countries

Box 1.4. **The revised GSSE methodology**

In this report, the revised methodology to calculate General Services Support Estimate (GSSE) has been applied for a second time to OECD countries and for the first time for emerging economies. As the GSSE is a component of the Total Support Estimate (TSE), both GSSE and TSE data series have been revised over the whole 1986-2014 period, and differ from those published in the 2013 report (OECD, 2013a).

The revised methodology clarifies the boundaries of the GSSE indicator and its components:

- The boundaries of the GSSEs have been re-defined to cover policies where primary agriculture is the main beneficiary. This definition is narrower than the one applied previously because it now excludes support to services for which primary agriculture is not the main beneficiary. It should be noted, however, that governments fund rural services, which benefit primary agriculture, even if farmers are not the main beneficiaries, and provide support to upstream and downstream industries, which indirectly benefits the primary sector, but are no longer covered by OECD indicators of support to agriculture.
- The definitions of GSSE categories have been clarified and sub-categories added in order to better reflect recent changes in policy priorities. The new categories and sub-categories are defined in Box 2 ("Reader's guide").

The main changes include:

- The removal of expenditures that do not correspond to the narrower definition of the GSSE. This includes expenditures for rural infrastructure, which do not benefit farmers primarily; the US Supplemental Nutrition Assistance Programme (SNAP, formerly known as "food stamp") expenditure as far as it relates to the expenditure share that does not directly benefit primary agriculture level (i.e. the share that ends up in processing, retail, and other services involved in delivering the programme); investment subsidies in food processing, and others.
- The transfer of some GSSE expenditures from one GSSE category to the other, or to the CSE (e.g. support to individual first stage processors).
- The addition of some new expenditure categories such as the financing of knowledge dissemination or agriculture input control.

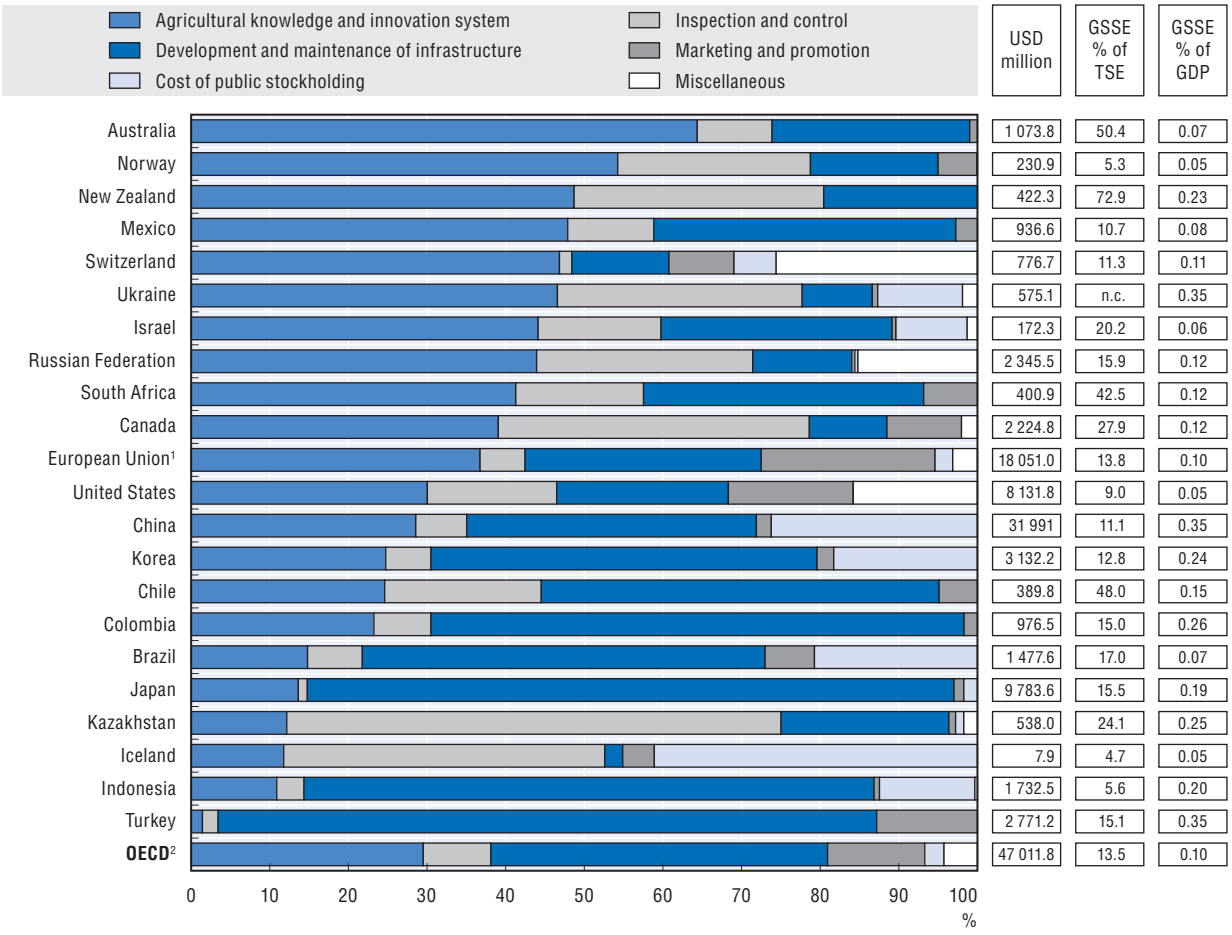
The revised definition of the GSSE and its components helps improve the consistency and comparability of the estimates and clarifies the policy coverage. When implementing the revised methodology, efforts were made to improve the coverage and consistency of estimates across countries. Changes in the GSSE (PSE, CSE and TSE) series reflect these improvements as well as changes in definition. It should be noted, however, that while significant improvements were achieved during this first year of implementation, efforts to improve coverage and consistency will continue in the future.

The "Reader's guide" includes revised definitions of the GSSE and its components as applied in this report. Annex 1.A1 outlines main changes in definition, classification and results by country. The most frequent changes in GSSE are found in expenditure on agricultural knowledge transfer and reflect the fact that expenditure on agricultural education are now fully included in the measure of policy effort, while in the previous methodology, expenditure on students, which did not remain in the agri-food sector, was excluded. While a new expenditure item was added in the inspection and control category (for farm input), numbers change only marginally in most countries. This might indicate that information is not yet available. Expenditure on infrastructure development and maintenance and on marketing and promotion is generally lower due to the narrower definition, focusing on primary agriculture. In the US estimate, this leads to the removal of major programmes, which results in a striking reduction of expenditures for marketing and promotion. The revision of the GSSE definition also results in support to individual first-stage processors being moved from the GSSE, which includes only support to collective schemes under the category marketing and promotion, to the CSE, which captures support to processors being considered as first-stage consumers. The detailed review of GSSE measures also resulted in some being reclassified as PSE measures in some countries.

A detailed description of the revised GSSE methodology is also available on the OECD public website in the Compendium of the PSE/CSE/GSSE methodology (the *PSE Manual*) (*www.oecd.org/tad/agricultural-policies/psemanual.htm*).

Figure 1.16. **Composition of General Services Support Estimate, 2012-14**

Percentage share in GSSE



Note: Countries are ranked according to the percentage shares of Agricultural knowledge and innovation system 2012-14.
A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously (for more detail, see Annex 1.A1).
1. EU27 for 2012-13 and EU28 from 2014 when available.
2. The OECD total does not include the non-OECD EU member states.
Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234400

where the implicit taxation of consumers is very small, mainly due to the absence of significant market price support in these countries. The United States and Ukraine are the only two countries where consumers, on average, are not taxed by agricultural price support but this happens in very different ways: in Ukraine consumers benefit from depressed prices, while in the United States higher domestic prices are more than offset by expenditures on broad nutrition programmes. Of the total nutrition assistance programme of more than USD 76 billion in 2014, only the part that is considered to be directly related to domestic farm production, USD 19.9 billion, is included in the CSE. The expansion of those programmes in the United States has led to a significant increase in %CSE from 4.3 in 1995-97 to 15.6 in 2012-14 making the United States a country with the highest consumer support among all countries covered in the report.

Box 1.5. **Innovation in food and agriculture**

The food and agriculture sector is expected to provide healthy, safe and nutritious food for a growing and wealthier world population, feed for increasing farm animal populations, and fibre and fuel for a growing range of industrial uses, without depleting available land, water and biodiversity resources.

Governments and the international community recognise that innovation is essential to achieve the productivity growth required to meet these goals, while responding to sustainability and climate change challenges. In the last two decades, total factor productivity growth, driven by the adoption of innovation and by structural adjustment, has been the main source of increases in agricultural production. Evidence from a large range of econometric studies shows that the estimated benefits of agricultural R&D far exceed its costs with annual rates of return ranging from 20% to 80% (Alston, 2010). At the microeconomic level, it is clear that the adoption of innovation leads to better productivity performance (Kimura and Sauer, 2015). Innovations in farm inputs and farming practices have allowed improvements in sustainability performance in most OECD countries (OECD, 2013b). A number of technologies and practices, such as reduced tillage, crop rotation, soil cover or improved varieties, already allow for "sustainable production intensification". While large improvements could be realised with greater adoption of current technologies, in particular by smallholders, future challenges such as climate change require the creation of innovative solutions that are better adapted to evolving and diverse demands.

Drawing on the OECD innovation strategy, OECD work on innovation in food and agriculture has developed a framework to review policy incentives and disincentives to innovation in the sector. This framework has been applied to pilot country reviews, which consider the extent to which the general policy environment facilitates investment, and whether incentives to food and agriculture ensure that the agriculture innovation systems align the supply of innovation with sector demand and facilitate the adoption of innovation at farm and firm levels (OECD, 2013c, 2015c, 2015d, 2015e).

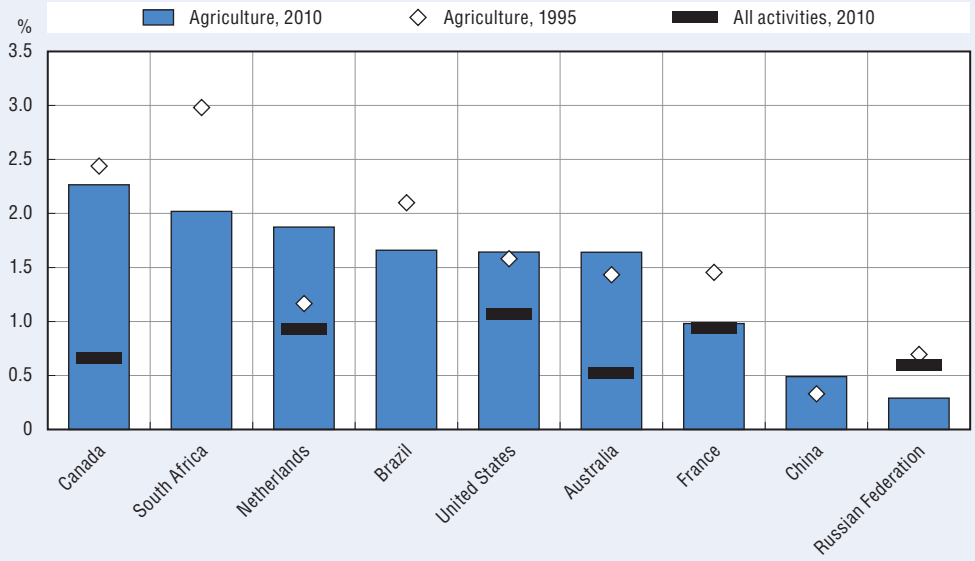
Innovation in agriculture is heavily influenced by policies that provide support to farmers, and that currently account for 18% of gross farm receipts on average for the OECD area (OECD, 2014b). Some countries continue to rely heavily on measures that distort production and trade, and tend to discourage innovation. Others provide more neutral income support, which improves producers' investment capacity, but does not encourage adaptation. Incentives to improve sustainable use of resources often target the adoption of specific production practices rather than encouraging more flexible approaches to attaining environmental outcomes (OECD, 2012, 2013c).

Agricultural innovation systems often have their specific funding and specialised institutions and governance, although in most countries there are institutional linkages with the general innovation system. Public R&D intensity (government expenditure on R&D as a share of GDP) is generally higher than for non-agricultural activities (see Figure 1.17). Private investment is lower in the agricultural sector, possibly due to the small-scale of firms and farms. Private investment is concentrated in large input and food processing companies, and in areas such as farm equipment and seeds. In many countries, agricultural education fails to meet the changing needs of the sector. Technical assistance is provided by both public and private actors and is often subsidised. Adoption of innovation remains, however, unequal.

Box 1.5. **Innovation in food and agriculture** *(cont.)*

Figure 1.17. **Public R&D intensity in selected countries, agriculture and all activities**

Government budget appropriations or outlays for R&D as a percentage of Gross Domestic Product



Notes: In 2006 classification changed from ISIC Rev. 3 to Rev. 4.
For 2011, Canada national agricultural GVA is an adjusted aggregate of regional values.
For OECD countries, public expenditure on R&D is Government budget appropriations or outlays for R&D from OECD R&D Statistics, and value-added of agriculture is from OECD Gross Domestic Product statistics. For non-OECD countries, agricultural R&D intensity from ASTI (Agricultural Science and Technology Indicators) is used.
Source: OECD (2014c), *OECD Research and Development Statistics* (*http://stats.oecd.org/Index.aspx?DataSetCode=MSTI_PUB*); IFPRI (2014), Agricultural Science and Technology Indicators (ASTI) (*www.asti.cgiar.org/*).
StatLink http://dx.doi.org/10.1787/888933234411

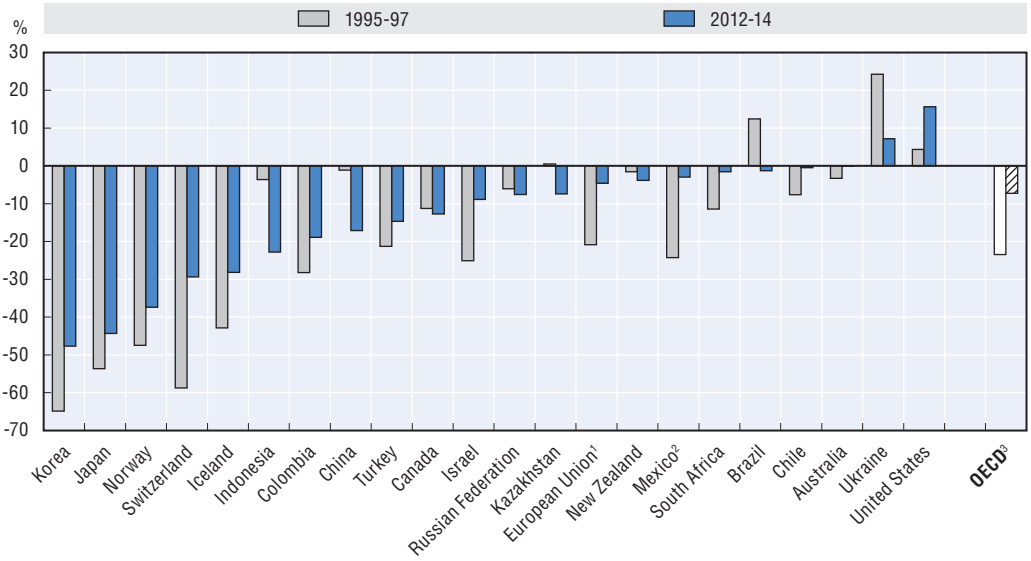
Policy guidance

- Move away from farm income support to invest in knowledge, education and strategic infrastructure that can help improve the long-term productivity, sustainability, and profitability of the sector.
- Strengthen the governance of innovation in agriculture to improve the strategic orientation on long-term issues. Make systematic evaluation and integral part of public funding mechanisms for innovation.
- Strengthen co-ordination between agricultural innovation actors and policies to better connect supply and demand.
- Clarify public and private roles in innovation, identify areas for partnerships and design well working governance systems around public-private partnerships.
- Ensure that farmers have access to independent extension and advisory services to improve technical knowledge as well as professional skills.
- Strengthen co-operation through international, regional and sub-regional research networks to increase R&D spillovers and to enhance the efficiency of national innovation systems.
- Facilitate access to information systems, such as genetic information and soil data.

Sources: OECD (2014b), *Agricultural Policy Monitoring and Evaluation 2014: OECD Countries*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/agr_pol-2014-en*; OECD (2013b), *OECD Compendium of Agri-environmental Indicators*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264186217-en*).

Figure 1.18. **Consumer Support Estimate by country, 1995-97 and 2012-14**

Percentage of consumption expenditure at the farm gate



Note: Countries are ranked according to 2012-14 levels. A negative percentage CSE is an implicit tax on consumption.

1. EU15 for 1995-97; EU27 for 2012-13; and EU28 from 2014 when available.
2. For Mexico, 1995-97 is replaced by 1991-93.
3. The OECD total does not include the non-OECD EU member states. The Czech Republic, Estonia, Hungary, Poland, the Slovak Republic and Slovenia are included in the OECD total for all years and in the EU from 2004.

Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234427

Assessing support and reforms

Collectively, the countries covered in this report transferred annually an average of USD 601 billion (EUR 450 billion) to agricultural producers in the years 2012-14 and they spent an additional USD 135 billion (EUR 103 billion) on general services that support the functioning of the sector. Those transfers are burdening consumers and tax payers, and reforms could improve the effectiveness and efficiency of policies.

For the OECD area as a whole, gradual progress has been made in bringing down the level of support to farmers and in introducing less distorting forms of support. The level of support was reduced and the share of most production and trade distorting support fell. Those changes occurred to different degrees and at different speeds, with slow changes particularly in the group of countries that rely heavily on instruments that support prices and production. These developments are consistent with OECD reform principles and some steps are taken towards addressing long-term priorities expressed by OECD Ministers of Agriculture (OECD, 2010), such as sustainability, innovation and risk management (see for example OECD, 2011b; OECD, 2014d and the references in Box 1.5 of this chapter).

The budgetary expenditures of emerging economies covered in this report tend to focus on infrastructure and other general services supporting the sector. At the same time, the increased use of instruments such as market price support and input subsidies is worrying as this increases distortions on domestic and international markets and is a rather cost-ineffective way to provide assistance.

All countries covered in this report should focus their efforts to address long-term issues related to productivity and sustainability of agriculture. The leading question for policy makers should be to "future-proof" the sector for the multiple challenges it will be facing in the medium to long run: global agriculture must produce more food for a growing and more affluent population that demands a more diverse diet. It must contribute to economic growth and poverty alleviation in many developing countries. Agriculture has to face the challenges of increased competition for alternative uses of natural resources, in particular land and water, while contributing to preserving biodiversity, restoring fragile ecosystems and contributing to mitigating climate change. Agriculture will also have to adapt to climate change which will bring higher average temperatures, more extreme and more frequent extreme events, such as temperature peaks, droughts and floods which add to the risks to food security. To facilitate working towards coherent policy responses to realise more of the opportunities and avoid some of the threats to the global food and agriculture system, the OECD has developed long term scenarios for food and agriculture (see Box 1.6).

Improving the capacity of the agricultural sector to respond to those challenges and to realise its full economic potential reinforces the need to improve the wider policy environment in which the sector operates so as to attract financial and human resources and to foster an innovative agricultural sector that responds to societies' needs. A comprehensive approach to improve coherence with other policies (macroeconomic, trade, social and environmental) and to reduce impediments to structural adjustment will in most countries be more effective than fine tuning existing agricultural policies.

Such a broader re-orientation of policy approaches requires a clear vision of the end-point of policy reforms at national and international levels. In the more immediate term important gains can be realised by improving the policy set:

- Market price support should be reduced with a view to eventual elimination. It is untargeted and does not necessarily reach the intended beneficiaries. Consumers pay the bill, and especially in low-income countries this is burdensome. If countries want to re-instrument, fiscal space must be available to do that. It also delinks farmers from market developments and has been shown to be highly production and trade distortive.
- Input subsidies are known to be particularly inefficient in assisting farmers as significant portions of them leak away outside the farm sector. They also increase the risk of over- or misuse of farm inputs such as fertilisers which can be environmentally harmful. Concessional credit schemes can pose a big burden to government budgets. Variable input support has also been shown to be particularly production and trade distortive.
- The design of income and revenue stabilisation measures should be carefully assessed. They can deliver modest benefits at high costs to taxpayers, the full extent of which becomes more visible when agricultural prices decline or yield is lost systemically. Some of the risks facing agricultural producers are marketable and government support should focus more on helping farmers to manage catastrophic risks. While policies can assist in developing those markets, care should be taken that government support does not crowd out market solutions and farmers' own risk management practices.
- Direct payments, if linked to clear objectives and targets, and well-tailored to the problem at hand, may be an efficient means in specific policy areas such as to achieve environmental benefits and supporting farm incomes. Blanket support to land owners is almost never justifiable, although direct payments can play an important transitory role in the process of reforming agricultural policies.

Box 1.6. **OECD long-term scenarios for food and agriculture**

During 2013-14, the OECD Secretariat jointly with officials from both member and non-member economies and a number of external experts developed and analysed a set of scenarios for the food and agriculture system towards 2050. In a highly interactive process involving two workshops and an online exchange platform, three alternative scenarios for global developments over the next several decades were developed, implications for market outcomes and key policy objectives were analysed, and major policy responses were discussed. The three scenarios were designed to provide contrasting views and based on alternative assumptions on, among others, the degree of international co-operation and the prominence of sustainability in societies' mind-sets. The analysis of these scenarios was supported by the quantification of key elements by four global economic models, involving some of the main players in the analysis of long-term developments in agricultural markets.

While the medium term *OECD-FAO Agricultural Outlook 2015* (OECD/FAO, 2015) projects a continuation in historical trends of falling real agricultural prices over the coming decade, the long-term scenarios suggest these price declines could significantly slow down or even reverse to an increase over the next 40 years. This has important implications for key policy objectives in agriculture. Food security may improve significantly if productivity growth and international co-operation allows for sufficient supplies and buffer of regional shocks – but under a business-as-usual context, progress may remain very limited. A greater focus on sustainability may reduce the production base (e.g. by restricting expansion into highly biodiverse or carbon-rich areas, or by limiting the use of harmful farm inputs) while changes in diets away from resource-intensive livestock protein could decrease pressures on the system, thus improve food security perspectives in addition to possible health benefits. Prospects worsen if the continued migration of production factors such as labour from agriculture to manufacturing and service sectors is hindered, e.g. by underdeveloped rural areas or by policies slowing it down. Structural change is likely to be accelerated by international co-operation both due to greater innovation and technological progress and due to enhanced agricultural trade, fostering regional reallocation.

There is little doubt that without major additional efforts, pristine forests and other high-value ecosystems are under continued pressure, and further losses in biodiversity are to be expected. The same holds for agricultural GHG emissions which are bound to increase significantly without corrective action. Greater focus on sustainability e.g. through biodiversity reserves and dietary changes has the capacity to significantly improve such developments on both accounts. Risks related to trans-boundary spreading of crop and livestock diseases or to food safety may both increase with enhanced international trade and, for food safety, with more international, longer and more complex food supply chains. On the other hand, international co-operation in prevention, identification and control of diseases or food safety risks, together with higher biodiversity and diversity of agricultural production systems and lower livestock and input intensities could help reducing such pressures.

What can governments, societies and the international community do to improve these outcomes? What are the key opportunities for different stakeholders, and what are the main areas of co-operation required? Two of the most important angles to make a difference include enhanced international efforts towards sustainable productivity growth and to mainstreaming the environmental and social footprint of food in consumers' daily decision making in the supermarket. Sustainable agriculture and productivity growth represent two sides of the same coin rather than conflicting objectives, requiring that the concept of productivity growth needs to account for the use of natural resources and, in particular, of common pool resources. The development of related indicators in the context of OECD's work on Green Growth, such as the *Environmentally Adjusted Multifactor Productivity*, is of key importance for this. Some of the policies discussed in this report, such as high market price support or support for fertilisers to name two examples, bear substantial risks for sustainable productivity growth as they distort the incentives received by farmers, whereas an environment conducive to multidisciplinary research, development, extension and agricultural education will improve long-term outcomes.

- Improving the enabling environment for a business oriented agricultural sector is important. 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.

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ANNEX 1.A1

Revised general services support estimate: Overview of main changes

Change in the definition of the General Services Support Estimate

The revised General Services Support Estimate (GSSE) is defined as "budgetary expenditure that creates enabling conditions for the primary agricultural sector through development of private or public services, institutions and infrastructure". This definition replaces the previous, broader, definition of the GSSE as "payments to eligible private or public services provided to agriculture generally".

The revised definition continues to apply the main distinction that: "Unlike the Producer Support Estimate (PSE) and the Consumer Support Estimate (CSE), the GSSE transfers are not destined to individual producers or consumers, and do not directly affect farm receipts (revenue) or consumption expenditure, although they may affect production or consumption of agricultural commodities in the longer term. While implementation criteria are used to distinguish whether the transfer is allocated to PSE or GSSE, the definition of the categories in the GSSE and the allocation of policy measures to these categories is according to the nature of the service" (*PSE Manual*).

The boundaries of the GSSEs have been re-defined to cover policies where primary agriculture is the main beneficiary. This definition is narrower because it excludes all payments to services for which primary agriculture is not the main beneficiary, such as rural infrastructure, and support to agro-industries further down the stream.

Change in GSSE categories

Table 1.A1.1 compares the different categories and sub-categories under the previous and the revised methodology. Main changes include:

- ***A narrowing of the concept to primary agriculture,*** which results in the inclusion of support to the processing industry for the financing of collective initiatives, the move of support to primary processors in the CSE and the exclusion of support to processors further down the stream from the TSE.
- ***The principle that farmers are the main beneficiaries*** of the services, which results in the exclusion of some rural infrastructure services.
- ***More detailed sub-categories,*** which allow payments previously included under a general category to be grouped under a sub-category (e.g. hydrological infrastructure, farm restructuring and institutions under "development and maintenance of infrastructure"; distinction of the type of inspection and control).

Table 1.A1.1. **GSSE categories**

New classification *See definition in the "Reader's guide"*		Previous classification
Agricultural knowledge and innovation system	**H**	
Agricultural knowledge generation	**H1**	***Research and development***
Agricultural knowledge transfer	**H2**	***Agricultural schools***
Inspection and control	**I**	***Inspection services***
Agricultural product safety and inspection	**I1**	
Pest and disease inspection and control	**I2**	
Input control	**I3**	
Development and maintenance of infrastructure	**J**	***Infrastructure***
Hydrological infrastructure	**J1**	
Storage, marketing and other physical infrastructure	**J2**	
Institutional infrastructure	**J3**	
Farm restructuring	**J4**	
Marketing and promotion	**K**	***Marketing and promotion***
Collective schemes for processing and marketing	**K1**	
Promotion of agricultural products	**K2**	
Cost of public stockholding	**L**	***Public stockholding***
Miscellaneous	**M**	***Miscellaneous***

- ***The addition of new measures,*** such as the inspection and control of farm inputs under a new sub-category "Input control", and the collection and dissemination of knowledge under the category "Agricultural knowledge and innovation system".
- ***Clarifying that GSSE measures policy efforts*** and not policy effect, which results for example in all payments to agricultural schools being included, even if students do not end up working in or for primary agriculture.

The definition of public stockholding and miscellaneous was not changed.

Guidelines for implementing the revised methodology

The headings of the different categories in new the GSSE classification provide an idea of their broad contents, but more specificity is needed to specify the scope of information to be included. The guiding principles for the implementation of the new GSSE classification are provided below.

Agricultural knowledge and innovation system

Agricultural knowledge generation

This sub-category includes budgetary expenditure financing research and development (R&D) activities related to agriculture, irrespective of the institution (private or public, ministry, university, research centre or producer groups); irrespective of where they take place, the nature of research (scientific, institutional, etc.), or its purpose. The focus is on R&D expenditures on applied research related to the primary agricultural sector (the definition in the *Frascati Manual* may be a guidance, see OECD, 2002). Social sciences related to agriculture are included. To the extent possible R&D related to forestry, fisheries, etc. should be excluded and, if the information is not readily available, the method used to estimate their share should be clearly stated in the documentation.

This expenditure includes also transfers to finance *ex situ* conservation of livestock and plant species (e.g. gene banks). Data dissemination when primarily associated with research and development (knowledge generation), e.g. reports from research and databases developed as an adjunct to research also belongs to this sub-category.

Agricultural knowledge transfer

This sub-category includes budgetary expenditure to finance agricultural vocational schools and agricultural programmes in high-level education. The entire expenditure on those education activities is considered as related to agriculture, as the indicator measures policy effort.

This sub-category also includes budgetary expenditure financing generic training and extension advice to farmers, such as accounting rules or pesticide application methods). Expenditure on advice that are specific to individual farms (e.g. a farm business plan) are included in the PSE category for payment based on services.

Public expenditures on data collection and information dissemination networks related to agricultural production and marketing (e.g. information on technologies and production methods, price and market information) are also included in this sub-category.

Inspection and control

Agricultural product safety and inspection

This sub-category includes budgetary expenditure financing activities related to agricultural product safety and inspection. This includes only expenditures on inspection of domestically produced commodities at first level of processing and border inspection for exported commodities. Import control activities are not included. Production and trade data may be used to make an approximate estimation of a differentiation between export and import inspections. In case that such a separation is not possible, the entire expenditure on food safety and inspection should be included and mention should be made in the documentation.

Pest and disease inspection and control

This sub-category includes budgetary expenditures financing pest and disease control of agricultural inputs and outputs (control at primary agriculture level) as well as public funding of veterinary and phytosanitary services (for the farming sector).

Input control

This sub-category includes budgetary expenditure financing the institutions providing control activities and certification of industrial inputs used in agriculture (e.g. machinery, industrial fertilisers, pesticides, etc.) and biological inputs (e.g. seed certification and control).

Development and maintenance of infrastructure

Hydrological infrastructure

This sub-category includes public investments into hydrological infrastructure (irrigation and drainage networks). Water subsidies granted to individual farmers and investment subsidies to on-farm irrigation infrastructure are included in the PSE. The

expenditures related to hydrological network infrastructures are included according to the share which corresponds to farmer's participation in that network (e.g. share of water used by agriculture, as reported in OECD agri-environmental indicators*).

Flood prevention expenditures where agriculture is not the main beneficiary are not included. In the case of large investments, such as dams, with multiple outputs (irrigation, water retention, flood prevention, hydro-energy), the GSSE accounts only for the share of the outputs used by primary agriculture. Investment expenditure should be accounted in the year when it occurs.

Storage, marketing and other physical infrastructure

This sub-category includes budgetary expenditure financing investments and operating costs for off-farm storage and other market infrastructure facilities related to handling and marketing primary agricultural products (silos, harbour facilities – docks, elevators; wholesale markets, futures markets).

The item other physical infrastructure includes public investments to build and maintain other physical infrastructure related to agriculture. These are included in the GSSE only in cases when agriculture is the main beneficiary. In general the share of the primary agriculture should be above 50% of economic activity or regional employment or similar indicator. The choice of the indicator should be related to the nature of the policy and data available and should be clearly explained in the documentation.

Institutional infrastructure

This sub-category includes budgetary expenditure financing investments and operating costs to build and maintain institutional infrastructure related to the farming sector (e.g. land cadastres; machinery user groups, seed and species registries; development of rural finance networks; support to farm organisations, etc.).

As a rule, only the institutional infrastructure closely related to agriculture is included. The decision whether to include an institutional infrastructure should be clearly explained in the documentation.

Farm restructuring

This sub-category includes budgetary expenditure related to reform of farm structures. It includes measures related to "entry strategies" (such as assisting new farmers within the context of land reforms). Transfers provided directly to individual farmers within those programmes should be in PSE. It also includes measures related to "exit strategies" and diversification strategies outside agriculture used in some developed countries, such as certain programmes in the European Union. However, support to diversification into other commodity sectors is included in the PSE.

Marketing and promotion

Collective schemes for processing and marketing

This sub-category includes budgetary expenditure financing investments in downstream activities (mainly at the level of primary processing) designed to improve the marketing environment for agriculture. It captures support to collective processing,

* Available at: *www.oecd.org/tad/sustainable-agriculture/agri-environmentalindicators.htm*.

marketing schemes and marketing facilities, while support to on-farm investments in processing activities is classified in the PSE; and support to individual firms (first processors) is classified in the CSE.

Promotion of agricultural products

This sub-category includes budgetary expenditure financing assistance to collective promotion of agro-food products (e.g. promotion campaigns, participation on international fairs), as well as those promoting food quality schemes. It does not include public expenditure related to export subsidies.

Cost of public stockholding

This category includes budgetary expenditure to cover the costs of storage, depreciation of the stocks and disposal of public storage of agricultural products. It includes cost of public stockholding related to market interventions (intervention storage) and storage of strategic reserves (stockholding for food security purposes, state reserves). This category does not include public expenditure related to export subsidies or buying into intervention stocks.

Miscellaneous

This category includes budgetary expenditure financing other general services that cannot be disaggregated and allocated to the above categories, often due to a lack of information. In such cases all efforts should be made to get more information concerning the implementation of the policy which will allow classifying in the categories mentioned above.

Main changes in GSSE and TSE estimates

Table 1.A1.2 compares estimates for 2011 for which data expenditures were considered final in the 2013 edition of the M&E report. Changes between the 2013 and 2015 editions reflect two factors: a) changes in the methodology; and b) data improvements facilitated by the clarification of definitions. In addition, the estimates in the 2015 report contain for the first time the comparison for non-member economies, which were not included in the 2014 M&E report.

Changes in the GSSE are reflected in the TSE, which is the sum of PSE, GSSE and transfers from taxpayers to consumers. The revision of the GSSE definition also results in support to individual first-stage processors being moved from the GSSE, which includes only support to collective schemes under the category marketing and promotion, to the CSE, which captures support to processors being considered as first-stage consumers. The detailed review of GSSE measures also resulted in some being reclassified as PSE measures in some countries.

Most frequent changes are found in the sub-category labelled H2 in Tables 1.A1.1 and 1.A1.2, which corresponds to expenditure on agricultural knowledge transfer. They reflect the fact that expenditure on agricultural education are now fully included in the measure of policy effort, while in the previous methodology, expenditure on students, which did not remain in the agri-food sector, was excluded. While a new expenditure item was added in the inspection and control category (for farm input), numbers change only marginally in most countries. This might indicate that information is not yet available. Expenditure on infrastructure development and maintenance and on marketing and

Table 1.A1.2. **Estimate of support to agriculture for 2011 published in the 2013 and the 2015 reports**

	Total Support Estimate	Producer Support Estimate	Consumer Support Estimate	General Services Support Estimate	GSSE categories[1]						
					H1	H2	I	J	K	L	M
Australia (million AUD)											
2015 monitoring report	2 579	1 528	0	1 051	597	35	109	302	7	0	0
2013 monitoring report	2 447	1 445	0	1 003	576	5	109	305	7	0	0
%diff	5%	6%	-	5%	4%	596%	0%	-1%	0%	-	-
Brazil (million BRL)											
2015 monitoring report	22 951	19 481	-8 726	3 188	402	26	264	1 762	225	509	0
2013 monitoring report	20 638	16 712	-5 579	3 644	402	482	264	1 762	225	509	0
%diff	11%	17%	56%	-13%	0%	-95%	0%	0%	0%	0%	-
Canada (million CAD)											
2015 monitoring report	9 843	7 391	-4 622	2 452	558	270	1 006	327	237	0	53
2013 monitoring report	10 139	7 581	-4 900	2 558	506	274	1 022	523	233	0	0
%diff	-3%	-3%	-6%	-4%	10%	-2%	-2%	-37%	2%	-	-
Chile (million CLP)											
2015 monitoring report	364 684	172 089	-20 970	192 595	45 381	1 202	36 986	103 626	5 397	0	4
2013 monitoring report	362 360	169 688	-15 200	192 672	45 917	814	36 915	103 626	5 397	0	4
%diff	1%	1%	38%	0%	-1%	48%	0%	0%	0%	-	0%
China (million CNY)											
2015 monitoring report	879 758	727 627	-493 027	152 131	21 959	23 109	11 142	56 672	3 447	35 803	0
2013 monitoring report	923 722	765 694	-524 857	158 028	21 959	23 109	13 252	54 562	3 447	41 699	0
%diff	-5%	-5%	-6%	-4%	0%	0%	-16%	4%	0%	-14%	-
Colombia (million COP)											
2015 monitoring report	9 975 961	8 629 008	-8 123 400	1 346 953	52 949	361 006	86 960	846 037	0	0	0
2013 monitoring report	0	0	0	0	0	0	0	0	0	0	0
%diff	-	-	-	-	-	-	-	-	-	-	-
European Union (million EUR)											
2015 monitoring report	93 991	78 650	-9 582	14 436	2 081	2 927	811	4 369	3 326	406	516
2013 monitoring report	89 094	76 505	-7 770	11 045	2 074	1 530	540	3 190	3 640	30	41
%diff	5%	3%	23%	31%	0%	91%	50%	37%	-9%	1 262%	1 170%
Indonesia (million IDR)											
2015 monitoring report	201 838 860	171 874 786	-196 684 895	14 697 044	635 796	530 518	406 383	11 997 100	23 722	1 000 000	103 525
2013 monitoring report	195 690 947	165 726 873	-191 087 349	14 697 044	635 796	530 518	406 383	11 997 100	23 722	1 000 000	103 525
%diff	3%	4%	3%	0%	0%	0%	0%	0%	0%	0%	0%
Iceland (million ISK)											
2015 monitoring report	17 467	16 251	-5 620	826	89	0	347	5	21	364	0
2013 monitoring report	17 702	16 505	-5 923	808	89	0	329	5	21	364	0
%diff	-1%	-2%	-5%	2%	0%	-	5%	0%	0%	0%	-
Israel (million ILS)											
2015 monitoring report	4 291	3 664	-3 352	627	282	2	94	202	1	45	1
2013 monitoring report	4 364	3 737	-3 524	627	282	2	94	202	1	45	1
%diff	-2%	-2%	-5%	0%	0%	0%	0%	0%	0%	0%	0%
Japan (billion JPY)											
2015 monitoring report	5 823	4 819	-5 109	1 004	83	36	14	840	14	16	0
2013 monitoring report	5 824	4 820	-5 122	1 004	83	36	14	822	14	16	18
%diff	0%	0%	0%	0%	0%	0%	0%	2%	0%	0%	-100%
Kazakhstan (million KZT)											
2015 monitoring report	331 428	263 197	-82 754	60 857	6 077	2 403	37 700	11 430	1 947	910	390
2013 monitoring report	324 044	255 754	-97 788	68 290	6 692	2 403	37 139	10 449	10 560	910	138
%diff	2%	3%	-15%	-11%	-9%	0%	2%	9%	-82%	0%	184%

Table 1.A1.2. **Estimate of support to agriculture for 2011 published in the 2013 and the 2015 reports** *(cont.)*

	Total Support Estimate	Producer Support Estimate	Consumer Support Estimate	General Services Support Estimate	GSSE categories[1]						
					H1	H2	I	J	K	L	M
Korea (billion KRW)											
2015 monitoring report	26 075	23 268	-29 644	2 761	675	47	170	1 433	69	366	0
2013 monitoring report	25 706	22 864	-28 871	2 796	740	43	124	1 453	69	366	0
%diff	1%	2%	3%	-1%	-9%	10%	37%	-1%	0%	0%	-
Mexico (million MXN)											
2015 monitoring report	98 287	84 430	-15 541	9 953	1 335	3 968	771	3 707	172	0	0
2013 monitoring report	101 945	88 083	-17 081	9 958	1 414	3 889	771	3 190	692	1	0
%diff	-4%	-4%	-9%	0%	-6%	2%	0%	16%	-75%	-100%	-
New Zealand (million NZD)											
2015 monitoring report	718	205	-157	513	133	78	208	93	0	0	0
2013 monitoring report	647	206	-157	442	112	25	208	96	0	0	0
%diff	11%	0%	0%	16%	19%	213%	0%	-3%	-	-	-
Norway (million NOK)											
2015 monitoring report	24 225	22 530	-10 362	1 258	252	407	335	211	54	0	0
2013 monitoring report	24 724	22 112	-9 905	2 174	933	0	284	290	89	0	578
%diff	-2%	2%	5%	-42%	-73%	-	18%	-27%	-40%	0%	-100%
Russian Federation (million RUB)											
2015 monitoring report	563 766	444 922	-475 901	99 529	9 606	19 456	18 257	6 675	17	0	45 518
2013 monitoring report	586 798	462 070	-501 270	124 728	9 515	19 039	18 257	12 576	19 824	0	45 518
%diff	-4%	-4%	-5%	-20%	1%	2%	0%	-47%	-100%	-	0%
South Africa (million ZAR)											
2015 monitoring report	6 373	3 589	-1 971	2 784	854	371	482	938	139	0	0
2013 monitoring report	6 386	3 949	-2 355	2 436	1 064	64	448	816	43	0	0
%diff	0%	-9%	-16%	14%	-20%	480%	8%	15%	226%	-	-
Switzerland (million CHF)											
2015 monitoring report	6 140	5 437	-2 255	699	200	129	11	83	55	40	180
2013 monitoring report	5 994	5 507	-2 321	482	102	12	11	83	55	40	179
%diff	2%	-1%	-3%	45%	97%	977%	0%	0%	0%	0%	1%
Turkey (million TRY)											
2015 monitoring report	32 542	27 023	-17 349	5 520	34	0	76	3 130	2 280	0	0
2013 monitoring report	31 747	29 357	-17 236	2 390	34	0	76	0	2 280	0	0
%diff	3%	-8%	1%	131%	0%	-	0%	-	0%	-	-
Ukraine (million UAH)											
2015 monitoring report	-554	-5 938	6 185	5 384	582	1 830	1 368	1 194	16	237	158
2013 monitoring report	-8 449	-13 834	14 387	5 384	582	1 830	1 367	997	214	237	158
%diff	-93%	-57%	-57%	0%	0%	0%	0%	20%	-93%	0%	0%
United States (million USD)											
2015 monitoring report	83 824	32 713	39 661	5 751	2 227	186	1 058	-233	1 250	1	1 262
2013 monitoring report	143 778	31 596	35 694	71 539	2 324	0	1 079	320	65 664	1	2 151
%diff	-42%	4%	11%	-92%	-4%	-	-2%	-173%	-98%	0%	-41%
OECD (million USD)											
2015 monitoring report	354 559	258 238	-85 437	49 261	8 615	5 485	4 076	20 483	7 397	1 025	2 180
2013 monitoring report	409 244	257 230	-86 305	108 943	8 695	3 238	3 681	17 577	72 353	656	2 742
%diff	-13%	0%	-1%	-55%	-1%	69%	11%	17%	-90%	56%	-21%

1. See Table 1.A1.1 for descriptive labels of the GSSE categories under the 2015 and 2013 monitoring report. The 2013 estimates utilise the previous GSSE methodology and definitions. The estimates from the 2015 report use the revised GSSE methodology and may contain updated information across all agriculture support categories.

Source: OECD (2013, 2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933252563

promotion is generally lower due to the narrower definition, focusing on primary agriculture. In most countries the aggregate indicators of support do not change very much, but the case of the United States is a notable exception.

The main changes for each country are described below:

- **Australia:** There have been only minor changes in programmes that have been reclassified. The main change is due to the need to allocate programmes under "Marketing and promotion" into two new sub-categories. Most of these programmes have both a collective processing and promotion component resulting in an allocation to each sub-category in equal amounts. The change of the classification of measures within the General Services Support Estimate (GSSE) has no significant implications for the total GSSE or the Total Support Estimate (TSE).
- **Brazil:** The change of the classification of measures within the GSSE has no significant implications for the total GSSE or the TSE. Since 2010 Agricultural Education is no longer disaggregated from national expenditures on education.
- **Canada:** Canada was one of the pilot countries of new GSSE classification. Canada reviewed around 5 000 individual programmes under the current GSSE. The revisions were implemented for the whole period since 1986 and the programmes are aggregated by the level of new GSSE categories. The programmes providing support to downstream industry (such as subsidy to biofuel plants), general rural development measure and general R&D expenditure were removed. During the review process, some previous GSSE programmes went to PSE and CSE as well. Canada asked for a standard definition of "the primary processing" to maintain the consistency across countries. Overall, the change of the classification of measures within the GSSE resulted in a minor reduction of the total GSSE and the TSE.
- **Chile:** A programme on Forestry Research was removed. Two new programmes were added: one on market information implemented by ODEPA agency and classified as GSSE C2; and another one on food quality and safety implemented by ACHIPIA agency and classified as GSSE B1. The change of the classification of measures within the GSSE has no significant implications for the total GSSE or the TSE.
- **China:** Some changes in the TSE and in the total GSSE were due to updates and changes in data with no significant implications resulting from the change of the classification within the GSSE estimate.
- **Colombia:** For Colombia, the new GSSE classification was used for the first time in the calculations of indicators.
- **European Union:** The new GSSE classification was implemented for the whole period starting in 1986. Generally sufficient documentation is available to inform classification decisions. Schemes that related to the production of specific products were removed, so was international food aid. Work is on-going to classify expenditures for which documentation is insufficient, this relates to both national and EU expenditure. In most cases these measures came to an end in the earlier years of the period covered by the indicators. As an example some further investigation is needed for the classification of some measures under the EAGGF that were phased out in 2007. Reclassification and better coverage of some items at member state level lead to an overall increase of the GSSE by 31%, which feeds into the rise in the TSE; also explained by a higher PSE. The CSE shows a bigger negative number due to a revised estimate of market price support for 2011.

- **Indonesia:** The change of the classification of measures within the General Services Support Estimate (GSSE) has no significant implications for the total GSSE or the TSE.
- **Iceland:** The change of the classification of measures within the General Services Support Estimate (GSSE) has no significant implications for the total GSSE or the TSE.
- **Israel:** The change in the classification of measures within the General Services Support Estimate (GSSE) has no significant implications for the total GSSE or the TSE.
- **Japan:** The change of the classification of measures within the GSSE has no significant implications for the total GSSE or the TSE.
- **Kazakhstan:** The main change concerned GSSE Category K "Marketing and promotion". Interest subsidies on credit subsidies to food processors were re-classified from this category to CSE Category P.2 "Non-commodity specific transfers to consumers". This led to a reduction in the GSSE and a decrease in the negative CSE value. Other GSSE changes concerned re-allocation of the moderate values across GSSE categories. These modifications were offsetting in terms of their effect on the TSE value. A modest increase in both TSE and PSE was due to a revised estimate of market price support and the updates to the budgetary data in the PSE.
- **Korea:** The change of the classification of measures within the GSSE has no significant implications for the total GSSE or the TSE.
- **Mexico:** There have been only minor changes in programmes that have been reclassified. The main change is due to the need to allocate programmes under Inspection Services and Marketing and promotion into new sub-categories. In particular the inspection and control programmes implemented by the inspection agency SENASICA include inspection, pest and diseases and input components. Good budgetary information for the allocation of this expenditure to different sub-categories was not available and allocation was provisionally done in equal amounts. New information is being collected with the view of improving this allocation in the next monitoring cycle. The change of the classification of measures within the GSSE has no significant implications for the total GSSE or the TSE.
- **New Zealand:** The change of the classification of measures within the GSSE has no significant implications for the total GSSE or the TSE, with the exception of expenditures for agricultural university courses now being included in the GSSE Category H2 "Agricultural knowledge transfer". This addition results in a three-fold increase in expenditures within Category H2 in 2011. The total GSSE and TSE for that year increased by 16% and 11%, respectively.
- **Norway:** There have been only minor changes in programmes that have been reclassified. The existing programmes have been reallocated and more detailed information was provided to split the programmes into the new categories and sub-categories. In some cases there was not enough data to split the programmes for the early years in the time series. Support to production of potato spirit was moved to the CSE. The programmes classified in the category miscellaneous were removed as these were administration costs. In 2015, Norway updated the data on public spending in Universities and on Inspection and Control institutions in the whole time series. Overall, the change of the classification of measures within the GSSE resulted in a minor reduction of the total GSSE and TSE.

- **Russian Federation:** The main change concerned GSSE Category K "Marketing and promotion". Interest subsidies on credit to food processors were re-classified from this category to CSE Category P.2 "Non-commodity specific transfers to consumers". This led to a reduction in the GSSE and a decrease in the negative CSE value. A re-allocation within GSSE categories was also made affecting moderate values. Finally, GSSE Category J "Infrastructure" was also revised: the spending under the Federal Program of Social Development of Rural Areas was removed as being related to social area, such as assistance for construction of houses for rural people, improvement of water and electricity supply for rural settlements, etc. The latter modification had a downward effect on the TSE value, however, a modest decrease in the TSE, as well as in the PSE, was also due to a revised estimate of market price support the updates to the budgetary data in the PSE.
- **South Africa:** The change of the classification of measures within the GSSE had limited implications for the total GSSE in South Africa (increase of 14%). The major shift is the twofold increase in spending on "Marketing and promotion" (Category K) due to inclusions of expenditures related to agriculture from the *Rural Enterprise and Industrial Development Fund* and a slight increase in spending on infrastructure due to inclusion of some expenditures (irrigation infrastructure) from the *Rural Infrastructure Development Fund*. On the other side, the changes in the expenditure in sub-categories H1 and H2 are only due to a shift of expenditures related to extension and training from "Knowledge generation" (H1) to "Knowledge transfer" (H2). This shift results in a five-fold increase in expenditures within Category H2 in 2011 (from low base), while the reduction in H1 was only 20% (overall the spending in Category H remains unchanged).
- **Switzerland:** There have been only minor changes in programmes that have been reclassified. One programme was moved to the PSE and one to CSE. Outstanding issue: data on expenditure on agricultural universities were not available in 2014 and were made available for the 2015 estimates. Hence the spending for the Agricultural knowledge transfer (H2) in 2011 increased more than ten times (from CHF 12 million to CHF 129 million under the new classification). Additional data were also provided for Agricultural knowledge generation (H1) and the expenditure doubled compared to the "old" GSSE data. Overall, with the additional information made available the total GSSE increased by 45% and the TSE by 2%.
- **Turkey:** The change of the classification of measures within the GSSE has no significant implications for the total GSSE or the TSE. Data on hydrological infrastructure have been improved. Overall, with the additional information made available, the total GSSE increased by 131% and the TSE by 3%.
- **Ukraine:** Expenditures not related to primary processing were removed from GSSE Category K "Marketing and promotion" and re-classified to Category J.2 "Storage, marketing and other physical infrastructure". A re-allocation within GSSE categories was also made. Overall, these revisions did not lead to a change in the total GSSE value. TSE, PSE and CSE values changed due to a revised estimate of market price support.
- **United States:** There have been major changes in the reclassification of some large US programmes and as a result a very significant reduction of the GSSE and TSE; these indicators drop by -92% and -42% respectively. The reduction results from the clarification in the new methodology that the GSSE encompasses only general services to the domestic primary agriculture sector. For the US, that narrowing of the GSSE

boundaries leads to removal of two major sources of previously reported expenditures from the GSSE: 1) the share of the US Supplemental Nutrition Assistance Program (SNAP) expenditures (USD 62 billion in 2013) attributable to the food supply chain beyond the farm; and 2) expenditures on international food assistance (USD 1.6 billion in 2013), both of which had been included under "Marketing and promotion" under the previous GSSE. The share of SNAP expenditures attributable to farm level production (USD 16 billion) continues to be reported in the CSE. In addition to these two major items, some small additional changes have been made, including moving reported expenditures for the Renewable Energy Program (USD 56 million for 2013) to the PSE under payments based on input use, fixed capital formation.

Developments in agricultural support by country

Chapter 2

Trends in the OECD area

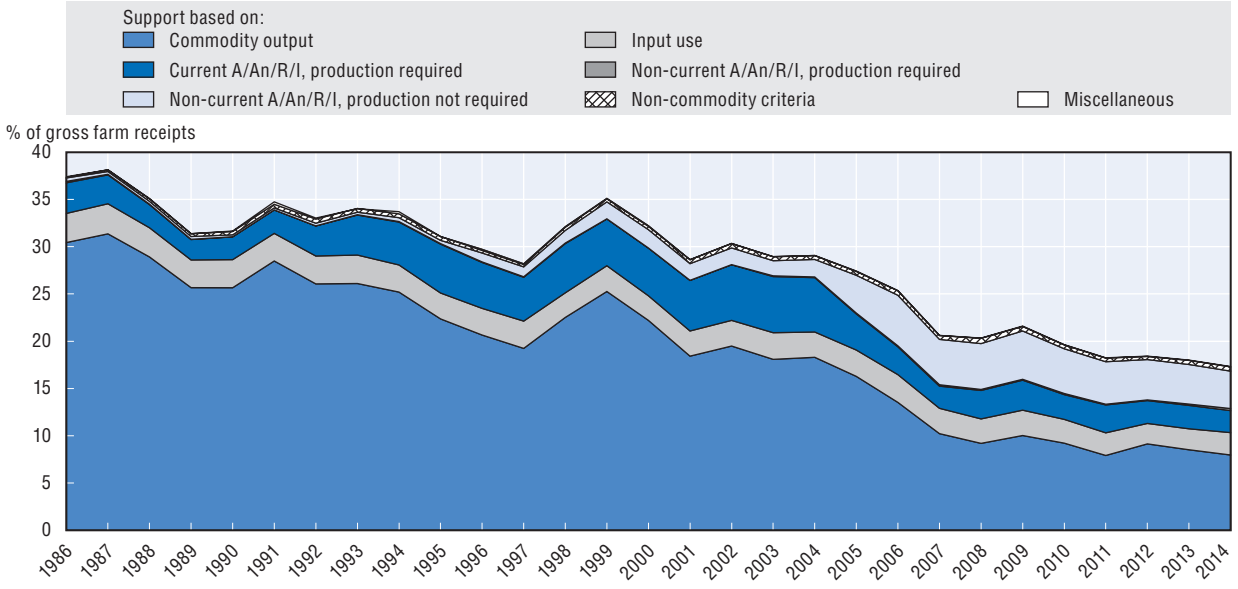
This chapter contains the information concerning the short and long-term developments of the level and structure of support in the OECD area.

This chapter provides an overview of agricultural support in the OECD area as a whole as measured by the OECD indicators of agricultural support. The main drivers behind the changes in support between 2013 and 2014, and a more detailed analysis and evaluation of policy developments and support across OECD countries, are provided in Chapter 1 and the following country chapters.

The level and composition of agricultural support in the OECD area

Support to agriculture in the OECD area, expressed as a share of gross farm receipts (%PSE) has been declining continuously: from 37% at the beginning of the period under review to an average of 18% in 2012-14. The way support is delivered to farmers was also evolving (Figure 2.1).

Figure 2.1. **OECD: Level and composition of Producer Support Estimate, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234432

Support to agriculture in the OECD area is characterised by the long-term decline of support based on commodity output, mainly driven by reduced market price support. Support based on commodity output, comprising market price support and payments based on output is one of the most potentially production and trade distorting forms of support together with payments based on variable input use (without constraints). At the other end of the spectrum, are the potentially less distorting forms of support, including payments based on parameters that are not linked to current production or based on non-commodity criteria such as land set aside or payments for specific landscape features. Payments based on current areas and animal numbers were reduced slightly over the period since 1986-88 and today represent less than 3% of total support (Figure 2.1, Tables 2.1, 2.2).

Box 2.1. **Use of the %PSE indicator in evaluating annual changes in agricultural support**

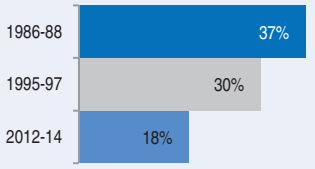
The nominal PSE, the total monetary value for the estimated policy transfers to producers, is expressed in the local currency of each country. It is converted into a common currency (USD, EUR) to allow aggregation into total PSE for the OECD area as a whole. Consequently, the year-on-year variation in the total level of transfers denominated in a common currency will result from both changes in the level of transfers measured in each national currency and exchange rate movements against the currency used for the aggregation. How can these varying results expressed in different currencies be interpreted when the PSE is expressed in different currencies?

Exchange rate developments are the reason for the different movements of aggregates expressed in different currencies, and consequently the best way to compare levels of support in the OECD as whole (as in individual countries) is to use relative indicators such as the %PSE, which expresses the value of policy transfers as a share of gross producer receipts. The latter represent the market value (at domestic prices) of agricultural output to which are added transfers to producers from taxpayers. The %PSE solves the problem of exchange rate choice because the same exchange rates are used to convert both the denominator and the numerator into a single currency. Consequently, the %PSE is the same regardless of the currency used (see Tables 2.1 and 2.2). Since the %PSE is a relative measure, it provides a sense of the importance of policy-induced transfers in the sector and is also appropriate for comparisons among OECD countries (as it eliminates the effects of the size of the agricultural sector) and over time (as it eliminates the effect of inflation).

Development of support to agriculture

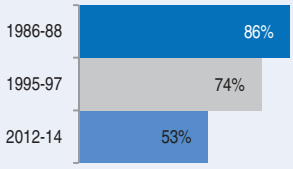
PSE as % of receipts (%PSE)

In the OECD area support to farmers, as measured by the %PSE, declined on average from 37% in 1986-88 to 18% in 2012-14.



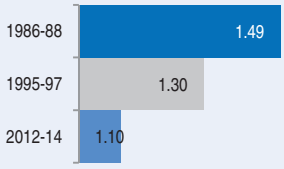
Potentially most distorting support as % of PSE

The share of potentially most distorting support (based on output and variable input use – without input constraints) has come down since 1986-88 and has levelled off in recent years. It accounts for slightly more than half of the PSE in 2012-14.



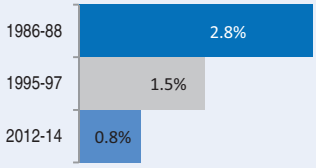
Ratio of producer price to border price (NPC)

Prices received by farmers in 1986-88 were 50% higher than those on world markets (NPC), compared to 10% in 2012-14.

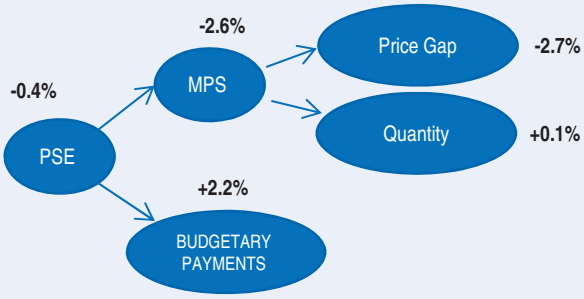


TSE as % of GDP

Total support was 2.8% of GDP in 1986-88, declining to 0.8% by 2012-14. The share of expenditures on general services (GSSE) in total support (TSE) has increased, from 9% in 1986-88 to around 14% in 2012-14.

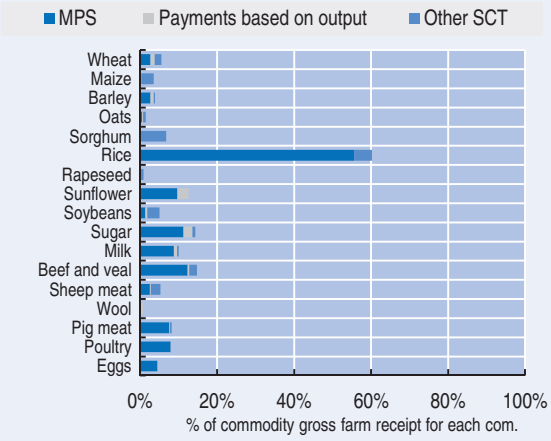


Decomposition of change in PSE, 2013 to 2014



The level of support decreased slightly in 2014 due to a reduction of market price support which was partly offset by higher budgetary payments. The decrease in MPS is explained by a reduced price gap.

Transfer to specific commodities (SCT), 2012-14



Single commodity transfers (SCT) represented 54% of the PSE compared to 88% in 1986-88. The share of the SCT was highest for rice.

Table 2.1. **OECD: Estimates of support to agriculture (USD)**

Million USD

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**592 135**	**771 656**	**1 262 987**	**1 273 675**	**1 270 501**	**1 244 785**
***of which:** share of MPS commodities (%)*	72.5	71.0	69.6	68.4	69.4	71.0
Total value of consumption (at farm gate)	**548 337**	**746 653**	**1 148 932**	**1 173 636**	**1 157 130**	**1 116 030**
Producer Support Estimate (PSE)	**238 465**	**252 958**	**250 881**	**259 930**	**253 712**	**239 000**
Support based on commodity output	195 598	177 496	119 657	128 971	120 074	109 925
Market Price Support[1]	183 000	170 461	113 958	122 706	114 976	104 193
Payments based on output	12 599	7 035	5 698	6 265	5 097	5 732
Payments based on input use	20 197	24 053	31 509	30 546	31 298	32 684
Based on variable input use	9 763	11 004	12 940	12 762	12 688	13 371
with input constraints	743	417	702	675	705	727
Based on fixed capital formation	6 870	7 386	11 781	11 047	12 062	12 234
with input constraints	1 235	744	2 228	2 417	2 287	1 979
Based on on-farm services	3 563	5 663	6 788	6 737	6 549	7 079
with input constraints	439	1 056	1 254	1 231	1 227	1 303
Payments based on current A/An/R/I, production required	18 736	41 779	33 691	34 120	34 842	32 111
Based on Receipts / Income	2 053	1 432	4 942	4 675	4 925	5 225
Based on Area planted / Animal numbers	16 683	40 346	28 749	29 445	29 917	26 886
with input constraints	3 719	15 476	21 591	21 805	22 607	20 363
Payments based on non-current A/An/R/I, production required	533	459	1 949	965	1 920	2 961
Payments based on non-current A/An/R/I, production not required	2 080	6 626	57 995	60 270	59 070	54 645
With variable payment rates	181	639	2 484	321	339	6 791
with commodity exceptions	0	0	2 301	155	140	6 607
With fixed payment rates	1 899	5 988	55 512	59 949	58 731	47 854
with commodity exceptions	1 561	4 917	26 798	27 861	27 032	25 501
Payments based on non-commodity criteria	1 077	3 135	5 609	4 588	6 051	6 187
Based on long-term resource retirement	1 076	2 951	2 995	3 132	3 122	2 733
Based on a specific non-commodity output	1	183	2 461	1 292	2 751	3 340
Based on other non-commodity criteria	0	1	152	163	179	115
Miscellaneous payments	243	-589	471	470	457	486
Percentage PSE (%)	**36.9**	**29.6**	**17.9**	**18.4**	**18.0**	**17.3**
Producer NPC (coeff.)	**1.49**	**1.30**	**1.10**	**1.11**	**1.10**	**1.10**
Producer NAC (coeff.)	**1.58**	**1.42**	**1.22**	**1.23**	**1.22**	**1.21**
General Services Support Estimate (GSSE)[2]	**26 881**	**45 886**	**47 012**	**45 105**	**50 549**	**45 381**
Agricultural knowledge and innovation system	4 820	8 347	13 831	13 940	13 862	13 690
Inspection and control	1 147	1 553	4 035	4 093	4 107	3 905
Development and maintenance of infrastructure	10 973	24 248	20 187	18 514	23 159	18 887
Marketing and promotion	2 415	6 243	5 813	5 354	6 379	5 706
Cost of public stockholding	6 003	3 460	1 145	1 105	993	1 337
Miscellaneous	1 523	2 035	2 002	2 100	2 050	1 856
Percentage GSSE (% of TSE)	**9.4**	**14.2**	**13.5**	**12.7**	**14.3**	**13.6**
Consumer Support Estimate (CSE)	**-158 691**	**-169 553**	**-79 930**	**-93 692**	**-78 554**	**-67 544**
Transfers to producers from consumers	-168 133	-166 745	-108 990	-117 863	-110 979	-98 128
Other transfers from consumers	-21 973	-30 243	-21 132	-25 684	-18 929	-18 784
Transfers to consumers from taxpayers	19 875	25 291	49 421	49 555	50 354	48 355
Excess feed cost	11 540	2 144	771	300	1 000	1 013
Percentage CSE (%)	**-30.1**	**-23.4**	**-7.3**	**-8.3**	**-7.1**	**-6.3**
Consumer NPC (coeff.)	**1.53**	**1.36**	**1.13**	**1.14**	**1.13**	**1.12**
Consumer NAC (coeff.)	**1.43**	**1.31**	**1.08**	**1.09**	**1.08**	**1.07**
Total Support Estimate (TSE)	**285 221**	**324 134**	**347 314**	**354 590**	**354 615**	**332 737**
Transfers from consumers	190 106	196 988	130 122	143 547	129 908	116 912
Transfers from taxpayers	117 088	157 389	238 324	236 727	243 636	234 608
Budget revenues	-21 973	-30 243	-21 132	-25 684	-18 929	-18 784
Percentage TSE (% of GDP)	**2.8**	**1.5**	**0.8**	**0.8**	**0.8**	**0.7**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

The OECD total for 1986-88 includes all countries except Chile, Israel and Slovenia, for which data is not available. TSE as a share of GDP for 1986-88 for the OECD is an estimate based on available data.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities: see notes to individual country tables in Part II.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1)

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235122

Table 2.2. **OECD: Estimates of support to agriculture (EUR)**

Million EUR

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**536 394**	**625 221**	**959 854**	**990 927**	**957 066**	**931 569**
***of which:** share of MPS commodities (%)*	72.5	71.0	69.6	68.4	69.4	71.0
Total value of consumption (at farm gate)	**496 332**	**604 212**	**873 323**	**913 096**	**871 664**	**835 211**
Producer Support Estimate (PSE)	**216 353**	**204 471**	**190 737**	**202 227**	**191 121**	**178 862**
Support based on commodity output	177 384	143 314	91 019	100 340	90 451	82 266
Market Price Support[1]	165 896	137 622	86 684	95 466	86 611	77 976
Payments based on output	11 489	5 692	4 335	4 874	3 840	4 290
Payments based on input use	18 293	19 513	23 934	23 765	23 577	24 460
Based on variable input use	8 863	8 900	9 831	9 929	9 558	10 007
with input constraints	683	334	533	525	531	544
Based on fixed capital formation	6 214	5 975	8 945	8 595	9 086	9 156
with input constraints	1 124	596	1 695	1 881	1 723	1 481
Based on on-farm services	3 217	4 638	5 157	5 241	4 933	5 297
with input constraints	397	869	953	958	924	976
Payments based on current A/An/R/I, production required	17 103	33 767	25 608	26 546	26 247	24 031
Based on Receipts / Income	1 908	1 169	3 753	3 637	3 710	3 910
Based on Area planted / Animal numbers	15 195	32 597	21 855	22 908	22 537	20 121
with input constraints	3 300	12 518	16 411	16 964	17 029	15 239
Payments based on non-current A/An/R/I, production required	505	371	1 471	751	1 447	2 216
Payments based on non-current A/An/R/I, production not required	1 900	5 467	44 094	46 891	44 497	40 895
With variable payment rates	161	498	1 862	250	255	5 082
with commodity exceptions	0	0	1 724	121	105	4 944
With fixed payment rates	1 739	4 969	42 232	46 641	44 242	35 813
with commodity exceptions	1 417	4 099	20 375	21 676	20 363	19 084
Payments based on non-commodity criteria	942	2 526	4 253	3 569	4 558	4 631
Based on long-term resource retirement	941	2 376	2 278	2 437	2 351	2 045
Based on a specific non-commodity output	1	149	1 859	1 005	2 072	2 499
Based on other non-commodity criteria	0	0	116	127	135	86
Miscellaneous payments	226	-486	358	366	344	364
Percentage PSE (%)	**36.9**	**29.6**	**17.9**	**18.4**	**18.0**	**17.3**
Producer NPC (coeff.)	**1.49**	**1.30**	**1.10**	**1.11**	**1.10**	**1.10**
Producer NAC (coeff.)	**1.58**	**1.42**	**1.22**	**1.23**	**1.22**	**1.21**
General Services Support Estimate (GSSE)[2]	**24 255**	**37 114**	**35 711**	**35 092**	**38 078**	**33 962**
Agricultural knowledge and innovation system	4 362	6 777	10 511	10 846	10 442	10 246
Inspection and control	1 040	1 266	3 067	3 184	3 093	2 922
Development and maintenance of infrastructure	9 882	19 523	15 328	14 404	17 445	14 135
Marketing and promotion	2 176	5 072	4 413	4 165	4 805	4 270
Cost of public stockholding	5 411	2 823	869	860	748	1 001
Miscellaneous	1 384	1 652	1 522	1 634	1 544	1 389
Percentage GSSE (% of TSE)	**9.4**	**14.2**	**13.5**	**12.7**	**14.3**	**13.6**
Consumer Support Estimate (CSE)	**-143 610**	**-136 665**	**-60 872**	**-72 893**	**-59 175**	**-50 548**
Transfers to producers from consumers	-152 351	-134 578	-82 912	-91 699	-83 600	-73 437
Other transfers from consumers	-19 843	-24 327	-16 099	-19 982	-14 259	-14 057
Transfers to consumers from taxpayers	18 030	20 527	37 558	38 554	37 931	36 188
Excess feed cost	10 555	1 712	581	233	753	758
Percentage CSE (%)	**-30.1**	**-23.4**	**-7.3**	**-8.3**	**-7.1**	**-6.3**
Consumer NPC (coeff.)	**1.53**	**1.36**	**1.13**	**1.14**	**1.13**	**1.12**
Consumer NAC (coeff.)	**1.43**	**1.31**	**1.08**	**1.09**	**1.08**	**1.07**
Total Support Estimate (TSE)	**258 638**	**262 112**	**264 005**	**275 874**	**267 130**	**249 012**
Transfers from consumers	172 195	158 905	99 011	111 680	97 859	87 494
Transfers from taxpayers	106 287	127 534	181 094	184 175	183 530	175 576
Budget revenues	-19 843	-24 327	-16 099	-19 982	-14 259	-14 057
Percentage TSE (% of GDP)	**2.8**	**1.5**	**0.8**	**0.8**	**0.8**	**0.7**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

The OECD total for 1986-88 includes all countries except Chile, Israel and Slovenia, for which data is not available. TSE as a share of GDP for 1986-88 for the OECD is an estimate based on available data.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities: see notes to individual country tables in Part II.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1)

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235133

Chapter 3

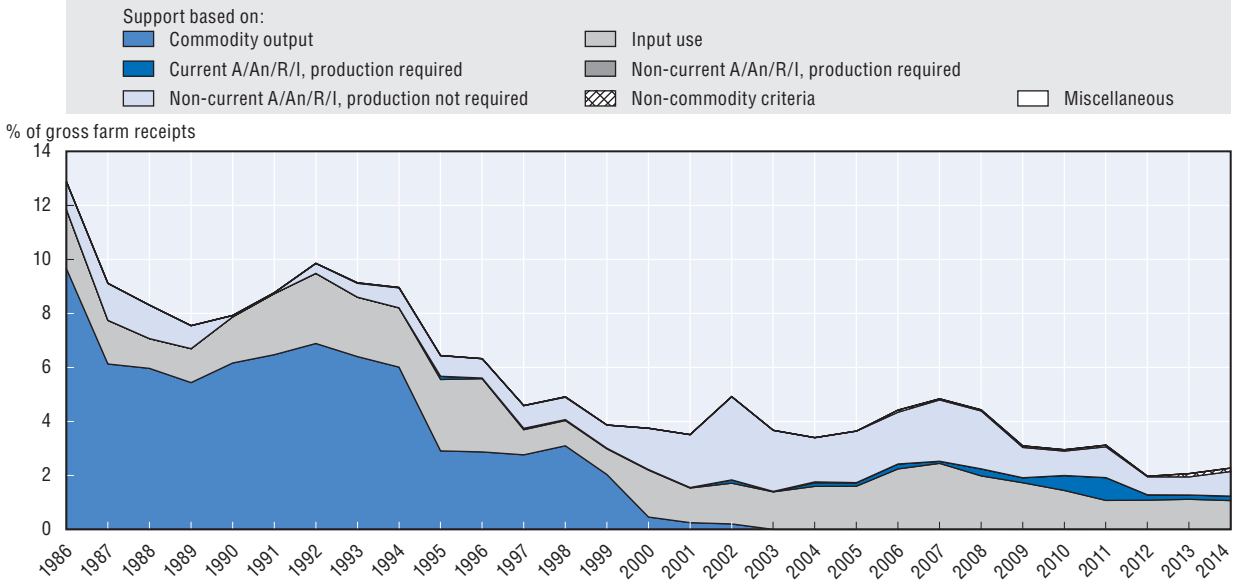
Australia

The Australia country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Since 1986-88 Australia has reduced the level of support to agriculture as measured by the %PSE to close to 2%. Australia has also removed the potentially most distorting forms of support, with zero rates of market price support. This constitutes continuous and significant progress. The remaining support programmes are targeted to risk management, environmental conservation and provision of general services.
- Australia has continued to reform its drought policies since the end of the Exceptional Circumstances programmes in 2013. An Intergovernmental Agreement between Australian federal, state and territory governments is now in place that aims at focusing drought support measures towards encouraging drought preparedness and resilience. Most policy measures have moved in this direction, however, new assistance measures implemented in 2014 have reintroduced concessional loans with subsidised interest rates. Past reviews have found such measures to be inefficient and less effective than alternatives. The use of these, and other concessional loans schemes, should be reviewed.
- Australia should continue using its partnership arrangement through rural research and development corporations (DRCs) to foster innovation and the adoption of new technologies and practices, in order to improve productivity growth.
- The overall challenge for the future is for farms to continue to prepare for extreme climatic conditions and to use resources, in particular water, sustainably. In this light, water market reforms and basin management should continue to be a policy priority.

Figure 3.1. **Australia: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

Australia is the world's 12th largest economy and the sixth largest by land area. While the largest share of total land is comprised of desert or semi-arid land, characterised by old and low fertile soils, Australia nevertheless is an important producer and exporter of agricultural products and maintains a consistently positive and sizeable agro-food trade balance. Agriculture consumes a high share of Australia's relatively scarce water resources. Low water availability, which will be accentuated by climate change, is a principal factor limiting the expansion of agricultural activities.

Table 3.1. **Australia: Contextual indicators, 1995, 2013**[1]

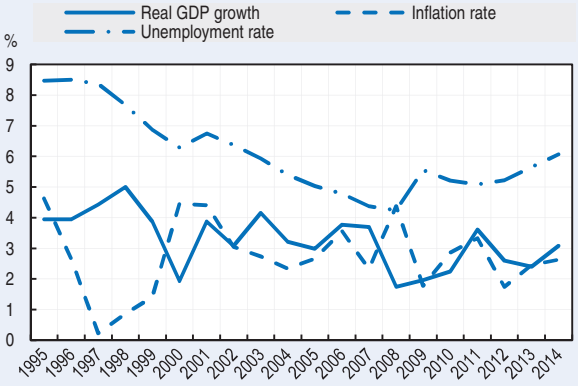
	1995	2013[1]
Economic context		
GDP (billion USD)	393	1 528
Population (million)	18	23
Land area (thousand km^2)	7 682	7 682
Population density (inhabitants/km^2)	2	3
GDP per capita, PPP (USD)	22 312	44 145
Trade as % of GDP	14.1	15.9
Agriculture in the economy		
Agriculture in GDP (%)	3.7	2.4
Agriculture share in employment (%)	4.7	2.6
Agro-food exports (% of total exports)	24.6	14.7
Agro-food imports (% of total imports)	4.7	5.3
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	10 356	24 828
Crop in total agricultural production (%)	48	62
Livestock in total agricultural production (%)	52	38
Agricultural area (AA) (thousand ha)	463 348	405 474
Share of arable land in AA (%)	9	12
Share of irrigated land in AA (%)	0.4	0.5
Share of agriculture in water consumption (%)	63	..
Nitrogen balance, kg/ha	15	14

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235143

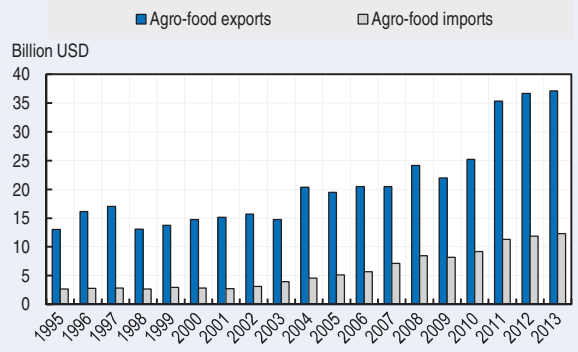
Figure 3.2. **Australia: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234452

Figure 3.3. **Australia: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234466

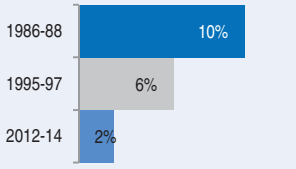
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Support to producers in Australia has been reduced from already relatively low levels since 1986-88. Australia has made reforms to both the level of support and its composition. Reforms to agricultural support have led to the elimination of market price support, a shift towards more targeted direct payments and an increase of the share of the support to general services. Producer support slightly rebounded to 5% PSE in 2006-08 due to a peak in expenditure on drought policy, but since that time support has fallen further and is currently down to around 2%.

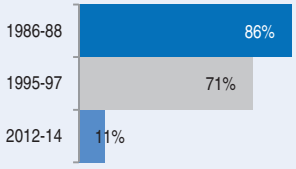
PSE as % of receipts (%PSE)

Support to farmers as measured by the %PSE declined from 10% in 1986-88 to 2% in 2012-14. Most of the decline in recent years is due to the reduced support under the drought policy.



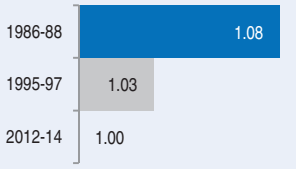
Potentially most distorting support as % of PSE

The share of potentially most distorting support (based on output and variable input use – without input constraints) has decreased significantly over time, and accounts for 11% of the PSE in 2012-14. Despite the downward trend, rates have recently increased due to the Farm Finance Concessional Loans Scheme. Market price support is zero.



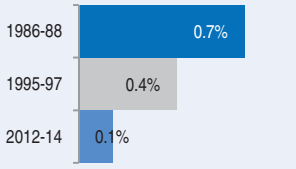
Ratio of producer price to border price (NPC)

Prices received by farmers in 1986-88 were 1.08 times higher than world prices, compared to parity with world prices in 2012-14.



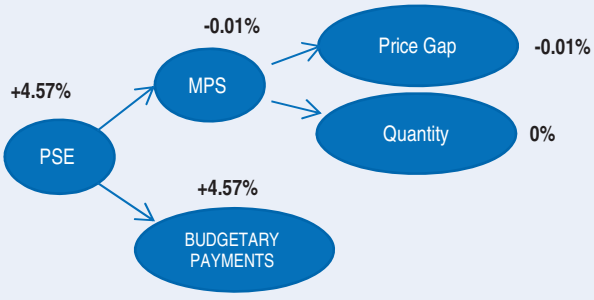
TSE as % of GDP

Total support was 0.7% of GDP in 1986-88, declining to 0.1% by 2012-14. The share of expenditures on general services (GSSE) in total support (TSE) has increased, from 6.2% in 1986-88 to 50.4% in 2012-14.



The share of Single commodity transfers (SCT) in the PSE is virtually zero.

Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014, mainly due to increased budgetary payments related to concessional loans schemes.

Table 3.2. **Australia: Estimates of support to agriculture**

Million AUD

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**19 888**	**28 441**	**50 841**	**48 501**	**53 355**	**50 668**
***of which:** share of MPS commodities (%)*	86.4	75.3	66.8	66.6	67.3	66.5
Total value of consumption (at farm gate)	**7 364**	**11 644**	**23 563**	**20 176**	**25 429**	**25 084**
Producer Support Estimate (PSE)	**2 022**	**1 694**	**1 092**	**973**	**1 125**	**1 177**
Support based on commodity output	1 447	834	0	0	0	0
Market Price Support[1]	1 447	834	0	0	0	0
Payments based on output	0	0	0	0	0	0
Payments based on input use	324	614	565	535	607	553
Based on variable input use	306	376	122	7	180	180
with input constraints	0	0	0	0	0	0
Based on fixed capital formation	5	33	248	322	238	183
with input constraints	0	0	116	164	115	68
Based on on-farm services	13	205	195	207	189	189
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required	0	19	90	98	86	86
Based on Receipts / Income	0	19	89	96	86	86
Based on Area planted / Animal numbers	0	0	1	2	0	0
with input constraints	0	0	1	2	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	250	227	389	330	366	472
With variable payment rates	250	137	361	302	341	440
with commodity exceptions	0	0	180	150	145	245
With fixed payment rates	0	90	28	29	25	32
with commodity exceptions	0	0	0	0	0	0
Payments based on non-commodity criteria	0	1	47	10	66	66
Based on long-term resource retirement	0	0	1	2	0	0
Based on a specific non-commodity output	0	0	47	8	66	66
Based on other non-commodity criteria	0	1	0	0	0	0
Miscellaneous payments	0	0	0	0	0	0
Percentage PSE (%)	**10.1**	**5.8**	**2.1**	**2.0**	**2.1**	**2.3**
Producer NPC (coeff.)	**1.08**	**1.03**	**1.00**	**1.00**	**1.00**	**1.00**
Producer NAC (coeff.)	**1.11**	**1.06**	**1.02**	**1.02**	**1.02**	**1.02**
General Services Support Estimate (GSSE)[2]	**132**	**511**	**1 106**	**1 122**	**1 159**	**1 037**
Agricultural knowledge and innovation system	132	385	710	682	726	721
Inspection and control	0	26	105	102	110	104
Development and maintenance of infrastructure	0	72	280	330	310	199
Marketing and promotion	0	27	11	9	13	12
Cost of public stockholding	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Percentage GSSE (% of TSE)	**6.2**	**23.6**	**50.4**	**53.5**	**50.7**	**46.8**
Consumer Support Estimate (CSE)	**-848**	**-386**	**0**	**0**	**0**	**0**
Transfers to producers from consumers	-848	-386	0	0	0	0
Other transfers from consumers	0	0	0	0	0	0
Transfers to consumers from taxpayers	0	0	0	0	0	0
Excess feed cost	0	0	0	0	0	0
Percentage CSE (%)	**-11.6**	**-3.3**	**0.0**	**0.0**	**0.0**	**0.0**
Consumer NPC (coeff.)	**1.13**	**1.03**	**1.00**	**1.00**	**1.00**	**1.00**
Consumer NAC (coeff.)	**1.13**	**1.03**	**1.00**	**1.00**	**1.00**	**1.00**
Total Support Estimate (TSE)	**2 154**	**2 204**	**2 197**	**2 095**	**2 284**	**2 213**
Transfers from consumers	848	386	0	0	0	0
Transfers from taxpayers	1 306	1 818	2 197	2 095	2 284	2 213
Budget revenues	0	0	0	0	0	0
Percentage TSE (% of GDP)	**0.7**	**0.4**	**0.1**	**0.1**	**0.1**	**0.1**
GDP deflator (1986-88=100)	**100**	**134**	**223**	**221**	**224**	**223**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Australia are: wheat, barley, oats, sorghum, rice, soybean, rapeseed, sunflower, sugar, cotton, milk, beef and veal, sheep meat, wool, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235150

Description of policy developments

Main policy instruments

Australia's agriculture sector remains strongly market oriented. It receives no market price support, with domestic and international prices closely aligned. Agricultural support is mainly provided by budgeted programmes as well as through regulatory arrangements and tax concessions. Budget-financed programmes are mainly used for structural adjustment, temporary assistance during droughts, and for natural resource and environmental management. With a low level of direct government support to farmers and no permanent farm subsidy scheme, research and development (R&D) programmes are a major component of Australian support to agriculture. Rural research and development corporations (RDCs) are the Australian Government's primary vehicle for supporting rural innovation and drive agricultural productivity growth. RDCs are a partnership between the government and industry created to share the funding and strategic direction setting for primary industry R&D, investment in R&D and the subsequent adoption of R&D outputs. A levy system provides for the collection of contributions from farmers to finance RDCs, and the Australian Government provides matching funding for the levies, up to legislated caps. Australia includes agriculture in emissions trading and provides funding for mitigation projects through an Emissions Reduction Fund.

Australia has negligible tariff protection on imports of agriculture and food products, and its agricultural trade policy is directed towards seeking further market opening in multilateral, bilateral and regional trade agreements.

Domestic policy developments in 2014-15

Major policy developments include a government review of Australia's agricultural competitiveness; an analysis of the potential to develop agriculture in northern Australia; implementation of drought support programmes; proposed changes to Australia's biosecurity arrangements; additional R&D programmes; and reforms aimed at reducing regulatory compliance costs.

The Australian Government is developing an agricultural competitiveness "White Paper" which will set the broad parameters to guide the development of future Australian agricultural policy. The White Paper process provides for stakeholder engagement to aid in the development of the Government's approach and priorities for future agricultural policy. The White Paper will seek to identify approaches for growing farm profitability and boosting agriculture's contribution to economic growth, trade, innovation and productivity. The White Paper will consider issues including food security, improving farm gate returns, debt, supply chain competitiveness, investment, job creation, infrastructure, skills and training, R&D, regulatory effectiveness and market access. A White Paper is also being prepared to establish a policy platform for development in northern Australia.

A number of new drought assistance measures have been implemented by governments under the 2013 Intergovernmental Agreement on National Drought Program Reform. The measures included are the Australian Government's Farm Household Allowance – a farmer-specific income support payment for those experiencing financial hardship regardless of reason (not only related to drought) and improved access to the Farm Management Deposits Scheme (tax advantaged savings scheme). Further drought policies were announced by the Australian Government in 2014, including drought recovery concessional loans (loans at below market interest rates) in a number of states and territories and additional funding for existing state government water infrastructure fee rebates and

pest animal management programmes. Previous reviews of drought policy in Australia have criticised the use of such interest rate and transaction based subsidies as ineffective and inefficient responses to achieving the stated objectives of Australia's drought policy framework – that of encouraging farmers to improve their preparedness and resilience to droughts (PC 2009; Kimura and Antón, 2011). Expenditures under another, but non-drought related, concessional loans scheme – the Farm Finance Concessional Loans Scheme introduced in 2013 and amounting to AUD 174 million (USD 156 million) in that financial year (2013-14) – are one of the main drivers of the increase seen in the PSE since 2012.

In 2014, the Australian Government announced that it would abolish the National Water Commission, the principal agency behind the implementation of the National Water Initiative, and split is functions between several other Australian Government agencies. The National Water Initiative is intended to be Australia's enduring blueprint for water reform. The purpose is to have a system that is consistent across the different states and territories.

In November 2014, the government introduced the Biosecurity Bill 2014 and supporting bills into Parliament. Once passed, the biosecurity legislation will replace the Quarantine Act 1908. The reforms seek to simplify and streamline Australia's biosecurity requirements, while maintaining standards to protect agricultural industries from exotic pests and diseases. It is expected that, if passed, the new legislation take effect in 2016.

In October 2014 the Australian Government launched a new R&D initiative called *Rural R&D for Profit*. The programme seeks to encourage collaborative projects between the RDCs and outside agencies and researchers and has a total budget of AUD 100 million (USD 91 million) over 4 years. Other new programmes included a 'small exporter' assistance programme and the streamlining or repeal of a number of regulatory requirements with the aim to reduce regulatory compliance costs.

Trade policy developments in 2014-15

Australia has seven comprehensive Free Trade Agreements (FTAs) in force, both regional and bilateral, with ***New Zealand*** (ANZCERTA 1983), ***Singapore*** (SAFTA 2003), ***Thailand*** (TAFTA 2005), the United States ***of America*** (AUSFTA 2005), ***Chile*** (Australia-Chile FTA 2009), the ***ASEAN-Australia-New Zealand Free Trade Area*** (AANZFTA 2010) and ***Malaysia*** (2013).

Australia has recently signed an FTA with the ***Republic of Korea*** (KAFTA) in April 2014 and an Economic Partnership Agreement with ***Japan*** (JAEPA) in July 2014. KAFTA entered into force on 12 December 2014, and the JAEPA entered into force on 15 January 2015.

Australia and ***China*** concluded negotiations on the China-Australia FTA (ChAFTA) in November 2014. Both countries have undertaken to conduct respective legal reviews of the concluded text and prepare Chinese and English language versions for signature in 2015. In terms of agricultural products, tariffs will be reduced within four to eight years for Australian exports for beef, sheep meat, dairy, wine, seafood, sorghum barley and horticulture exports such as table grapes.

Australia is engaged in a further seven FTA negotiations. There are two individual bilateral FTA negotiations with **India** and **Indonesia**. The five plurilateral FTA negotiations are the **Trans-Pacific Partnership Agreement** (TPP), the **Gulf Cooperation Council** (GCC), the **Pacific Trade and Economic Agreement** (PACER Plus), the **Regional Comprehensive Economic Partnership Agreement** (RCEP) and the **Trade in Services Agreement** (TiSA).

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Kimura, S. and J. Antón (2011), "Risk Management in Agriculture in Australia", *OECD Food, Agriculture and Fisheries Papers*, No. 39, OECD Publishing, Paris, *http://dx.doi.org/10.1787/5kgj0d8bj3d1-en*.

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Chapter 4

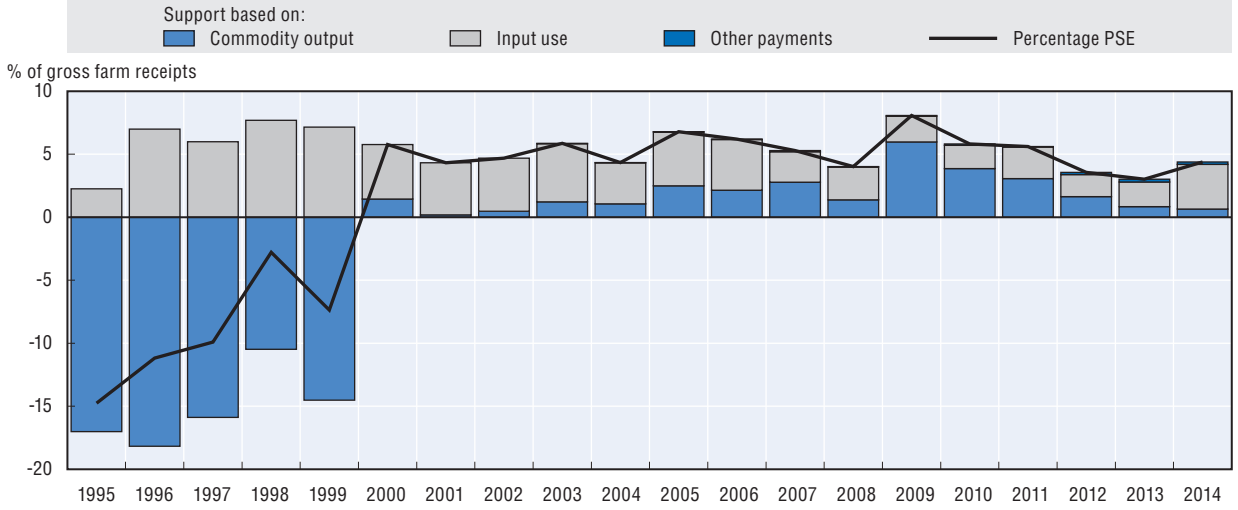
Brazil

The Brazil country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2013-15.

Evaluation of policy developments

- Brazil provides a relatively low aggregate level of support and protection to agriculture, reflecting its position as a competitive exporter. The level of producer support (PSE) was 4% of gross farm receipts for the period 2012-14. However, important part of this support is provided through measures that distort farm prices and current costs although there is a great deal of variation of support across commodities.
- Agricultural policy on aggregate moderately distorts farm prices and current costs. In 2014, PSE accounted for 86% of total support, with the remaining 14% spent on general services to the sector. A wide range of policy measures are applied, including price stabilisation through minimum guaranteed prices and government purchases, as well as intervention in the credit system to provide credit to farmers at preferential rates.
- Agricultural credit at preferential interest rates has been growing consistently. By 2014 around BRL 177 billion (USD 76 billion) were allocated to the sector, of which 87% was provided to commercial agriculture; the remaining 13% was given to small-scale agriculture. The implicit subsidy of this credit is estimated at USD 10 billion for 2014. Whereas the credit system is intended to address failures in financial markets, it also creates risks (default) for government and producers, particularly since the macroeconomic situation has recently become less favourable (e.g. lower growth rate and inflation). Furthermore, more than half of this credit is concentrated on subsidising short-term borrowing such as working capital and commercialisation loans that further distort markets. Credit support could be re-focused to support on-farm investments that explicitly incorporate technological innovations and advanced farm management and environmental practices.
- New programmes have been introduced recently to encourage environmental improvements and infrastructure development. For instance, the zoning programme is now required for the allocation of insurance and credit support; credit for plantings on unproductive and degraded soils, credit for forest planting including palm oil for biofuel, and credit to modernise production systems and preserve natural resources, among others.
- Support to family farms has been given via loans at subsidised rates, guaranteed prices and subsidised insurance, with the objective of improving farmer incomes. However, existing mechanisms for social protection could protect farmer income more effectively and direct investment in infrastructure and public investments could trigger agricultural growth, for both commercial farms and smallholders, more efficiently.

Figure 4.1. **Brazil: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

Brazil is among the world's ten largest economies with a GDP of USD 2 245 billion. In recent years Brazil has become an upper middle income country, with a GDP per capita of more than USD 15 000 per year following strong growth that averaged 4.3% from 2005 to 2013. However, in 2013, the Brazilian economy grew only 2.5% a rate much lower than in previous years. Brazil struggles with significant poverty, with more than 6.5% of the population living on less than two dollars a day (WDI, 2012). Income inequality remains severe with a Gini coefficient of 0.52 in 2013. Brazil is endowed with vast agricultural resources with 275 million ha agricultural area, exceeded only by China, Australia and the United States. Agriculture accounts for 5.7% of GDP, for 35.7% of total exports and 13.7% of employment. Brazil is one of the largest global exporters of agricultural products with a trade surplus of USD 75 billion in 2013.

Table 4.1. **Brazil: Contextual indicators, 1995, 2013**[1]

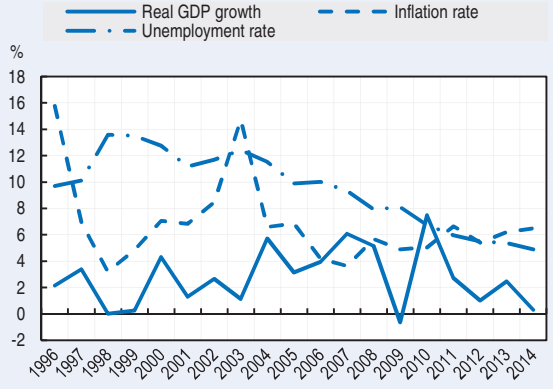
	1995	2013[1]
Economic context		
GDP (billion USD)	770	2 245
Population (million)	159	201
Land area (thousand km^2)	8 459	8 358
Population density (inhabitants/km^2)	19	24
GDP per capita, PPP (USD)	7 843	15 037
Trade as % of GDP	6.5	10.7
Agriculture in the economy		
Agriculture in GDP (%)	5.8	5.7
Agriculture share in employment (%)	26.1	13.7
Agro-food exports (% of total exports)	29.3	35.7
Agro-food imports (% of total imports)	12.4	4.7
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	6 986	75 241
Crop in total agricultural production (%)	63	64
Livestock in total agricultural production (%)	37	36
Agricultural area (AA) (thousand ha)	258 472	275 605
Share of arable land in AA (%)	22	26
Share of irrigated land in AA (%)	..	..
Share of agriculture in water consumption (%)	..	..
Nitrogen balance, kg/ha	..	..

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235165

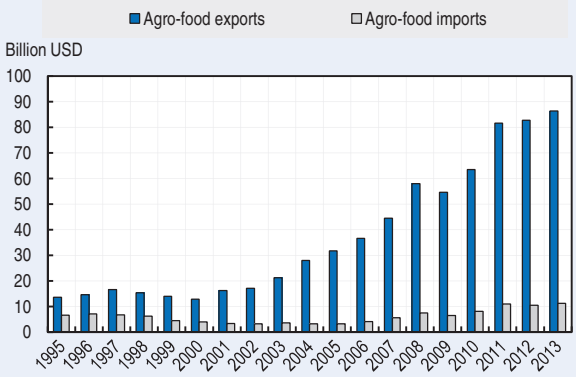
Figure 4.2. **Brazil: Main macroeconomic indicators, 1996-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234482

Figure 4.3. **Brazil: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234496

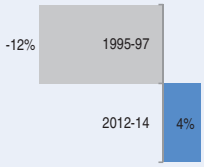
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Support to producers (%PSE) was 4.4% of gross farm receipts in 2014, well below the OECD average of 18%. However, 95% of producer support (PSE) is given through input subsidies, particularly through implicit credit subsidies, debt rescheduling and rural insurance. Market price support is relatively low, and is mostly provided through minimum guaranteed prices. NPC for 2014 was close to unity suggesting that prices received by farmers are on aggregate aligned with those in the international market.

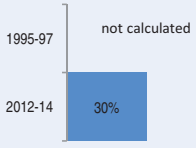
PSE as % of receipts (%PSE)

Brazil provides relatively low support to its farmers. Brazil has moved from taxing the sector in the 80s and 90s to a moderate level of support. PSE for 2012-14 was 4% of gross farm receipts, below the OECD average of 18% for the same period.



Potentially most distorting support as % of PSE

Around a third of total support is linked to commodity output (price support) and variable input use; which are considered to be the most production and trade distorting measures. Input subsidies doubled between 2013 and 2014.

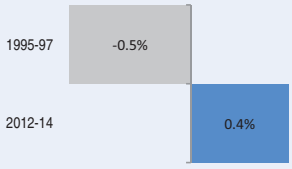


Ratio of producer price to border price (NPC)

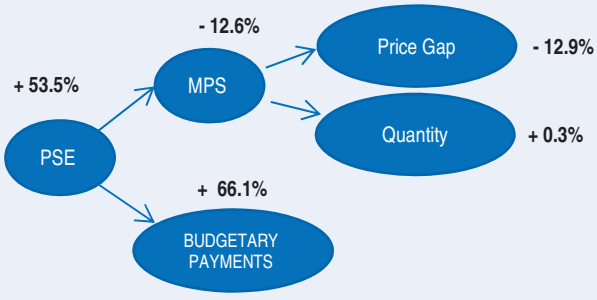
Prices received by farmers have been closely aligned with border prices. For the years 2012-14, producer prices were only 1% higher than those observed in the world markets.

TSE as % of GDP

Total support to agriculture represents only 0.4% of GDP and the share of GSSE in TSE is 17%.

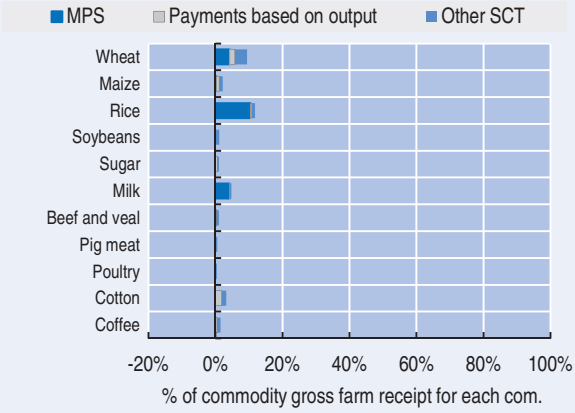


Decomposition of change in PSE, 2013 to 2014



The level of support in 2014 has increased mainly through input subsidies, in particular credit and insurance.

Transfer to specific commodities (SCT), 2012-14



Single Commodity Transfers (SCT) for rice was 12%, for wheat 9% and 5% for milk.

Table 4.2. **Brazil: Estimates of support to agriculture**

Million BRL

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**54 738**	**416 968**	**370 387**	**432 481**	**448 035**
***of which:** share of MPS commodities (%)*	73.4	78.9	80.8	77.1	78.7
Total value of consumption (at farm gate)	**52 178**	**294 052**	**262 857**	**301 911**	**317 389**
Producer Support Estimate (PSE)	**-6 809**	**15 773**	**13 430**	**13 366**	**20 523**
Support based on commodity output	-9 816	4 325	6 207	3 702	3 067
Market Price Support[1]	-9 891	3 083	5 550	2 691	1 007
Payments based on output	75	1 243	657	1 010	2 061
Payments based on input use	3 007	10 606	6 596	8 684	16 539
Based on variable input use	1 673	5 311	2 820	3 481	9 633
with input constraints	0	5 204	2 685	3 295	9 633
Based on fixed capital formation	1 200	4 377	3 073	3 895	6 163
with input constraints	0	4 377	3 073	3 895	6 163
Based on on-farm services	134	918	702	1 308	743
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required	0	841	627	980	916
Based on Receipts / Income	0	841	627	980	916
Based on Area planted / Animal numbers	0	0	0	0	0
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE (%)	**-11.9**	**3.7**	**3.6**	**3.0**	**4.4**
Producer NPC (coeff.)	**0.85**	**1.01**	**1.02**	**1.01**	**1.01**
Producer NAC (coeff.)	**0.89**	**1.04**	**1.04**	**1.03**	**1.05**
General Services Support Estimate (GSSE)[2]	**2 914**	**3 162**	**3 078**	**3 056**	**3 353**
Agricultural knowledge and innovation system	675	465	513	464	419
Inspection and control	109	218	214	269	172
Development and maintenance of infrastructure	1 697	1 623	1 461	1 589	1 819
Marketing and promotion	8	195	465	50	68
Cost of public stockholding	425	661	425	684	874
Miscellaneous	0	0	0	0	0
Percentage GSSE (% of TSE)	**..**	**17.0**	**18.4**	**18.6**	**14.0**
Consumer Support Estimate (CSE)	**6 505**	**-3 606**	**-5 885**	**-4 085**	**-849**
Transfers to producers from consumers	6 575	-3 046	-5 550	-2 691	-896
Other transfers from consumers	-118	-657	-516	-1 394	-61
Transfers to consumers from taxpayers	15	61	182	0	0
Excess feed cost	32	36	0	0	108
Percentage CSE (%)	**12.4**	**-1.3**	**-2.2**	**-1.4**	**-0.3**
Consumer NPC (coeff.)	**0.89**	**1.01**	**1.02**	**1.01**	**1.00**
Consumer NAC (coeff.)	**0.89**	**1.01**	**1.02**	**1.01**	**1.00**
Total Support Estimate (TSE)	**-3 879**	**18 996**	**16 690**	**16 422**	**23 875**
Transfers from consumers	-6 457	3 703	6 067	4 085	956
Transfers from taxpayers	2 696	15 950	11 139	13 731	22 980
Budget revenues	-118	-657	-516	-1 394	-61
Percentage TSE (% of GDP)	**..**	**0.4**	**0.4**	**0.3**	**0.5**
GDP deflator (1995-97=100)	**100**	**356**	**333**	**358**	**376**

.. Not available

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Brazil are: wheat, maize, rice, soybean, sugar, milk, beef and veal, pig meat, poultry, cotton, coffee.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235178

Description of policy developments

Main policy instruments

Agricultural policy in Brazil has three main components: minimum price guarantees, rural credit and agricultural insurance subsidies. There are, nevertheless, other important policy measures that contribute to the shaping of agricultural policy including agricultural land zoning and the promotion of biofuels and organic production. Agricultural policy is defined in the Agricultural and Livestock Plan administered by the Ministry of Agriculture, Livestock and Procurement (MAPA) which focuses only on commercial agriculture; and by the Family Agriculture Plan operated by the Ministry of Agrarian Development (MDA) that deals with small-scale family farms.

Agricultural **objectives** for the period 2014/15 continue to emphasise production and credit: 1) Increase agricultural production to ensure internal market supply and generate surpluses for exports; 2) Ensure appropriate levels of resources for agricultural financing; 3) Improve the conditions of access to rural credit; 4) Support farmers in climate and price risk management; 5) Enhance support for investment in infrastructure, logistics, irrigation, innovation and sustainable development; and 6) Encourage organic production and biofuels. These objectives apply to both commercial and family agriculture, although for the latter, increasing family farm incomes is also major policy objective, as well as assuring food security through increasing production.

For commercial agriculture, **minimum guaranteed prices** are announced regionally through the PGPM (*Política de Garantia de Preços Mínimos*) by the Secretary of Agricultural Policy (SPA) operated by the National Food Supply Agency (*Companhia Nacional de Abastecimento*, CONAB). This mechanism covers a great variety of crops from rice, wheat, maize, cotton, soybeans, to regional crops like cassava, beans, açaí, guaraná, sisal, and a few livestock products like cow and goat milk and honey. Other price support mechanisms for commercial agriculture are the direct **government purchases** (*Aquisição do Governo Federal*, AGF) and the provision financing of **storage** by the FEPM (*Financiamento para Estocagem de Produtos Agropecuários integrantes da Política de Garantia de Preços Mínimos*) former *Empréstimo do Governo Federal*-EGF.

The MDA supports the development of family agriculture, and makes use of the **minimum prices** policy. Instruments that support prices and target small-scale agriculture are **government purchases** similar to AGF (*Programa de Aquisição de Alimentos*, PAA) and the **minimum prices** programme for family farms, (*Programa de Garantia de Preços para a Agricultura Familiar*, PGPAF). Under PAA, CONAB makes direct acquisitions from family farms at market prices, with the product either going into stock or distributed as part of a food programme. The PGPAF ensures that small-scale farmers receive a guaranteed price based on the average regional production cost of family farms. Agricultural credit is the major policy instrument for the sector and it is provided to both commercial and small-scale family farms. The National **Rural Credit** System (*Sistema Nacional do Credito Rural*, SNCR) directs credit to farmers at preferential interest rates. For commercial agriculture the SNCR system provides credit for marketing, working capital and investment. Some investment credit allocations under SNCR are funded by BNDES and managed by MAPA like *Programa ABC, Moderagro, Moderinfra, Moderfrota, PSI rural, Prodecoop, Pronamp, Procap-Agro, Inovagro and PCA*. Credit for family farms falls under the auspices of PRONAF-Credit of MDA and provides only working capital and investment loans. Support is also provided to producers through **debt rescheduling**. Major debt rescheduling occurred during the late 1990s and early 2000s for both commercial and family producers.

Agricultural **insurance** is another important area for the government. There are four main programmes: the rural insurance premium programme (*Programa de Subvenção ao Prêmio do Seguro Rural*, PSR), the general agriculture insurance programme (*Programa de Garantia da Atividade Agropecuária*, PROAGRO) these two targeting commercial farmers and administered by MAPA. PROAGRO-Mais or family agriculture insurance (*Seguro da Agricultura Familiar*, SEAF), and crop guarantee programme (*Programa Garantía-Safra*, GS) that deal with family small-scale agriculture. These four programmes support farmers either by paying part of the insurance premium costs or by compensating farmers for production losses due to natural disasters.

In a number of programmes support is conditioned by **environmental criteria**. In addition, several specific programmes promote sustainable agricultural practices. These include credit for plantings on unproductive and degraded soils, credit for forest planting, and credit to modernise production systems and preserve natural resources.

Domestic policy developments in 2013-15

Under the **minimum prices** policy, for the commercial agriculture in 2014 BRL 5.6 billion (USD 2.5 billion) were spent on price support, government purchases of agricultural products and maintenance of public stocks. For family agriculture the PAA programme (government purchases) allocated BRL 1.2 million (USD 516 million) in 2014.

In 2013, **deficiency payments** through the PEPRO programme were given to mostly maize farmers (USD 211 million). For 2014, PEPRO was available for wheat (USD 35 million), cotton (USD 105 million), and maize (USD 110 million) producers.

Concessional **credit** provided to farmers continues to increase, growing 13% from 2013 to 2014. Credit allocated to agriculture reached BRL 177 billion (USD 76 billion) in 2014, of which only 13% (BRL 24 billion or USD 10 billion) were allocated to family agriculture. The remaining 87% was allocated to commercial agriculture. Sources of funding for this concessional credit come from "compulsory" resources (*Exigibilidade dos Recursos Obrigatórios*) where banks are obliged to either hold their sight deposits as obligatory reserves at the Central Bank at zero interest rate or to allocate the same proportion in loans to agricultural activities at below market interest rates. As of June 2012, 34% of these sight deposits should be used for agricultural credit, on the other hand rural savings (*Poupança Rural*) are obliged to hold 66% of its sight deposits for agricultural credit.

In 2014, the rural **insurance** (*seguro rural*) programme provided BRL 700 million (USD 300 million) in insurance subsidies to commercial producers and covered 10 million hectares of major crops; resources allocated to the other insurance programme called PROAGRO were much higher at BRL 1.5 billion (USD 645 million), these two programmes serve large-scale agriculture only. Insurance support for family farms is under the programme PROAGRO-MAIS-SEAF, this programme spent in 2014 more than BRL 3.2 billion (USD 1.3 billion) to support small-scale agriculture. Subsidy rates go from 40% to 100% of the premium.

Biofuel production is strongly supported via measures which include: lending to construct ethanol plants and storages; tax incentives on flex-fuel cars which can run on any combination of ethanol and gasoline; and mandatory blending ratios for both gasoline and diesel. The mandatory blending of ethanol with gasoline increased to 25% in 2013 and to 27.5% in March 2015. The mandatory blending of 5% biodiesel with diesel also increased to 7% in 2013. In 2013/14 season, 54.8% of national sugar cane production was processed into 25.57 billion litres of **ethanol** whose production is expected to reach 25.87 billion litres in 2014/15.

The "**zoning**" programme has been designed to minimise agricultural weather related risks. The programme allows each municipality to identify the best time for crop planting based on a methodology that quantifies agricultural risks using parameters like climate, soil, and crop cycles. Compliance with zoning has been adopted by both ministries of agriculture (MAPA and MDA) as a requirement for access not only to insurance support but also for the provision of some other assistance, including concessional credit. This requirement was first applied for wheat in 1996. By 2012, it had been applied to 40 crops, of which 15 are annual and 25 permanent and has been used by 25 of the 26 states of Brazil. For rural insurance (*Seguro rural*) the compliance became effective in 2006. For rural credit, *the resolution BACEN 3545* specifies that rural credit should be subject to zoning which became effective in 2008. By 2014, all credit and agricultural insurances programmes were subject to compliance with the zoning programme.

Investments in some general services like **infrastructure** and agricultural innovation have received higher levels of expenditures from BRL 1.5 billion in 2012 to BRL 1.8 billion (USD 780 million) in 2014. However, weak infrastructure is still a significant bottleneck for agricultural development. Producers are typically far away from their principal markets and face underdeveloped internal logistic systems. **Technical assistance** and extension services are provided to family agriculture through the programme *Assistência Técnica e Extensão Rural, ATER*. Expenditures in 2014 were BRL 742 million (USD 318 million). Programmes directed to family farms on **land restructuring** accounted for BRL 649 million.

During the period 2013-14, despite the adverse weather that hit important areas of agricultural production, Brazil harvested a new record of 193.5 million tonnes of grains. For the period 2014-15, grain production is expected to reach 200 million tonnes. Livestock has also experienced major production gains, with an increase of 46% from 2003 to 2013; with the production of beef, poultry, pig meat reaching, all together, 25.7 million tonnes in 2013. Brazil is a major world agricultural producer and exporter. In 2013 Brazil ranked first in the production of sugar, coffee and orange juice; second in soybeans and beef; third in chicken and maize; and fourth in pig meat. In 2014 it became the biggest exporter of all these products except for pig meat where it ranked fourth (MAPA, 2014).

Trade policy developments in 2013-15

Brazil is a founding member of the Southern Common Market (MERCOSUR), and as such is a party to preferential trade agreements with the Plurinational State of Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico, Peru, and the Bolivarian Republic of Venezuela (WTO, 2013). In 2009, MERCOSUR signed an FTA with ***Israel***, with ***Egypt*** in 2010 and with ***Palestine*** in 2011. Preferential agreements between MERCOSUR and ***India*** and the South African Customs Union (***SACU***) were signed in 2009. By 2014, trade agreements with ***Israel*** and India were in force, but the agreements with Egypt, Palestine, and SACU need to be ratified by the National Congress. Brazil, along with ***Argentina, Uruguay, Paraguay*** and ***Venezuela*** is a member of MERCOSUR, ***Bolivia*** started a process of accession in December 2012 and this process has not been concluded. In recent years, the country stands out for how very few FTAs it has been part of.

In 2012 Brazil's applied MFN customs tariffs were entirely *ad valorem*, with rates ranging from zero to 55%. The simple average MFN tariff applied in 2012 was 11.7%, up from 11.5% in 2008. Brazil bound its entire tariff during the Uruguay Round at rates between 0% and 55% for agricultural products (WTO definition), and from 0% to 35% for non-agricultural products (WTO, 2013).

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Chapter 5

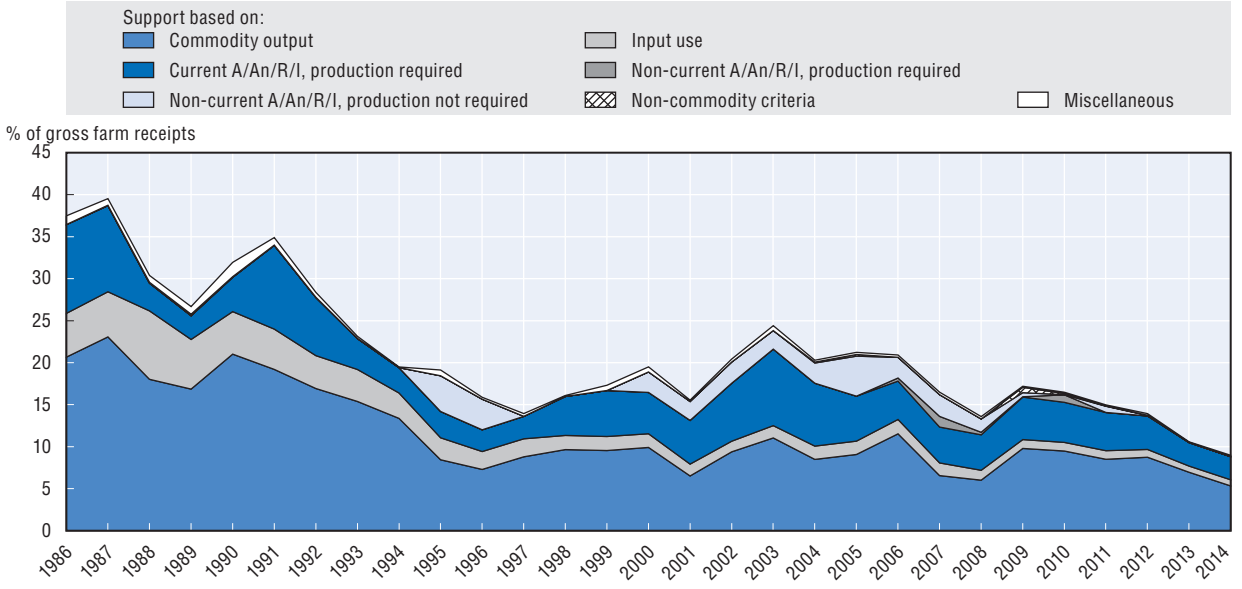
Canada

The Canada country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Overall, producer support has significantly decreased since 1986-88 and domestic markets for most agricultural commodities are competitive, including wheat and barley in western Canada. The current level of support is around 11% of gross farm receipts. Most reforms in the past decade have involved fine-tuning existing programmes, although the current 5-year policy framework for 2013-18 places a stronger emphasis on innovation, competitiveness and sustainability.
- The dairy, poultry and egg sectors continue to receive high price support, distorting production and trade, with high rents being capitalised in the value of quotas required to produce under the supply-management system. Increasing the amount of quota available and reducing price support would be a step towards improving market orientation, stimulating cost-reduction and product-diversification innovation and reducing these rents which currently act as a barrier to entry into supply-managed sectors.
- Budgetary support has become tightly focused on mitigating farm income fluctuations, resulting in several programmes with potentially overlapping mandates and impacts. The implementation of ad hoc programmes should be governed by stricter protocols and disciplines that mitigate potential pressure for additional support in situations in which existing programmes suffice.
- New programmes target more specifically industry-led research and development, adoption of innovation in food and agriculture, and marketing initiatives. This should foster innovativeness in the sector. The policy focus should continue to shift more towards facilitating the adoption of innovation which contributes to the long-term objectives of improving the profitability, competitiveness and sustainability of the food and agriculture sector.

Figure 5.1. **Canada: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234505

Contextual information

Canada is a large country with a small population relative to its area. Canada is ranked 7th in the OECD in GDP per capita. Primary agriculture remains an important part of the economy regionally, but overall it represents less than 2% of GDP. Canada is a large net exporter of agricultural commodities, with agri-food exports accounting for 10% of total exports. More than half of Canadian agri-food exports are destined to the United States. The typical farm in the western prairies is twice the national average in terms of land, highly productive and produces largely for export markets. Most milk production is located in Eastern Canada, which has relatively smaller farm sizes and a larger variety of crops, including fruits and vegetables. The red meat industries (i.e. hog and beef cattle) maintain a significant presence across Canada, especially in Western Canada, Ontario and Quebec.

Table 5.1. **Canada: Contextual indicators, 1995, 2013**[1]

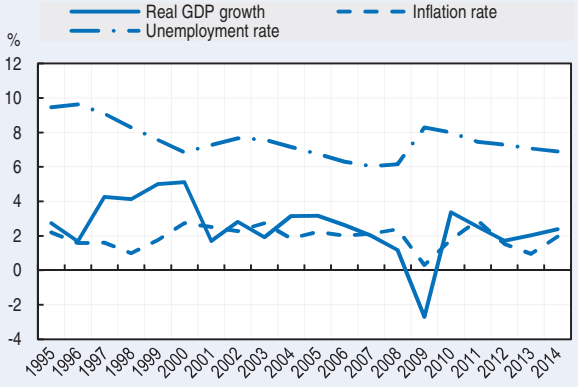
	1995	2013[1]
Economic context		
GDP (billion USD)	590	1 826
Population (million)	29	35
Land area (thousand km^2)	9 094	9 094
Population density (inhabitants/km^2)	3	4
GDP per capita, PPP (USD)	22 789	42 748
Trade as % of GDP	30.1	25.1
Agriculture in the economy		
Agriculture in GDP (%)	2.9	1.6
Agriculture share in employment (%)	3.8	2.0
Agro-food exports (% of total exports)	6.8	9.9
Agro-food imports (% of total imports)	5.5	7.5
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	3 817	10 776
Crop in total agricultural production (%)	51	58
Livestock in total agricultural production (%)	49	42
Agricultural area (AA) (thousand ha)	67 994	65 346
Share of arable land in AA (%)	67	70
Share of irrigated land in AA (%)	1	..
Share of agriculture in water consumption (%)	10	6
Nitrogen balance, kg/ha	18	24

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235185

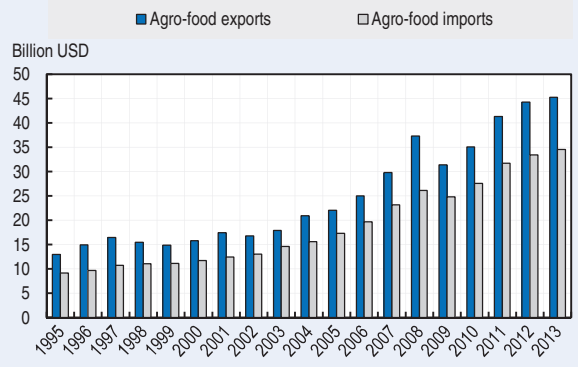
Figure 5.2. **Canada: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234515

Figure 5.3. **Canada: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234529

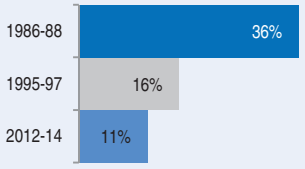
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Agricultural support in Canada has been reduced significantly since 1986-88 and has continued declining in recent years due to a lower level of market price support and disaster payments. Support is focussed on payments aiming at mitigating farm income fluctuations. The share of potentially most production and trade distorting support, the NPC, and the share of SCT transfers in the PSE are largely determined by market price support, delivered through longstanding supply-management systems for milk, poultry and eggs.

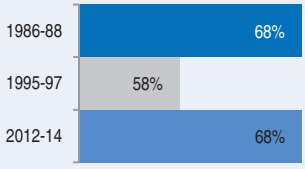
PSE as % of receipts (%PSE)

Significant reforms during late 1980s to early 1990s have reduced support as a share of receipts relative to the 1986-88 period, and it continued declining in recent years. Support has remained consistently below the OECD average.



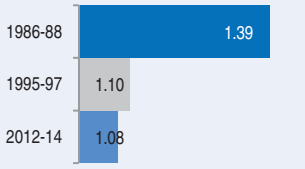
Potentially most distorting support as % of PSE

Market price support (MPS) to grains was discontinued in 1995, reducing the share of most distorting support (based on output and variable input use – without input constraints). Currently, MPS for dairy accounts for the biggest proportion of most distorting support, which currently accounts for the same share as in the base period.



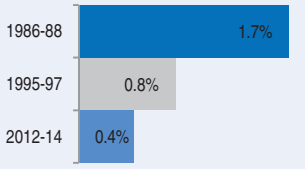
Ratio of producer price to border price (NPC)

Since 1995, the NPC has resulted largely from MPS for dairy, poultry and eggs. Producer prices of other commodities are mostly aligned with border prices.

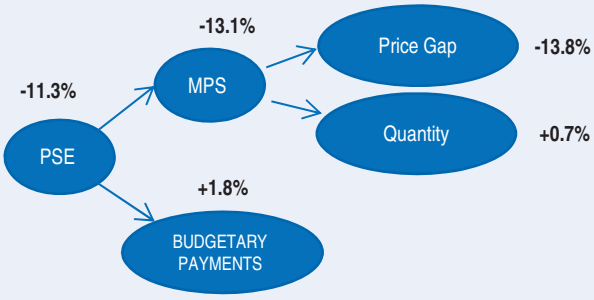


TSE as % of GDP

TSE relative to GDP has been declining, reaching 0.4% of GDP in 2012-14. As PSE declined, GSSE increased from one-eighth of the TSE in 1986-88 to more than one quarter in 2012-14.

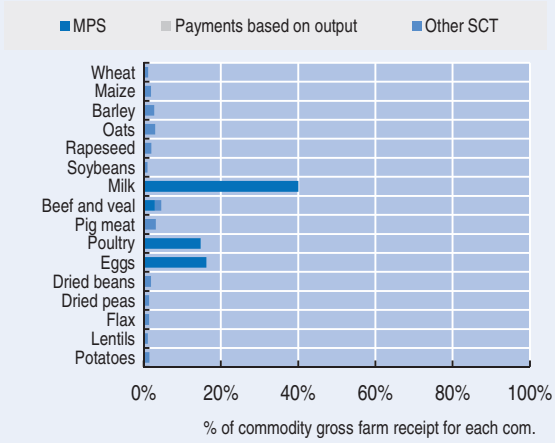


Decomposition of change in PSE, 2013 to 2014



Lower market price support to milk, poultry and eggs, deriving from higher border prices is the main driver of change in PSE in 2014.

Transfer to specific commodities (SCT), 2012-14



Single commodity transfers made up 80% of the PSE in 2014. The share of the SCT in commodity receipts is particularly higher for milk, poultry and eggs.

Table 5.2. **Canada: Estimates of support to agriculture**

Million CAD

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**18 458**	**27 549**	**52 358**	**50 375**	**52 170**	**54 529**
***of which:** share of MPS commodities (%)*	85.6	84.2	85.4	86.1	84.8	85.4
Total value of consumption (at farm gate)	**16 625**	**21 505**	**31 905**	**32 513**	**31 587**	**31 615**
Producer Support Estimate (PSE)	**7 985**	**4 910**	**6 071**	**7 405**	**5 726**	**5 081**
Support based on commodity output	4 592	2 465	3 810	4 648	3 766	3 018
Market Price Support[1]	4 116	2 296	3 810	4 648	3 766	3 018
Payments based on output	476	169	0	0	0	0
Payments based on input use	1 396	692	436	493	400	414
Based on variable input use	795	345	329	384	300	303
with input constraints	0	0	0	0	0	0
Based on fixed capital formation	575	328	82	78	77	92
with input constraints	0	0	2	1	5	0
Based on on-farm services	26	19	24	31	23	19
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required	1 790	841	1 729	2 117	1 513	1 558
Based on Receipts / Income	635	459	827	971	768	741
Based on Area planted / Animal numbers	1 155	382	902	1 146	744	817
with input constraints	0	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	790	11	33	0	0
With variable payment rates	0	733	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	0	58	11	33	0	0
with commodity exceptions	0	0	0	0	0	0
Payments based on non-commodity criteria	10	0	5	13	1	0
Based on long-term resource retirement	10	0	5	13	1	0
Based on a specific non-commodity output	0	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	196	123	80	102	47	91
Percentage PSE (%)	**35.8**	**16.3**	**11.2**	**13.9**	**10.6**	**9.0**
Producer NPC (coeff.)	**1.39**	**1.10**	**1.08**	**1.10**	**1.08**	**1.06**
Producer NAC (coeff.)	**1.56**	**1.20**	**1.13**	**1.16**	**1.12**	**1.10**
General Services Support Estimate (GSSE)[2]	**1 456**	**1 649**	**2 314**	**2 343**	**2 412**	**2 187**
Agricultural knowledge and innovation system	600	680	902	875	932	900
Inspection and control	372	355	918	991	979	783
Development and maintenance of infrastructure	324	205	227	222	222	238
Marketing and promotion	110	336	219	194	238	226
Cost of public stockholding	0	0	0	0	0	0
Miscellaneous	51	73	47	60	41	40
Percentage GSSE (% of TSE)	**15.5**	**25.2**	**27.9**	**24.0**	**29.6**	**30.1**
Consumer Support Estimate (CSE)	**-3 758**	**-2 415**	**-4 063**	**-5 141**	**-4 258**	**-2 790**
Transfers to producers from consumers	-4 063	-2 405	-3 604	-4 639	-3 751	-2 421
Other transfers from consumers	-48	-26	-461	-503	-509	-372
Transfers to consumers from taxpayers	42	6	2	2	2	2
Excess feed cost	310	9	1	0	1	1
Percentage CSE (%)	**-22.7**	**-11.2**	**-12.7**	**-15.8**	**-13.5**	**-8.8**
Consumer NPC (coeff.)	**1.33**	**1.13**	**1.15**	**1.19**	**1.16**	**1.10**
Consumer NAC (coeff.)	**1.30**	**1.13**	**1.15**	**1.19**	**1.16**	**1.10**
Total Support Estimate (TSE)	**9 483**	**6 565**	**8 386**	**9 750**	**8 140**	**7 269**
Transfers from consumers	4 111	2 430	4 065	5 142	4 261	2 793
Transfers from taxpayers	5 420	4 161	4 782	5 111	4 389	4 848
Budget revenues	-48	-26	-461	-503	-509	-372
Percentage TSE (% of GDP)	**1.7**	**0.8**	**0.4**	**0.5**	**0.4**	**0.4**
GDP deflator (1986-88=100)	**100**	**126**	**181**	**178**	**181**	**184**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Canada are: wheat, maize, barley, oats, soybean, rapeseed, flax, potatoes, lentils, dry beans, dry peas, milk, beef and veal, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235199

Description of policy developments

Main policy instruments

Market price support is provided for dairy products, poultry and eggs through tariffs and production quotas that are tradable only within provinces combined with a system of domestic price-setting.

Under the Canadian Constitution responsibility for agriculture is shared by the federal and provincial governments. Since 2003, the main policy instruments have been delivered through joint five-year Federal, Provincial, and Territorial (FPT) agreements. The current FPT multilateral agricultural policy framework, called *Growing Forward 2* (GF2), covers 2013-18. It builds on previous frameworks, but stresses three broad priority areas: innovation, competitiveness and market development, and adaptability and industry capacity.

Major support policies are delivered under the business risk management (BRM) heading. The five BRM programmes are *AgriStability* (whole-farm margin programme providing support in years of significant income declines); *AgriInvest* (government-matched producer savings account for moderate income declines or to make investments in farming operations to mitigate risk); *AgriInsurance* (coverage for production losses due to natural perils); *AgriRecovery* (FPT co-ordinated disaster relief framework); and *AgriRisk Initiatives* (supports the research and development as well as the implementation and administration of new risk management tools).

GF2 introduces three new federal non-BRM programmes, *AgriInnovation*, *AgriMarketing* and *AgriCompetitiveness*, which support investment targeted to industry-led research and development and, adoption of innovation in food and agriculture, and marketing initiatives.

GF2 continues to allow flexibility for provinces and territories to design and deliver programmes that responded to regional priorities in support of shared national outcomes. Provinces can also determine the level of resources to be expended in the overall programme area of support within the agreed limits of the Multilateral Framework Agreement (MFA). Additionally, provinces may choose to offer provincial-only BRM programming outside of the MFA such as Ontario's Risk Management Program and Quebec's Farm Income Stabilisation Insurance.

Most farm-level environmental programmes are designed and administered by provincial governments. Common examples include environmental risk assessments and support for adoption of Beneficial Management Practices. The federal government complements these programmes through the Sustainable Science and Technology Advancement programme, which supports biophysical research and other activities. Federal co-financing prioritises programmes encouraging a more efficient and responsible use of resources; more targeted, collaborative and result-oriented approaches, and enabling market-based solutions (i.e. increased use of group farm plans based on watersheds).

Domestic policy developments in 2014-15

As a BRM programme under GF2, AgriRisk Initiatives supports the private sector to expand its role in agricultural risk management and develop new industry-led risk management tools. It supports research and development as well as the pilot implementation of new risk management tools. As a part of this initiative, a four year pilot programme, the *Western Livestock Price Insurance Program* was launched in 2014 to provide livestock producers with a tool to protect against unexpected price declines, extending the experience and expertise of the similar price insurance programme in Alberta implemented since 2009. While the premiums for this insurance product

are fully paid by participating producers, the Federal and Western Provincial governments cover the administration and delivery cost of this programme. The federal government will also provide repayable loan in case the programme falls into deficit.

In 2014, producers received CAD 1.2 million (USD 1.1 million) disaster relief payments through the *AgriRecovery* initiatives: the *Canada-Nova Scotia Strawberry Assistance Initiative* which assisted strawberry growers with the extraordinary costs they incurred to destroy and replant strawberry acreage infected with a virus. The *2014 Canada Manitoba Forage Shortfall and Transportation Assistance Initiative* which helped livestock producers with the extraordinary costs of feeding their breeding herds due to severe pasture and forage shortages resulting from excess moisture and flooding conditions was also established.

The Government of Canada introduced the *Fair Rail for Grain Farmers Act* in March 2014 to respond to the increasing pressure faced by Western Canada's rail shipping system and the backlog of grain from the 2013-14 crop year. The creation of this Act involved amending the Canada Grain Act and the Canada Transportation Act, and established new regulatory powers. The Act set out a minimum grain volume that the railway companies were required to move for a specific period of time, and allowed the government to establish future minimum grain volume requirements. The Act took effect in August, 2014 and required railway companies to provide additional data on grain movement to better monitor the overall performance of the rail-based supply chain of grains. The regulations clarify the operational terms of service level agreements that can be arbitrated by the Canadian Transportation Agency to support commercial negotiations between shippers and railways; and they increase access to inter-switching of railway companies to provide additional options for shippers. Finally, the regulations gives the Canadian Grain Commission (CGC) the new power to make regulations prescribing the provisions to be included in contracts between a grain producer and a grain company, including penalties in case of breach of contract.

On 9 December 2014, the Government of Canada tabled the *Modernization of Canada's Grain Industry Act*. This legislation seeks to enhance producer protection, grain quality, and safety assurance. Proposed reforms allow the CGC to establish a producer compensation fund to protect producers in the event that a licensee fails to pay for grain deliveries. Producer access to binding determination of grade and dockage for their deliveries of grain would be extended to include process elevators, grain dealers, and container loading facilities. A new class of license would be created for container loading facilities, which will also be brought under producer payment protection programmes. Authority for the CGC to monitor and test grain in elevators in eastern Canada would be established to maintain and strengthen grain safety assurances, and help resolve market access disputes.

On 25 February 2015, the *Agricultural Growth Act* received Royal Assent. The Act included amendments to bring the Plant Breeders' Rights Act into conformity with the 1991 Convention of the International Union for the Protection of New Varieties of Plants (UPOV 91). By strengthening the intellectual property rights for plant breeding in Canada, the Act is expected to encourage investment in Canadian research and development, help motivate foreign breeders to protect and sell their varieties in Canada, and give Canadian farmers more choice in accessing new and innovative plant varieties.

Under the GF2 policy framework, the Government of Canada continues to prioritise national livestock traceability implementation in collaboration with provinces, territories and industry. GF2's AgriMarketing Program provided CAD 7.5 million (USD 6.8 million) to TraceCanada, an industry-led not-for-profit corporation, to develop and implement a national livestock industry traceability database service. The database will collect, maintain and manage traceability

information in accordance with national standards, federal and provincial regulations and the specific needs and business requirements of industry. Amendments to the federal Health of Animals Regulations came into force on 1 July 2014 which introduced a mandatory national pig identification and movement reporting system. The same requirements will apply to farmed wild boars on 1 July 2015. These new requirements are in addition to mandatory federal animal identification requirements for cattle, bison and sheep.

Trade policy developments in 2014-15

Since 2009, Canada has implemented Free Trade Agreements (FTAs) with ***European Free Trade Association*** countries (Iceland, Liechtenstein, Norway, and Switzerland), ***Peru***, ***Colombia***, ***Jordan*** ***Panama*** and ***Korea***. In 2014, Canada implemented the Canada-***Honduras*** FTA and concluded negotiations toward a Comprehensive Economic and Trade Agreement with the ***EU***. Canada is also engaged in FTA negotiations with several countries including the **Trans-Pacific Partnership Agreement** (TPP), ***Japan***, ***India***, ***Morocco***, ***CARICOM*** (Caribbean Community), and ***Israel*** (modernisation of existing FTA), and is pursuing exploratory discussions with ***Turkey***, ***Mercosur*** and ***Thailand***.

In December 2008, Canada and Mexico requested consultations on the United States mandatory country of origin labelling (COOL) provisions in the Food, Conservation, and Energy Act 2008 (2008 Farm Bill). These measures contain an obligation to inform consumers at the retail level of the country of origin of covered commodities, including beef and pork. The US Department of Agriculture issued a new COOL regulation on 23 May 2013. A WTO Compliance Panel was established on 25 September 2013, to determine whether the new regulation brings COOL into conformity with the WTO obligations. On 20 October 2014, the WTO Compliance Panel found that the new COOL regulations discriminate against Canadian and Mexican exports of cattle and hogs, and on 28 November 2014, the United States notified its decision to appeal certain issues of law covered in the compliance panel report and certain legal interpretations developed by the panel.

Chapter 6

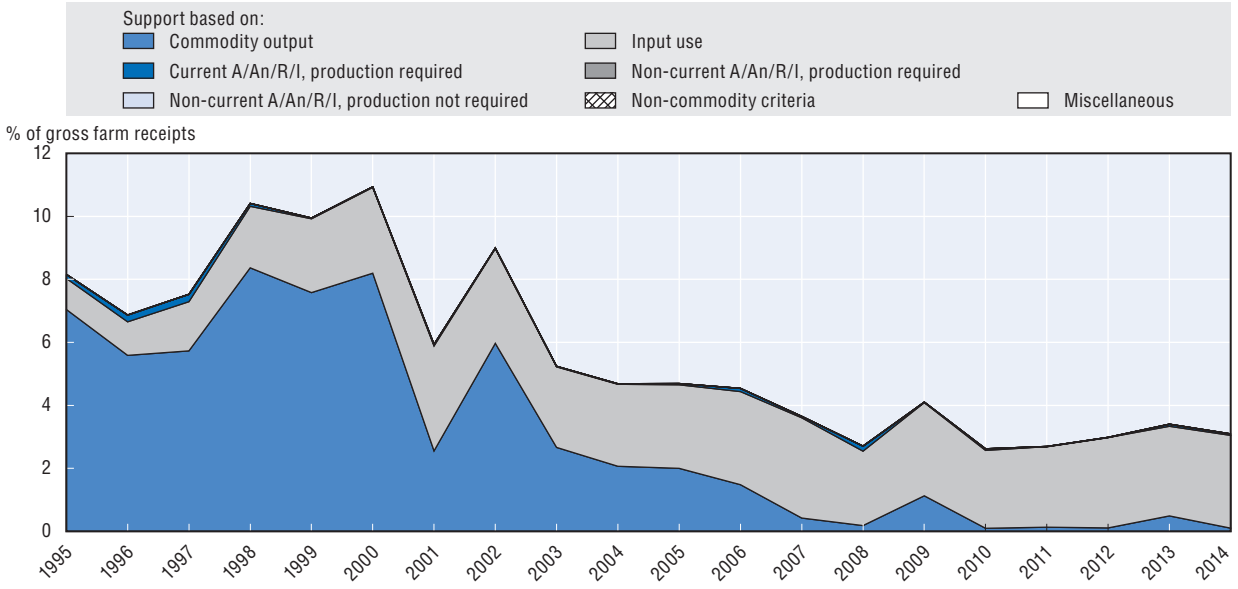
Chile

The Chile country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Chile is among the countries with the lowest level of support with a focus on services for the sector. Producer support averaged 3% of gross farm receipts in 2012-14 and general services support (GSSE) accounted for about half of total support to the sector. Total budgetary expenditures to the agricultural sector increased by 14% from 2013 to 2014. More than half of these expenditures have been spent on general services, mainly directed at infrastructure, R&D and inspection services.
- Agricultural policies in Chile create almost no market distortions and confer practically no border protection. Policy measures in the sector are mostly targeted at small-scale agriculture and aim to improve productivity and competiveness.
- Policy developments in 2014 included measures to: address access and use of water; improve farmer adaptation to climate change; improve market information systems and the creation of more public-private partnerships to vertically integrate farmers to markets.
- While payments to farmers are targeted towards small-scale agriculture and indigenous farmers, careful attention should be paid to the increasing amount of input use support. Furthermore, in order to measure the effectiveness of these budgetary allocations, impact assessments against stated objectives could be carried out systematically.

Figure 6.1. **Chile: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

Chile is a dynamic growing economy in Latin America, experiencing annual growth in GDP of around 4% over the last decade (2003-13), with a GDP of USD 277 billion in 2013. This stable growth has helped Chile to become a high income country with a GDP/capita of USD 22 021 (PPP) in 2014. However, during 2014 a slowdown in economic activity was encountered, mostly due to the declining copper prices. The contribution of the agricultural sector to GDP was 3.4% in 2013. The agricultural sector makes an important contribution to exports, with agro-food exports accounting for almost 16% of total exports in 2013. Chile is a net exporter of agro-food products with a net trade surplus of USD 5.9 billion in 2013. In comparison with its share of GDP, agriculture accounts for a high share of employment at 10.3%.

Table 6.1. **Chile: Contextual indicators, 1995, 2013**[1]

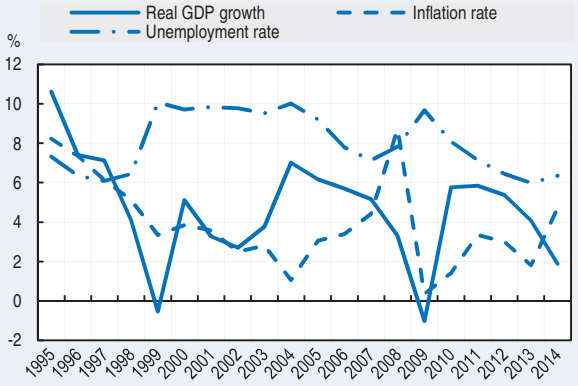
	1995	2013[1]
Economic context		
GDP (billion USD)	74	277
Population (million)	14	18
Land area (thousand km^2)	744	744
Population density (inhabitants/km^2)	19	23
GDP per capita, PPP (USD)	7 507	22 021
Trade as % of GDP	20.9	28.1
Agriculture in the economy		
Agriculture in GDP (%)	6.0	3.4
Agriculture share in employment (%)	15.7	10.3
Agro-food exports (% of total exports)	18.0	15.7
Agro-food imports (% of total imports)	7.2	7.7
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	1 787	5 920
Crop in total agricultural production (%)	63	63
Livestock in total agricultural production (%)	37	37
Agricultural area (AA) (thousand ha)	15 330	15 809
Share of arable land in AA (%)	14	8
Share of irrigated land in AA (%)	7	7
Share of agriculture in water consumption (%)	..	..
Nitrogen balance, kg/ha	..	..

1. Or latest available year.

Sources: *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235205

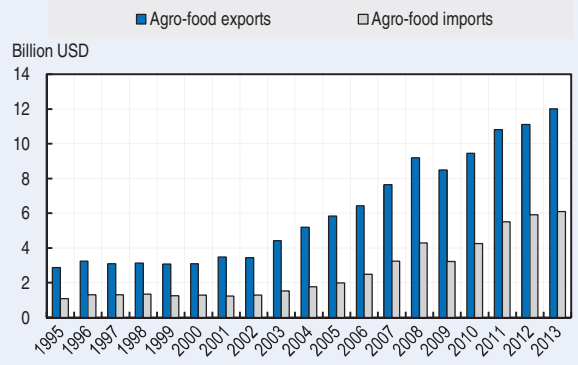
Figure 6.2. **Chile: Main macroeconomic indicators, 1995-2014**



Source: *OECD Factbook Statistics.*

StatLink http://dx.doi.org/10.1787/888933234542

Figure 6.3. **Chile: Agro-food trade, 1995-2013**



Source: *UN Comtrade Database.*

StatLink http://dx.doi.org/10.1787/888933234558

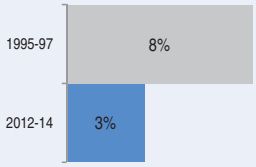
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Chile's agricultural support creates virtually no distortions to agricultural market, as almost no market price support is provided to farmers. The PSE is one of the lowest in the OECD at 3%. The NPC is equal to one, meaning that domestic prices are aligned with international prices. Support to farmers is mostly targeted to small-scale farmers and mainly based on input use, in particular support to on-farm investments. Total public spending on agriculture increased by 14% from 2013 to 2014.

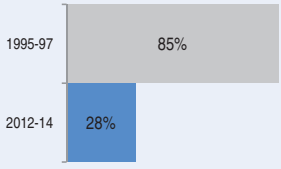
PSE as % of receipts (%PSE)

Chile's PSE of 3% of gross farm receipts is amongst the lowest in the OECD area. Support is characterised by direct payments to mostly small-scale farmers.



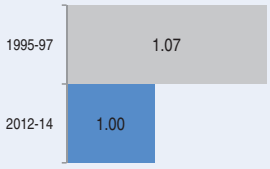
Potentially most distorting support as % of PSE

Over time Chile has reduced its potentially most distorting support (based on output and variable input use – without input constraints). For the period 2012-14 agricultural support has been linked to fixed capital formation.



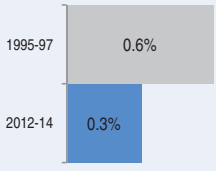
Ratio of producer price to border price (NPC)

Producer prices are aligned with world prices, and there are almost no distortions in output markets.

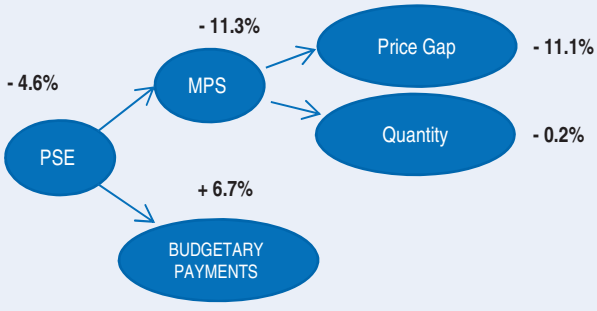


TSE as % of GDP

Total agricultural spending has been rising since 1990; however its burden on the economy has always been small and has declined over time. GSSE represents 48% of TSE.

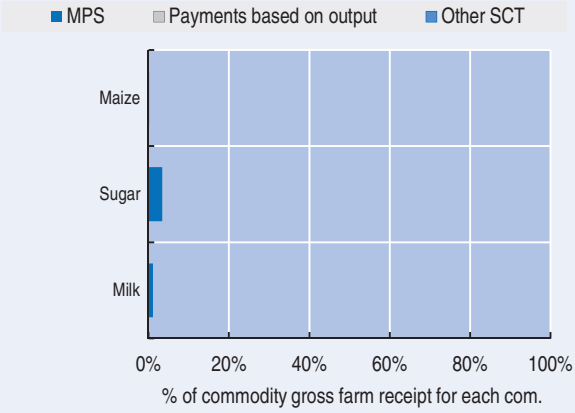


Decomposition of change in PSE, 2013 to 2014



Support has decreased between 2013 and 2014 due to a reduction of MPS but budgetary transfers continue to increase.

Transfer to specific commodities (SCT), 2012-14



There are limited transfers to single commodities. SCT for sugar represent 3.4% of commodity gross farm receipts.

Table 6.2. **Chile: Estimates of support to agriculture**

Million CLP

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**2 098 835**	**6 671 687**	**6 361 452**	**6 666 802**	**6 986 808**
***of which:** share of MPS commodities (%)*	64.6	65.0	64.0	67.7	63.3
Total value of consumption (at farm gate)	**2 110 811**	**5 974 923**	**5 524 136**	**5 913 670**	**6 486 963**
Producer Support Estimate (PSE)	**159 715**	**217 346**	**195 537**	**233 662**	**222 840**
Support based on commodity output	129 647	16 073	7 182	33 701	7 336
Market Price Support[1]	129 647	16 073	7 182	33 701	7 336
Payments based on output	0	0	0	0	0
Payments based on input use	25 910	198 466	187 935	195 338	212 125
Based on variable input use	6 697	44 690	42 943	44 263	46 865
with input constraints	0	0	0	0	0
Based on fixed capital formation	9 825	105 304	100 955	102 803	112 154
with input constraints	6 909	56 246	54 619	55 782	58 338
Based on on-farm services	9 389	48 472	44 038	48 272	53 106
with input constraints	307	14 721	13 964	13 937	16 263
Payments based on current A/An/R/I, production required	4 158	2 807	419	4 623	3 379
Based on Receipts / Income	0	0	0	0	0
Based on Area planted / Animal numbers	4 158	2 807	419	4 623	3 379
with input constraints	4 158	2 807	419	4 623	3 379
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE (%)	**7.5**	**3.2**	**3.0**	**3.4**	**3.1**
Producer NPC (coeff.)	**1.07**	**1.00**	**1.00**	**1.01**	**1.00**
Producer NAC (coeff.)	**1.08**	**1.03**	**1.03**	**1.04**	**1.03**
General Services Support Estimate (GSSE)[2]	**32 672**	**201 875**	**173 360**	**196 788**	**235 478**
Agricultural knowledge and innovation system	9 085	49 181	47 275	47 957	52 311
Inspection and control	400	40 101	36 015	37 636	46 653
Development and maintenance of infrastructure	20 888	102 860	80 554	101 501	126 523
Marketing and promotion	2 078	9 733	9 516	9 693	9 991
Cost of public stockholding	0	0	0	0	0
Miscellaneous	220	0	0	0	0
Percentage GSSE (% of TSE)	**16.3**	**48.0**	**47.0**	**45.7**	**51.4**
Consumer Support Estimate (CSE)	**-160 287**	**-27 293**	**-18 922**	**-43 561**	**-19 396**
Transfers to producers from consumers	-132 208	-15 743	-7 182	-32 711	-7 336
Other transfers from consumers	-31 023	-11 699	-11 739	-10 850	-12 509
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	2 945	150	0	0	450
Percentage CSE (%)	**-7.6**	**-0.5**	**-0.3**	**-0.7**	**-0.3**
Consumer NPC (coeff.)	**1.08**	**1.00**	**1.00**	**1.01**	**1.00**
Consumer NAC (coeff.)	**1.08**	**1.00**	**1.00**	**1.01**	**1.00**
Total Support Estimate (TSE)	**192 387**	**419 222**	**368 896**	**430 450**	**458 318**
Transfers from consumers	163 232	27 443	18 922	43 561	19 846
Transfers from taxpayers	60 178	403 478	361 714	397 739	450 982
Budget revenues	-31 023	-11 699	-11 739	-10 850	-12 509
Percentage TSE (% of GDP)	**0.6**	**0.3**	**0.3**	**0.3**	**0.3**
GDP deflator (1995-97=100)	**100**	**212**	**206**	**209**	**220**

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Chile are: wheat, maize, apples, grapes, sugar, tomatoes, milk, beef and veal, pig meat and poultry.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235213

Description of policy developments

Main policy instruments

Agricultural policies in Chile continue to emphasise the development of small-scale agriculture and to reinforce agricultural productivity and competitiveness. Chilean agricultural policy does not create significant distortions on agricultural markets. Budgetary allocations increased 14% from CLP 396 billion in 2013 to CLP 451 billion (USD 790 million) in 2014. In 2014, only 3% of total support to agriculture was provided through market price support (MPS), while the rest 97% was provided through budgetary expenditures. Around 51% of budget expenditures were directed at general services support (GSSE). The remaining 49% of outlays are mostly targeted to small-scale farmers.

Programmes enhancing productivity and competitiveness were the most important area of budgetary allocations in 2014 accounting for 27% of total budget expenditures (CLP 121 billion or USD 212 million). The majority of these programmes was targeted to small-scale agriculture and include a range of support from variable input use, fixed capital formation programmes to on-farm services.

Irrigation is another important area of investment and has both on-farm and off-farm components. In 2014, investments in irrigation infrastructure accounted for around to 22% of the public expenditure to the sector equivalent to CLP 92 billion (USD 162 million). Of this 50% of expenditures were directed at off-farm infrastructure.

Development programmes aimed at the indigenous population provide support for land restructuring and for fixed capital formation, accounting for 16% of budgetary expenditures in support of agriculture in 2014.

The agricultural knowledge and innovation system accounts for 12% of government expenditures on agriculture, CLP 56 billion (USD 98 million). Inspection and control services accounted for 10% of all government spending in 2014. The soil recovery programme accounted for 6% of total expenditures. This programme aims to improve degraded soils used in agriculture.

Domestic policy developments in 2014-15

A new government took office on March 2014. The current strategy of the Ministry of Agriculture is built upon five pillars: inequality reduction by supporting small-scale producers and family farming; improvement of productivity and competitiveness; efficient water use in agriculture; reinforcement of sanitary standards; and improvement of agricultural institutions. In January 2014, exports of fresh fruit fell by 22.5% (USD 150 million) due to a severe frost that affected between 17% and 60% of crop areas and port strikes that caused delays in shipments

In 2014, low precipitation and diminishing water storage levels affected the summer crops of grains and tubers, as well as reducing forage availability. In response to this, a rural support mechanism was introduced across 76 communes most affected by **water scarcity**. Approximately CLP 27 000 million were allocated to address this situation, 36% of which were for long-term mitigation measures, assisting more than 84 000 producers. In order to increase water availability, projects for building seven new large-scale dams in the medium-term have been prioritised within the Large Reservoirs Plan agreed in the earlier National Irrigation Strategy.

In order to address the long-term structural **water deficit**, the President appointed the first Presidential Delegate for Water Resources, whose functions is to provide advice on efficient water resources management in the context of shortages, to co-ordinate policies and actions of various

ministries and public agencies with competence in the matter, as well as to develop and evaluate programmes addressing drought risks. A new unit was created within the National Irrigation Commission (CNR) providing specific support to small farmers and indigenous communities. A fund has been set up through the National Institute for Agricultural Development (INDAP) to finance the construction of on farm works promoted by the Law 18 450 (Promotion of Private Investment in Irrigation and Drainage Works).

During 2014, the Ministry of Agriculture was in the process of implementing the National Action Plan on **Climate Change**, which puts together 21 measures and focuses on promoting better management of water resources, climate risk management, strengthening of research and development, promoting the use of new varieties of crops, and improvements in the control of pests and diseases.

The Ministry of Agriculture joined the National Committee on Sustainable Consumption and Production in 2014 and is now working closely with the Ministry of Environment, Ministry of Finance, and Ministry of Economy, among others in defining a National Programme for Sustainable Consumption and Production. It is expected that the programme will be approved in 2015. In the context of the agreement between the Ministry of Energy and the Ministry of Agriculture, the Agricultural Innovation Foundation (FIA) together with the Renewables Energies Centre (CER) launched the special fund "Investment Projects for Innovation in Non-Conventional Renewable Energy for the Agro-food and Forestry Sector". Another effort on this area was the National Programme of Photovoltaic Pumping, with the installation of 910 pump units and 3 600 solar panels, investments amounting to CLP 2 500 million (USD 4.4 million). This programme was implemented by INDAP.

In 2014, around 19 000 **insurance policies** (governmental support by the co-payment of premiums) were granted by the Committee for Agricultural Insurances (*Agroseguros*), mainly for wheat, rice, potato, tomato, berries and grape producers. INDAP implemented a Special Rehabilitation Debtors Program in 2014, for around 7 000 farmers who received INDAP's **credit**, at preferential interest rates, and have been in debt for more than one year but who are still farming. This programme offers reimbursement solutions on a case by case basis depending on the payment capacity of each farmer. At 31 December 2014, a total of 1 031 farmers have had their debts restructured in 13 regions of the country, with a bigger concentration in Biobío and Los Lagos regions.

The comprehensive **market information system** of the Office of Studies and Agrarian Policies of the Ministry of Agriculture (ODEPA) has been generating timely and comprehensive market information on agricultural commodities, such as domestic and foreign trade statistics, market prices and other relevant information for better decision-making by local producers. The coverage of the system was expanded in 2014 to nine regions of the country.

The **public-private partnerships** programme was strengthened and new ventures were created between primary producers and consumer organisations. The programme seeks to generate synergies and provides necessary conditions to improve supply chains. The work has involved the monitoring of market suppliers and consumers of agricultural products and well as identifying and proposing solutions to factors that affect the well-functioning of the supply chain. Investments were made in various sub-sectors, including: wheat, beekeeping, beef, organic farming, nuts and dehydrated vegetables, corn, wine and rice.

During 2014, the Ministry of Agriculture worked in close collaboration with the Ministry of Labour to develop a **labour bill** for seasonal agricultural workers. The Bill seeks to provide better working conditions for seasonal workers including the establishment of an annual average of

working hours and limits on maximum monthly overtime. It also strengthens organisational capacities of workers by putting in place favourable default negotiating conditions. The Bill will be discussed in Congress during the first semester of 2015.

Trade policy developments in 2014-15

The FTA with ***Viet Nam*** entered into force in January 2014, providing Chile with important market access for beef, pig meat, dairy products and fruit. The FTA with ***Hong Kong (China)*** entered into force in October 2014. In addition, negotiations with ***India*** to broaden the coverage of the current Partial Scope Agreement are almost concluded, while at a plurilateral level, the market access negotiations within the ***Pacific Alliance*** are being finalised. In February 2014, Colombia, Chile, Mexico and Peru signed the Additional Protocol to the Framework Agreement which liberalises 92% of their trade, with the remaining 8% over the coming years. Other negotiations being conducted include the **Trans-Pacific Partnership Agreement** (TPP) and the FTA with ***Indonesia***.

In June 2014, due to significant increases of butter and cheese imports, the Chilean Government proposed to apply **safeguards** on dairy imports from New Zealand, its primary supplier of dairy products. The Ministry of Agriculture requested that the Distortion Commission impose a 3% surcharge on cheese and butter from New Zealand. Between January and April 2014 Chilean imports of dairy products from New Zealand totalled USD 35.3 million, an increase of over 200% when compared to the same 2013 period.

Chapter 7

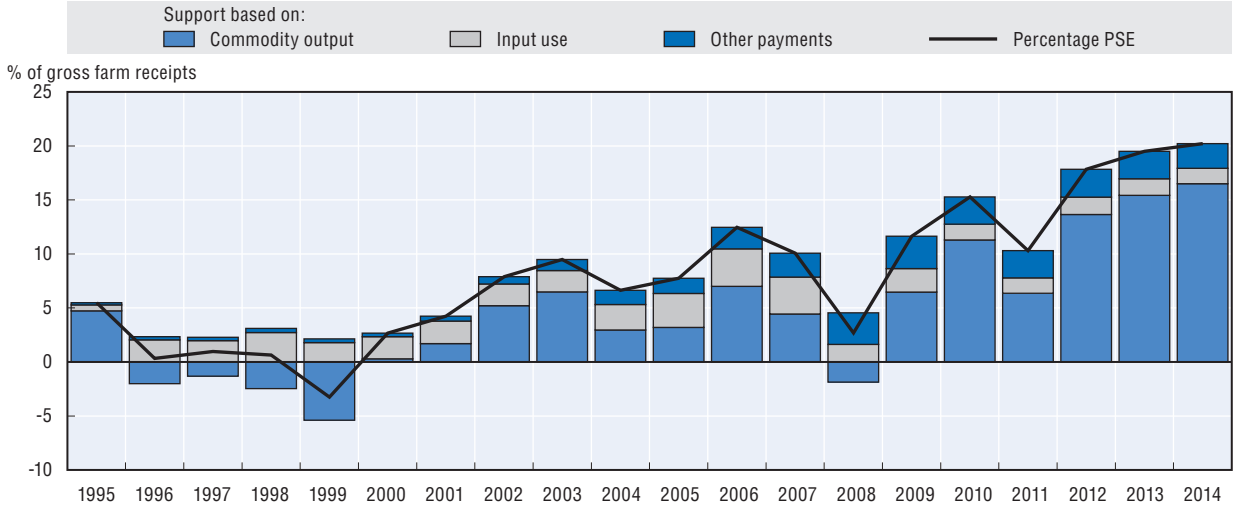
China

The China country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2013-15.

Evaluation of policy developments

- In the People's Republic of China (hereafter "China") support to agricultural producers continues to grow and at 19% of gross farm receipts exceeded the OECD average in recent years. Rising minimum purchase prices for rice, wheat and an increasing range of other commodities covered by market interventions, along with falling prices on international markets, are major factors explaining why consumers are increasingly being implicitly taxed by paying higher than world market prices. The trend of rising levels of farm support has been further accentuated by the continued appreciation of the Chinese Yuan. In addition, China has become a net importer for a growing array of commodities, which are subject to import tariffs and other trade measures which raise the level of domestic prices.
- Recent policy reform to replace intervention prices for cotton and soybeans by target prices combined with compensatory payments based partly on area planted is a step in the right direction. If successfully implemented, this reform could be extended to other commodities. In future, the link between compensatory payments and production decisions should be further diluted by providing them on a historical production basis, for example, and 'greened' by making them conditional on environmentally friendly cultivation practices.
- Further efforts to improve infrastructure and access to public services (education, health care, etc.) for the rural population, where the vast majority of the poor live, should be prioritised.
- To improve long-term productivity and improve sustainability, China should further strengthen its agriculture innovation system, from research and development to farm extension services.
- Recent reforms which strengthen rural land-use rights and ease the reallocation of land resources could be further reinforced by: providing all rural households with certificates detailing their land rights; establishing transparent exchange platforms for the transfer of rights for rural farmland and construction land; increasing the duration of the right to rural farmland, with contracts automatically renewable upon expiration; and universally introducing resident permits for migrant workers that provide access to public services, while protecting land entitlements at their origin.

Figure 7.1. **China: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

China ranks first in worldwide farm production, producing as much as the combined total value of all OECD member countries. Growing demand for food due to fast income growth combined with rapid urbanisation exerts mounting pressures on natural resources used for farm production. While feeding almost 20% of the world's population, China has only 7% of the world's potable water and 10% of the world's agricultural land. Agriculture remains a key sector in China, with a share of total employment at 31.4% in 2013, contributing 10% of GDP. Even if rural incomes are growing at high rates, they remain at around one-third of those in urban areas. China has become a large net importer of agro-food products, in particular of soybeans, cotton, edible oils and sugar. Crop production is based on tiny family farms of less than one hectare on average, but livestock production originates mostly from large-scale commercial units. Agriculture remains the key user of water, accounting for around 61% of total water consumption.

Table 7.1. **China: Contextual indicators, 1995, 2013**[1]

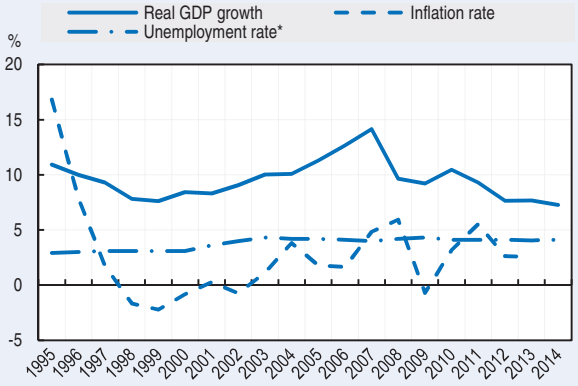
	1995	2013[1]
Economic context		
GDP (billion USD)	726	9 253
Population (million)	1 214	1 386
Land area (thousand km^2)	9 388	9 388
Population density (inhabitants/km^2)	129	148
GDP per capita, PPP (USD)	1 497	12 247
Trade as % of GDP	19.3	22.5
Agriculture in the economy		
Agriculture in GDP (%)	20.0	10.0
Agriculture share in employment (%)	52.2	31.4
Agro-food exports (% of total exports)	7.7	2.2
Agro-food imports (% of total imports)	8.7	5.8
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	-54	-65 245
Crop in total agricultural production (%)	66	64
Livestock in total agricultural production (%)	34	36
Agricultural area (AA) (thousand ha)	532 716	515 361
Share of arable land in AA (%)	23	21
Share of irrigated land in AA (%)	9	12
Share of agriculture in water consumption (%)	70	61
Nitrogen balance, kg/ha	..	..

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235222

Figure 7.2. **China: Main macroeconomic indicators, 1995-2014**

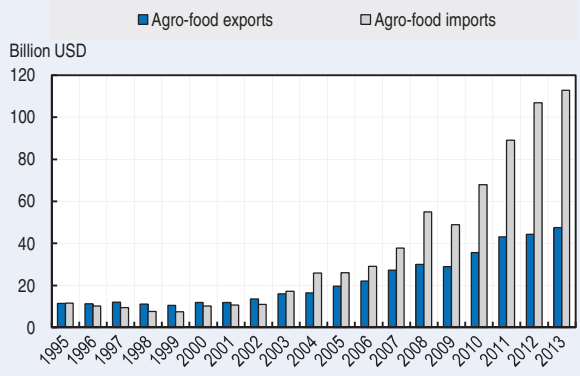


* Urban unemployment rate.

Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234570

Figure 7.3. **China: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234582

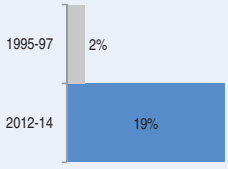
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

China has been increasing its support to agriculture through increasing transfers from consumers and taxpayers, but in recent years it is growth in transfers from consumers that dominates. The share of the most production and trade distorting forms of support is growing and the economic cost of support, as measured by TSE as % of GDP, is also growing.

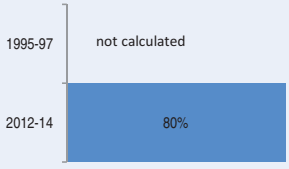
PSE as % of receipts (%PSE)

China has increased support to agriculture, which is now at the OECD average. After a fall in 2011, mostly due to a stronger increase in border prices compared to the rise in domestic prices, the %PSE has been increasing each year by 1-4 percentage points.



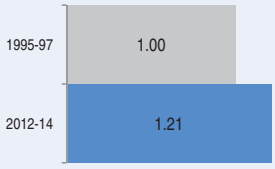
Potentially most distorting support as % of PSE

The share of the most production and trade distorting policies (based on commodity output and variable input use – without constraints) is high at 80% of the total.



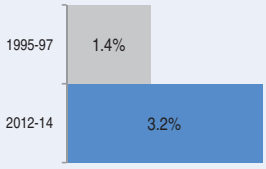
Ratio of producer price to border price (NPC)

Overall, prices received by farmers were on 21% higher than those observed on world markets in 2012-14. The highest NPCs are for cotton, sugar and milk.

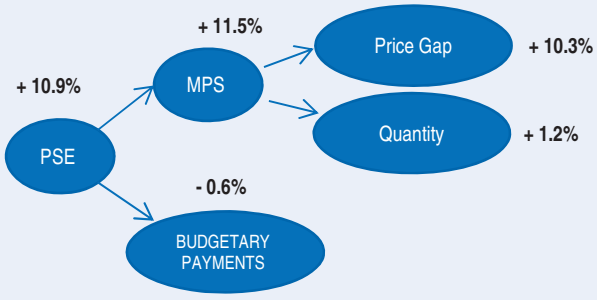


TSE as % of GDP

Despite strong GDP growth, total support to agriculture has increased to 3.2% of GDP. The expenditure on general services represented 11% of the TSE in 2012-14.

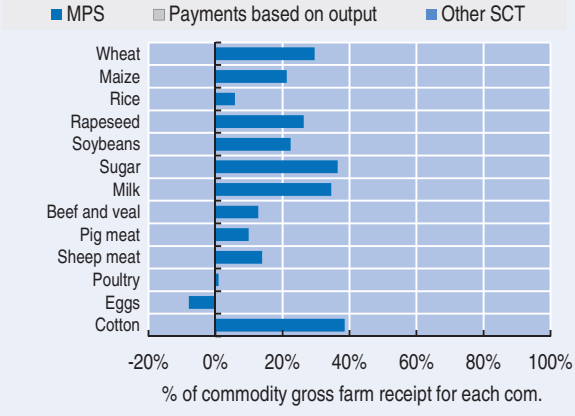


Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014 entirely due to the significantly larger gap between domestic and border prices (MPS).

Transfer to specific commodities (SCT), 2012-14



Single Commodity Transfers were 79% of the PSE in 2012-14. The share of the STC in commodity receipts is lowest for eggs and poultry and highest for cotton, sugar and milk.

Table 7.2. **China: Estimates of support to agriculture**

Million CNY

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**1 997 968**	**7 997 024**	**7 412 990**	**7 993 290**	**8 584 793**
***of which:** share of MPS commodities (%)*	73.1	53.4	56.6	53.4	50.2
Total value of consumption (at farm gate)	**2 053 260**	**8 776 764**	**8 086 136**	**8 715 518**	**9 528 639**
Producer Support Estimate (PSE)	**43 298**	**1 602 162**	**1 380 337**	**1 624 552**	**1 801 597**
Support based on commodity output	6 051	1 270 513	1 056 325	1 284 511	1 470 702
Market Price Support[1]	6 051	1 270 513	1 056 325	1 284 511	1 470 702
Payments based on output	0	0	0	0	0
Payments based on input use	31 931	127 296	124 715	129 158	128 016
Based on variable input use	17 115	18 671	17 286	22 636	16 090
with input constraints	0	0	0	0	0
Based on fixed capital formation	10 816	86 778	86 912	84 150	89 272
with input constraints	0	0	0	0	0
Based on on-farm services	3 999	21 848	20 517	22 372	22 654
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required	3 866	170 722	167 727	176 435	168 004
Based on Receipts / Income	3 866	10 093	10 327	10 955	8 997
Based on Area planted / Animal numbers	0	160 629	157 400	165 480	159 008
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	1 450	18 989	15 699	19 812	21 456
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	1 450	18 989	15 699	19 812	21 456
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	14 642	15 871	14 636	13 419
Based on long-term resource retirement	0	14 642	15 871	14 636	13 419
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE (%)	**2.3**	**19.2**	**17.8**	**19.5**	**20.2**
Producer NPC (coeff.)	**1.00**	**1.21**	**1.19**	**1.22**	**1.24**
Producer NAC (coeff.)	**1.02**	**1.24**	**1.22**	**1.24**	**1.25**
General Services Support Estimate (GSSE)[2]	**46 121**	**198 312**	**180 323**	**202 802**	**211 810**
Agricultural knowledge and innovation system	3 750	56 528	52 745	58 089	58 748
Inspection and control	2 214	12 864	12 328	12 944	13 321
Development and maintenance of infrastructure	10 773	72 738	71 935	71 776	74 505
Marketing and promotion	0	3 705	4 362	4 773	1 981
Cost of public stockholding	29 384	52 476	38 953	55 220	63 255
Miscellaneous	0	0	0	0	0
Percentage GSSE (% of TSE)	**60.5**	**11.1**	**11.6**	**11.1**	**10.5**
Consumer Support Estimate (CSE)	**-18 932**	**-1 510 255**	**-1 234 717**	**-1 486 730**	**-1 809 318**
Transfers to producers from consumers	-2 683	-1 379 640	-1 144 541	-1 380 973	-1 613 405
Other transfers from consumers	-12 321	-208 658	-151 530	-182 959	-291 485
Transfers to consumers from taxpayers	2 101	0	0	0	0
Excess feed cost	-6 029	78 043	61 354	77 203	95 572
Percentage CSE (%)	**-1.1**	**-17.1**	**-15.3**	**-17.1**	**-19.0**
Consumer NPC (coeff.)	**1.01**	**1.22**	**1.19**	**1.22**	**1.25**
Consumer NAC (coeff.)	**1.01**	**1.21**	**1.18**	**1.21**	**1.23**
Total Support Estimate (TSE)	**91 521**	**1 800 474**	**1 560 660**	**1 827 354**	**2 013 407**
Transfers from consumers	15 005	1 588 298	1 296 071	1 563 933	1 904 890
Transfers from taxpayers	88 837	420 834	416 119	446 381	400 002
Budget revenues	-12 321	-208 658	-151 530	-182 959	-291 485
Percentage TSE (% of GDP)	**1.4**	**3.2**	**3.0**	**3.2**	**3.3**
GDP deflator (1995-97=100)	**100**	**171**	**169**	**171**	**173**

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for China are: wheat, maize, rice, rapeseed, soybean, sugar, milk, beef and veal, sheep meat, pig meat, poultry, eggs, cotton, apples and peanuts.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235239

Policy developments

Main policy instruments

A key driver behind agricultural policy measures employed in China is the desire to maintain 95% **self-sufficiency** for corn, wheat and rice. At the end of 2013 a new food security strategy was announced that envisions an enhanced role for trade in meeting food security goals. In particular, while the government will try to maintain self-sufficiency in wheat and rice, it will allow "moderate" grain imports for feed (GAIN, 14016, 2014).

Market price support is the main channel for providing support to Chinese farmers. It is provided through tariffs, tariff rate quotas (TRQ) and state trading, combined with minimum guaranteed prices for rice and wheat and ad hoc interventions on a growing number of other agricultural commodity markets. While the amount of transfers provided through this channel has been trending up since the end of the 1990s, it has fluctuated significantly over the last ten years, partly as a result of the government's policy to balance producer and consumer interests in the context of price volatility on international markets.

Minimum prices for grains are set every year by the National Development and Reform Commission (NDRC) in consultation with the Ministry of Agriculture and other government institutions. Designed to help meet the demand in grain-deficit provinces, their application is limited geographically to major grain-surplus provinces that produce about 80% of China's commercial grains. They differ for each type of grain and only apply for a fixed period limited to several months after the harvest.

The state-owned China Grain Reserves Corporation (Sinograin) is obliged to make **intervention purchases** if the market price dips below the established support level. During periods of price hikes and to maintain sufficient market supplies, the government holds weekly auctions of grains.

Several other agricultural commodities are subject to government-led **ad hoc interventions** at pre-determined prices, mostly intended to stabilise market prices and to ensure adequate supplies. Intervention prices may differ across provinces and purchases are not undertaken systematically every year. In recent years, such interventions included maize, sugar cane, soybeans, rapeseed, cotton and pork.

China's **applied tariffs** on agricultural products are close to the WTO bound levels and are applied in *ad valorem* terms. However, occasionally, applied tariffs are adjusted to mitigate impacts of volatile international prices on domestic markets as was the case in 2007/08, when tariffs on selected agricultural commodities and on a wide range of food products were temporarily reduced.

Budgetary transfers to producers have grown consistently since the end of the 1990s. Most of them are provided through four basic programmes: direct payments for grain producers; payments to compensate farmers for an increase in prices of agricultural inputs, in particular fertilisers and fuels; subsidies for improved seeds; and subsidies for purchases of agricultural machinery. Direct payments for grain producers and almost all subsidies for chemicals and seeds are paid at a flat rate per unit of land. Subsidised agricultural insurance schemes have grown in importance in recent years and entail growing budgetary transfers. Payments for returning farmland to forests and for exclusion of degraded grassland from grazing reflect environmental concerns.

Within **general services**, public stockholding of grains is the most important single item followed by a wide variety of programmes supporting development of agricultural infrastructure, including irrigation and drainage facilities.

A "red line" on **arable land** at no less than 120 million ha has been set and the conversion of farmland for non-agricultural use is strictly controlled. China's second land survey conducted in late 2012 concluded that China's arable land amounted to 135.4 million ha, 13.3 million ha more than previous estimates indicated. However, about 40% of land suffers from various forms of degradation.

The rural population's **social policy coverage** has continued to improve. As part of China Rural Poverty Alleviation and Development Programme for 2011-20, there have been a number of initiatives to extend the coverage and/or to increase benefits within government initiatives such as the Minimum Living Guarantee Programme (rural *dibao*), the New Rural Pension System and the New Co-operative Medical Scheme.

Since the reform of the fiscal system in 1994, **sub-national governments** have been required to co-finance policy-related costs from their own budgets. As financial capacity of sub-national governments differs strongly across China, sub-national governments have considerable control over how policy is actually implemented within their jurisdiction.

Domestic policy developments in 2013-15

Between 2007 and 2014, the **minimum prices** for **rice** and **wheat** were increased each year on the basis of the growing costs of agricultural production. Due to the ongoing appreciation of the Chinese Yuan, USD equivalents of minimum prices rose even faster. In the context of falling grain prices on international markets over the last two to three years, this policy resulted in a growing positive price gap between domestic and international prices (Figure 7.4). The NDRC has announced that in Yuan terms the minimum prices for wheat and rice in 2015 will be kept at the 2014 levels.

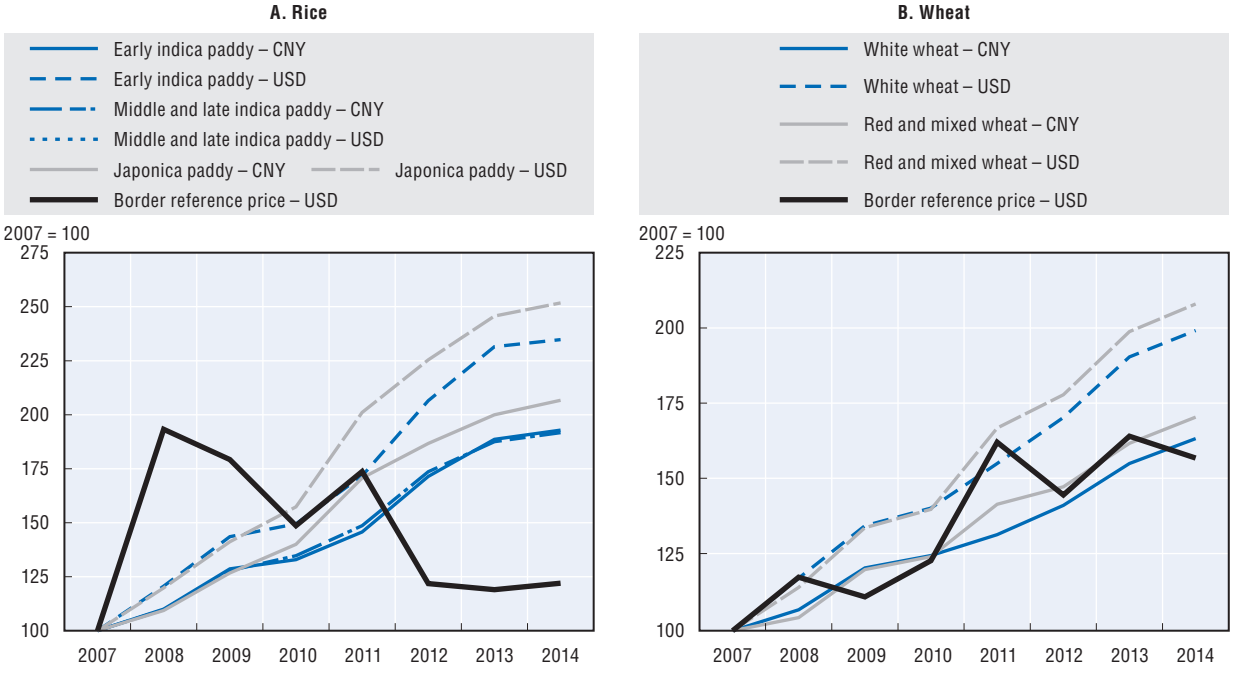
The amounts of crops purchased by state-owned companies at minimum or intervention prices change from one year to the next, depending on the relative levels of market prices and those offered by the government. In 2014 (until 20 December), the government purchased 123.9 million tonnes of grains, 48.9% more than in 2013. It represented around one-third of total purchases by all kinds of enterprises at 364.9 million tonnes (*Renmin Daily*, 2015).

Minimum prices for grains are closely linked with China's **grain reserve system** which is under the overall responsibility of the State Grain Administration (SGA). Detailed minimum grain inventory levels for each province are specified with the main grain producing provinces in north-eastern China required to maintain at least three months of sales inventory and other provinces to keep at least six months of sales inventory. The actual level of public stockholding for food security is unknown, but the International Grains Council estimates that China's reserves of wheat, coarse grains and rice are at about 40% of total domestic use, which is much more than in any other major grain producing or consuming country (IGC, 2014). The cost of public stockholding of various commodities reached around CNY 54.4 billion (USD 8.8 billion) in 2013 (MOF, 2014).

In marketing year 2014/15, the stock holding programme for cotton was abandoned and switched to a trial subsidy programme based on the **target price** system. The previous system elevated prices paid to farmers to well above the world market levels, thus pulling a majority of production into the state-held reserves, which at the end of the marketing year 2013/14 increased to a record level of 13 million tonnes, equivalent of about 160% of annual domestic use (GAIN-CHI14055, 2014).

The new trial system has been applied in Xinjiang province, the key **cotton** production area in China. It is based on compensation to cotton farmers if the market price falls below a target price of CNY 19 800 (USD 3 193) per tonne. Compensation is based on a combination of the cotton area and the volume sold to cotton grinners. On the basis of the difference between the target price and

Figure 7.4. **Evolution of minimum purchase prices for rice and wheat in China, 2007-14, 2007 = 100**



Note: Indices of nominal minimum prices for various varieties of rice and wheat in CNY; indices of nominal prices converted to USD equivalents at annual average exchange rates; indices of border reference prices in USD.
Sources: NDRC, various press releases; OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234597

the market price and the estimated cotton production in Xinjiang, the central government will estimate the total subsidy amount and then will allocate funds to the Xinjiang government. The Xinjiang government will then distribute the funds to farmers in two ways: i) 60% of the funds will be based on the certified planted area; and ii) 40% of the funds will be based on certified sold production. The subsidy is scheduled to be distributed to cotton producers in February 2015 (GAIN-CHI14055, 2014).

In the nine cotton-producing provinces outside Xinjiang cotton farmers will receive a direct subsidy of CNY 2 000 (USD 323) per tonne in 2014/15. The central government will allocate funds to these provinces based on production volumes in each of them, and provinces will be responsible for distributing subsidies to cotton farmers based on area or production volumes. It is planned that in 2015/16 and beyond the subsidy to farmers in these provinces will be equivalent to 60% of the subsidy rate to be distributed to the farmers in Xinjiang, but not higher than CNY 2 000/tonne (GAIN-CHI14055, 2014).

To further support the reform of cotton policy in Xinjiang, the central government is committed to allocate CNY 1 billion (USD 161 million) per year in 2014-18 to develop the textile industry in Xinjiang. In 2014, it was topped up by the Xinjiang government allocation of CNY 2.5 billion (USD 403 million) for the same purpose. In addition, the central government approved a rebate on a value added tax for the Xinjiang textile sector and the Xinjiang government provided a transport subsidy for textile and garments, a subsidy for mills using Xinjiang cotton, and an increase in transport subsidy for Xinjiang yarn to be shipped out of the province (GAIN-CHI14055, 2014).

Similar to cotton, a pilot target price programme with a direct subsidy for **soybean** producers has been introduced in 2014 in four northeast provinces of Heilongjiang, Jilin, Liaoning and Inner Mongolia. It is based on the difference between the government target price and the market price as registered in autumn 2014. The target price was set at CNY 4 800 (USD 773) per tonne, which is CNY 200/tonne higher than the average price in the previous season. The subsidy will be based on area and will be paid to soybean farmers in May 2015 (GAIN-CHI14052, 2014).

Direct payments to support grain production and to increase grain producers' incomes remained at the previous level of CNY 10-15 per *mu* (1/15 ha) (USD 24-36/ha), depending on localities. In some places like Beijing and Shanghai, the subsidy level is much higher as central government funding can be supplemented from local sources. The payment is provided to the person who holds the contract rights to the land, not to the person who cultivates the land. Central government funding for direct payments was increasing each year up to 2007, but then stabilised at CNY 15.1 billion (USD 2.4 billion) per year in 2007-14 (MOA, 2014).

The centrally funded **comprehensive subsidy on agricultural inputs** remains the most important single budgetary transfer supporting agriculture. While the objective of this subsidy is to compensate grain producers for an increase in prices of agricultural inputs such as fertilisers, diesel fuel, pesticides and plastic films, it is implemented as a payment per unit of land, not necessarily sown to grains. This makes it a direct payment supporting farmers' incomes. Budgetary transfers for this programme were increased each year to reach CNY 107.8 billion (USD 17.1 billion) by 2012 and stabilised roughly at this level in 2013 and 2014 (MOA, 2014).

Support for improved quality seeds is provided via the **Improved Seed Variety Subsidy** programme. It had increased strongly by 2013, but then fell to estimated CNY 21.4 billion (USD 3.5 billion) in 2014. As from March 2009, the actual implementation mechanism of this subsidy depends on the commodity. Thus, for the improved hybrid seeds of rice, maize and rapeseed, the government pays cash directly to farmers (through their account in the bank) on the basis of the cultivated area, and for the improved seeds of wheat, soybean and cotton, it is for the provinces to decide if the subsidy takes the form either of a direct payment or of reduced seed prices. To a growing extent it is paid directly to farmers and it is not monitored to determine whether the payment is used for seed purchases or for other expenses. In 2013 and 2014, the unit seed subsidy remained unchanged at CNY 10 per *mu* (USD 24/ha) for wheat, soybean, maize, early indica rice, rapeseed, potatoes, highland barley and peanuts and at CNY 15 per *mu* (USD 36/ha) for cotton, middle indica rice, late indica rice and Japonica rice (MOA, 2014).

The **subsidy for the purchase of agricultural machinery** continued to increase. The central government subsidy for purchase of agricultural machinery amounted to CNY 21.8 billion (USD 3.5 billion) in 2013. The eligible entities are individual farmers but also so-called specialised households and agricultural machine service delivery organisations. The programme compensates the cost of purchases by reimbursing the purchaser or compensating the seller for 30% of the purchase price. In principle, in 2014 the subsidy covered machines in 12 categories and 48 sub-categories at the maximum level of CNY 50 thousand (USD 7.9 thousand) per single piece (MOA, 2014). But, in practice, neither the national list of eligible items nor the ceilings of the subsidy per item are enforced.

There are numerous programmes **supporting livestock production** including those specifically targeting pork producers or cow genetic improvements, but also more general subsidies for livestock breeding, standardised livestock farms and animal epidemic prevention. Transfers for these purposes are relatively small, sometimes suspended and then resumed, depending on the market situation. Some of them are provided within larger programmes such as

the "new variety extension payments for livestock". It is reported that the government raised environmental standards for animal farming in mid-2014. This resulted in the closure of many swine farms in Jiangxi, Guangdong and Zhejiang provinces in locations the government considered not appropriate for animal farming. For example, in Jiangxi province pig and poultry inventory fell by more than 1 million head (GAIN-CH14052, 2014).

As from 2012, all provinces and autonomous regions have been covered by **agricultural insurance schemes** for both livestock and crop producers. In 2013, 73 million ha of crop area were covered, accounting for 45% of the total planting area. China has thus become the world's second largest agricultural insurance market after the United States. The cost of the insurance premium is shared by the central government, local governments and farmers themselves. There are 25 insurance corporations who are eligible to conduct the scheme. The central government subsidy increased from CNY 2.2 billion (USD 289 million) in 2007 to CNY 22.5 billion (USD 3.6 billion) in 2013 (MOF, 2014). In 2013, the agricultural insurance schemes paid CNY 20.9 billion (USD 3.4 billion) in compensation to the benefit of 33.7 million rural households (Xinhua, 2014).

Under the "**grain for green project**" (officially called the "Returning Farmland to Forests Programme") cultivated lands in environmentally fragile areas are retired from crop production (mainly grains), and converted to pasture or forest. About CNY 200 billion (USD 30 billion) is foreseen to be allocated for this project for 2010-21, but the majority of the funds are to be spent on compensations for already converted land and the actual compensations allocated to farmers are smaller each year.

A new "**grassland ecological protection**" programme for eight western provinces was announced in 2011 and further expanded to five other provinces (Shanxi, Hebei, Heilongjiang, Liaoning, Jilin) in 2012. Currently, all pastoral and semi-pastoral area counties in 13 provinces are covered. Since 2011, the rules have remained the same: payments are made for the suspension of grazing (CNY 6 per *mu*; USD 14.3/ha), as rewards for not exceeding stock-carrying capacity of grassland (CNY 1.5 per *mu*; USD 3.6/ha), and as subsidies for improved breeds of animals, improved varieties of pasture grass and general input subsidy (CNY 500 per household; USD 79). Financial rewards are also paid to county governments on successful implementation of the programme. In 2013, the budget allocation for this programme amounted to CNY 16.0 billion (USD 2.6 billion) (MOA, 2014).

Budgetary support for **agricultural infrastructure** is provided mainly for irrigation construction, land consolidation and "agricultural industrialisation". Some of these programmes cover agricultural infrastructure, on-farm investment and broader rural infrastructure. Overall, if the latter two components are subtracted, expenditures defined as supporting agricultural infrastructure can be estimated at CNY 74.5 billion (USD 12.1 billion) in 2014, 4% above the 2013 level (MOF, 2014).

Some reforms have been undertaken to strengthen land use rights and improve allocation of land. In line with the decision adopted by the Third Plenary Session of the 18th Central Committee of the Communist Party of China in November 2013, farmers were given the right to use **land as collateral**. Otherwise, farmland remains owned by village collectives, which extend land-use contracts to individual households, currently for "at least 30 years". The government continues to support the creation of larger farms by encouraging the transfer of land from small-scale farms and from migrant workers to so-called "major grain-producing farmers households", "household-run farms" and "farmers' professional co-operatives". By 2014, about 26% of land-use rights had reportedly been traded compared to about 9% in 2008 (Sina News, 2014). While it is not officially defined, "large grain farms" are considered those of at least 100 *mu* (6.7 ha) in northern provinces and 30 *mu* (2 ha) in the south.

Trade policy developments in 2013-15

The average applied **MFN tariff** on agricultural products (WTO definition) has declined slightly to 14.8% in 2013 from 15.1% in 2011, but remained higher than the average on non-agricultural products at 8.6% (WTO, 2014).

Imports of wheat, maize, rice, sugar, wool, wool tops, cotton and some fertilisers are subject to **tariff rate quotas** (TRQ). The latest notifications to the WTO suggest that up to 2012 quota fill rates for all commodities were low with the exception of sugar, wool and cotton (WTO, 2014). More recent trade statistics would indicate that fill rates for wheat, maize and rice increased quite strongly, but still not exceeding the TRQ level thus in-quota tariffs at 1% should have been applied. For cotton, China's imports have systematically been much larger than the quota of 0.894 million tonnes per year. China is permitted to levy a high tariff on out-of-quota cotton imports at 40% versus 1% for in-quota imports. Instead, a sliding duty was applied on the above TRQ imports, subject to additional quota. Under this system, China fixed a threshold price (CNY 14/kg in 2013) against which cotton imports were charged a specific duty of CNY 0.57/kg if the actual import price was higher, or a variable levy of up to 40% if the actual import price was lower than the threshold price. For 2014, the threshold price was raised to CNY 15/kg and the formula modified. As a result, for cotton imports at prices equal or higher than CNY 15/kg, the sliding duty was the same as in 2013 (CNY 0.57/kg), but for imports at prices lower than the new threshold the sliding duty was higher than in 2013. To boost demand for domestic cotton, the government decided not to issue any additional quota above the TRQ in 2015, thus all above TRQ imports will face 40% duty (*Reuters*, 2014).

In October 2013, China blocked imports of corn from the United States after detecting unapproved **MIR 162**, a genetically modified insect-resistant variety of corn. This move shut off imports not only of corn, but also of dried distiller grains (DDGs). The ban was lifted in December 2014 following the approval of MIR 162 and of two biotech soybean varieties by the Chinese Ministry of Agriculture (*China Daily*, 2014).

In 2014 and again in 2015, the government relaxed **restrictions on fertiliser exports**. While in 2014 export taxes were lowered for both high-tariff and low-tariff seasons, in 2015 they will be fixed at flat annual rates. This will result in a significant reduction in high-tariff season export taxes (from about USD 70/tonne to USD 16/tonne on phosphates), but an increase in the rate for the low-tariff season exports (Persona, 2014).

In mid-2014, China's **bilateral FTAs** with Switzerland and Iceland came into effect. As a result, 76% of China' agro-food exports to Switzerland will be at zero-tariff and an additional 16% at reduced tariffs. In particular, China expects to expand exports of such products as fruits, vegetables, candies, sweet food and pastry (MOFCOM, 2015). In turn, such Swiss agro-food products as cheese, yoghurt, skimmed milk powder, butter, beef jerky, chocolate, baby food, biscuits, jams, roasted coffee, confectionery, ice cream, non-alcoholic beverages, and wine will be imported into China tariff-free or at reduced tariffs.

The conclusion of the China-Australia FTA, **ChAFTA**, was announced in November 2014. ChAFTA will unlock significant agro-food export opportunities for Australia, in particular for products such as dairy, beef and live cattle, sheep and goat meat, barley and sorghum, skins, hides and leather, horticulture, seafood and wines. For these commodities, tariffs will be eliminated or significantly reduced, with reductions being phased in within defined periods. As is the case with all of its FTAs, China has not provided further liberalisation on rice, wheat, cotton or sugar, all of which are considered significantly sensitive (DFAT, 2015).

In addition, China applies unilateral preferential tariffs (zero rated) on certain products imported from 40 least developed countries (LDCs). Since 1 July 2013 duties on 95% of tariff lines have been lowered to zero for imports from those LDCs that have diplomatic ties and have completed an exchange of notes with China (WTO, 2014).

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Chapter 8

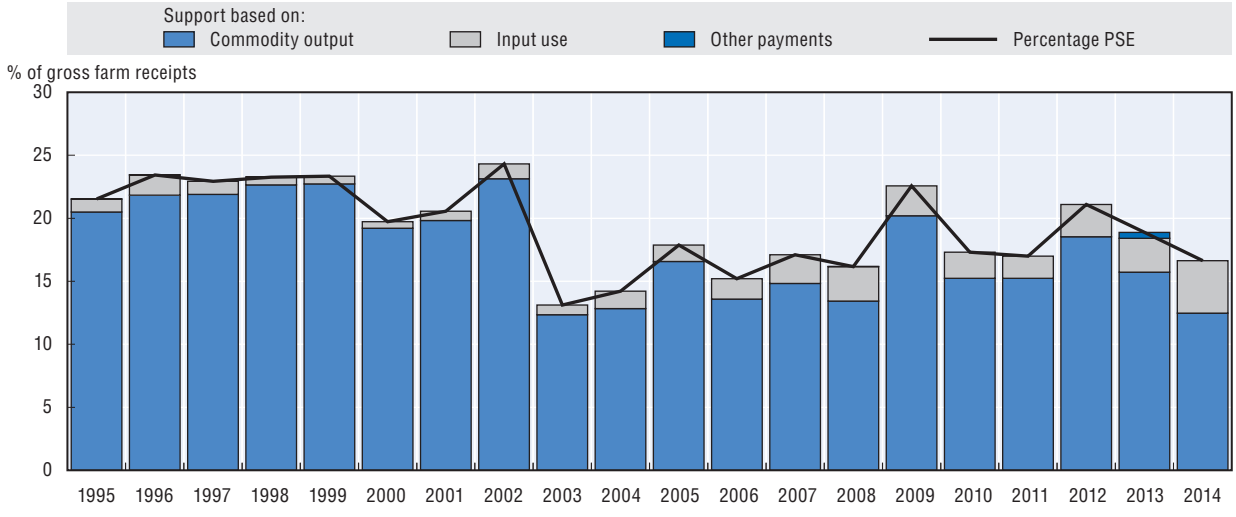
Colombia

The Colombia country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2013-15.

Evaluation of policy developments

- Agricultural policies in Colombia are mostly based on policy instruments that are production and trade distorting, such as market price support (three-quarters of support to producers), ad hoc payments based on output, and unconstrained support based on variable input use. PSE averaged 19% of gross farm receipts in 2012-14 and general services (GSSE) accounted for only 15% of total support to the sector (TSE) during the same period. MPS represented 76% of the PSE, while budgetary transfers contributed the remaining 24%.
- Investments in general services to agriculture have been low during the last two decades, while the Colombian agricultural sector continues to faces numerous structural challenges. Policy efforts should focus on strategic investments like land restructuring and land tenure system (e.g. more than 40% of land ownership is informal), investments in irrigation and improvement of regulatory oversight on water supply, usage and storage; investments in transport infrastructure, strong R&D and innovation capacity of the sector; animal and plant health protection and control services; promotion of sustainable use of natural resources, investments in a national and functional extension/training and technical assistance system that fosters technology adoption in agri-food chains. Without adequate investment in these areas it will be very difficult to improve productivity, competitiveness and ensure the sustainable development of the sector.
- As new programmes are being created more clarity is needed. Currently, the majority of programmes cover very broad and different areas and thus, are implemented through a bundle of policy instruments, the impact of which can be difficult to measure and evaluate. For example, programmes that cover variable inputs subsidies can partly deal with funding of general services. The efficiency of allocating budgetary resources is therefore also hard to assess. A thorough review and impact assessment of the wide array of policy instruments and programmes to support agriculture, including those implemented by private producer associations with government outlays, would allow the redefinition and reorganisation of policy instruments based on evidence of costs and benefits. Institutional co-ordination should be improved and information better disseminated to farmers.
- Moving away from production- and trade distorting policy instruments towards measures to improve market functioning and investment in general services would help building sustainable growth and competitiveness in the sector.

Figure 8.1. **Colombia: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

Colombia is the fifth largest and the third most populous country in Latin America, with a surface of 1.1 million km^2 and a population of 47 million people. The only South American country that borders both the Atlantic and the Pacific Oceans, Colombia also has abundant agricultural land and fresh water, is very biodiverse and is rich in natural minerals and fossil fuels. The share of agriculture in GDP declined from 15.3% in 1995 to 6.1% in 2013. The share in employment also experienced a decrease from 21.6% in 1995 to 17% in 2013. The sector makes an important contribution to national exports, with agro-food exports accounting for 11% of all exports in 2013. Colombia is a net exporter of agricultural and food products with a net surplus of USD 722 million in 2013. Colombia, like other Latin American countries, has a highly dualistic distribution of land ownership, the roots of which can be traced back to the colonial era. The sector is dominated by small-scale units, with two-thirds of farms smaller than 5 ha (about 4% of agricultural land) and only 0.4% of farms with more than 500 ha (representing close to half of agricultural land) (IGAC, 2012).

Table 8.1. **Colombia: Contextual indicators, 1995, 2013**[1]

	1995	2013[1]
Economic context		
GDP (billion USD)	100	378
Population (million)	37	47
Land area (thousand km^2)	1 110	1 110
Population density (inhabitants/km^2)	32	42
GDP per capita, PPP (USD)	6 611	12 695
Trade as % of GDP	12.5	15.6
Agriculture in the economy		
Agriculture in GDP (%)	15.3	6.1
Agriculture share in employment (%)	21.6	16.9
Agro-food exports (% of total exports)	33.8	11.1
Agro-food imports (% of total imports)	9.9	9.7
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	2 074	722
Crop in total agricultural production (%)	58	59
Livestock in total agricultural production (%)	42	41
Agricultural area (AA) (thousand ha)	44 513	42 618
Share of arable land in AA (%)	5	4
Share of irrigated land in AA (%)	..	..
Share of agriculture in water consumption (%)	..	..
Nitrogen balance, kg/ha	..	..

1. Or latest available year.

Sources: *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

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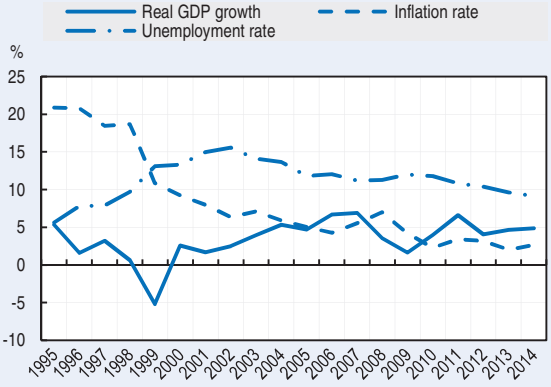
Figure 8.2. **Colombia: Main macroeconomic indicators, 1995-2014**



Source: *OECD Factbook Statistics.*

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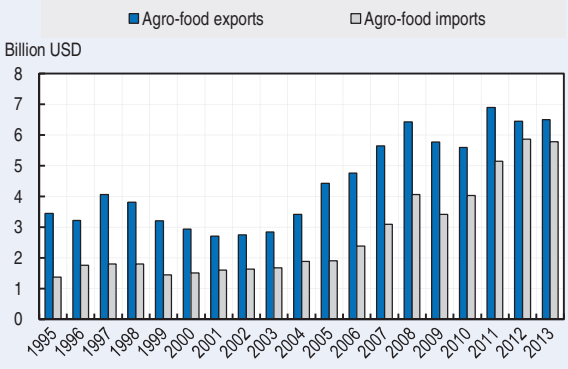
Figure 8.3. **Colombia: Agro-food trade, 1995-2013**



Source: *UN Comtrade Database.*

StatLink http://dx.doi.org/10.1787/888933234627

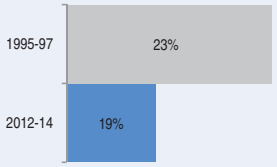
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Colombia's aggregate level of support to producers (%PSE) averaged 19% of gross farm receipts over the period 2012-14. Market price support (MPS) is the predominant component of PSE with an average share of 76% over the period 2012-14. MPS is mostly determined by the use of border measures, such as the Andean Price Band System (SAFP), for several agricultural products (e.g. maize, rice, poultry, milk, sugar, and pig meat). Budgetary transfers accounted for 24% of the PSE over the period 2012-14 and have been dominated by payments based on variable input use. In 2013 and 2014, however, large payments based on output were made to coffee producers. Outlays for the GSSE in Colombia have been quite small, accounting on average for 15% of the TSE during the period 2012-14.

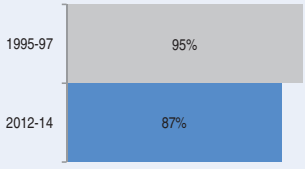
PSE as % of receipts (%PSE)

Since the 1990s Colombia has provided significant levels of support to its farmers. The PSE for 2012-14 was 19% of gross farm receipts, above the OECD average of 18% for the same period. In the latest years the %PSE has steadily declined from 21% in 2012 to 16.6% in 2014.



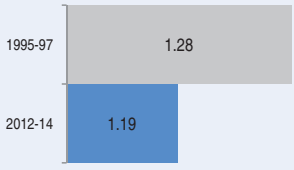
Potentially most distorting support as % of PSE

More than 75% of PSE is linked to commodity market price support alone. Variable input use support (without input constraints) accounts for 12% of PSE. These two types of support are considered to be the most production and trade distorting measures.



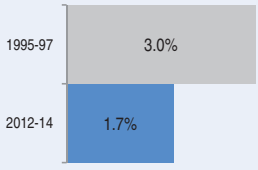
Ratio of producer price to border price (NPC)

Prices received by farmers, on aggregate, have been estimated to be 19% higher than those observed in the world markets.

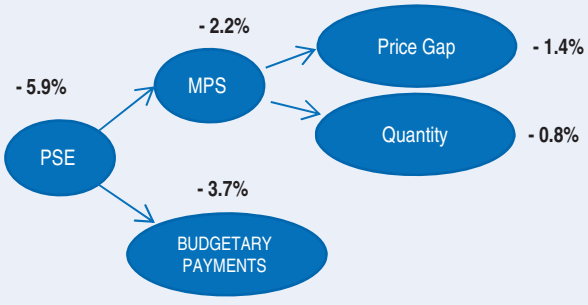


TSE as % of GDP

Total support to agriculture represents 1.7% of GDP for the period 2012-14, which is higher than the OECD average off 0.8%. The share of GSSE in TSE is 15%.

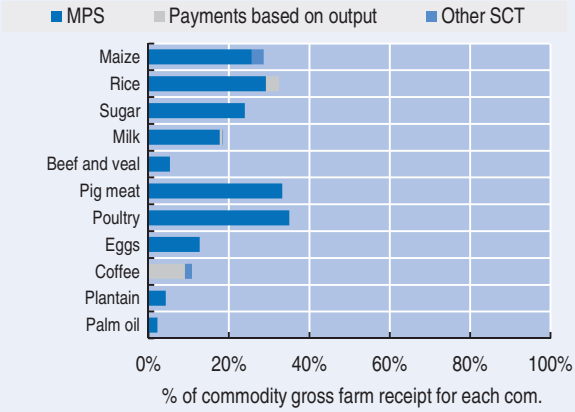


Decomposition of change in PSE, 2013 to 2014



The level of support in 2014 has declined due to a reduction of both MPS and budgetary payments.

Transfer to specific commodities (SCT), 2012-14



The most important Single Commodity Transfers (SCT) were for poultry, pig meat, rice, maize, sugar and milk, with 35%, 33%, 32%, 28%, 24% and 18.5% respectively of commodities gross farm receipts.

Table 8.2. **Colombia: Estimates of support to agriculture**

Million COP

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**14 671 678**	**52 772 935**	**49 694 000**	**52 221 879**	**56 402 926**
***of which:** share of MPS commodities (%)*	72.9	78.9	77.8	76.2	82.8
Total value of consumption (at farm gate)	**10 956 358**	**45 720 540**	**43 936 630**	**46 313 245**	**46 911 745**
Producer Support Estimate (PSE)	**3 375 282**	**10 370 839**	**10 774 095**	**10 476 561**	**9 861 860**
Support based on commodity output	3 193 752	8 529 347	9 468 226	8 726 838	7 392 976
Market Price Support[1]	3 166 039	7 868 106	9 400 106	7 215 514	6 988 697
Payments based on output	27 712	661 241	68 120	1 511 323	404 279
Payments based on input use	180 958	1 754 931	1 305 869	1 490 041	2 468 884
Based on variable input use	130 669	1 120 594	864 499	1 035 400	1 461 881
with input constraints	112 678	635 731	391 195	768 588	747 409
Based on fixed capital formation	23 536	359 651	277 085	272 513	529 355
with input constraints	5 049	156 635	101 370	144 730	223 804
Based on on-farm services	26 753	274 687	164 284	182 128	477 648
with input constraints	0	127 020	79 945	94 673	206 441
Payments based on current A/An/R/I, production required	572	86 561	0	259 682	0
Based on Receipts / Income	0	0	0	0	0
Based on Area planted / Animal numbers	572	86 561	0	259 682	0
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE (%)	**22.6**	**18.9**	**21.1**	**18.9**	**16.6**
Producer NPC (coeff.)	**1.28**	**1.19**	**1.24**	**1.19**	**1.13**
Producer NAC (coeff.)	**1.29**	**1.23**	**1.27**	**1.23**	**1.20**
General Services Support Estimate (GSSE)[2]	**319 320**	**1 834 091**	**1 847 596**	**2 138 354**	**1 516 322**
Agricultural knowledge and innovation system	80 888	413 238	404 313	378 562	456 840
Inspection and control	10 938	130 827	104 413	153 772	134 298
Development and maintenance of infrastructure	227 494	1 262 821	1 330 381	1 597 780	860 302
Marketing and promotion	0	27 203	8 490	8 239	64 881
Cost of public stockholding	0	0	0	0	0
Miscellaneous	0	0	0	0	0
Percentage GSSE (% of TSE)	**8.7**	**15.0**	**14.6**	**17.0**	**13.3**
Consumer Support Estimate (CSE)	**-3 105 722**	**-8 598 959**	**-10 063 043**	**-8 016 699**	**-7 717 135**
Transfers to producers from consumers	-2 872 668	-7 400 307	-9 252 578	-7 060 337	-5 888 004
Other transfers from consumers	-241 806	-1 239 278	-840 288	-986 101	-1 891 443
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	8 751	40 626	29 824	29 740	62 313
Percentage CSE (%)	**-28.2**	**-18.9**	**-22.9**	**-17.3**	**-16.5**
Consumer NPC (coeff.)	**1.40**	**1.24**	**1.30**	**1.21**	**1.20**
Consumer NAC (coeff.)	**1.39**	**1.23**	**1.30**	**1.21**	**1.20**
Total Support Estimate (TSE)	**3 694 602**	**12 204 929**	**12 621 692**	**12 614 914**	**11 378 182**
Transfers from consumers	3 114 473	8 639 584	10 092 867	8 046 439	7 779 447
Transfers from taxpayers	821 934	4 804 623	3 369 113	5 554 577	5 490 178
Budget revenues	-241 806	-1 239 278	-840 288	-986 101	-1 891 443
Percentage TSE (% of GDP)	**3.0**	**1.7**	**1.9**	**1.8**	**1.5**
GDP deflator (1995-97=100)	**100**	**355**	**350**	**355**	**359**

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Colombia are: maize, rice, sugar, milk, beef and veal, pig meat, poultry, eggs, bananas, plantains, coffee, palm oil and flowers.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235252

Description of policy developments

Main policy instruments

The current framework for agricultural policy design is being shaped by the National Development Plan (PND) 2014-18, the Mission for the Transformation of the Countryside initiative (*Misión para la Transformación del Campo*), and the peace negotiations between the Colombian government and the Revolutionary Armed Forces of Colombia (FARC).

Domestic markets for many products are protected by import tariffs, tariff rate quotas and in particular the Andean Price Band System (SAFP). The SAFP aims to stabilise import prices for 13 commodities and their related first-stage processed products: rice, barley, yellow maize, white maize, soya beans, wheat, unrefined soya bean oil, unrefined palm oil, unrefined sugar, refined sugar, milk, chicken cuts and pig meat. The system establishes a floor price (lower band) and a ceiling price (higher band). When the international price is below the floor price, an additional import duty is imposed, and when the international price exceeds the ceiling price, a tariff reduction is granted. Meanwhile, the Free Trade Agreements (FTAs) signed and enforced by Colombia in recent years foresee a gradual phase-out of its application in relation to its main trading partners (e.g. the FTA with the United States in force since 2012). The average MFN applied for agricultural products is 15.8% compared to 5% for industrial goods. Colombia bound all of its tariffs in the Uruguay Round at rates varying between 15% and 227%. The highest average MFN tariffs are being applied for the groups of dairy products (43.5%) and animal products (20.8%).

Producer associations finance and administer the commodity Price Stabilisation Funds (FEP), which function on the basis of transfers to and from farmers. Six commodities are covered by a fund: cotton, cocoa, palm oil, sugar, beef and milk. FEPs make payments to producers when the selling price of a product falls below a minimum (floor) price. When the sales price of a product is higher than an established maximum (ceiling) price, producers contribute to the FEPs. The ceiling and floor prices are established by a Council formed by stakeholders and government, based on selected international prices for each product, while the transfers and compensations take into account a reference price indicator at which the products reach the market. While these funds currently do not represent government outlays, the government provided the initial capital for their set-up and is part of the Council that establishes the level of prices (floor or ceiling), furthermore (except for beef and cotton) these products are protected under the SAFP. These two combined mechanisms, SAFP and the FEPs, influence domestic prices which are normally higher than international prices.

Ad hoc payments based on output have been given to coffee, rice, cocoa and milk producers over the last four years (2011-14). The coffee support programme (PIC) has been the most important with government outlays in 2013 of around COP 1 trillion (USD 550 million), but only COP 68 billion (USD 14 million) in 2014. These payments were established to compensate production losses due to bad weather conditions (*Ola Invernal*) that hit the country during the season 2010-11.

Several programmes provide variable input support, as well as payments based on output and investment support:

- The commercialisation fund project, which is the most important in terms of outlays spent in 2014, has various components with different implementation mechanisms that provide mainly input subsidies, payments based on output, and include promotion programmes of agricultural products.

- The Rural Development with Equity programme (DRE) through its four components (the Rural Capital Incentive -ICR, the Special Credit Line-LEC, technical assistance support and subsidies for land adequacy) provides input subsidies, ranging from variable inputs like purchases of seed or renovation of crop plantations, to fixed capital formation such as subsidies for farm irrigation and drainage infrastructure, and on-farm services like subsidies for individual technical assistance as well as credit. The Commercialisation Fund and the DRE programmes accounted for more than COP 850 billion (USD 425 million) in 2014 contributing to around 33% of total government outlays administered by the Ministry of Agriculture.
- The Productive Alliances programme seeks to link smallholders with formal marketing structures. It finances investments and has components of variable inputs subsidies, fixed capital formation subsidies, on-farm services, as well as components of general services. Funds under the productivity improvement of agricultural and fisheries sector initiative, created in 2013, also provide multiple variable and fixed input subsidies.

In addition to the above programmes, financing instruments relate to the access to credit (including subsidised credit interest rates), debt rescheduling and insurance programmes. These financial policy instruments account for more than one third of budgetary outlays:

- The Financing Fund for the Agricultural Sector (FINAGRO) is a second-tier bank that provides funds to first-tier banks. Through this mechanism, farmers are able to access credit at preferential interest rates. Specific credit lines are for: i) working capital and marketing; ii) investment; and iii) the normalisation of portfolios, which includes alternatives for farmers to adjust their financial debt. In 2013-14, farmers have also been benefiting from debt rescheduling and sporadic write-offs.
- The National Agricultural Solidarity Fund (FONSA) provides financial support through partial or total debt relief to small agricultural and fishing farmers faced with climate, phytosanitary or pest issues. This includes debt restructuring (which applies to current loans), and refinancing and debt consolidation (which applies to current loans and overdue loans). FONSA outlays for 2014 were around COP 315 billion (USD 157 million) and the implicit subsidy coming from FINAGRO's preferential interest rates was estimated at COP 231 billion (USD 115 million).
- The National Agricultural Revitalisation Programme (PRAN) provides resources to restructure liabilities, adjust overdue loans and end litigation processes, as well as providing producers with the opportunity to reinstate their credit rating. Both FONSA and PRAN are part of the debt rescheduling and debt relief pillar of FINAGRO.
- FINAGRO also manages the Agricultural Guarantee Fund (FAG) that provides collateral to farmers, particularly smallholders.
- The government subsidises up to 80% of agricultural insurance premium, depending on the type of producer and whether the area to be insured has been financed with credit resources of FINAGRO.

Outlays for the GSSE have only been around 9% of TSE for the period 1994-2014, with a slight increase in 2014 (13% of TSE). Some general services include agricultural research and transfer, inspection and control, infrastructure (including farm restructuring), marketing, and promotion. In 2013-14, as regards agricultural knowledge generation, new programmes began to address the sector's adaptation to climate change; research projects for science, technology and innovation; and the strengthening of methodologies and planning for agricultural land use. New programmes directed at agricultural knowledge transfer have also been set-up in 2013-14.

In 2013-14, product safety and inspection programmes have addressed issues such as the genetic improvement of cattle herds, support to the network of laboratories in view of accreditation of quality standard ISO 17025, the Animal Traceability Programme – *IDENTIFICA*, and specific support to sanitary and phytosanitary requirements for agricultural exports. Pest and disease inspection and control programmes have received additional funding in 2013-14. The most significant programmes focused on input control include the development of animal, plant and microbial germplasm banks, as well as seed certification.

Programmes with a focus on ensuring the suitability of land for agricultural purposes have also been implemented in 2013-14. Referred to as adequacy of land, programmes implemented through the National Fund for Land Adequacy or Improvement provides irrigation and drainage infrastructure. These projects have also been complemented by financial support destined to studies and planning of land use in rural areas according to social, economic and environmental criteria, implemented by the Agricultural Rural Planning Unit (UPRA).

Farm restructuring has been dominated over the recent years by programmes addressing land issues of displaced population. The 2010-14 government implemented in 2011 a legal and operational framework for restituting land rights to those who were disposed as a cause of the long-standing internal conflict. The Victims and Land Restitution Law (*Law 1448 of 2011*) constitutes the first piece of legislation enacted to redress the suffering caused to millions of victims and internally displaced persons by the country's internal conflict. A complementary programme includes allocating land formerly used for illicit crops to conflict victims or poor farmers. Land formalisation programmes have seen their budget double in 2014 compared to 2013, while a similar budget was allocated in 2014 to address land issues (titling and adequacy) of indigenous and Afro-Colombian communities. MADR has engaged in 2013-14 in the marketing and promotion of certain agro-food products, such as promotion campaigns for milk and panela consumption, and promotion for the flowers sector.

Critical areas such as infrastructure for agricultural production and marketing, agricultural knowledge and agricultural knowledge transfer, and farm restructuring have received limited or no support. This, combined with poor land management, inefficient land tenure system (i.e. 40% of land ownership is informal) and a long-running internal conflict closely linked to drug trafficking, has deeply affected the evolution and performance of the Colombian agricultural sector. Although efforts have been made and agricultural R&D has received additional funding since 2010, more is needed to develop the enabling environment for an inclusive and sustainable agricultural growth.

Domestic policy developments in 2013-15

A commitment to agriculture and rural development was the first point agreed in the peace negotiations between the government and the Revolutionary Armed Forces of Colombia (FARC) that started in 2013. The agreement reached in May 2013 with the FARC includes issues such as access to and use of land resources, rural infrastructure and land adaptation programmes, social development, as well as incentives for agricultural development and food security.

The Agrarian Pact (*Pacto Agrario*), which includes subsidies and import measures, was launched in September 2013 in response to farmer protests. In early 2015, MADR launched the Rural Coordination Plans (*PARES*), which should allow producers to participate in the identification and definition of the projects to be financially supported; this first stage selection is then followed by consultations at local level, with the rural communities, social organisations, as well as central and municipal authorities (MADR, 2015).

In 2014, several programmes targeting family agriculture have been initiated and are meant to foster producer associations, product storage and marketing, as well as improved productivity and value-added generation. These programmes provide payments based on input use (variable input use, fixed capital formation, and on-farm services), and also have components of agricultural knowledge transfer (training). Two complementary programmes have been set up in 2014 in order to support competitiveness improvement of main agricultural products. These programmes provide on-farm services, as well as development and maintenance of storage, marketing and other physical infrastructure. One of the programmes is being implemented within the framework of the *Contratos Plan* – a tool aimed at promoting co-ordination among the various local authorities in order to boost regional development. The programme *Agroágil* was initiated in 2015 and aims to provide new banking solutions to all farmers, with particular emphasis on providing timely access to credit, as well as financial solutions tailored to the production cycle.

Trade policy developments in 2013-15

Colombia joined the WTO in 1995 as an original participant in the GATT and has signed several free trade agreements over the past 20 years, mainly with other American countries. In 2013, Colombia signed Free Trade Agreements (FTAs) with ***Korea*** (February), ***Costa Rica*** (May), ***Panama*** (September) and ***Israel*** (September), but these are not yet in force. In December 2014, the Colombian Senate approved in a first debate the Colombia-Korea FTA. The Colombia-Costa Rica FTA was ratified by Costa Rica in May 2014, while the Colombian Senate approved it in a second debate in November 2014. At a pluri-lateral level, Colombia is part of the Pacific Alliance Agreement. In February 2014, Colombia, Chile, Mexico and Peru signed the Additional Protocol to the Framework Agreement which liberalises 92% of their trade, with the remaining 8% over the coming years. The Government of Colombia forwarded the Additional Protocol to the Senate in September 2014. FTAs with Japan and Turkey are still under negotiation (MADR, 2013; OAS SICE, 2015).

The FTA with the ***United States*** entered in force in May 2012, while the FTA with the European Union entered in force in August 2013. The agreement with the United States provides for changes to domestic support and specifically the phasing out of the Andean Price Band System. For fruit and vegetables, Colombia obtained immediate market access to the US market, its sugar quota was tripled and a preferential quota was introduced for dairy products. The FTA with the EU provides Colombia new preferential market access for key agricultural products such as sugar, tobacco, flowers, palm oil, coffee, bananas and other fruits, and beef. Products considered sensitive such as maize, rice, sorghum, soybeans, pig meat and poultry were excluded from the tariff reduction process (MADR, 2013; MinCIT, 2013).

Following a wave of farmer protests in the second half of 2013, the Colombian government implemented a series of trade policy measures that affected elements of import duties, safeguards and tariff rate quotas. The government implemented three primary trade policy instruments, going in hand with the Agrarian Pact mentioned in the previous section: reducing import duties on agricultural inputs; eliminating a general 3 000 tonnes tariff rate quota (TRQ) for whey protein dairy products from countries that do not have an ongoing trade agreement with Colombia; reviewing and implementing trade safeguards. As a result, in October 2013, the government published safeguard quotas for the next two years for Andean Community (CAN) member countries Peru, Bolivia, and Ecuador, and for MERCOSUR members – Argentina, Uruguay, and Brazil – for the following products: fresh potatoes, pre-cooked and frozen potatoes, onions, dried beans, peas, tomatoes, pears, powder milk and other dairy products. These safeguard quotas are applicable for two years and are administered on a "first come, first served" basis (MADR, 2014; USDA GAIN, 2014).

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Chapter 9

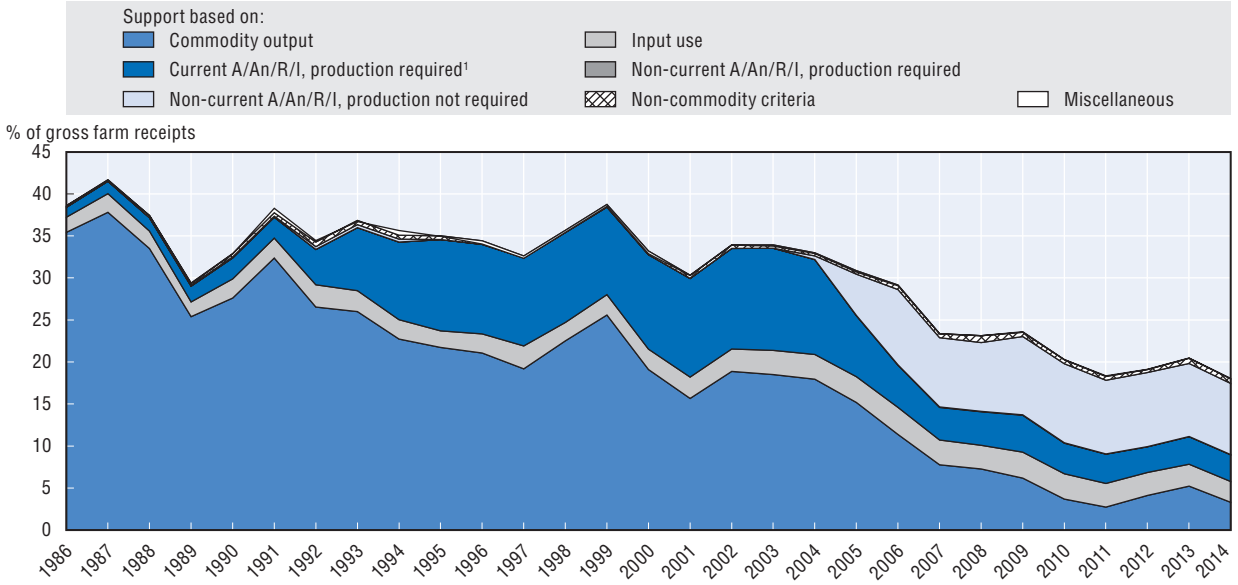
European Union

The European Union country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Policy reforms since 1986-88 have considerably reduced the level of support, which was around 19% of gross farm receipts in 2012-14. There has been a move away from high levels of market price support and output payments towards payments granted with no requirement to produce thus allowing producers to better respond to market signals. The end of the milk production quota in 2015 and the sugar quota in 2017 are important further steps in this direction.
- After two consecutive years of increase and, as the gap between producer prices and border prices narrowed for several commodities in 2014, production and trade distorting measures declined and accounted for 27% of support to producers as measured by the PSE. These fluctuations are not caused by a change in policies, but result from existing policy instruments that disconnect prices paid to producers in some sectors from world market prices.
- The share of payments requiring production has increased. Payments that encourage specific commodity production are not evenly used across member states; they influence production choices at the farm level and may distort competition. The CAP 2014-20's small farm scheme is an instrument for redistribution. Together with the flexibility to introduce additional payments for the first hectares they may slow structural adjustment. Member states decisions to shift budgets between Pillars have resulted in overall net transfers towards the second pillar, several member states have chosen to reduce the share of payments targeted to specific objectives under Pillar II and transfer funds to the first Pillar.
- Thirty per cent of direct payments are conditional to farming practices targeted to the environment; however exceptions to cross-compliance and 'greening' requirements are permitted and should be assessed against the ambition to enhance the enforcement of environmental stewardship.
- Market access for agricultural products has generally improved through bilateral agreements and lower applied tariffs. However, Tariff Rate Quotas (TRQs) and special safeguards continue to apply to a number of products. In-quota import duties were raised for several cereals in 2014.
- Amendments to the CAP should focus on offering farmers a levelled playing field within the EU, deepening market orientation and better targeting support to improve the long-term productivity, sustainability and efficiency of the sector.

Figure 9.1. **European Union: PSE level and composition by support categories, 1986-2014**



1. EU12 in 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 for 2004-06; EU27 for 2007-13 and EU28 from 2014 when available.

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

The European Union is the largest economic region in the OECD area. Its average GDP per capita is below the OECD average, with wide differences across member countries. Agriculture accounts for 1.7% of GDP and 4.4% of employment in the EU28, with significant differences across member states. Since 2012, the trade balance of agro-food products has reversed and the European Union has become a net exporter. In 2014, for the first time in the period covered by this report, the European Union ranked first largest exporter of agro-food products in the world and remained the largest importer. In 2013, agro-food products accounted for 6.7% of all EU exports and 6.1% of all EU imports. There is a large diversity of farm structures and production systems in EU regions. Agriculture occupies more than half of the territory and accounts for about a quarter of water consumption.

Table 9.1. **European Union: Contextual indicators, 1995, 2013**[1]

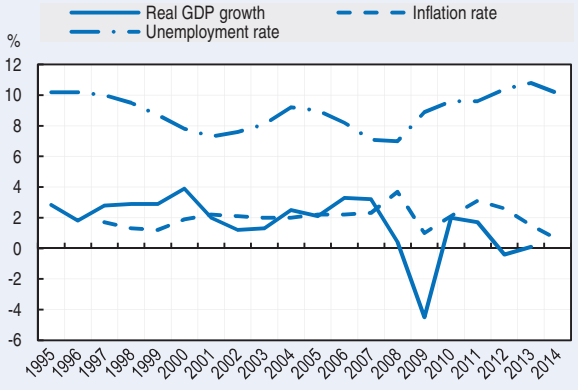
	1995	2013[1]
Economic context		
GDP (billion USD)	8 838	17 291
Population (million)	371	502
Land area (thousand km^2)	3 128	4 181
Population density (inhabitants/km^2)	112	114
GDP per capita, PPP (USD)	21 704	34 305
Trade as % of GDP	9.2	13.9
Agriculture in the economy		
Agriculture in GDP (%)	2.9	1.7
Agriculture share in employment (%)	4.7	4.4
Agro-food exports (% of total exports)	8.3	6.7
Agro-food imports (% of total imports)	9.6	6.1
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	-8 588	11 319
Crop in total agricultural production (%)	53	56
Livestock in total agricultural production (%)	47	44
Agricultural area (AA) (thousand ha)	142 453	186 584
Share of arable land in AA (%)	53	58
Share of irrigated land in AA (%)	..	3.7
Share of agriculture in water consumption (%)	..	26
Nitrogen balance, kg/ha	102	58

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235269

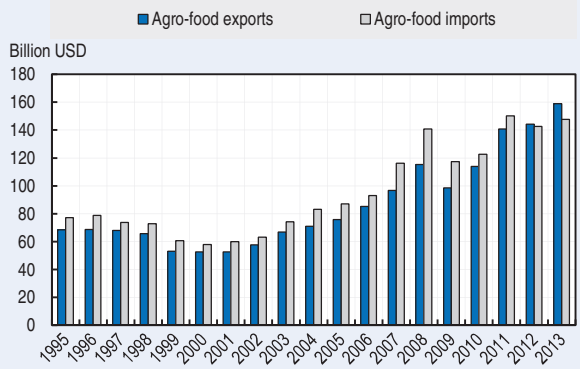
Figure 9.2. **European Union: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234642

Figure 9.3. **European Union: Agro-food trade, 1995-2014**



Source: UN Comtrade Database.

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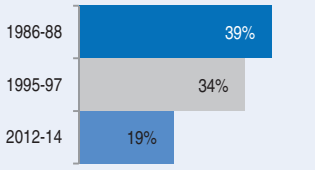
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".
EU15 in 1995-2003; EU25 for 2004-06; EU27 for 2007-13 and EU28 from 2014 when available. 2012 figures for the "Share of agriculture in water consumption" relate to the EU15, and to the EU members of the OECD for the "Nitrogen balance".

Development of support to agriculture

The European Union[1] has gradually reduced its support to agriculture since the mid-1990s, in particular the potentially most production and trade distorting forms of support. The level of price distortions, as measured by the Nominal Protection Coefficient (NPC), has been significantly reduced. About half of producer support is granted with no requirement to produce.

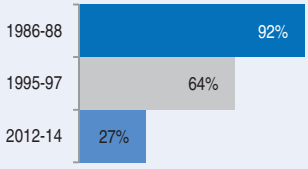
PSE as % of receipts (%PSE)

Support to producers (%PSE) has decreased gradually and consistently over the long term, in particular since the mid-1990s. It is slightly above the OECD average of 18%.



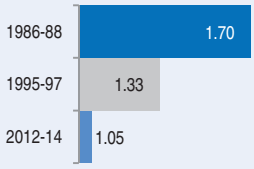
Potentially most distorting support as % of PSE

The European Union has progressively reduced market price support and protection at the border and increased direct payments to farmers, mostly with no requirement to produce. The potentially most distorting support (based on output and variable input use – without input constraints) represented less than 30% of the PSE from 2010.



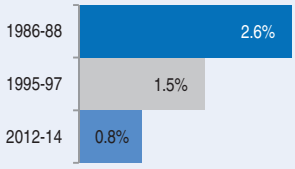
Ratio of producer price to border price (NPC)

On average, prices received by farmers were 5% higher than those on the world market in 2012-14. While domestic prices for most commodities were closely aligned with border prices, prices received by sugar, beef and poultry farmers were higher than world prices (by 14%, 26% and 15% respectively).

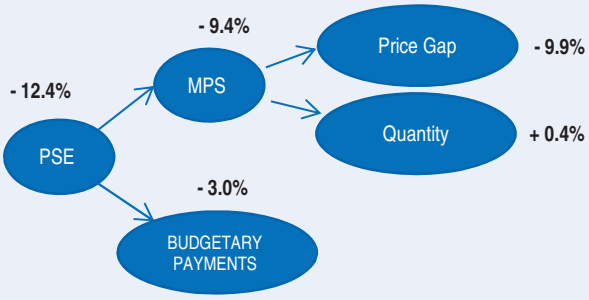


TSE as % of GDP

Total support was at 0.8% of GDP in 2012-14 and expenditure on general services represented 14% of total support.

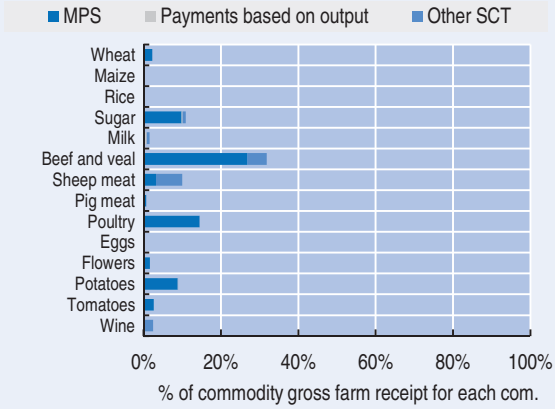


Decomposition of change in PSE, 2013 to 2014



The decline in support between 2013 and 2014 is mainly due to the reduction of the gap between producer prices and border prices for several commodities. Lower budgetary payments, in particular to support on-farm services also contributed to the decline in support.

Transfer to specific commodities (SCT), 2012-14



Single Commodity Transfers (SCT) represented 26% of the total PSE on average. The share of the SCT in the commodity gross farm receipt is at or close to zero for most commodities, except for sugar (13%), beef and veal (24%), and poultry (13%) partly reflecting the commodity specific payments received.

Table 9.2. **European Union (EU28): Estimates of support to agriculture**

Million EUR

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**211 380**	**239 230**	**375 560**	**371 766**	**377 458**	**369 580**
***of which:** share of MPS commodities (%)*	75.0	73.7	75.5	75.4	75.6	75.6
Total value of consumption (at farm gate)	**188 226**	**230 175**	**367 160**	**369 110**	**377 824**	**354 547**
Producer Support Estimate (PSE)	**88 006**	**94 287**	**85 072**	**83 838**	**91 376**	**80 003**
Support based on commodity output	79 854	57 676	18 691	18 072	23 334	14 666
Market Price Support[1]	74 791	54 160	17 893	17 318	22 510	13 852
Payments based on output	5 063	3 516	797	754	824	814
Payments based on input use	4 565	6 512	11 541	11 990	11 646	10 986
Based on variable input use	872	2 292	4 560	4 896	4 427	4 357
with input constraints	0	0	42	33	43	51
Based on fixed capital formation	2 685	2 565	5 374	5 367	5 501	5 255
with input constraints	0	86	125	147	106	121
Based on on-farm services	1 008	1 655	1 606	1 727	1 718	1 374
with input constraints	82	427	11	14	10	8
Payments based on current A/An/R/I, production required	3 195	29 775	14 023	13 384	14 609	14 076
Based on Receipts / Income	132	64	987	756	1 133	1 072
Based on Area planted / Animal numbers	3 063	29 711	13 036	12 629	13 476	13 004
with input constraints	849	11 363	11 302	11 243	11 559	11 106
Payments based on non-current A/An/R/I, production required	0	0	97	80	100	112
Payments based on non-current A/An/R/I, production not required	0	24	38 343	38 661	38 794	37 573
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	0	24	38 343	38 661	38 794	37 573
with commodity exceptions	0	0	15 233	15 700	15 420	14 579
Payments based on non-commodity criteria	428	988	2 241	1 521	2 748	2 454
Based on long-term resource retirement	426	882	568	442	635	626
Based on a specific non-commodity output	1	106	1 564	946	1 985	1 760
Based on other non-commodity criteria	0	0	110	133	128	69
Miscellaneous payments	-35	-687	136	130	144	136
Percentage PSE (%)	**39.2**	**33.8**	**19.2**	**19.1**	**20.5**	**18.0**
Producer NPC (coeff.)	**1.70**	**1.33**	**1.05**	**1.05**	**1.07**	**1.04**
Producer NAC (coeff.)	**1.65**	**1.51**	**1.24**	**1.24**	**1.26**	**1.22**
General Services Support Estimate (GSSE)[2]	**9 464**	**10 229**	**13 711**	**13 489**	**14 179**	**13 466**
Agricultural knowledge and innovation system	1 638	3 148	5 034	5 081	5 066	4 954
Inspection and control	244	272	783	801	760	787
Development and maintenance of infrastructure	1 897	2 474	4 122	3 785	4 343	4 238
Marketing and promotion	1 321	2 311	3 032	2 972	3 228	2 895
Cost of public stockholding	4 232	1 813	309	333	304	291
Miscellaneous	133	211	432	516	478	301
Percentage GSSE (% of TSE)	**9.3**	**9.4**	**13.8**	**13.7**	**13.3**	**14.3**
Consumer Support Estimate (CSE)	**-65 589**	**-47 207**	**-16 879**	**-15 951**	**-21 826**	**-12 860**
Transfers to producers from consumers	-75 427	-51 952	-17 681	-17 090	-22 328	-13 624
Other transfers from consumers	-1 501	-486	-405	-224	-716	-275
Transfers to consumers from taxpayers	4 442	3 855	1 003	1 362	880	767
Excess feed cost	6 897	1 376	204	0	339	273
Percentage CSE (%)	**-35.7**	**-20.9**	**-4.6**	**-4.3**	**-5.8**	**-3.6**
Consumer NPC (coeff.)	**1.70**	**1.30**	**1.05**	**1.05**	**1.07**	**1.04**
Consumer NAC (coeff.)	**1.56**	**1.26**	**1.05**	**1.05**	**1.06**	**1.04**
Total Support Estimate (TSE)	**101 912**	**108 371**	**99 786**	**98 689**	**106 434**	**94 235**
Transfers from consumers	76 928	52 438	18 086	17 314	23 044	13 899
Transfers from taxpayers	26 485	56 419	82 105	81 599	84 106	80 611
Budget revenues	-1 501	-486	-405	-224	-716	-275
Percentage TSE (% of GDP)	**2.6**	**1.5**	**0.8**	**0.8**	**0.8**	**0.7**
GDP deflator (1986-88=100)	**100**	**139**	**186**	**186**	**187**	**..**

.. Not available

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

EU12 for 1986-88; EU15 for 1995-97; EU27 for 2012-13; and EU28 from 2014 when available.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for the European Union are: wheat, maize, barley, oats, rice, rapeseed, sunflower, soybean, sugar, milk, beef and veal, sheep meat, pig meat, poultry, eggs, potatoes, tomatoes, plants and flowers, and wine.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235276

Description of policy developments

Main policy instruments

The Common Agricultural Policy (CAP) is the main agricultural policy instrument of the European Union. It is composed of two Pillars. Pillar I is funded by the European Agricultural Guarantee Fund (EAGF). Pillar II funds come from the European Agricultural Fund for Rural Development (EAFRD). Measures under Pillar II, or **rural development regulation**, are co-financed by EU member states. In addition to the CAP framework, member states also generally implement measures funded at the national level that may target specific sectors or objectives.

The CAP cycle typically covers an approximate timespan of seven years. The CAP 2007-13 was concluded in 2014 and the implementation of the new CAP, so-called CAP 2014-20, started in 2014, will be complete in 2015, with transitional provisions applied in the meantime.

The overall budget for the CAP for the 2014-20 period is set at 2011 prices to EUR 363 billion (USD 485 billion); of which EUR 278 billion (USD 371 billion) are allocated to Pillar I, covering market related expenditure and direct payments, and EUR 85 billion (USD 113 billion) to Pillar II. However, the final distribution between pillars may be different as member states use the flexibility to transfer funds between the two pillars since 2014 within specific limits and conditions. Eleven member states have chosen to transfer altogether EUR 6.4 billion (USD 8.5 billion) from Pillar I to Pillar II, while five member states transfer EUR 3.4 billion (USD 4.5 billion) from Pillar II to Pillar I. The overall net result is a EUR 3 billion (USD 4 billion) transfer towards the second pillar over the 6 years period, subject to a possible review in 2017.

Convergence is another feature of the CAP 2014-20. Per-hectare payment rates will converge gradually between countries (external convergence) and within countries and regions (internal convergence). Under external convergence, Pillar I national envelopes are adjusted to reduce the gap in per-hectare payments between countries. Countries receiving less than 90% of the EU average payment per hectare, will gradually receive more from 2015 onwards, and those receiving more than the EU average payment per hectare will see a gradual cut in payments. In 2020 a minimum average payment of EUR 196 (USD 262) per hectare should be reached in all countries. Internal convergence requires all member states to progress towards more homogenous payment rates per hectare at national or regional level. All farmers receiving less than 90% of regional or national average per hectare payment would receive increased payments reaching at least 60% of the average per hectare payment in that member state by 2019. Per hectare payments that exceed the regional or national average will be gradually reduced, while member states may choose to limit the reduction of above average payments to 30%.

Pillar I defines and funds market measures under the **common market organisation**. It also includes what has been the centre piece of the CAP since 2003: a payment per hectare granted with no requirement to produce. In addition, Pillar I funds commodity specific payments and, as part of the CAP 2014-20, a number of new measures including **greening** and the **crisis reserve**. Commodity specific payments and support that require production gain importance and use a larger share of the direct payments envelope in Pillar I at EU level. One new feature of the CAP 2014-20 is that it targets CAP payments to active farmers. To this purpose, a negative list is drawn to exclude entities whose main activity is not related to farming from direct payment support.

The **basic payment scheme** (BPS) applies in the EU15,[2] in Malta, Slovenia and Croatia. Compared to the former Single Payment Scheme (SPS), payment entitlements are lower and increasingly based on reference levels at the regional or national levels, with payment rates gradually moving away from the rates determined at the individual farm level (historical model).[3]

In other member states, the **single area payment scheme** (SAPS) applies. Under the SAPS each hectare receives the same payment rate at national level. In 2013 SAPS payments reached 100% of the level agreed in the EU accession framework in 2004. In the ten member states that apply the SAPS, additional commodity specific payments may accompany transition from market measures.[4]

Starting in 2015, **Greening** complements both the BPS and the SAPS in the CAP 2014-20. It is a per-hectare payment that uses 30% of Pillar I payments and is conditional on three farming practices: 1) A minimum of 5% of a farm's land is converted to so-called **Ecological Focus Areas** (EFA). A list of practices that are considered equivalent to the EFA has been drawn at the EU level. Member states may select specific elements or the entire list. Farms smaller than 15 hectares are exempt. 2) Maintenance of permanent grassland: Permanent grassland is defined as land which has been in grass for more than 5 years. The ratio of areas of permanent grassland to the total agricultural area at national level should not decrease by more than 5%. 3) Crop diversification on arable land: This condition is more restrictive as farm size increases. Farms with less than 10 hectares of arable are exempt, while larger farms between 10 and 30 hectares must grow at least two and, farms larger than 30 hectares, at least three crops. This condition introduces a requirement to produce. Eight member states use national certification schemes instead of Greening. **Cross-compliance** requirements are redefined and continue to apply to all direct payments.[5]

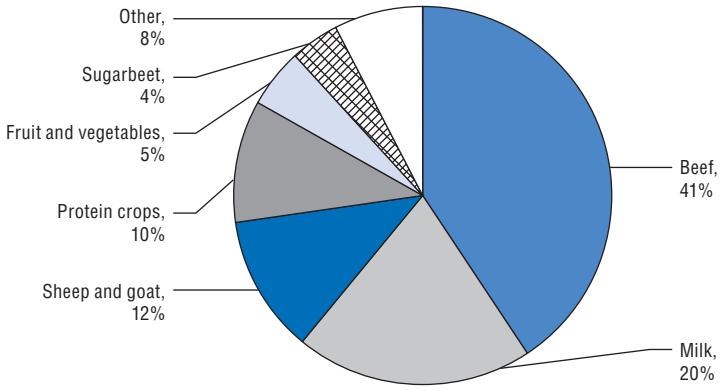
Table 9.3. **Direct payments in the CAP 2014-20**

Policy instrument	Share in the national DP Budget	Voluntary basis	Number of participating MS
Greening	30%		All
Young farmers scheme	≤ 2%		All
Areas with natural constraints	≤ 5%	X	1
Small farmer scheme	≤ 10%	X	15
Commodity specific payments	0-15% and up to 57% (10% of overall DP Budget)	X	27
Redistributive payments	≤ 30%	X	8
BPS/SAPS	DP budget minus sum of the above (55% of overall DP Budget)		

Note: From budget year 2015 onwards. Four member states received approval to exceed the maximum ceiling of 15% set for Commodity specific payments.
Source: European Commission, Agriculture and Rural Development.

Commodity specific payments under Article 68 have been increasing proportionally in the Direct Payments budget since 2010.[6] From 2015, the CAP 2014-20 offers the flexibility to increase the overall budget and relaxes the environmental and economic conditions that previously applied.[7] Up to 18 products or product groups[8] can receive commodity-specific payments (Figure 9.4). As a result of individual decisions by member states, the actual share of commodity-specific payments is very variable. One member state has opted out and will not use any commodity-specific payments while four have obtained approval from the European Commission to exceed the initially announced ceiling of 13%. Sixteen member states will support **protein crops**. The **transitional national aid** (TNA) replaces the Complementary National Direct Payment (CNDP). It is paid from national funds in addition to the SAPS to specific commodities.[9] A fixed share can be spent on current production and member states typically review TNA budgets and commodities annually.

Figure 9.4. **Commodity specific payments in the European Union**



Note: Commodity specific payments under the Transitional National Aid are not covered here.
Source: European Commission as quoted in OECD/FAO (2015).

StatLink http://dx.doi.org/10.1787/888933234669

A top-up payment to **young farmers** (aged less than 40 years and with less than five years of farming at the time of first application) applies in all member states. It uses a maximum of 2% of the national envelope. Different implementations choices have been made, either offering so-called young farmers a flat payment rate on a limited number of hectares or applying a payment proportional to support received.

Fifteen member states have chosen to offer a simplified payment setup that waives the compliance to greening and cross-compliance requirements for **small farms**. The payment cannot exceed EUR 1 250 (USD 1 670) per farm and the overall envelope is limited to 10% of national direct payments.

Eight member states have chosen to grant higher payments to the first hectares, under the so-called **redistributive payment**. Member states can grant additional payments to Areas with Natural Constraints (ANCs) defined on the basis of eight biophysical criteria. One member state has chosen to adopt this measure, using 0.2% of its national direct payments envelope.

A mandatory minimum 5% reduction applies to BPS support amounts above EUR 150 000 (USD 200 434) per recipient, under so-called **degressivity**. Sixteen member states apply the minimum requirement. Nine member states increase the amount that is exempt from the 5% reduction by the value of salaries paid. Nine member states have chosen to apply higher percentage reductions; for some as high as 100%, resulting in a full capping of the BPS at levels varying from EUR 150 000 (USD 200 434) to EUR 600 000 (USD 801 735).

The **Crisis reserve** holds an annual budget of about EUR 400 million (USD 534 million) at 2011 prices withdrawn from the direct payments budget under Pillar I. Crisis reserve funds that are not used in a given year are reverted to Pillar I direct payments for use in the next year. The Crisis reserve has been in place since 2014 and has not yet been used.

Convergence is another feature of the CAP 2014-20. Per-hectare payment rates will converge gradually between countries (external convergence) and within countries and regions (internal convergence). Under external convergence, Pillar I national envelopes are adjusted to reduce the gap in per-hectare payments between countries. Countries receiving less than 90% of the EU average payment per hectare, will gradually receive more from 2015 onwards, and those receiving more than the EU average payment per hectare will see a gradual cut in payments. In 2020 a minimum average payment of EUR 196 (USD 262) per hectare should be reached in all countries. Internal convergence requires all member states to progress towards more homogenous payment

rates per hectare at national or regional level. All farmers receiving less than 90% of regional or national average per hectare payment would receive increased payments reaching at least 60% of the average per hectare payment in that member state by 2019. Per hectare payments that exceed the regional or national average will be gradually reduced, while member states may choose to limit the reduction of above average payments to 30%.

The **POSEI** scheme (*Programmes d'Options Spécifiques à l'Éloignement et à l'Insularité*) supports farming in the European Union's outermost regions.[10] The scheme supports access to food, feed and inputs for local communities and also the development of local agricultural production.

Pillar I also funds market price support measures. There is public intervention for **cereals**, namely common and durum wheat, barley and maize. Purchase at the cereal intervention price is limited to 3 million tonnes of **common wheat**, beyond which purchase is by tender. Public intervention for **durum wheat**, **barley** and **maize** can be opened under special circumstances by means of tendering. Public intervention also applies to **paddy rice**. **Sugar** is supported through production quotas and support to private storage. The minimum price for quota beet is set to EUR 26.29 (USD 35) per tonne until the end of the sugar quota regime, on 30 September 2017. After that date, existing provisions for agreements between sugar factories and growers will be maintained, and white sugar will remain eligible for private storage aid. The support regime for cereals and sugar also comprises trade protection through tariffs, tariff rate quotas (TRQs), and, under certain markets circumstances, export subsidies.

Fruits and vegetables are eligible for commodity specific payments; they are also supported through various market measures. These include crisis intervention measures managed by producer organisations, an entry price system (minimum import price) for some products, *ad valorem* duties but no export subsidies. Member state co-financed aids also apply to the fruit and vegetables sector as well as the **olive oil and table olives** sector. These support a wide range of actions from production planning, quality measures, market withdrawal and harvest insurance to training, promotion and communication. Some of these measures apply at farm level while others are provided to producer organisations or to the sector at large. Also directed to the fruit and vegetables sector, a consumer support system targeted to school children covers the consumption of fresh fruits and vegetables, processed fruits and vegetables, and banana products. The scheme is co-financed by member states and its EUR 150 million (USD 200 million) cover up to 75% of the supply and costs related to logistics and distribution, and this share is raised to 90% in less developed and outermost regions. Private storage may also be activated as an optional scheme for olive oil and flax fibre. In the CAP 2014-20 the rules on recognition of Producer organisations and interbranch organisations are expanded beyond fruits and vegetables, this without any associated financial support.

Intervention prices are used for **butter** and **skimmed milk powder** together with import protection and export subsidies. Intervention purchase cannot exceed 50 000 tonnes for butter, and 109 000 tonnes for skimmed milk powder (SMP). Above those limits, purchase is made by tender. The consumption of milk and milk products by school children is supported through the school milk scheme. The support rate is set to EUR 18.15 per 100 kg (USD 24) and limited to 0.25 litre of milk per child and per school day. Member states may top-up the school milk payment with national subsidies. The **beef** market is supported by public intervention, tariffs, TRQs and export subsidies. Support for **pig meat** is provided by import protection and export subsidies. For **sheep meat**, the market support regime comprises tariffs and TRQs, with most country-specific TRQs subject to a zero customs duty. For **poultry and eggs**, there are TRQs and export subsidies. Private storage may be activated as an optional scheme for butter, SMP, beef, sheep meat and goat meat. Furthermore, specific provisions are made for milk and milk products.

As a result of these measures, prices paid to domestic producers were 5% above world market prices in 2012-14, and the support they generated (Market Price Support) represented 21% of the estimated support to agricultural producers.

Pillar II funds are implemented through national (or regional) Development Programmes. Rural Development Programmes also support projects using the "LEADER approach" (*Liaison Entre Actions de Développement de l'Économie Rurale*) – i.e. relying on a multi-sectoral approach and local partnerships to address specific local problems; as well as technical assistance for the implementation of Pillar II measures.

Member states participate in the funding of Pillar II in accordance with the Rural Development Programmes that cover the entire duration of the CAP cycle. In their plans, member states can choose from a menu of measures to meet the six priority areas of Pillar II. Two conditions apply: a minimum 30% of rural development funding from the EU budget is spent on measures related to the environment and climate change adaptation, including forestry and investments in physical assets; and another 5% is spent on the LEADER approach. The six priority areas of Pillar II of the CAP 2014-20 are as follows: 1) fostering knowledge transfer and innovation; 2) enhancing competitiveness of all types of agriculture and the sustainable management of forests; 3) promoting food chain organisation, including processing and marketing, and risk management; 4) restoring, preserving and enhancing ecosystems; 5) promoting resource efficiency and the transition to a low-carbon economy; and 6) promoting social inclusion, poverty reduction and economic development in rural areas. Member states have until 2018 to implement the new delimitation. Rural Development is part of the EU-level Common Strategic Framework covering all support from European Structural and Investment (ESI) funds (the EAFRD, ERDF, Cohesion Fund, ESF and EMFF) in member states through partnership agreements.

Agricultural innovation is the focus of the European Innovation Partnership for Agricultural productivity and Sustainability (EIP-AGRI) that was launched in 2012. Besides the CAP, other European policy instruments influence agriculture.

Domestic policy developments in 2014-15

Between 2013 and 2014, the EU budget on agriculture and rural development (Title 05) decreased by about 3% to EUR 56 billion (USD 74 billion), of which 4% was used for market price support measures, 74% for Pillar I payments and 21% for Pillar II measures.

In 2014, the PSE decreased by 12.4%, reflecting a reduction of budgetary payments (3%) combined with a fall in market price support (10%), explained by a rise in border prices at the farm gate and simultaneous reduction of producer prices. The combination of EU, national and regional payments to producers represented 83% of the PSE.

The main policy developments in the past year are linked to the phasing out of the CAP 2007-13 and progressive implementation of the CAP 2014-20. Also of importance, were the end of the milk production quota by April 2015 and the introduction of a number of emergency measures aiming to offset the market and income effects of a ban imposed on 7 August 2014 by the Russian Federation on imports of selected agricultural products from the EU, although the budgetary implications of these measures will be more fully visible in 2015.

Milk production quotas expired on 31 March 2015 as was devised by the 2008 Health Check. The transition was progressively achieved through annual increases of quotas. Milk production quotas had shaped the dairy production of the European Union since 1984 and their abolition is an important change to the Common Organisation of Agricultural Markets in this sector; a change that has been anticipated by producers as shown by the 4% increase of production volumes in 2014.

The **wine** planting rights system will be phased out at the end of 2015 and a system of authorisations for new vine planting introduced from 2016 that allows growth of up to 1% per year and specific provisions for private storage.

Commodity specific payments under Article 68 increased by more than 10% on average between 2013 and 2014. This average increase comprises very different situations. In more than half of the member states, they were unchanged or decreased whereas they increased in eleven member states, sometimes as much as doubling.

In Latvia a new payment was introduced in 2014 whereby each eligible meat breed bovine animal aged 16 months would receive a maximum payment of EUR 100 (USD 134) using 1.7% of the direct payments budget. In the Slovak Republic, unit payments to dairy cow farmers in certain areas more than doubled and reached EUR 209 (USD 279).

In the transition from the **SPS** to a converging **BPS**, member states started implementing the change from the historical to the regional or to the national model. This was the case in Austria, where differentiated payments are maintained for common pasture land and alpine cattle drive. Six member states have opted for the regional model.

The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and the Slovak Republic phased out the Complementary National Direct Payment (CNDP) and implemented the Transitional National Aid (TNA) in 2013.

As part of the Financial discipline mechanism, direct payments above EUR 2 000 (USD 2 672) were reduced by 1.3% in 2014. **Redistributive payments** to the first 30 hectares were introduced in Lithuania where 10% of the national direct payments envelope was allocated to 1.3 million hectares.

Farm restructuring: as from 2014, property tax exemptions apply to **Irish** farmers who, prior to their retirement, lease land for five years or more.

Input subsidies: After being reintroduced in 2013, the fuel tax rebate was suspended in the Slovak Republic in 2014. **Ireland** introduced the Beef Genomics Scheme to genotype beef cows for inclusion in a genomic selection breeding programme.

Emergency measures were introduced in response to the decision of the Russian Federation to stop imports of fruit, vegetables, meat, fish, milk and dairy products from the EU and a number of other countries[11] for a period of one year as of 7 August. Funds under the sectoral emergency measures will reach producers in 2015, while they were funded from unspent CAP funds in 2014. Further to sectoral emergency measures related to the ban on imports from the European Union, an additional EUR 30 million (USD 40 million) was to be spent in 2015 and 2016 from the European budget for promotion programmes on European and international markets.

In the **fruit and vegetable**[12] sector, an overall budget of EUR 290 million (USD 388 million) was earmarked in four tranches for claims made in 2014 and 2015 by twelve member states. The scheme defines eligible volumes for each member state and is to finance market withdrawals, free distribution, and non-harvesting and green harvesting of perishable fruits and vegetables up to 31 December 2014. The scheme has since been prolonged up to June 2015. Producer organisations as well as individual farmers are compensated, although lower compensation rates apply to individual producers.

In the **dairy** sector, the **private storage** mechanism was opened on 6 September until 28 February 2015 for **butter** and **SMP**. Seven member states[13] applied the mechanism for butter, while four[14] had applied private storage for SMP. Furthermore the period for EU "public intervention" buying for butter and SMP was extended to the end of 2014, subsequently extended to

30 September 2015. The list of eligible products was extended as of 7 September to cover 155 000 tonnes of **cheese products** suitable for storage. Nine member states[15] had opened private storage support for cheese products before the programme was put to an end on 23 September 2014. In addition, a one-off financial compensation of EUR 28 million (USD 37 million) was granted from the EU budget to Estonia, Latvia and Lithuania and a separate EUR 10.7 million (USD 13 million) was later agreed for Finland.

In addition to European funds, member states announced compensatory measures funded from national budgets. About EUR 20 million (USD 27 million) were announced in Finland for dairy and pig farmers. Measures implemented in France were targeted to fruit and vegetable growers and vine growers, to the milk, the beef and the pig sectors, mainly in the form of tax and social charges rebates and rescheduling. These measures are to be funded from the 2015 budget.

The European Union adopted a specific aid package of EUR 33 million (USD 44 million) for producers of **peaches and nectarines** to alleviate the price effects of overproduction.

In Austria, a package of EUR 100 million (USD 134 million) compensated farmers from the effects of droughts and covers feed replacement costs and interest subsidies.

A number of **sanitary measures** were introduced. Following an outbreak of **avian influenza** in the Netherlands, Germany and the United Kingdom, poultry in Belgium were confined in buildings from November 2014 to 20 February 2015 and additional measures related to feed applied until March 2015. In Luxembourg, confinement was recommended together with other measures to protect farms from the outbreak and spread of the disease. A temporary ban applied to the transportation of organic fertilisers based on bird droppings. Measures co-financed by the European Union and national budgets were implemented to contain an occurrence of **African Swine Fever** (ASF). In Lithuania the plan includes physical fencing of sensitive areas and compensation of farmer costs or income losses as well as additional actions by the State Food and Veterinary Service. ASF was also reported in Poland where pig producers in areas affected were compensated.

Preparations for the implementation of **Pillar II** Rural Development Programmes of the CAP 2014-20 are underway and 27 of the 118 RDP proposals put forward by member states had been approved in March 2015.

Member states have started the transition from current RDP. In Estonia the Organic farming development plan, the conservation and utilisation of plant genetic resources and the Estonian Food plan prolong the previous RDP. Latvia will terminate the agricultural risk fund as very few farmers participated in the fund.

Measures to support **agricultural education** were introduced. Farmers in Estonia received compensation to provide practical training to agricultural students and a waiver was introduced in Lithuania on tuition fees in specific agricultural and livestock related fields.

European Union member states were granted the flexibility to restrict or prohibit the cultivation of a genetically modified organism (GMO) or of a group of GMOs in all or parts of their territory, with transitional measures introduced as of 2 April 2015.

As part of the overall Industrial Strategy of the United Kingdom, the first phases of the Agri tech strategy address crop pest control, livestock disease and precision farming technologies. The strategy partners with industry for applied innovation projects.

Belgium (Flemish region) plans to support investment for energy efficiency and reducing GHG emissions. Adjustments were announced to the French EcoPhyto Plan. The pilot will be expanded to many more farms. Alternatives to phytosanitary treatment are promoted by the law on the

future of agriculture, including compulsory training for the use of phytosanitary products and the certification of reduced use of phytosanitary products. In February 2015, the use of Metolachor was banned over the entire territory of Luxembourg with immediate effect. A ban of the use of Metazachlor in water protection areas was also announced together with specific conditions in other areas.

As part of **animal welfare** measures, Denmark published a plan for better welfare for pigs in June 2014 and enforced the Loose housing of sows in mating and control departments in 2015 for new buildings. The implementation of the plan is deferred to 2035 for existing buildings. In Estonia, EUR 2.6 million (USD 3.5 million) were disbursed as commodity specific payments under Article 68 to pig farmers that exceeded requirements for animal welfare. In Hungary, the budget of the investment subsidy for animal welfare was increased by 35% to reach EUR 60 million (USD 80 million).

In 2016, as part of the food labelling system, labelling of the nutritional value will become mandatory in Latvia.

Overarching **policy frameworks** were updated in a number of member states. **Denmark** introduced the Growth Plan for Food in December 2014. The plan regulates areas such as output related environmental conditions, capital funds investment in farms, marketing conditions and agricultural education. The plan allows for a change in conversion factors of animal units that will result in a higher pig density on the farms. The law for the future of agriculture, food and forestry was enacted in October 2014 in **France**. The law covers and financially supports areas such as the creation of producer groups, installation of young farmers, improving negotiations along agricultural marketing chains, consumer protection and transparency, environmental and health issues, and agricultural education. In the United Kingdom, the Countryside Stewardship progressively replaces and consolidates the Environmental Stewardship, the English Woodland Grant Scheme and capital grants from the Catchment Sensitive Farming Programme. The scheme's GBP 900 million (USD 1.3 billion) cover areas such as biodiversity and water quality management.

Trade policy developments in 2014-15

In 2014, **export subsidy** spending, as reported in the EU budget, was about EUR 12 million, of which EUR 2 million were spent on cereals. The overall budget has significantly declined compared to EUR 67 million in 2013 and EUR 3.7 billion in 2004. According to the most recent EU notifications to the WTO on export subsidies commitments (December 2014), the European Union remained below its WTO commitment level for the marketing year 2012/13. According to this notification, export subsidies were used for poultry and beef, representing 30% and 0.1% of the outlay commitments respectively. Sugar export subsidies represented 98% of the annual commitment quantity level, poultry 61% and beef 3%.

The European Union's simple average MFN applied rate for agricultural products, as published in 2013 by the WTO, was 13.2% in 2012, compared with 4.2% for non-agricultural products. **Market access** deteriorated as in-quota import duties applied to **rye**, **maize** and **sorghum** from 16 July to 8 November – the rate was set at 5.32% from 16 July up to 19 September, then 10.44% from 19 September to 4 November where they were reduced to 4.49% until 8 November when they were discontinued. Import duties on wheat were suspended in 2012, 2013 and throughout 2014. The hormone-free beef import quota that was extended for two years will remain in place until August 2015, 48 200 tonnes are open for imports from Australia, Canada, New Zealand, the United States and Uruguay.

According to the most recent EU notifications to the WTO (November 2013), **import tariff quotas** during the marketing year 2011/12 were filled at 80-100% for about one-fourth of quotas, notably for chicken carcasses, and zero to 5% of quota for nearly half of them, notably for live bovines, meat of swine and most dairy products except cheddar cheese, eggs in shell and most cereals. In 2012, 44% of quotas were filled at 80-100%, notably for poultry cuts and wine while 35% of them had a fill-rate of zero to 5%. The latter was the case for live sheep, preserved fruits, orange juice, manioc and sweet potatoes.

The most recent EU notifications to the WTO (May 2014), states that the price-based **special safeguard system** has been made operational for some frozen poultry, egg and sugar products in marketing year 2012/13. During the same period, the volume-based special safeguard action has not been invoked. However, the system has been made operational at the level of calculation of figures for the trigger volumes for some fruit and vegetable products.

On 23 October 2014, a WTO Dispute Settlement Panel was composed at the request of the European Union to consider measures adopted by the Russian Federation affecting the importation of live pigs and their genetic material and pig meat.

On 27 June 2014, Association Agreements were signed with ***Georgia***, ***Moldova*** and ***Ukraine***. These include Deep and Comprehensive Free Trade Agreements (DCFTA).

The European Union has, since the 23 April 2014, unilaterally provided trade preferences to ***Ukraine***. Preferences include the removal of tariffs on most commodities, including over 80% of agricultural tariff lines, and duty-free tariff-rate quotas (TRQs) for grains, including wheat and flour (950 000 tonnes), maize (400 000 tonnes) and barley (250 000 tonnes), and also for pig meat, poultry, beef and dairy products. These measures, initially agreed until 31 October 2014, were extended until the end of 2015. The entry into force of the DCFTA with Ukraine is currently postponed to 31 December 2015.

The completion of the negotiations on the Comprehensive Economic and Trade Agreement (CETA) between the EU and ***Canada*** was announced at the EU-Canada Summit on 26 September and text of the agreement is awaiting legal revision before it undergoes the ratification process.

Negotiations on the **Transatlantic Trade and Investment Partnership** (TTIP) that were initiated in July 2013 were continued in 2014. By March 2015 eight rounds of talks had taken place between the European Union and the United States.

Other free trade agreement negotiations have been initiated between the European Union and ***Japan*** (2013), ***Thailand*** (2013), ***India*** (2007), ***Malaysia*** (2010), ***Viet Nam*** (2012) and the ***Mercosur*** (2010). Other ongoing processes include negotiation with ***Morocco*** for a Deep and Comprehensive Free Trade Agreement (DCFTA), for which one round of negotiations was held in April 2013; and the Free Trade Agreement that was concluded between the European Union and ***Singapore*** at a political level in December 2012. The DCFTA that was agreed with ***Armenia*** will not be initialled.

In June 2014 ***Albania*** received candidate status to the European Union. ***Turkey*** (since 1999); the ***Former Yugoslav Republic of Macedonia*** (since 2009), ***Montenegro*** (since 2010) and ***Serbia*** (since 2012) are the other countries that have candidate status. In March 2015, Iceland withdrew its application to join the European Union.

Notes

1. European Union member states which are not members of the OECD are covered in EU aggregate indicators, but not in indicators for the OECD area.
2. The EU15 comprises Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.
3. Six member states have chosen to apply harmonised payment rates at the regional level *http://ec.europa.eu/agriculture/markets/sfp/pdf/2008_01_dp_capFVrev.pdf*.
4. These payments may apply to sugar and fruits and vegetables, mostly tomatoes.
5. All direct payments and most rural development payments are conditional to statutory management requirements and to rules on good agricultural and environmental conditions, also known as cross-compliance, *http://ec.europa.eu/agriculture/direct-support/cross-compliance/index_en.htm*.
6. According to the general rules of Article 68, member states may grant specific support to farmers: a) for: i) specific types of farming which are important for the protection or enhancement of the environment; ii) improving the quality of agricultural products; iii) improving the marketing of agricultural products; iv) practicing enhanced animal welfare standards; and v) specific agricultural activities entailing additional agri-environmental benefits; b) to address specific disadvantages affecting farmers in the dairy, beef and veal, sheep meat and goat meat and rice sectors in economically vulnerable or environmentally sensitive areas, or, in the same sectors, for economically vulnerable types of farming; c) in areas subject to restructuring and/or development programmes in order to ensure against land being abandoned and/or to address specific disadvantages for farmers in those areas; d) in the form of contributions to crop, animal and plant insurance premiums in accordance with the conditions set out in Article 70; and e) by way of mutual funds for animal and plant diseases and environmental incidents in accordance with the conditions set out in Article 71.
7. Regulation No. 1307/2013, Title IV, Chapter 1 Article 52, published in the *Official Journal of the European Union* lays down the conditions of coupled support under the CAP 2014-20, including sectors to which it may be granted. The conditions include sectors or regions undergoing "certain difficulties" for economic, social or environmental reasons. Derogations to extend the payments to other farmers are also laid down. Objectives as stated are "to the extent necessary to create an incentive to maintain current levels of production in the sectors or regions concerned". The implementation is based on fixed areas and yields or on fixed animal numbers.
8. Member states may offer commodity-specific support to the following commodities: cereals, rice, oilseeds, sugar beet, grain legumes, fruits and vegetables, starch potato, nuts, olive oil, protein crops, hops, seeds, flax, hemp, milk, beef, sheep and goats, and silkworms. In addition, Poland offers commodity specific support to tobacco.
9. TNA payments may apply on a per area basis to arable land, hop and starch potatoes, on a volume basis to milk and on a headage basis to livestock, suckler cows, ewes or sheep and goats and slaughtered or exported bovines. TNA may also be provided to new farmers.
10. The POSEI covers the Canary Islands (Spain); the Azores and Madeira (Portugal); the Réunion, Guadeloupe, Martinique, French Guyana (France); the Aegean Islands (Greece), and from 2014 the French Island of Mayotte.
11. The United States, Australia, Canada and Norway.
12. Apples and pears, fruits consist of kiwis, plums and table grapes, vegetables consist of tomatoes, carrots, peppers and cucumbers, and citrus consists of oranges, clementines and mandarins.
13. Ireland, the Netherlands, Belgium, the United Kingdom, Germany, Lithuania and Poland.
14. Germany, Spain, Lithuania and Ireland.
15. Italy, Ireland, the Netherlands, Sweden, France, Austria, Lithuania and Latvia.

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OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Chapter 10

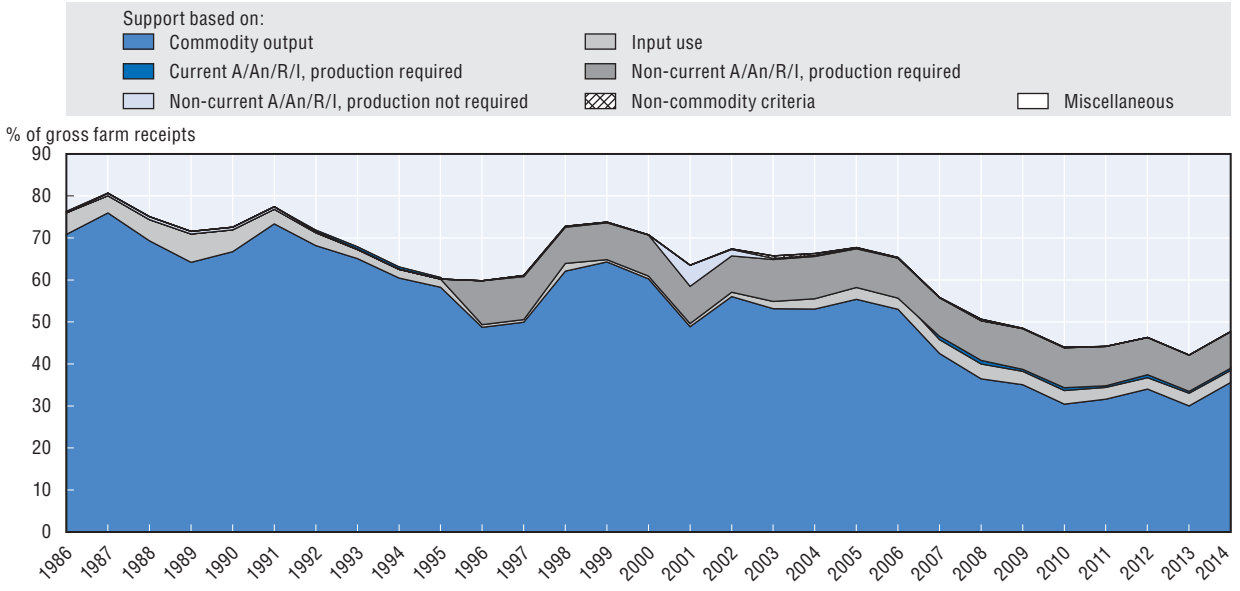
Iceland

The Iceland country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Iceland's level of support remains well above that of most other OECD countries, although it has declined significantly between 2005 and 2010 due to higher world market prices and a strong devaluation of the Icelandic Króna. In contrast, reforms of the agricultural policies in Iceland have been limited. With unchanged market and trade policies, lower reference prices for dairy products in 2014 led to the highest level of support since 2009.
- Despite the shift towards more decoupled payments in the sheep meat sector in the mid-1990s and the establishment of a market for dairy quotas helping to reduce efficiency losses, agricultural support in Iceland remains dominated by market price support and other production and trade distorting measures. About three-quarters of farm support is provided in these most distorting forms, largely preventing agricultural producers from receiving market signals and responding to them.
- To sustainably reduce the level of support and its distortive effects, policies need to be changed away from border protection and in favour of measures less linked to production. Reforms need to efficiently target explicit policy objectives, including the protection of the environment and the conservation of natural resources, while reducing market distortions.

Figure 10.1. **Iceland: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234673

Contextual information

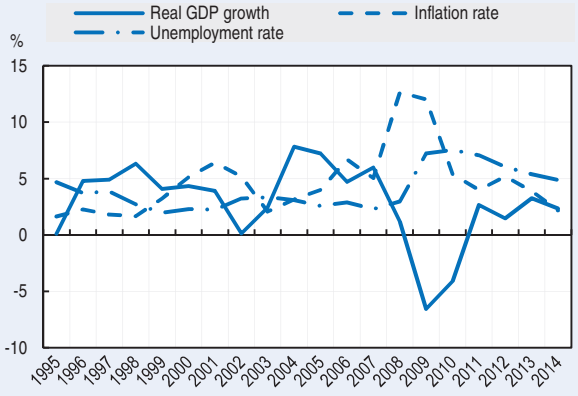
Iceland is a relatively small economy with a GDP per capita close to the OECD average. The economic downturn after 2007 resulted in a significant deterioration of the economy with lower per capita GDP and higher inflation and unemployment rates. Both GDP growth and inflation rates have come back closer to trend levels since 2011, while unemployment, albeit reduced and below average OECD rates, has remained higher than in much of the 1990s and 2000s. At about 8% and 4.5%, respectively, the shares of the agriculture (including fish) in both GDP and employment are relatively high, due to the importance of the fishing sector. Iceland has been a consistent net importer of agro-food products (excluding fishery), with a total agro-food trade balance of USD -132 million in 2013. Agriculture in Iceland mainly consists of livestock production, with milk and sheep meat being the most important products, together accounting for about half the agricultural production. Horticulture, much of which is under glass, is an important sector too, and together with a few other crops represented some 13% of total agricultural production in 2013.

Table 10.1. **Iceland: Contextual indicators, 1995, 2013**[1]

	1995	2013[1]
Economic context		
GDP (billion USD)	7	15
Population (million)	0.27	0.32
Land area (thousand km^2)	100	100
Population density (inhabitants/km^2)	2.6	3.2
GDP per capita, PPP (USD)	23 195	41 860
Trade as % of GDP	25.3	32.7
Agriculture in the economy		
Agriculture in GDP (%)	11.6	8.0
Agriculture share in employment (%)	9.5	4.5
Agro-food exports (% of total exports)	6.8	6.4
Agro-food imports (% of total imports)	10.0	9.0
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	-53	-132
Crop in total agricultural production (%)	22	13
Livestock in total agricultural production (%)	78	87
Agricultural area (AA) (thousand ha)	2 280	1 872
Share of arable land in AA (%)	0.3	6.5
Share of irrigated land in AA (%)	..	..
Share of agriculture in water consumption (%)	42	42
Nitrogen balance, kg/ha	7	8

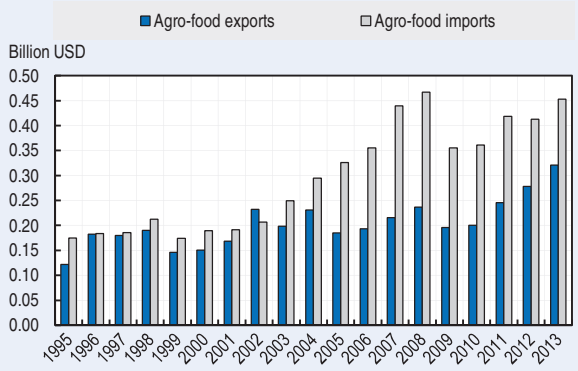
Note: Agriculture employment and GDP shares without fisheries are about half and one-sixth of the percentages shown, respectively.
1. Or latest available year.
Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.
StatLink http://dx.doi.org/10.1787/888933235282

Figure 10.2. **Iceland: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.
StatLink http://dx.doi.org/10.1787/888933234683

Figure 10.3. **Iceland: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.
StatLink http://dx.doi.org/10.1787/888933234694

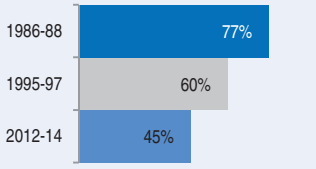
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

After a drop in 2013, support to agriculture has increased again in 2014 to reach its highest level in five years. Despite a significant decline in support levels and market distortions between 2005 and 2010, Iceland is still among the five OECD countries showing the highest support to farmers. Direct payments, largely based on historical livestock production, have replaced some of the former price support in the sheep meat sector, and together with movements of international prices and exchange rates have contributed to reductions in the level of price distortions as measured by the NPC.

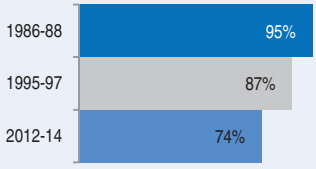
PSE as % of receipts (%PSE)

Between 1986-88 and 2012-14, support to farmers in Iceland has declined by 32 percentage points. But at 45%, it remains high compared to most other OECD countries. After having fallen to 42% in 2013, the %PSE jumped back to 48% in 2014 due to lower international dairy prices.



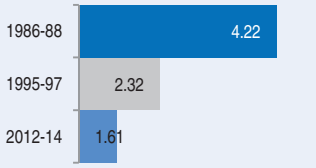
Potentially most distorting support as % of PSE

The share of potentially most distorting support (based on output and variable input use – without input constraints) in total PSE has fallen over the past decades, due to higher international commodity prices, the devaluation of the Króna since 2007, and the change in sheep meat payments towards historical entitlements in the mid-1990s. Still, these forms of support represent about three-quarters of the total PSE.



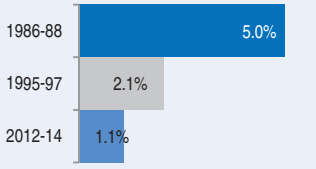
Ratio of producer price to border price (NPC)

In the long term, the ratio of producer prices (including unit output payments) to border prices has been reduced substantially, from over 4 in 1986-88 to 1.6 in 2012-14. Poultry, eggs, wool and milk show the highest NPC. Again, much of this decline was due to changes in international prices and exchange rates.

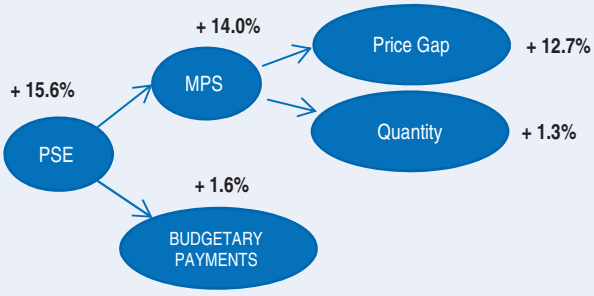


TSE as % of GDP

Total support was 1.1% of GDP in 2012-14, with the expenditure on general services representing some 5% of the Total Support Estimate.

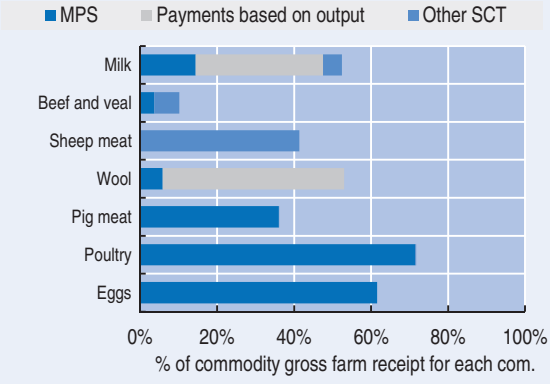


Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014 mainly due to a widened gap between higher domestic prices and lower border prices (MPS), in particular for dairy products.

Transfer to specific commodities (SCT), 2012-14



Single Commodity Transfers (SCT) represented 98% of the total PSE. The share of the SCT in the commodity gross farm receipt is lowest for beef and veal (10%) and highest for poultry (72%).

Table 10.2. **Iceland: Estimates of support to agriculture**

Million ISK

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**9 644**	**10 326**	**31 686**	**30 447**	**32 004**	**32 606**
***of which:** share of MPS commodities (%)*	80.3	73.5	80.4	79.7	79.9	81.7
Total value of consumption (at farm gate)	**8 388**	**9 706**	**27 496**	**26 317**	**28 125**	**28 047**
Producer Support Estimate (PSE)	**7 909**	**8 825**	**19 366**	**18 926**	**18 169**	**21 005**
Support based on commodity output	7 374	7 645	14 179	13 908	12 951	15 679
Market Price Support[1]	7 307	4 533	8 368	8 497	7 029	9 578
Payments based on output	66	3 112	5 811	5 411	5 922	6 100
Payments based on input use	536	337	1 221	1 108	1 301	1 254
Based on variable input use	129	0	241	224	228	271
with input constraints	0	0	0	0	0	0
Based on fixed capital formation	233	126	517	430	609	512
with input constraints	0	0	0	0	0	0
Based on on-farm services	174	210	463	454	464	470
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required	-49	-181	239	289	192	237
Based on Receipts / Income	-49	-181	-391	-327	-436	-410
Based on Area planted / Animal numbers	0	0	630	616	628	647
with input constraints	0	0	2	6	0	0
Payments based on non-current A/An/R/I, production required	0	1 011	3 727	3 621	3 724	3 836
Payments based on non-current A/An/R/I, production not required	48	14	0	0	0	0
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	48	14	0	0	0	0
with commodity exceptions	48	14	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0	0
Percentage PSE (%)	**77.2**	**60.4**	**45.4**	**46.3**	**42.1**	**47.7**
Producer NPC (coeff.)	**4.22**	**2.32**	**1.61**	**1.63**	**1.52**	**1.68**
Producer NAC (coeff.)	**4.44**	**2.52**	**1.83**	**1.86**	**1.73**	**1.91**
General Services Support Estimate (GSSE)[2]	**731**	**927**	**958**	**916**	**949**	**1 008**
Agricultural knowledge and innovation system	187	327	112	114	109	114
Inspection and control	37	88	391	374	384	416
Development and maintenance of infrastructure	91	187	22	15	23	28
Marketing and promotion	58	75	39	31	40	45
Cost of public stockholding	359	249	393	382	393	405
Miscellaneous	0	0	0	0	0	0
Percentage GSSE (% of TSE)	**6.8**	**9.1**	**4.7**	**4.5**	**4.9**	**4.6**
Consumer Support Estimate (CSE)	**-4 566**	**-4 012**	**-7 680**	**-7 563**	**-6 657**	**-8 820**
Transfers to producers from consumers	-6 421	-4 340	-7 860	-7 973	-6 720	-8 885
Other transfers from consumers	-51	-35	0	0	0	0
Transfers to consumers from taxpayers	1 906	363	180	410	63	65
Excess feed cost	0	0	0	0	0	0
Percentage CSE (%)	**-70.4**	**-42.9**	**-28.1**	**-29.2**	**-23.7**	**-31.5**
Consumer NPC (coeff.)	**4.44**	**1.82**	**1.40**	**1.43**	**1.31**	**1.46**
Consumer NAC (coeff.)	**3.50**	**1.75**	**1.39**	**1.41**	**1.31**	**1.46**
Total Support Estimate (TSE)	**10 546**	**10 115**	**20 504**	**20 251**	**19 181**	**22 078**
Transfers from consumers	6 472	4 375	7 860	7 973	6 720	8 885
Transfers from taxpayers	4 124	5 775	12 644	12 278	12 461	13 193
Budget revenues	-51	-35	0	0	0	0
Percentage TSE (% of GDP)	**5.0**	**2.1**	**1.1**	**1.1**	**1.0**	**1.1**
GDP deflator (1986-88=100)	**100**	**211**	**462**	**455**	**464**	**467**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Iceland are: milk, beef and veal, sheep meat, wool, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235291

Description of policy developments

Main policy instruments

Agricultural policies in Iceland are based on two main legal acts: Act No. 99/1993 on the Production, Pricing and Sale of Agricultural Products lays down the policy framework as well as provisions for production control, provision on slaughter and processing, market measures and producer support, whereas Act No. 70/1998 on Agriculture lays down provisions for development projects, extension services and livestock improvements.

Within that framework, agricultural policies are determined by renewable multi-year agreements between the Government of Iceland and the Farmer's Association, which provide the general framework for support and production control for farmers in the covered sectors. The three agreements currently in force, all of which have been renewed in fall 2012, are the Agreement on Dairy Production (due to expire in 2016), the Agreement on Sheep Production (due to expire in 2017) and the Agreement on Horticultural Production (due to expire in 2015). Each of the agreements contains a precautionary clause allowing necessary changes to be made in case that Iceland might join the European Union during the term of the agreements. Since March 2015, however, an EU membership is no longer envisaged by the Government of Iceland.

Iceland's agricultural support continues to be provided through market price support, maintained by border measures, and through direct payments, which are based on payment entitlements, directly or indirectly coupled with production factors. Direct payments are provided to cattle (mainly dairy) and sheep producers and, on a smaller scale, to certain greenhouse producers, while market price support is provided for all livestock products and some horticultural products.

Wholesale prices continue to be managed for approximately half of the dairy products. A government-chaired committee, representing both the Farmers' Association and – on behalf of the consumer side – the labour union, annually determines guaranteed minimum prices for milk delivered within production quotas. Both production quotas and entitlements for support payments are tradable between farmers. While reference prices for sheep meat can be published by the Sheep Farmers' Association, these have no binding effect on slaughter companies' pricing policies.

Iceland maintains prices above world market levels for a range of livestock products, including the poultry and eggs sectors, milk products as well as, to a lesser extent, the pig meat sector. MFN tariffs for most meat and egg products are at 30%, and additional specific tariffs apply depending on the product. However, products originating in partner countries of the European Economic Area or in one of the more than 35 countries with which Iceland has free trade agreements may carry lower tariffs. According to the legislation on protection against animal diseases, imports of uncooked animal products require the permission of the Minister of Fisheries and Agriculture, based on recommendations by the Food and Veterinary Authority.

Payments based on historical entitlements have replaced output payments for sheep meat in the mid-1990s, and payment entitlements have become tradable among farmers. Keeping a minimum of winter-fed sheep on the farm is, however, required for being eligible to receive the payments. Additional payments to sheep farmers are related to a quality control scheme for lamb meat, based on animal welfare, product quality and traceability, and sustainability criteria.

Agricultural revenues are subject to a levy which is distributed within and between various agricultural bodies. Among these bodies is the Emergency Relief Fund: it grants compensation payments to farmers who suffer major financial losses after natural disasters or because of extreme weather conditions, animal diseases or accidents for which there are no insurances available on the

market. Agri-environmental policies particularly focus on soil conservation and forestry: related payments aim at the reduction of desertification and sand encroachment, the promotion of sustainable land use, the reclamation and restoration of degraded land and new afforestation.

Domestic policy developments in 2014-15

Since the **reform of the support for domestic wool processing** in late 2012, with most of the support for the collection and processing of domestic sheep wool (84%) now being paid directly to the producers, the domestic price for raw wool has dropped significantly, erasing the market price support for this product.

Mainly in response to the increasing domestic consumption of dairy products in Iceland, the **milk production quota** was increased from 116 million litres in 2013 to 125 million litres in 2014. The quota has been further increased to 140 million litres for the year 2015.

From 1 January 2014, two **dairy-specific levies** were **abolished**. These include firstly the price transferral levy which used to be collected at delivery of milk to the dairy processor at a per litre basis to lower the price of certain dairy products. The price transferral levy amounted to ISK 313 million (USD 2.6 million) in 2013. Secondly, the price equalisation levy, also collected at delivery of milk to the dairy processor at a per litre basis, used to help cover production cost differences between individual dairy processors, in particular lowering transportation costs of milk to dairy processors and of dairy products to the market. The price equalisation levy amounted to ISK 92 million (USD 0.75 million) in 2013.

Trade policy developments in 2014-15

Iceland is a member of the European Free Trade Association (EFTA) and of the European Economic Area (EEA). While the EEA Agreement does not apply to most trade in agricultural goods, it opens trade in a number of processed agricultural products and encourages bilateral agreements on primary commodities. Such a bilateral agreement between Iceland and the EU has been in force since 2007, extending the EU-Iceland Free Trade Agreement from 1972. It reduces or eliminates agricultural tariffs and establishes quotas in bilateral trade. Furthermore, EFTA has a number of Free Trade Agreements with countries in South-East Europe, North Africa and the Middle East, Latin America, and Asia, as well as with the South African Customs Union. A bilateral Free Trade Agreement between Iceland and China came into force on 1st July 2014. In addition, Iceland has a bilateral Free Trade Agreement with the Faroe Islands.

In March 2015, the Government of Iceland announced that Iceland should no longer be considered a candidate country to the European Union. In 2009, Iceland had applied to join the EU, and accession negotiations had started in July 2010, with a Screening Report on agriculture published in June 2011.* In January 2013, the former Government decided to put the accession negotiations on hold, and in May 2013, the newly elected Icelandic Government decided to continue this policy. At that time, negotiations on 27 chapters had been opened, of which 11 provisionally closed. Other chapters, including agriculture and rural development and fisheries had not been opened yet.

* Chapter 11 "Agriculture and Rural Development" can be found at *http://ec.europa.eu/enlargement/pdf/iceland/key-documents/screening_report_11_is_internet_en.pdf*.

Chapter 11

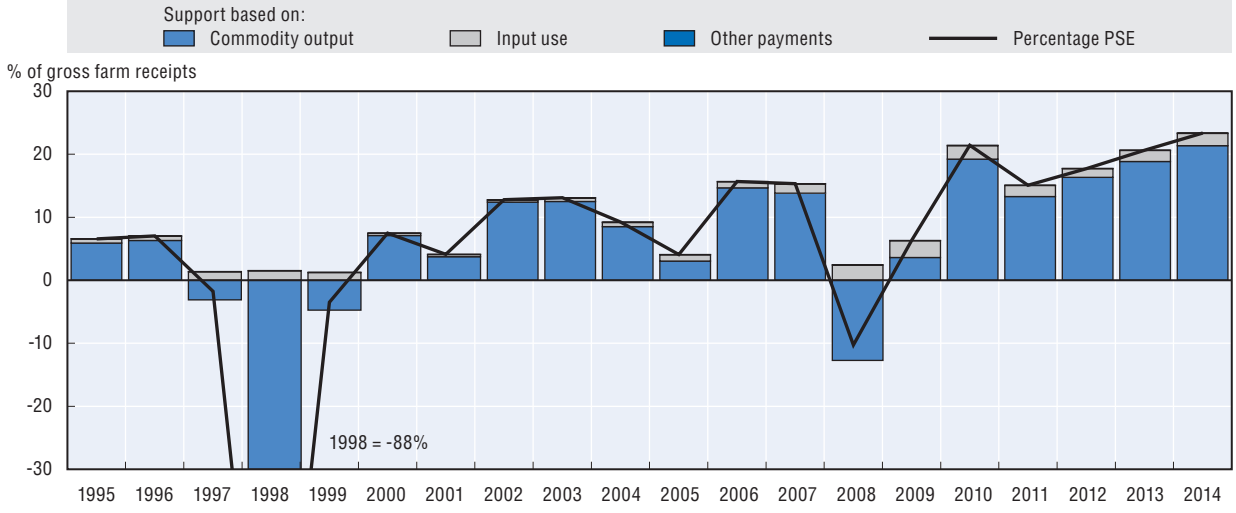
Indonesia

The Indonesia country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2013-15.

Evaluation of policy developments

- The level of support in Indonesia fluctuates, depending largely on the ratio of domestic prices to those on international markets. Over the long term, the level of support has grown and in 2014 the %PSE reached 23%. Support is provided almost exclusively through market price support and input subsidies (mostly for fertilisers and seeds).
- Close to half of the support benefits rice producers. High rice prices for producers are partly offset by subsidies to provide cheap rice to poor families covered by the in-kind distribution of rice within the RASKIN system. To ease dependence on rice supplies, and deliver greater improvements in food security, Indonesia might consider reforming the RASKIN system through replacing the in-kind rice distribution with conditional cash transfers.
- Indonesia is strongly committed to improving food security but has sought to do so through attempting to achieve self-sufficiency in a number of key products. However the policies used have often worked against food security by increasing domestic prices (for products such as rice, beef and soybeans) and making consumers more susceptible to domestic risks. Instead, policies that combat poverty and stimulate domestic productivity through investments in infrastructure, the innovation system and through easing constraints on private investment in agriculture are likely to prove more effective in the longer term.
- Fertiliser subsidies dominate budgetary support. These payments, channelled through fertiliser companies, have been found to be costly and the extent to which benefits accrue to farmers has been questioned. A more efficient scheme would be to convert these subsidies to decoupled payments per unit of land as has been progressively implemented in China. Budgetary savings from a more efficient scheme could be re-allocated to reinforce Indonesia's Agricultural Innovation System and to improve long-term agricultural productivity.
- Indonesia applies a growing number of administrative requirements on agro-food imports related to food safety, quarantine, product standards and labelling. The combination of these requirements, uneven enforcement and poor transparency over changing rules is adding to trade costs and creating unpredictability.

Figure 11.1. **Indonesia: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

Indonesia is the world's 4th most populous country and the 6th largest agricultural producer (in value terms). The country is scarce in agricultural land, at one third of the world's average when measured in per capita terms, but relatively abundant in water resources. The contribution of agriculture to Indonesia's GDP has remained relatively unchanged, ranging between 14-16% since the mid-1990s. However, its share in total employment has fallen, from around 44% in 1995 to 35% in 2012. While food crop production is based on small family farms, large commercial farms specialise in perennial crops, in particular palm oil. Palm oil and rubber account for around 60% of total agro-food exports and contribute to a significant surplus in Indonesia's agro-food trade. Indonesia has achieved significant progress in poverty eradication and food security. However, these issues remain important with around 11% of the population continuing to live below the nationally-defined poverty line and around 43% living on less than USD 2 at PPP/person/day. The prevalence of undernourishment was 8.7% of the population in 2012-14, half of what it was only a decade ago. Natural resources and the environment are under strong pressure, partly due to the expansion of agricultural land leading to large-scale deforestation and soil erosion.

Table 11.1. **Indonesia: Contextual indicators, 1995, 2013**[1]

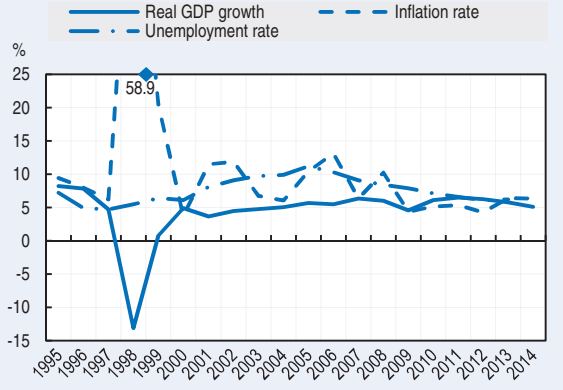
	1995	2013[1]
Economic context		
GDP (billion USD)	223	866
Population (million)	199	250
Land area (thousand km^2)	1 812	1 812
Population density (inhabitants/km^2)	102	131
GDP per capita, PPP (USD)	2 475	9 657
Trade as % of GDP	19.3	21.3
Agriculture in the economy		
Agriculture in GDP (%)	15.5	14.5
Agriculture share in employment (%)	44.0	35.9
Agro-food exports[2] (% of total exports)	8.1	16.1
Agro-food imports[2] (% of total imports)	11.7	9.8
Characteristics of the agricultural sector		
Agro-food trade balance[2] (million USD)	-1 041	11 066
Crop in total agricultural production (%)	85	87
Livestock in total agricultural production (%)	15	13
Agricultural area (AA) (thousand ha)	42 187	56 500
Share of arable land in AA (%)	41	42
Share of irrigated land in AA (%)	14	17
Share of agriculture in water consumption (%)	..	..
Nitrogen balance, kg/ha	..	..

1. Or latest available year.
2. Includes natural rubber.

Source: OECD Statistical Databases, UN Comtrade Database, World Development Indicators and national data.

StatLink http://dx.doi.org/10.1787/888933235306

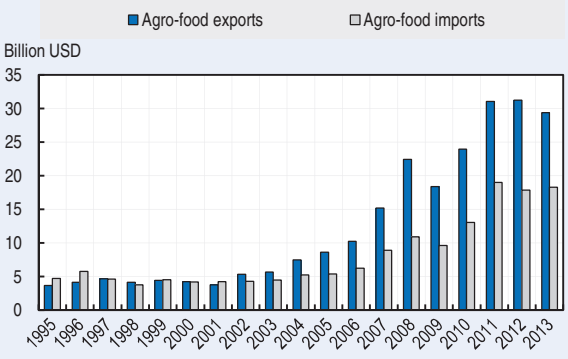
Figure 11.2. **Indonesia: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234717

Figure 11.3. **Indonesia: Agro-food trade,**[1] **1995-2013**



1. Includes natural rubber.

Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234725

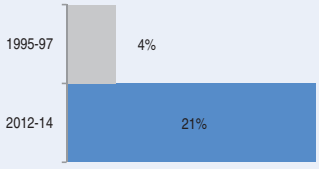
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

The level of support in Indonesia fluctuates, depending largely on the ratio of domestic prices to those on international markets. Over the long term, the level of support has grown. Support is provided almost exclusively through market price support and input subsidies (mostly for fertilisers and seeds). The total cost of support as a percentage of GDP is significantly higher than the OECD average. This shows that for Indonesia, with a large agricultural sector and a relatively high level of agricultural support as measured by the PSE, the burden on the economy is relatively high and is growing.

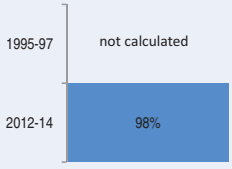
PSE as % of receipts (%PSE)

Indonesia has continued to increase support to agriculture, which is now above the OECD average. The level of support fell in 2011, but has since increased by 8 percentage points, largely due to an increase in domestic prices relative to those on international markets.



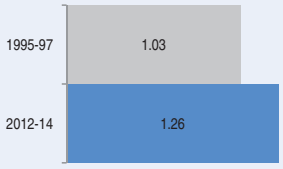
Potentially most distorting support as % of PSE

Support is provided almost exclusively through market price support and variable input subsidies, both considered as potentially the most production and trade distorting policies.



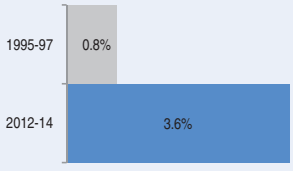
Ratio of producer price to border price (NPC)

On average, prices received by farmers were 26% higher than those observed on the world markets in 2012-14. Poultry, rice, maize and sugar show the highest NPCs.

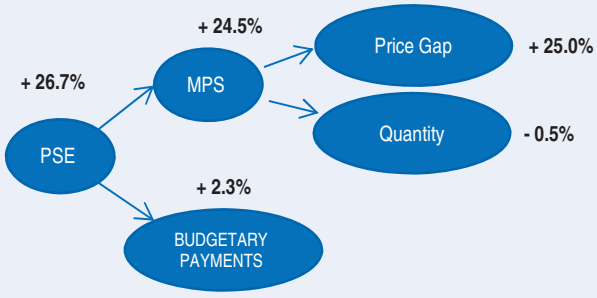


TSE as % of GDP

TSE has been increasing, reaching 3.6% of GDP in 2012-14 compared to the OECD average at 0.8%. GSSE as % of TSE remained low at just 5.6% in 2012-14.

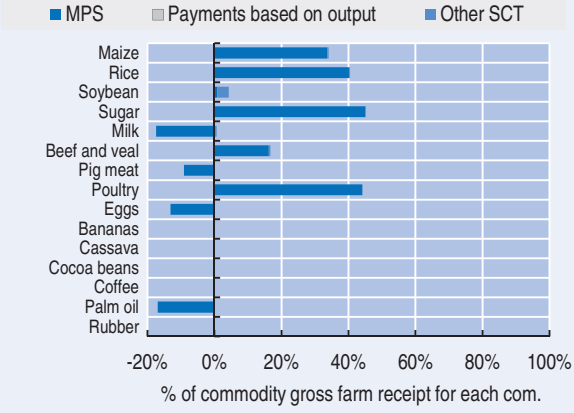


Decomposition of change in PSE, 2013 to 2014



Much higher domestic prices compared to those on international markets and increasing fertiliser subsidies were the key factor leading to increase in PSE in 2014.

Transfer to specific commodities (SCT), 2012-14



Single commodity transfers were 73% of the PSE in 2012-14. The share of the SCT in commodity receipts is lowest for palm oil, milk and eggs and highest for sugar, poultry, rice and maize.

Table 11.2. **Indonesia: Estimates of support to agriculture**

Million IDR

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**82 758 036**	**1 384 853 306**	**1 235 194 311**	**1 379 252 838**	**1 540 112 769**
***of which:** share of MPS commodities (%)*	68.3	64.0	64.8	63.0	64.1
Total value of consumption (at farm gate)	**78 785 350**	**1 396 347 661**	**1 074 099 467**	**1 476 736 712**	**1 638 206 804**
Producer Support Estimate (PSE)	**3 169 177**	**293 088 258**	**222 103 849**	**289 839 430**	**367 321 496**
Support based on commodity output	2 392 759	268 342 978	204 485 934	264 824 074	335 718 926
Market Price Support[1]	2 392 759	268 342 978	204 485 934	264 824 074	335 718 926
Payments based on output	0	0	0	0	0
Payments based on input use	769 754	24 235 598	17 571 815	24 532 409	30 602 570
Based on variable input use	429 579	19 748 604	15 923 706	19 798 916	23 523 189
with input constraints	0	0	0	0	0
Based on fixed capital formation	310 214	4 389 692	1 555 083	4 636 261	6 977 732
with input constraints	7 873	65 956	47 477	64 032	86 358
Based on on-farm services	29 961	97 302	93 026	97 232	101 649
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required	6 664	509 682	46 100	482 947	1 000 000
Based on Receipts / Income	6 664	509 682	46 100	482 947	1 000 000
Based on Area planted / Animal numbers	0	0	0	0	0
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE (%)	**3.9**	**20.6**	**17.7**	**20.6**	**23.4**
Producer NPC (coeff.)	**1.03**	**1.26**	**1.21**	**1.25**	**1.31**
Producer NAC (coeff.)	**1.04**	**1.26**	**1.22**	**1.26**	**1.31**
General Services Support Estimate (GSSE)[2]	**1 140 356**	**18 250 802**	**16 160 005**	**18 408 549**	**20 183 854**
Agricultural knowledge and innovation system	248 204	1 999 008	1 425 620	2 371 251	2 200 154
Inspection and control	59 838	627 395	557 825	736 876	587 483
Development and maintenance of infrastructure	829 971	13 223 820	12 070 588	12 851 822	14 749 051
Marketing and promotion	1 884	127 611	31 779	183 768	167 287
Cost of public stockholding	0	2 213 087	2 000 000	2 206 013	2 433 247
Miscellaneous	459	59 881	74 193	58 820	46 632
Percentage GSSE (% of TSE)	**..**	**5.6**	**6.3**	**5.6**	**5.0**
Consumer Support Estimate (CSE)	**-2 763 759**	**-315 291 948**	**-237 726 224**	**-309 445 140**	**-398 704 479**
Transfers to producers from consumers	-2 743 401	-311 906 595	-246 401 759	-305 198 160	-384 119 865
Other transfers from consumers	-33 716	-33 167 166	-16 631 759	-31 271 303	-51 598 435
Transfers to consumers from taxpayers	50 433	19 403 371	19 100 000	20 310 112	18 800 000
Excess feed cost	-37 076	10 378 442	6 207 294	6 714 211	18 213 822
Percentage CSE (%)	**-3.6**	**-22.8**	**-22.5**	**-21.2**	**-24.6**
Consumer NPC (coeff.)	**1.04**	**1.33**	**1.32**	**1.30**	**1.36**
Consumer NAC (coeff.)	**1.04**	**1.30**	**1.29**	**1.27**	**1.33**
Total Support Estimate (TSE)	**4 359 966**	**330 742 431**	**257 363 854**	**328 558 091**	**406 305 350**
Transfers from consumers	2 777 117	345 073 760	263 033 518	336 469 463	435 718 300
Transfers from taxpayers	1 616 565	18 835 837	10 962 095	23 359 930	22 185 485
Budget revenues	-33 716	-33 167 166	-16 631 759	-31 271 303	-51 598 435
Percentage TSE (% of GDP)	**0.8**	**3.6**	**3.1**	**3.6**	**4.0**
GDP deflator (1995-97=100)	**100**	**802**	**764**	**797**	**845**

.. Not available

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Indonesia are: palm oil, cocoa beans, cassava, bananas, rubber, coffee, maize, rice, soybean, sugar, milk, beef and veal, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235313

Description of policy developments

Main policy instruments

Indonesia's agricultural policy is shaped by its **Food Law of 2012** and a set of core objectives. The food law sets out the principles of food sovereignty (*kedaulatan pangan*) and food self-reliance (*kemandirian pangan*) as the dominating approaches to food security. The law also provides for the creation of a new food-security "government institution" with the task to execute government's orders with regards to "production, procurement, storing and distribution of staple food and other food that has been determined by the government". This institution, still under consideration, is to report directly to the President and is due to be formed at the latest three years after the endorsement of the law (MoA, 2015). The objectives underlying agricultural policy relate to: achieving self-sufficiency in the production of selected staple-food commodities (rice, maize, soybeans, sugar and beef) to assure food security; ensuring food prices are affordable for consumers and accessible across the archipelago; diversifying production and consumption away from carbohydrates (rice and wheat) towards animal-based products, fruits and vegetables, particularly root vegetables; raising the competitiveness of agricultural production and value-added processing; and, improving the welfare of farmers through higher incomes as way to reduce the level of rural poverty (OECD, 2012).

Indonesia's policy objectives are pursued through both domestic and trade policy measures. **Domestic policy measures** include the use of minimum purchase prices for rice and sugar, substantial budgetary allocations for inputs, and payments for the provision of services to agriculture generally, in particular for irrigation, research and development and marketing and promotion. A wide range of input subsidies on fertilisers, seeds and credits are used to support agricultural producers. In turn, RASKIN, a targeted "rice for the poor" programme, is used to distribute rice at low prices to poor consumers, including in rural areas. The RASKIN programme, and its required distribution system, has provided the government with the flexibility to raise the minimum prices received by rice producers while trying to ameliorate some of the price impact on poor consumers. This, however, has come at the cost of increasing budgetary expenditure to finance the programme. A public corporation, BULOG (the Indonesian National Logistic Agency), manages the programme and is required to purchase rice at minimum guaranteed prices set by the government and to distribute some of this rice to consumers through RASKIN. It also has the responsibility of undertaking market operations aimed at stabilising domestic rice (and other commodity) prices and to manage the government rice reserve (OECD, 2012).

Trade policy measures include both tariff and non-tariff measures. The food law sets out the principles that underpin food trade. It contains provisions restricting staple food imports and exports such that "state food export can only be implemented after fulfilling National Food Reserve and staple food consumption necessity" and "food import can only be implemented if domestic food production is not sufficient or cannot be produced domestically" (Articles 34 and 36). The average applied MFN **import tariff on agro-food products**, excluding alcoholic beverages and spirits, is low at just over 5% in 2013. Rice and sugar are covered by specific tariffs. Import monopolies, licensing requirements and export restrictions on agricultural products were removed in 1997-98. However, in the 2000s quantitative import restrictions were reintroduced, notably for rice, sugar and beef. Import requirements imposed for food safety, SPS and cultural reasons are becoming more stringent. A variable **export tax regime** was introduced on crude palm oil and derived products, and more recently on cocoa (OECD, 2012).

Domestic policy developments in 2014-15

There have been a number of developments in Indonesia's domestic policy settings in 2014-15. Not only effecting agriculture have been changes to **fuel subsidies** which were initially reduced in November 2014 and then removed in January (with the exception of a fixed subsidy remaining for diesel of IDR 1 000 – USD 8 cents – per litre). This move freed up significant fiscal resources, some of which will be used directly to promote agricultural production.

Indonesia's new administration, which took effect after elections in late 2014, has restated its commitment to achieving **self-sufficiency** in five key staples – rice, maize, soybeans, sugar and beef. The new administration, however, has committed to a revised timeframe for achieving self-sufficiency by the end of 2017 for rice, maize and soybeans and the end of 2019 for beef and sugar. It has launched a revised set of policy initiatives to achieve these goals which also include efforts to promote production of other strategic commodities such as chili, shallot, potato, and cocoa. For cocoa, the scheme worth IDR 101.7 billion (USD 8.6 million) is to focus on crop intensification, rehabilitation of old trees, expansion of planted area, farmer's empowerment and quality improvement.

Indonesia has maintained its price support measures for several commodities. Producers of sugar and more recently soybeans benefit **from minimum purchase prices**, set for soybeans by BULOG (beginning 2013) and for sugar cane by millers and traders. For sugar, in 2013 the minimum sugar price was maintained at 2012 levels of IDR 8 100/kg (USD 775/tonne), and was increased to IDR 8 500/kg in 2014 (USD 719/tonne) (MoA, 2015). For soybeans, while regulations were put in place in 2013 for purchases of soybeans by BULOG at IDR 7 000/kg (USD 670/tonne), they have not been effective as the policy has not been financed (MoA, 2015).

For rice, BULOG maintains its market operations and purchasing functions. However, due to the effects of trade barriers associated with Indonesia's self-sufficiency policies, domestic rice prices have been consistently high compared to international prices and so official purchasing prices have not been renewed over the 2013-14 period. The market price support schemes for rice remain the most important contributor to the longer run significant increases in the level of support in Indonesia, as measured by PSEs, explaining 45% of the total PSE in this country in 2014.

To protect poor consumers, BULOG has continued to distribute rice within the **RASKIN** system. In 2012, this entailed large budgetary transfers to support the system of IDR 19.1 trillion (USD 2 billion), with IDR 20.3 trillion spent in 2013 (USD 1.9 billion) and IDR 18.8 trillion in 2014 (USD 1.6 billion). However, recent OECD analysis has brought into question the effectiveness of this programme in improving food security and recommended a shift towards cash transfers or food vouchers (OECD, 2015b).

Some of the savings derived from the removal of fuel subsidies have been directed towards investments in **irrigation infrastructure**. Much of this is targeted towards rice production. In 2015, 10 Governors of rice producing provinces have committed to increase rice production by 11.25 million tonnes. To support this target, the Ministry of Agriculture has committed IDR 4.2 trillion (USD 355 million) to rehabilitate irrigation canals covering an area of 1.5 million hectares, along with investments aimed at "optimising" 500 thousand hectares of existing land for food production (MoA, 2015). This increased investment is in addition to the current exemptions in place where farmers are not charged for the cost of delivering water from the source to the tertiary system via primary and secondary canals. In 2012, the budget for irrigation infrastructure was IDR 2.2 trillion (USD 235 million), increasing to IDR 3.8 trillion in 2013 (USD 364 million) (MoA, 2015).

Increased **subsidies for other inputs and fertilisers** have also been announced to help spur production and meet self-sufficiency target timeframes. For example, at the end of 2014 the Ministry of Agriculture delivered direct assistance to rice farmers in 13 provinces, totalling around IDR 2 trillion (USD 169 million). Funds were used to finance 7 800 hand-tractors, 3 000 water pumps, 100 rice-transplanters, along with fertiliser and seed to encourage farmers grow rice. A further 6 100 hand-tractors, and 2 328 units of water pumps have been promised as part of the support to rice producing provinces (MoA, 2015). Overall, **fertiliser subsidies** remain by far the most important programme through which the government provides budgetary support to agriculture. In 2013 the value of this subsidy was IDR 17.6 trillion (USD 1.7 billion), accounting for 41% of total budgetary expenditures provided to support agriculture (both on-farm and agriculture as a whole as measured by the GSSE).

In September 2014 the Indonesian Parliament passed a bill that set out **stricter rules on foreign ownership** of agricultural plantations. While the bill did not specific an ownership cap (initially, a 30% cap was discussed), the law allows foreign ownership to be capped at the governments discretion on a case-by-case basis taking into account the type of crop, size of producing company and national and grower's interests. Earlier, in 2013 Indonesia removed its value added tax exemptions from estate crops, selected food crops, ornamental crops, and forest products sold on the domestic market.

Trade policy developments in 2014-15

Indonesia restricts the importation of strategic commodities (those associated with self-sufficiency targets) and also imposes taxes on some of its major exports – such as for crude palm oil and cocoa. For palm oil, in the face of falling international prices Indonesia reduced its export tax from 15% in 2013 to 9%, and after moves by Malaysia (a major exporter of palm oil), it temporarily suspended the export tax from October 2014. A similar but simpler variable **export tax** regime has been applied to **cocoa** since April 2010 with a sliding scale based on international prices of cocoa bean in New York. The tax, varying between 5-15% since introduction, has been around 10% due to lower international prices throughout 2014 and into 2015.

Since 2008, companies must be approved by the Ministry of Trade as **registered importers** to import a range of processed products manufactured from meat, cereal, sugar and cocoa. Similar restrictions were placed on animals and animal products in 2011. In line with the Ministry of Trade regulation on the Import and Export of Animals and Animal Products issued in September 2011, imports of these products can only be done by a registered importer and can only be carried out if the domestic production and supply are not sufficient to meet consumer demand at an affordable price level. In 2014, Indonesia tightened the rules for rice imports, further restricting the ability to do so, after findings of non-eligible imported rice in local markets (GAIN, ID1412, 2014a).

As part of the government's policy on approach for **soybeans** (incentivising domestic production and price stabilisation for consumers), in 2013 a number of steps were made to regulate the importation of soybeans. The importation of soybeans is allowed only by BULOG, other state owned enterprises, co-operatives or private sector firms participating in the programme of fixed wholesale selling prices.

Indonesia has maintained its quota arrangements for the **importation of beef** as part of its self-sufficiency targets for this commodity. The quota is established annually for live cattle and, separately, for boxed beef and is based on the estimated shortfall between domestic supply and demand. In the face of high domestic prices, since 27 September 2013 BULOG has been permitted to import beef for price stabilisation purposes. This policy also exempted BULOG from the

requirement as registered importer. High prices resulted in some increases in both beef and live cattle (GAIN, ID1438, 2014b), however, recent quotas for live cattle imports for the beginning quarter of 2015 show a reduction from 133 507 in quarter 1 2014 to 100 000.

On 17 October 2014, the Government of Indonesia issued Law No. 41/2014 (a revision of Law No. 18/2009) on Livestock and Veterinary Health. The new Law provides for the **importation of live animals** from zones declared free from communicable diseases, such as foot and mouth disease, revising the older stricter requirement that only allowed imports if the country was declared free from disease.

To secure sufficient stocks of rice, including for the distribution through RASKIN, in September 2012 BULOG signed a memorandum of understanding (MOU) to import 1.5 million tonnes of rice annually from Viet Nam, until 2017 if needed. Further MOUs have been signed with Thailand, Laos, Cambodia and Myanmar.

Import requirements for **food safety**, **quarantine**, **and standards and labelling purposes**, including *halal* certification, are becoming more stringent. Processed food imports require both product registration and import approval from the Ministry of Health. Similarly, imports of animal based products must have MoA import approval, be accompanied by a *halal* certificate and derive from a processing facility that has been inspected by the MoA. The combination of these requirements, uneven enforcement and poor transparency over changing rules is adding to trade costs (GAIN, ID1455, 2014c).

Indonesia is a member of the **Association of Southeast Asian Nations (ASEAN)**, Asia-Pacific Economic Cooperation (APEC), and World Trade Organisation (WTO) and participates in trade liberalisation between ASEAN members and their major trading partners in the region, including ***China***, ***Japan***, ***India***, ***Korea***, ***Australia*** and ***New Zealand***. The agreement with Australia and New Zealand entered into force for Indonesia in January 2012. Also in 2012, Indonesia signed a bilateral Preferential Trade Agreement with ***Pakistan***. In 2015, the ASEAN economies hope to complete the formation of the ASEAN Economic Community. This is intended to develop: a single market and production base; a highly competitive economic region; a region of equitable economic development; and a region fully integrated into the global economy (ASEAN Secretariat, 2015).

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Chapter 12

Israel

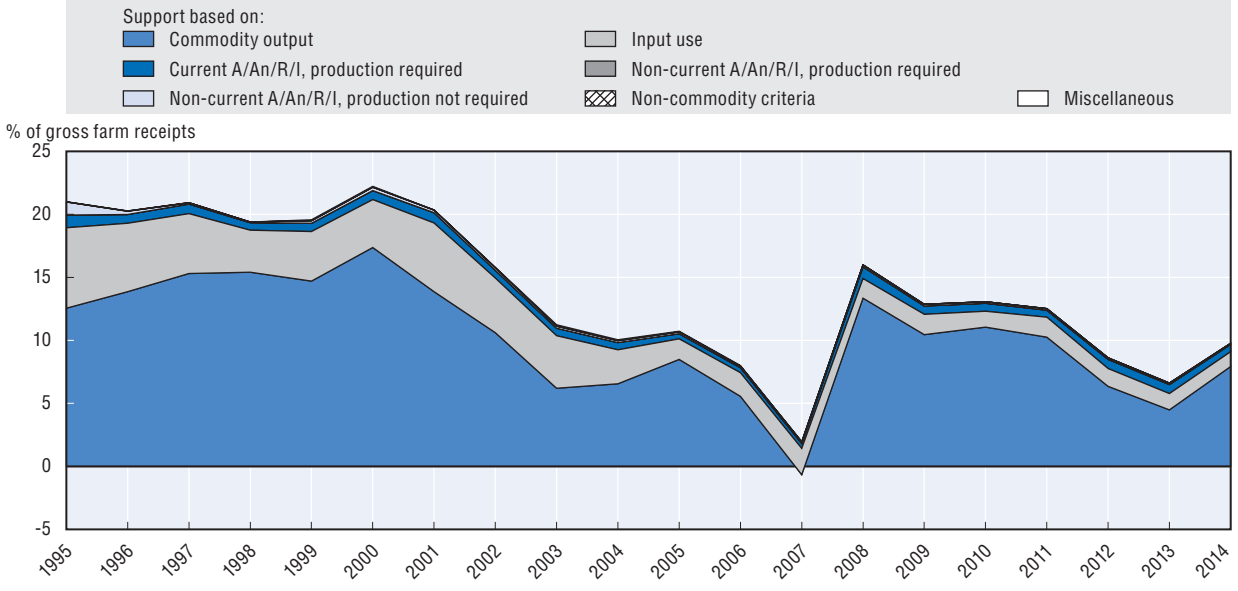
The Israel country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

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.

Evaluation of policy developments

- The level of support to agriculture in Israel has decreased over the past twenty years. This fall is due to domestic policy reforms and lower border protection resulting from bilateral trade liberalisation agreements. While rising world prices contributed to falling support over time, recent world price declines have led to an increase in support in 2014.
- Despite a general fall in the level of support to agriculture, above 90% of this support remains trade and production distorting. The average tariff applied to agricultural products remains high and significantly above that observed for other products, thereby contributing to maintaining domestic prices above international levels. Furthermore, the share of support to farm inputs remains relatively high.
- The transfers to farmers from consumers through market price support remain high and have increased over the past two years. These should be reduced.
- Gains in efficiency and international competitiveness of the Israeli agricultural sector require several additional reform measures to be implemented. These include diminishing the administrative burden on agricultural land market transactions as well as the implementation and extension of the reforms announced in 2012 aimed at reducing and simplifying customs duties and improving competition law in the agricultural sector.
- Numerous measures have been taken by the government to improve the environmental performance of the agricultural sector but efforts could be accelerated, in particular with regard to water management. The recent implementation of a multiyear water quota for the farming sector combined with the increase in fees for fresh water should contribute to improving water use efficiency. However, this may still be insufficient to achieve the objectives agreed between the government and the producers to cover average water supply costs by 2015.

Figure 12.1. **Israel: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

The agricultural sector in Israel accounts for 1.4% of GDP and for 1.2% of total employment. It benefits from technological advances, in particular in irrigation and in the dairy sector, making it a model for many other countries with arid and semi-arid zones and a low availability of arable land (0.04 hectare per capita in Israel). Nevertheless, agriculture accounts for 56% of annual water consumption with 33% of land irrigated and the use of water resources is the key environmental issue for the sector. Co-operative communities – primarily the kibbutz and moshav – dominate agricultural production, accounting for about 80% of agricultural output, while agricultural land and water are almost entirely state-owned. Fruit and vegetables are the main agro-food exports while cereals, oilseed, beef and sugar are major agro-food imports. In the long term, the negative balance of trade in agro-food products tended to increase, but it has slightly improved since 2012.

Table 12.1. **Israel: Contextual indicators, 1995, 2013**[1]

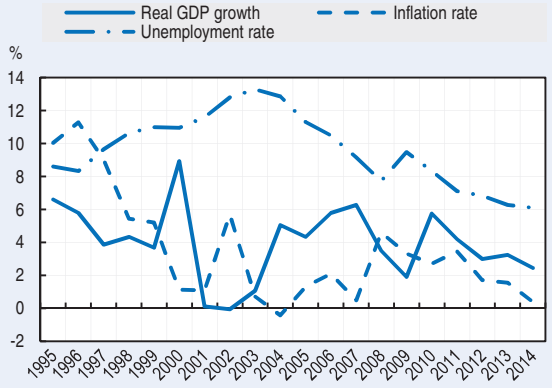
	1995	2013[1]
Economic context		
GDP (billion USD)	96	291
Population (million)	5	8
Land area (thousand km^2)	20	20
Population density (inhabitants/km^2)	273	396
GDP per capita, PPP (USD)	18 953	32 505
Trade as % of GDP	24.7	23.9
Agriculture in the economy		
Agriculture in GDP (%)	2.1	1.4
Agriculture share in employment (%)	2.8	1.2
Agro-food exports (% of total exports)	7.0	3.8
Agro-food imports (% of total imports)	6.6	7.1
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	-526	-2 583
Crop in total agricultural production (%)	61	61
Livestock in total agricultural production (%)	39	39
Agricultural area (AA) (thousand ha)	573	..
Share of arable land in AA (%)	60	56
Share of irrigated land in AA (%)	34	33
Share of agriculture in water consumption (%)	64	56
Nitrogen balance, kg/ha	..	..

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235328

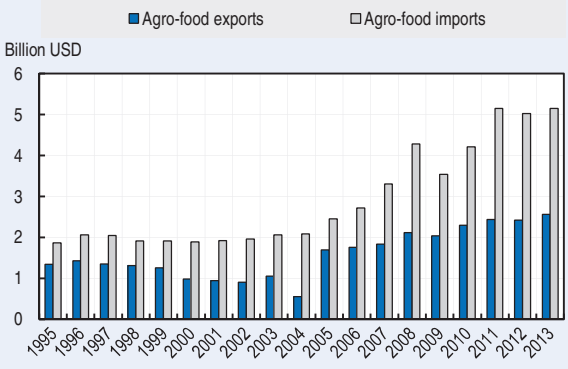
Figure 12.2. **Israel: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234748

Figure 12.3. **Israel: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234757

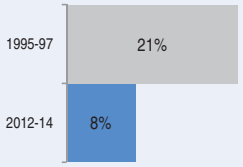
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Over the past 20 years Israel has reduced support to agriculture, but this support is still provided in its most trade and production distorting forms. While the NPC measuring the level of price distortion has fallen in the long term, the prices of several products continue to be regulated by the government and their adjustment is either delayed or delinked from changes of prices on international markets.

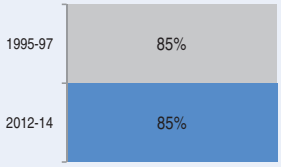
PSE as % of receipts (%PSE)

In less than twenty years, support for agriculture in Israel has been halved and currently is a bit more than half of the OECD average. Having experienced a steady fall following the peak reached in 2008, the %PSE increased in 2014, primarily due to the increase in the gap between domestic and international prices for milk.



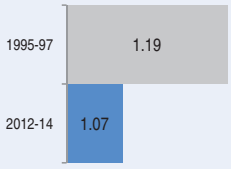
Potentially most distorting support as % of PSE

Despite the general reduction in support for agriculture, the share of the potentially most distorting support (based on output and variable input use – without input constraints) still represents 85% of the total.



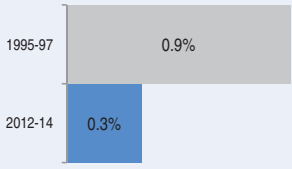
Ratio of producer price to border price (NPC)

For all products combined, the prices paid to producers were on average 10% higher than those observed on the international market over the period 2012-14.

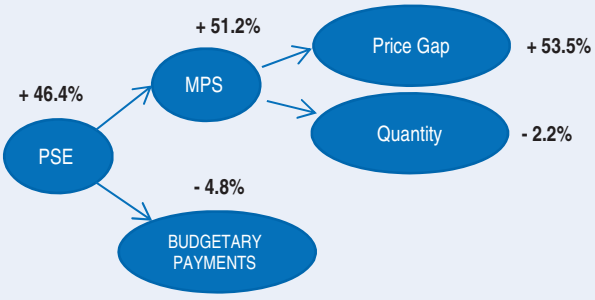


TSE as % of GDP

Total support was 0.3% of GDP in 2012-14, compared to the OECD average of 0.8%, and the expenditure on general services represented 20% of the total support.

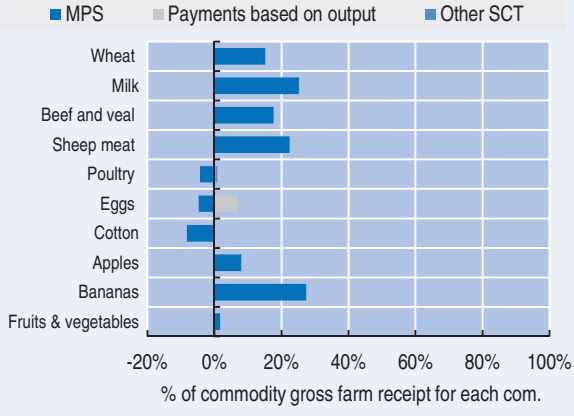


Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014 due to the substantial increase of the gap between domestic and border prices (MPS). The market price differential increased for may products, particularly for milk, fruits and vegetables.

Transfer to specific commodities (SCT), 2012-14



The Single Commodity Transfers (STC) represented 75% of the total PSE. The share of the SCT in the commodity gross farm receipts is lowest for fruit and vegetables, and highest for milk, sheep meat, and beef and veal. Poultry and cotton are implicitly taxed.

Table 12.2. **Israel: Estimates of support to agriculture**

Million ILS

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**11 651**	**29 835**	**29 310**	**30 191**	**30 005**
***of which:** share of MPS commodities (%)*	72.4	76.0	80.6	77.9	69.5
Total value of consumption (at farm gate)	**9 274**	**22 892**	**20 979**	**22 241**	**25 455**
Producer Support Estimate (PSE)	**2 604**	**2 541**	**2 588**	**2 043**	**2 991**
Support based on commodity output	1 755	1 909	1 909	1 387	2 429
Market Price Support[1]	1 691	1 841	1 839	1 319	2 365
Payments based on output	65	67	70	68	63
Payments based on input use	688	394	424	399	360
Based on variable input use	457	260	264	282	233
with input constraints	0	0	0	0	0
Based on fixed capital formation	183	77	84	58	89
with input constraints	0	0	0	0	0
Based on on-farm services	48	58	77	59	39
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required	102	207	219	222	178
Based on Receipts / Income	97	175	188	201	136
Based on Area planted / Animal numbers	5	32	31	22	42
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	56	31	35	34	24
With variable payment rates	0	31	35	34	24
with commodity exceptions	0	0	0	0	0
With fixed payment rates	56	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	2	0	0	0	0
Percentage PSE (%)	**20.7**	**8.3**	**8.6**	**6.6**	**9.8**
Producer NPC (coeff.)	**1.19**	**1.07**	**1.06**	**1.05**	**1.09**
Producer NAC (coeff.)	**1.26**	**1.09**	**1.09**	**1.07**	**1.11**
General Services Support Estimate (GSSE)[2]	**390**	**632**	**686**	**607**	**603**
Agricultural knowledge and innovation system	155	277	266	267	299
Inspection and control	56	99	121	83	95
Development and maintenance of infrastructure	11	187	231	192	138
Marketing and promotion	59	3	3	5	1
Cost of public stockholding	108	57	59	55	58
Miscellaneous	0	8	6	7	12
Percentage GSSE (% of TSE)	**13.0**	**20.2**	**20.9**	**22.9**	**16.8**
Consumer Support Estimate (CSE)	**-2 336**	**-2 055**	**-1 885**	**-1 621**	**-2 658**
Transfers to producers from consumers	-1 843	-1 692	-1 660	-1 282	-2 134
Other transfers from consumers	-513	-386	-239	-368	-551
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	20	23	14	28	27
Percentage CSE (%)	**-25.1**	**-8.9**	**-9.0**	**-7.3**	**-10.4**
Consumer NPC (coeff.)	**1.34**	**1.10**	**1.10**	**1.08**	**1.12**
Consumer NAC (coeff.)	**1.34**	**1.10**	**1.10**	**1.08**	**1.12**
Total Support Estimate (TSE)	**2 994**	**3 172**	**3 274**	**2 649**	**3 594**
Transfers from consumers	2 355	2 078	1 899	1 650	2 685
Transfers from taxpayers	1 151	1 481	1 614	1 368	1 460
Budget revenues	-513	-386	-239	-368	-551
Percentage TSE (% of GDP)	**0.9**	**0.3**	**0.3**	**0.3**	**0.3**
GDP deflator (1995-97=100)	**100**	**160**	**157**	**161**	**162**

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

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.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Israel are: wheat, cotton, peanuts, tomatoes, peppers, potatoes, avocados, bananas, oranges, grapefruit, grapes, apples, milk, beef and veal, sheep meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235337

Description of policy developments

Main policy instruments

In 2014, a new Rural Development Plan (2015-20) was adopted to encourage the diversification of employment in rural areas and to facilitate the retirement of non-competitive farmers from the market. It includes measures to support for small business in rural areas such as wineries, dairies and tourism.

Over the past thirty years, Israel has implemented a number of reforms in such areas as the provision of subsidies, central planning of agricultural industries, and the allocation of production quotas, price controls and import protection. The government nevertheless continues to be involved in the allocation of key factors of production such as land, water and foreign workers. **Land and water resources are almost entirely state-owned.** Land is allocated to farmers for a low, nominal fee and cannot be the subject of market transactions. Water is allocated to farmers through a three-year quota system. Farmers are given access to water at lower rates compared to other users and benefit from a concession on the water extraction levy. The government also applies a yearly quota of foreign workers with permits to work in agriculture. Both the overall quota and the allocation of workers to individual farmers are strictly regulated.

Several commodities continue to benefit from **guaranteed prices and production quotas**. Guaranteed prices for milk and eggs are based on the average cost of production and while they are updated regularly, they diverge quite considerably from the level and evolution of prices on international markets. Minimum prices are also guaranteed for wheat, based on the Kansas market price, adjusted for quality and transportation costs. On the other hand, **consumer price controls** are applied to several basic food products, mainly dairy products, eggs and bread.

Egg and poultry producers in peripheral areas benefit from **direct payments**. Income support measures are implemented for wheat and barley producers.

Support to investments is provided by **capital grants**. Farmers who participate in the investment support scheme are also entitled to income tax exemptions and accelerated depreciation. Since 2009, an investment support programme has been implemented to partly replace foreign workers in the agricultural sector.

Insurance schemes for farmers are subsidised. The government intends to increase state participation in subsidising premiums and to extend the coverage through the inclusion of new crops. The rate of support to assurance premium is at 80% in the case of the multi-risk insurance schemes and at 35% in the case of the insurance schemes against natural hazards.

Following the implementation of the Uruguay Round Agreement on Agriculture (URAA), Israel now maintains a more transparent and open trade regime. However, **high border tariff protection** on agri-food products remains a key tool in supporting agricultural producers. Under the URAA, Israel established tariff rate quotas (TRQs) for wheat, fats and oils, walnuts, prunes, maize, oranges and other citrus juices, beef and sheep meat and various dairy products. Moreover, all of Israel's preferential trade agreements (apart from that with the European Free Trade Association, EFTA) include tariff-quota commitments for agricultural products. In total, Israel implements more than 100 Most Favoured Nation (MFN) and preferential TRQs (WTO, 2012).

Despite certain reforms undertaken in 2014, Israel's tariff profile for agricultural products remains highly uneven, with very high – sometimes prohibitive – tariffs for such goods as dairy products, fresh beef, eggs and certain fruits and vegetables, and low, sometimes duty-free, tariffs for other commodities such as coarse grains, sugar, oilseed and frozen beef. The tariff system on

agriculture remains complicated, involving a large number of non-*ad valorem* tariffs (specific, compound or mixed). The **simple average MFN tariff applied** for agricultural products (WTO definition) was 13.2% in 2013 compared with an average for non-agricultural products of 3.2%. However, some 45% of agri-food imports enter Israel duty-free, mostly through MFN duty-free access and under preferential agreements (the most important ones are with the EU and the US) (WTO, 2014). With the exception of beef, poultry (including turkeys) and mutton and products thereof, there is no legal requirement for imported food and agricultural products to be **kosher**, although imported, non-kosher agro-food products are rarely accepted by local marketing channels.

Budgetary allocations for **R&D** have regularly increased and have accounted for about 20% of the total agriculture-related budget in recent years. This has allowed Israel to become a world leader in agricultural technology, particularly in farming in arid and desert conditions, and to build its comparative advantage in agriculture on knowledge and technological progress (OECD, 2010).

Domestic policy developments in 2014-15

Since 2012, the government has implemented a number of initiatives to address the issue of **high food prices** in response to the social protests of 2011 against high living costs. In 2014, consumer prices for food products decreased (-1.4%) for the first time in ten years. In 2014 and early 2015, reforms have continued to be applied, but goals and objectives have been hampered both by Operation "Protective Edge", which has had a serious effect on the agricultural sector, and by the dissolution of the Knesset (Israeli Parliament) in December 2014, resulting in a delayed approval of the national budget for the fiscal year 2015.

In early March 2014, the Economic Committee of the Knesset voted an amendment to the Israel Antitrust Law in order to limit the exemption of the agricultural sector from antitrust regulation. Private wholesalers of agricultural products, except co-operatives, will be excluded from this exemption, thereby enhancing competition among agro-food wholesalers. The Committee plans to allocate ILS 10 million (USD 2.8 million) over two years to encourage growers to create new co-operatives or to join existing ones. In March 2014, the Knesset also voted a law to increase competition in the food sector. This bill regulates the relationship between retailers and suppliers, is expected to increase competition across retailers at specific locations, and promotes price transparency. Both laws should come into force during March 2015.

In 2014, the **average guaranteed price** decreased, for the first time for five years, by 4.5% for raw milk and by 4.2% for eggs, while it increased by 1.8% for wheat. However, the fall of producer prices for milk was smaller than the reduction in international dairy product prices over the same period. Thus, the positive price differential for milk increased considerably which was the dominant factor for an overall rise in support for the Israeli agriculture in 2014.

Under the Galilee Law, **egg quota** holders continued to benefit from direct payments which amounted to ILS 57 million (USD 16.1 million) in 2014, about the same level as in the previous year.

In January 2014, the joint "Price committee" of the Ministries of Finance and Agriculture decided to extend the list of products with **regulated prices** at the retail level to include two additional dairy products: soft cheese (5% fat) and on cream (38% fat content). The decision to extend price control was based on a survey highlighting very high profitability of processing and marketing of dairy products. At the farm level, the government pursued the initiative launched in 2013 to facilitate the retirement of small and medium-sized dairy farmers from the market. In 2014, this initiative received funding totalling ILS 36 million (USD 10.2 million).

Whereas the plan in 2013 was to reduce the number of **foreign workers** allocated to the agricultural sector from 24 000 to 18 900 by 2015, this decision was reversed and the number of foreign workers allocated to the agricultural sector increased to 24 999 in 2014. An additional 410 foreign workers were allocated to the communities surrounding the Gaza Strip. Nevertheless, the total remained significantly lower than the number of workers requested by farmers. As compensation, the government has continued to encourage farmers to replace foreign labour with machinery by providing **investment support**. In 2014, this support amounted to ILS 25 million (USD 7 million). A target was also established to increase the number of Israeli workers in the agricultural sector and a budget of ILS 17 million (USD 4.8 million) was allocated to support this initiative.

Within general services, **research and development** attracts the highest amount of public support at ILS 29.7 million (USD 8.4 million) in 2014, 12% more than in the previous year. A new project, supported by a budgetary allocation of ILS 6.5 million (USD 1.8 million) in 2014, was launched to enhance **agricultural education**, including for students and soldiers after their compulsory military service willing to undertake temporary or part-time job in agriculture.

The government continues to cover the assurance premium at 80% in the case of the multi-risk insurance schemes and at 35% in the case of the insurance schemes against natural hazards, in order to increase the participation of crop producers in **insurance schemes**. In 2014, the coverage of multi-risk insurance schemes was extended to include beekeeping and the eradication of animals with Newcastle disease.

In line with the 2006 agreement between the government and farmers to further increase water charges paid by farmers so they eventually cover the average cost of water production by 2015 (operation, maintenance and fixed capital costs), the government allocated ILS 116.1 million (USD 32.8 million) in 2014 to **support farmers investing in water-saving** and irrigation technologies. This support is regarded as a compensation for increases in fresh water prices for some farmers following the unification of the fresh water tariffs applied in early 2014. The target price for fresh water used by the agricultural sector in 2015 was fixed at NIS 2.36 per cubic meter, 9.8% up compared to that in 2014.

As from 2014 a new **three-year quota of fresh water** has been implemented in the agricultural sector, replacing the annual quotas applied until 2013. The Water Authority Council stated that the total allocation of fresh water to agriculture in 2014-16 would be 1.8 billion cubic meters, on average 0.6 billion cubic metres per year.

In addition to the allocation of fresh water, farmers also benefit from a quota of **marginal water** consisting of recycled effluents, brackish water and surface water. In 2014, the quota for marginal water was 0.8 billion cubic metres, 5% up from 2013.

Trade policy developments in 2014-15

In May 2014, in line with the decision taken by the government in 2012 to reduce tariffs on certain food products, the Finance Committee of the Israeli Knesset approved an increase in **tariff rate quota** for imports of fresh beef. The quota was increased from 2 500 to 3 000 tonnes and is expected to grow gradually over the next few years to reach 5 700 tonnes in 2019. In addition, imports within the quota will now be duty free, compared to the 100% tariff applied earlier. However, this measure will have a limited impact as Israel imports almost exclusively frozen beef. Alongside, **custom duties on imports** of live cattle supplied to feedlots (weight above 250 kg/head) have been abolished, although this decision is expected to be re-examined in 2019.

In March 2014, the Israeli government outlined its commitment to increase gradually duty-free quotas on a range of dairy products including cheese, butter, cream and yogurt, but no agreements with producers for these products were reached up to now.

At the end of 2014, the government modified the **TRQ allocation system** for dairy products allowing the allocating committees to distribute quotas also by considering the obligation for the quota holders to lower dairy prices (GAIN, 2014).

In 2014 negotiations were launched to expand the ***Canada***-Israel **Free Trade Agreement** (CIFTA), including reduction and elimination of tariffs on certain agricultural and fish/seafood products. The negotiations on a FTA with ***India***, launched in 2012, continued. This agreement is expected to improve Israel's export of agricultural technologies and services. In May, a first round of negotiations took place for a new FTA with ***Panama***, expected to promote exports of agricultural products as well as Israel's agricultural technologies and services. For 2015, the government plans to initiate discussions for a possible FTA with ***China*** and the Eurasian Economic Union. Finally, the ratification of the FTA with ***Colombia***, signed in September 2013, is not envisaged before 2016 as Colombia has not yet started the ratification process.

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Chapter 13

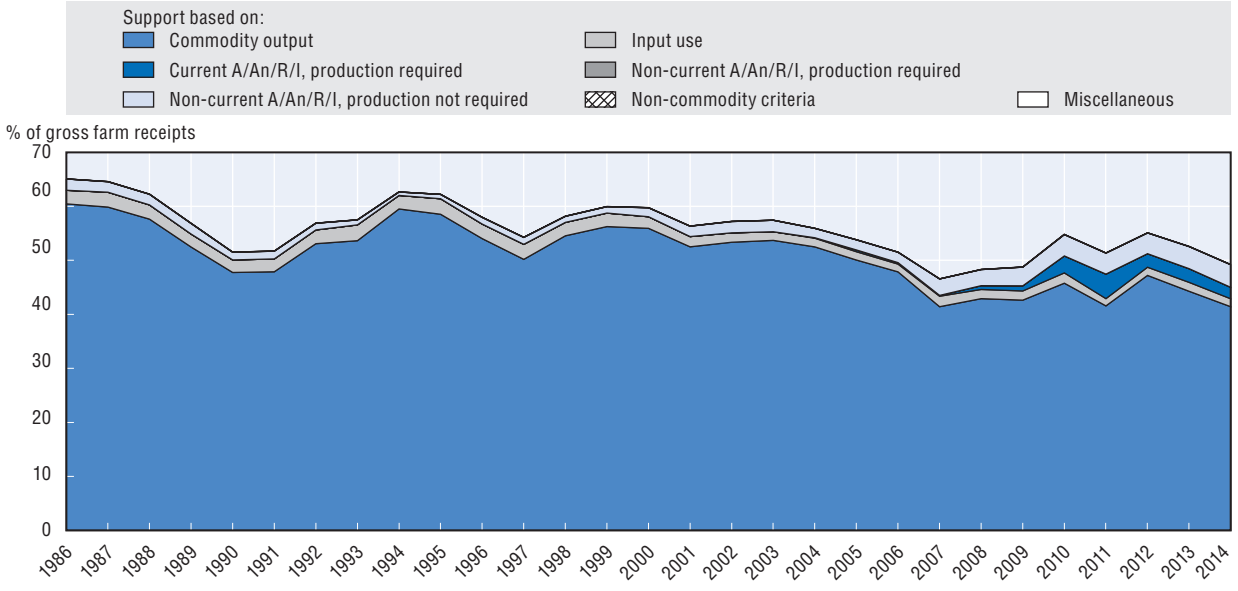
Japan

The Japan country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Producer support since 1986-88 has been reduced slightly, but it is still almost three times the OECD average as measured by the %PSE. About 90% of producer support is still commodity specific, narrowing farmers' choices of production. A significant share of support continues to be provided through market price support, specifically for rice. Border measures should be adjusted to reduce the burden on consumers and Japan should consider the introduction of direct payments better targeted to its policy objectives.
- Japan began implementing policy reforms in 2014-15 based on the agricultural reform plan announced in 2013. These reforms present a mixed picture as some payments were abolished and reduced but others were recoupled to production and reinforced. While phasing out of the administrative allocation of rice production by 2018 crop year is an important step to give farmers more freedom to respond to market signals, the remaining incentives to produce diversion crops, such as rice for feed and manufacturing, will keep the price of rice high. Further efforts are needed to gradually reduce those measures and narrow the gap between domestic and international prices of rice.
- Japan intends to pursue economic partnerships with other countries and to promote the export of agricultural products and food. While this signals a move towards a more market-oriented agricultural sector, the reduction of border measures on agricultural products would facilitate Japan's participation in comprehensive multilateral, regional and bilateral trade agreements, and will be beneficial to the whole economy.
- Regional government-supported institutions were established in 2014 to promote farm consolidation by leasing land from farmers, and renting it to business farmers and new entrants. This may have some positive effects on farm consolidation but it is unlikely to be fully effective as long as other factors that impede the growth of efficient farms remain in place. Unravelling the land policy measures that impede farm consolidation and prevent agricultural land abandonment is urgent. Land-use regulation should be more transparent, with a more predictable framework for conversion from farmland to non-farmland use. Taxation on idled land should be increased, so as to encourage it to be put to productive use.

Figure 13.1. **Japan: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

Japan is a land scarce country, where only 30% of its total area is suitable for agriculture or urban use. The share of agriculture in total GDP is low at around 1%, while its share in employment is 3.4%. Over the past two decades, the agricultural sector experienced a decrease of nearly 30% of agricultural production (JPY 11.5 to 8.1 trillion), a drop in agricultural income of more than 40% (JPY 5.0 to 2.8 trillion), an increase in the average age of farmers by seven years (from 59 to 66 years) and a doubling of the amount of abandoned farmland (from 217 to 396 thousand ha). The farm structure is characterised by very small family farms. The majority of farmland is irrigated paddy field. Livestock production largely depends on imported feed and its share in total agricultural production is increasing over time. Japan is consistently one of the largest net agro-food importers in the world. The share of agro-food imports in total imports is 7.4%, while the share of agro-food exports in total exports is less than 1%.

Table 13.1. **Japan: Contextual indicators, 1995, 2013**[1]

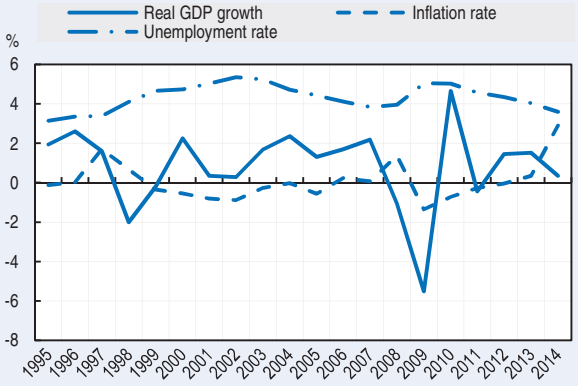
	1995	2013[1]
Economic context		
GDP (billion USD)	5 334	4 901
Population (million)	126	127
Land area (thousand km^2)	365	365
Population density (inhabitants/km^2)	329	336
GDP per capita, PPP (USD)	22 921	36 069
Trade as % of GDP	7.3	15.8
Agriculture in the economy		
Agriculture in GDP (%)	1.6	1.2
Agriculture share in employment (%)	5.2	3.4
Agro-food exports (% of total exports)	0.4	0.5
Agro-food imports (% of total imports)	12.3	7.4
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	-39 449	-58 513
Crop in total agricultural production (%)	76	68
Livestock in total agricultural production (%)	24	32
Agricultural area (AA) (thousand ha)	5 443	4 549
Share of arable land in AA (%)	85	93
Share of irrigated land in AA (%)	55	54
Share of agriculture in water consumption (%)	66	66
Nitrogen balance, kg/ha	175	186

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235341

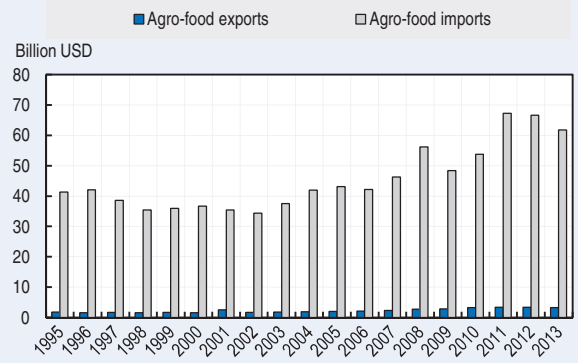
Figure 13.2. **Japan: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234773

Figure 13.3. **Japan: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234788

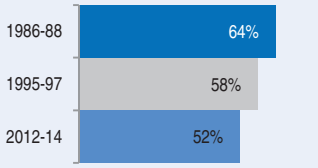
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Japan has gradually reduced its level of support to agriculture. Support remains almost three times higher than the OECD average (18%), and is largely delivered in the potentially most production and trade distorting forms. Prices received by farmers are twice the world market prices, as estimated by the Nominal Protection Coefficient (NPC). Market price support (MPS) continues to be the main element of support, accounting for more than 80% of the total PSE in 2012-14, and rice accounts for 50% of the total MPS. The share of direct payments in the PSE is increasing in recent years, accounting for 20% of the total PSE in 2012-14.

PSE as % of receipts (%PSE)

Support to producers (%PSE) decreased gradually and consistently overtime, but overall support remains high compared to the OECD average in 2012-14. The reduction in %PSE in recent years is mainly due to a lower domestic rice price resulting from the abolition of the administrated price system and the contraction of domestic rice consumption.

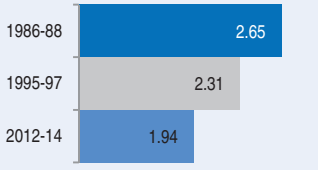


Potentially most distorting support as % of PSE

Japan has reduced market price support mechanisms and increased direct payments to farmers. However, the potentially most distorting support (based on output and variable input use – without input constraints) still represents 86% of the PSE in 2012-14. Market price support continues to be the main element of that support (95%).

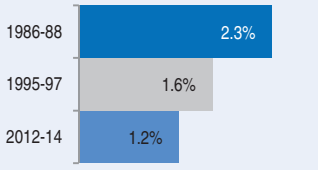
Ratio of producer price to border price (NPC)

Prices received by farmers were around 2.65 times higher than those in world markets in 1986-88, but this ratio was reduced to 1.94 in 2012-14.

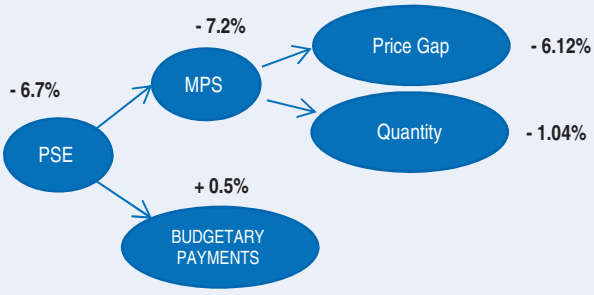


TSE as % of GDP

Total support to agriculture was 1.2% of GDP in 2012-14 above the OECD average. Support to general services was 15.5% of total support.

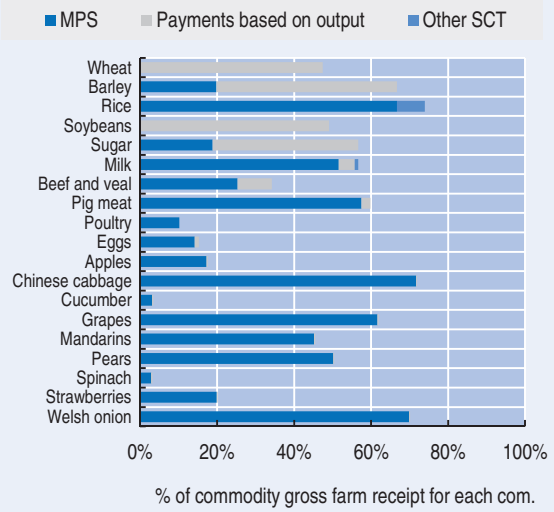


Decomposition of change in PSE, 2013 to 2014



The level of support decreased by 6.7% in 2014 mainly due to the decrease in the gap between domestic and border prices, in particular for rice.

Transfer to specific commodities (SCT), 2012-14



The Single Commodity Transfers (SCT) represented 88% of the total PSE in 2012-14. The share of the SCT in the commodity gross farm receipts was the highest for rice (74%), Chinese cabbage (72%), and welsh onion (70%).

Table 13.2. **Japan: Estimates of support to agriculture**

Billion JPY

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**10 610**	**10 128**	**8 468**	**8 525**	**8 467**	**8 413**
***of which:** share of MPS commodities (%)*	68.4	67.9	66.6	67.0	66.4	66.5
Total value of consumption (at farm gate)	**14 298**	**15 070**	**11 930**	**11 840**	**12 185**	**11 766**
Producer Support Estimate (PSE)	**7 267**	**6 239**	**4 941**	**5 231**	**4 963**	**4 630**
Support based on commodity output	6 740	5 822	4 187	4 483	4 180	3 898
Market Price Support[1]	6 519	5 651	3 960	4 259	3 988	3 632
Payments based on output	221	171	227	224	192	266
Payments based on input use	299	298	146	144	156	138
Based on variable input use	149	124	51	51	51	51
with input constraints	0	0	0	0	0	0
Based on fixed capital formation	129	153	64	62	74	56
with input constraints	0	0	0	0	0	0
Based on on-farm services	21	21	31	31	31	31
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required	0	0	225	238	239	199
Based on Receipts / Income	0	0	73	72	72	75
Based on Area planted / Animal numbers	0	0	152	166	167	124
with input constraints	0	0	8	8	9	9
Payments based on non-current A/An/R/I, production required	0	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	228	119	383	366	388	395
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	228	119	383	366	388	395
with commodity exceptions	228	119	247	228	252	262
Payments based on non-commodity criteria	0	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0	0
Percentage PSE (%)	**64.0**	**58.1**	**52.3**	**55.1**	**52.6**	**49.2**
Producer NPC (coeff.)	**2.65**	**2.31**	**1.94**	**2.05**	**1.94**	**1.82**
Producer NAC (coeff.)	**2.78**	**2.40**	**2.10**	**2.23**	**2.11**	**1.97**
General Services Support Estimate (GSSE)[2]	**1 266**	**2 054**	**905**	**923**	**964**	**828**
Agricultural knowledge and innovation system	75	95	123	134	125	111
Inspection and control	8	10	10	9	12	10
Development and maintenance of infrastructure	1 118	1 858	744	744	807	682
Marketing and promotion	22	27	11	21	6	8
Cost of public stockholding	43	63	16	15	15	17
Miscellaneous	0	0	0	0	0	0
Percentage GSSE (% of TSE)	**14.9**	**24.7**	**15.5**	**15.0**	**16.3**	**15.2**
Consumer Support Estimate (CSE)	**-8 910**	**-8 080**	**-5 283**	**-5 656**	**-5 254**	**-4 940**
Transfers to producers from consumers	-6 423	-5 603	-3 960	-4 257	-3 987	-3 635
Other transfers from consumers	-2 483	-2 503	-1 329	-1 405	-1 273	-1 310
Transfers to consumers from taxpayers	-16	26	1	1	1	1
Excess feed cost	11	0	5	5	5	4
Percentage CSE (%)	**-62.3**	**-53.6**	**-44.3**	**-47.8**	**-43.1**	**-42.0**
Consumer NPC (coeff.)	**2.66**	**2.17**	**1.80**	**1.92**	**1.76**	**1.72**
Consumer NAC (coeff.)	**2.65**	**2.16**	**1.80**	**1.91**	**1.76**	**1.72**
Total Support Estimate (TSE)	**8 518**	**8 318**	**5 847**	**6 154**	**5 928**	**5 459**
Transfers from consumers	8 906	8 106	5 289	5 662	5 259	4 945
Transfers from taxpayers	2 095	2 715	1 887	1 897	1 941	1 824
Budget revenues	-2 483	-2 503	-1 329	-1 405	-1 273	-1 310
Percentage TSE (% of GDP)	**2.3**	**1.6**	**1.2**	**1.3**	**1.2**	**1.1**
GDP deflator (1986-88=100)	**100**	**109**	**91**	**91**	**90**	**91**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Japan are: wheat, barley, soybean, rice, sugar, milk, beef and veal, pig meat, poultry, eggs, apples, chinese cabbage, cucumbers, grapes, mandarins, pears, spinach, strawberries and Welsh onions.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235354

Description of policy developments

Main policy instruments

Market price support resulting from border measures, administrated prices, and payments based on output serve as the main instruments of agricultural policy in Japan. Tariff-rate quota (TRQ) systems are applied to major commodities such as rice, wheat, barley and dairy products. Administered prices are applied to pig meat, beef and calves. The Agricultural Production Bureau within the Ministry of Agriculture, Forestry and Fisheries is responsible for importing rice under Japan's WTO Uruguay Round Agreements Act (WTO URAA) minimum-access commitment. In addition to the border measures, the allocation of the rice production quota contributes to maintaining a high domestic rice price.

The Basic Plan on Food, Agriculture and Rural Areas (last revised in March 2015) lays out a medium-term policy plan on food, agriculture and rural areas for the decade. The plan is revised by the Cabinet every five years. The plan sets a food self-sufficiency target of 45% on calorie supply basis and 73% on production value basis by 2025, while the actual rates were reported at 39% and 65% in 2013, respectively.

Major support policies for rice and upland crops are delivered through income support payment, income based-payment, and payments to encourage farmers to divert production away from table rice. The income support payment for rice (to be abolished in the 2018 crop year) is based on the current area of rice production, and the rate is fixed at JPY 7 500 (USD 72) per 0.1 ha. The payment requires participating farms to meet the target for the volume of production allocated to each farmer.

The administrative allocation of rice quota is either reallocated to farmers within the same prefecture or traded across prefectures, in order to maintain the overall production volume at the national level. The programme limits the supply of rice by allocating a production quota to rice farmers and contributes to keeping the price above the market equilibrium level. This rice production adjustment programme has been in place for 40 years and will be phased out by 2018. Incentives to crop diversification are paid to support farmers who want to shift from table rice production to other crops (e.g. wheat and soybean).

The income support payment for upland crops (wheat, barley, soybean, sugar beet, starch potato, buckwheat and rapeseed) is combined with current area payments (from the 2015 crop year) and output payments. The current area payments aim to maintain the conditions of farmland, and the rates of JPY 13 000 (USD 124) per 0.1 ha for buckwheat, and JPY 20 000 (USD 191) per 0.1 ha for others (wheat, barley, soybean, sugar beet, starch potato, and rapeseed) are paid based on current area. The rate of output payments are set to bridge, on average, the difference between standard costs and sales prices taking quality differences into account.

The income-based payment is available to producers of rice, wheat, barley, soybean, sugar beet and starch potato, and compensates 90% of the loss of income compared with the average income of the preceding five crop years (an average of three out of the previous five years, leaving out the highest and the lowest). The payment is available for so called business farmers, independently of their farm size (from the 2015 crop year).

The setting-up of young farmers' payments provides income support to new young farmers during a training period (maximum two years) and the initial operation period (maximum five years). The maximum rate of JPY 1.5 million (USD 14 337) is paid annually to eligible trainees or farmers. An annual number of young farmers (under 50 years-old) entering into the sector has

doubled (from 1 000 to 2 000) since the introduction of the payment. Additional payments are provided to local community activities to conserve and improve the quality of rural resources such as irrigation and drainage facilities.

Domestic policy developments in 2014-15

Major policy developments in 2014-15 include reforms in income support payments, diversion payments, agricultural co-operatives, and farm consolidation. These reforms are in line with the Plan for Creating Dynamism through Agriculture, Forestry, and Fisheries, and Local Communities (announced in December 2013 and revised in June 2014), which lays out Japan's agricultural policy reform post-2014. The Plan continues to focus support on business farmers.

Several changes are made to income support payments for rice and for upland crops, such as their payment rate and eligibility conditions. The price contingent payment for rice was abolished and the rate of income support payments for rice (predetermined payments) was reduced by half, from JPY 15 000 (USD 143) per 0.1 ha in 2013 to JPY 7 500 (USD 72) per 0.1 ha in 2014. The payment will be provided for a limited period of 4 years and will expire in 2018. The income support payment for upland crops is recoupled by transforming from the non-current to current area payment in 2015. The payment is limited to business farmers independent of their farm size in 2015. In 2014, incentives to produce diversion crops were reinforced for feed rice and rice flour.

In 2015, the government submitted a bill to revise the Agricultural Cooperative Act. The reform requires a majority of board members in each local agricultural co-operative to be business farmers and professional sales persons. In addition, the Central Union of Agricultural Co-operatives (JA-Zenchu) will lose its current special status defined in the Act and will become a general corporation.

In 2014, regional government-supported institutions were established in each prefecture to accelerate the consolidation of farmland. The institution rents farmlands, improves infrastructure if necessary, and then leases the land to business farmers so that they can expand their farmed area. Several payments are provided to farmers who lease their lands to the institution. In 2014, the total size of farmlands leased to farmers by the institution remained very small compared to its demand (230 000 ha).

Administered prices for livestock increased in 2015 responding to the increase in imported feed costs. The floor level of price stabilisation bands for pig meat and beef were JPY 440 000 (USD 4 206) and JPY 865 000 (USD 8 268) per tonne respectively in 2015. Similarly, all guaranteed prices per head of calves increased in 2015. The government-set ceiling of manufacturing milk to be covered by direct payments in 2015 decreased to 1.78 million tonnes, 20 000 tonnes less than the previous year, but the payment rate increased to JPY 12 900 (USD 123) per tonne.

In 2014, the value of exports of agricultural, forestry and fishery products and foods from Japan increased by 11.1% from 2013 and marked a record high of JPY 611.7 billion (USD 5.8 billion) due in large part to increasing demand for Japanese food, public and private efforts in export promotion, and relaxation of import regulations concerning SPS measures including those regarding radioactive contamination from the nuclear accident at TEPCO's Fukushima Daiichi Nuclear Power Station. Exports were expanded to include a wide range of agricultural products such as fruits, rice, and beef. In 2014, a nation-wide export promotion institution was established for several key commodities, including rice and beef. The Government has set an export target of JPY 1 trillion (USD 9.56 billion) by 2020.

Trade policy developments in 2014-15

Japan's tariff-rate-quotas continued to be under-filled in 2014 for some products, including butter and butter oil, prepared whey for infant formula, skimmed milk powder for school lunches and other purposes, and ground nuts. Japan issued special safeguard measures in 2014 for some products, including milk powder, yogurt, peas, and wheat flour. In May 2014, Japan carried out the emergency import of 7 000 million tonnes of butter for industrial use, and in September 2014, a further 3 000 million tonnes of butter.

Japan has fourteen Economic Partnership Agreements (EPAs) in force (Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei Darussalam, ASEAN, Philippines, Switzerland, Viet Nam, India, Peru, and Australia) both regional and bilateral, accounting for 23% of Japan's total trade. The EPA with Australia came into force in January 2015, and this was the first EPA with a major agricultural nation. The agreement includes: i) an increase of the tariff-rate quota in Japan for selected Australian dairy products such as processed cheese, and tariff reductions for several Australian agricultural products including beef (38.5% to 19.5% for frozen beef in 18 years, and to 23.5% for chilled beef in 15 years: chilled beef competing with domestic cuts); and ii) elimination of Australian tariffs on Japanese automobiles (5% to 0%). Rice was excluded from the agreement. The agreement contains a chapter on food supply, which seeks to limit the introduction (or maintenance) of restrictions (or prohibitions) on the exportation (or sale) for export of any essential food such as beef, dairy products (milk powder, butter, and cheese), wheat, barley, and sugar.

In February 2015, Japan and ***Mongolia*** signed the ***Japan-Mongolia*** Economic Partnership Agreement after two years of negotiations and this was the first EPA for Mongolia; however several agricultural products such as rice, wheat, sugar and pork were excluded from any tariff commitment of the agreement.

Japan is currently engaged in eight other EPA negotiations. There are three individual bilateral EPA negotiations with ***Canada***, ***Colombia***, and ***Turkey***, and five multilateral EPA negotiations such as the ***Japan-China-Korea*** FTA, the ***EU-Japan*** EPA, the Regional Comprehensive Economic Partnership (RCEP), the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) (negotiations of the AJCEP are only for the liberalisation of trade in services and the liberalisation and protection of investment), and the **Trans-Pacific Partnership Agreement** (TPP). The TPP negotiations includes 12 countries – ***Australia***, ***Brunei Darussalam***, ***Canada***, ***Chile***, ***Japan***, ***Malaysia***, ***Mexico***, ***New Zealand***, ***Peru***, ***Singapore***, ***the United States***, and ***Viet Nam***.

Chapter 14

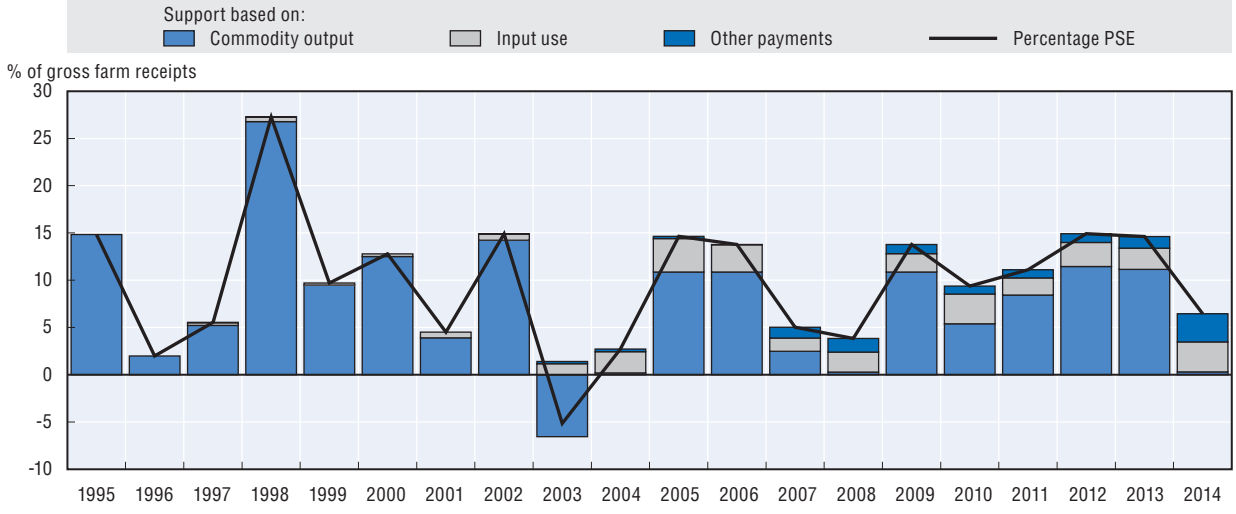
Kazakhstan

The Kazakhstan country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2013-15.

Evaluation of policy developments

- Since the mid-1990s the level of producer support has fluctuated without revealing a particular trend. Support was on the rise in most recent years, but declined in 2014 as domestic prices weakened against world levels, largely due to a depreciation of the local currency.
- The current agricultural programme Agribusiness 2020 is orientated towards boosting agricultural production, with domestic support relying mainly on price support for import competing products and input subsidies.
- A broad agricultural debt restructuring was implemented in 2013. This measure requires prudence in granting new concessions and monitoring compliance with new terms to avoid perpetuation of bad debts. It also requires more active application of business rehabilitation and bankruptcy procedures.
- Steps taken to involve private banks in agricultural lending are welcome. In the longer term, a deeper liberalisation of the agricultural credit system should be pursued, with a phasing-out of concessions and down-scaling of public resources for credit.
- Taxes on agricultural land were substantially increased. The impacts of these tax changes on re-allocation of land to more efficient users and on the sector's productivity and environmental sustainability will take time to materialise and are difficult to assess at present.
- Investments in "priority" sectors, particularly the meat sector, are promoted through credit concessions and newly introduced investment subsidies. The economic and financial feasibility of government supported investment projects requires careful assessment. The improvement of the framework conditions for private investments would be a more sustainable strategy in the longer term.
- A number of infrastructure projects launched recently have potential to reduce weaknesses in the transport infrastructure and improve water and land management. Investments in these areas are essential to attain the stated agricultural development goals and will need to be pursued.
- Beyond redressing critical infrastructure deficiencies, a greater emphasis needs to be given on enabling producers to manage production and market risks and on generating incentives for the sustainable use of resources.

Figure 14.1. **Kazakhstan: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

Kazakhstan has the ninth largest land area in the world but with 17.2 million inhabitants, it is one of the least densely populated countries. The availability of arable land per inhabitant is the second highest in the world. It is an upper middle-income economy and in per capita purchasing power parity terms ranks 49th in the world. Economic growth slowed from 6% in 2013 to 4.3% in 2014. Agriculture contributes around 5% of GDP, however it is the sector with the largest employment share at 25%. Agriculture experienced a difficult transition from a planned to a market economy; gradual recovery began in the early 2000s, but the decline has still not been fully reversed. While Kazakhstan is one of the world's top wheat exporters, it is a net agro-food importer since the mid-2000s. Farm structure is bi-polar: large-scale, and often highly integrated operations, dominate the grain sector, while around 80% of beef and 84% of milk is produced by rural households disposing of tiny land plots, and mostly for own consumption. Rural areas are home to 43% of the population.

Table 14.1. **Kazakhstan: Contextual indicators, 1995, 2013**[1]

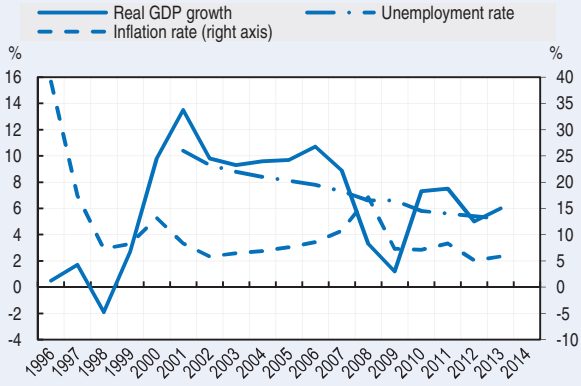
	1995	2013[1]
Economic context		
GDP (billion USD)	20	232
Population (million)	16	16
Land area (thousand km^2)	2 700	2 700
Population density (inhabitants/km^2)	5.7	6
GDP per capita, PPP (USD)	5 895	23 211
Trade as % of GDP	22.2	28.3
Agriculture in the economy		
Agriculture in GDP (%)	12.9	4.9
Agriculture share in employment (%)	35.5	25.5
Agro-food exports (% of total exports)	12.4	3.4
Agro-food imports (% of total imports)	10.5	9.2
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	249	-1 749
Crop in total agricultural production (%)	54	55
Livestock in total agricultural production (%)	46	45
Agricultural area (AA) (thousand ha)	214 212	207 975
Share of arable land in AA (%)	15	11
Share of irrigated land in AA (%)	1	1
Share of agriculture in water consumption (%)	..	69
Nitrogen balance, kg/ha	..	..

1. Or latest available year.

Sources: *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235364

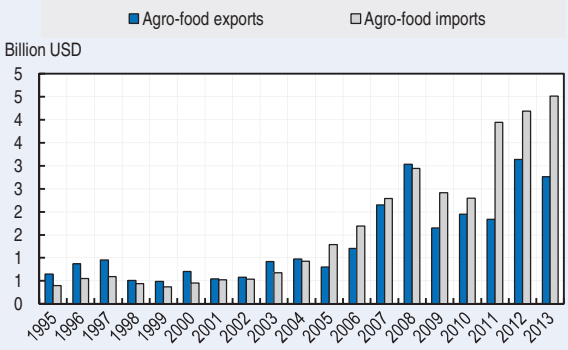
Figure 14.2. **Kazakhstan: Main macroeconomic indicators, 1996-2014**



Source: *OECD Factbook Statistics.*

StatLink http://dx.doi.org/10.1787/888933234807

Figure 14.3. **Kazakhstan: Agro-food trade, 1995-2013**



Source: *UN Comtrade Database.*

StatLink http://dx.doi.org/10.1787/888933234819

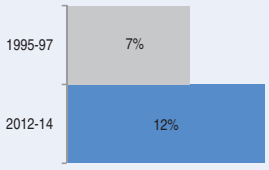
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Since the mid-1990s, the level of producer support was variable and revealed no particular trend. On aggregate, support remained moderate but this disguises strong disparities across commodities, with livestock products supported and some crop products taxed. Over half of support in 2012-14 was provided through market price support, largely due to border protection for livestock products. Budgetary transfers are dominated by payments based on current area and output, as well as subsidies to variable inputs and investments. Almost three-quarters of total support to agriculture (TSE) is provided to producers individually, the rest is directed to general services and supports food processors.

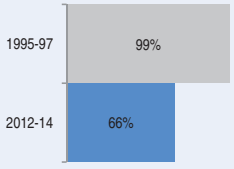
PSE as % of receipts (%PSE)

The %PSE increased from 7% of gross farm receipts in 1995-97 to 12% in 2012-14, which is below the OECD average (18%). The high overall economic growth was associated with larger transfers to agriculture.



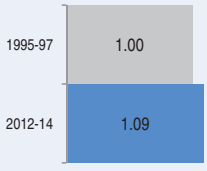
Potentially most distorting support as % of PSE

The share of the potentially most production and trade distorting forms of support (based on output and unconstrained input use) decreased from 99% to 66% of the total PSE, as part of the support was shifted to area payments and investments.



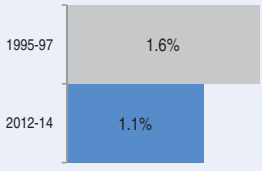
Ratio of producer price to border price (NPC)

Prices received by farmers were on average aligned with those observed on world markets in 1995-97, but were 9% above these levels in 2012-14. This reflects increased border protection for several key import competing commodities. The average NPC for beef increased from 1.00 to 1.29 between 1995-97 and 2012-14; from 1.00 to 1.37 for pig meat; and from 1.00 to 1.30 for sheep meat.

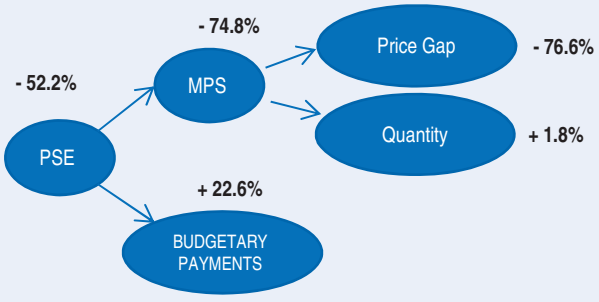


TSE as % of GDP

Total support to agriculture (TSE) as % of GDP declined from 1.6% in 1995-97 to 1.1% in 2012-14 as GDP increased faster than total support.

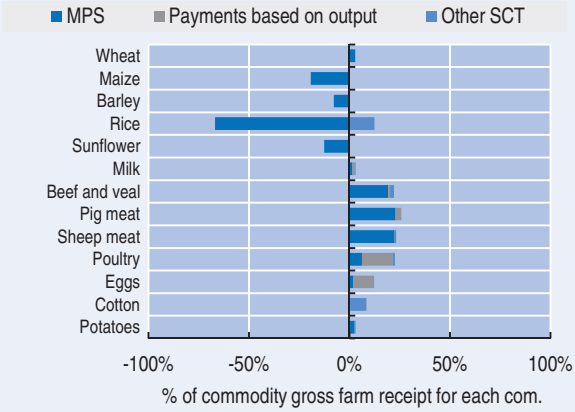


Decomposition of change in PSE, 2013 to 2014



The PSE declined in 2014 as market price support (MPS) was lower – a change which was only partly offset by the rise in budgetary payments. The reduced MPS was overwhelmingly due to the weakening of domestic prices against world levels resulting from the depreciation of the local currency and stronger border prices.

Transfers to specific commodities (SCT), 2012-14



Transfers to specific commodities (SCT) vary considerably, with most livestock products receiving support and crop products, except wheat, facing negative transfers.

Table 14.2. **Kazakhstan: Estimates of support to agriculture**

Million KZT

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**269 202**	**2 298 352**	**1 999 047**	**2 386 104**	**2 509 907**
***of which:** share of MPS commodities (%)*	74.0	70.7	71.1	71.9	69.1
Total value of consumption (at farm gate)	**245 430**	**2 147 967**	**2 210 810**	**2 411 975**	**1 821 114**
Producer Support Estimate (PSE)	**18 000**	**283 795**	**312 082**	**364 949**	**174 353**
Support based on commodity output	17 670	175 587	239 667	278 512	8 582
Market Price Support[1]	17 670	151 945	219 758	254 618	-18 542
Payments based on output	0	23 642	19 909	23 893	27 123
Payments based on input use	295	64 615	52 916	55 598	85 330
Based on variable input use	126	30 996	26 591	26 021	40 377
with input constraints	0	0	0	0	0
Based on fixed capital formation	169	29 768	24 456	27 213	37 634
with input constraints	0	0	0	0	0
Based on on-farm services	0	3 851	1 869	2 363	7 320
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required	0	42 918	19 113	30 840	78 800
Based on Receipts / Income	0	0	0	0	0
Based on Area planted / Animal numbers	0	42 517	18 968	30 840	77 742
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	35	676	386	0	1 641
Percentage PSE (%)	**7.5**	**12.0**	**14.9**	**14.6**	**6.5**
Producer NPC (coeff.)	**1.00**	**1.09**	**1.11**	**1.12**	**1.02**
Producer NAC (coeff.)	**1.08**	**1.14**	**1.18**	**1.17**	**1.07**
General Services Support Estimate (GSSE)[2]	**926**	**86 281**	**64 716**	**97 443**	**96 682**
Agricultural knowledge and innovation system	0	10 765	6 140	15 620	10 534
Inspection and control	823	53 750	43 938	79 355	37 957
Development and maintenance of infrastructure	103	18 741	11 641	559	44 024
Marketing and promotion	0	723	461	306	1 402
Cost of public stockholding	0	867	942	932	728
Miscellaneous	0	1 434	1 595	670	2 038
Percentage GSSE (% of TSE)	**5.1**	**24.1**	**17.1**	**20.9**	**34.4**
Consumer Support Estimate (CSE)	**-5 786**	**-164 866**	**-194 880**	**-231 239**	**-68 479**
Transfers to producers from consumers	-3 956	-155 303	-184 727	-223 398	-57 785
Other transfers from consumers	-861	-12 222	-9 686	-12 681	-14 300
Transfers to consumers from taxpayers	0	5 548	2 288	4 123	10 233
Excess feed cost	-969	-2 889	-2 755	716	-6 627
Percentage CSE (%)	**0.5**	**-7.4**	**-8.8**	**-9.6**	**-3.8**
Consumer NPC (coeff.)	**1.03**	**1.08**	**1.10**	**1.11**	**1.04**
Consumer NAC (coeff.)	**1.03**	**1.08**	**1.10**	**1.11**	**1.04**
Total Support Estimate (TSE)	**18 925**	**375 624**	**379 086**	**466 516**	**281 269**
Transfers from consumers	4 817	167 525	194 412	236 079	72 085
Transfers from taxpayers	14 969	220 321	194 360	243 118	223 484
Budget revenues	-861	-12 222	-9 686	-12 681	-14 300
Percentage TSE (% of GDP)	**1.6**	**1.1**	**1.2**	**1.3**	**0.8**
GDP deflator (1995-97=100)	**100**	**832**	**794**	**870**	..

.. Not available

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Kazakhstan are: wheat, rice, maize, barley, sunflower, potatoes, cotton, milk, beef and veal, pig meat, sheep meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235372

Policy developments

Main policy instruments

Kazakhstan applies a range of border and domestic price policy instruments. **Border measures** are in large part implemented within the Customs Union of the Eurasian Economic Union (EAEC).* Imports face *ad valorem*, specific and combined tariffs. For meat imports outside the Commonwealth of Independent States (CIS) region **Tariff Rate Quotas (TRQ)** are applied. The major mechanism of domestic price regulation is the operation of state grain resources by the state agency Food Contract Corporation (FCC). These include stocks of food, feed, seed grains, as well as grain stocks for "market stabilisation". Purchase quantities and prices are set annually by the government. Since 2002, the FCC also undertakes commercial grain trading. As an operator of grain resources and commercial grain buyer, the FCC is a price leader on the domestic grain market. For livestock products, **per tonne payments** are provided. While these were initially introduced for poultry only, they now cover virtually all types of livestock, and are provided to large commercial producers only.

Concessional credit is one of the principal forms of support. Loans are provided at **reduced fixed interest rates** by several credit agencies under the umbrella of the state company KazAgro Holding. In addition, **interest subsidies** on loans taken in private banks are provided: until 2013 their scope was limited, but has been much broadened since then. Concessional credit is granted both for short-term and investment loans. Since 2009, the resources underpinning the concessional credit were substantially reoriented towards state-supported investment projects, largely focussed on the livestock sector. Primary producers also benefit from **concessional leasing of machinery**, which is additionally exempt from Value Added Tax. There are direct **input subsidies**, such as for fertiliser and chemicals, and seeds. Prices for energy are controlled administratively through fixing **limits on prices for diesel fuel** sold to agricultural producers; total volumes to be supplied at these prices during the sowing and harvesting periods are also determined.

Per hectare payments for "priority crops" are relatively important – they are differentiated by crop and increased rates are available if producers apply "advanced technologies". Priority crops include grains, oilseeds, sugar beet, forage crops, horticultural crops, cotton and potatoes.

Agricultural enterprises and individual farms benefit from **special tax regimes** with substantial concessions on key business taxes.

Kazakhstan's policies also focus on **support to the food processing sector**. Along with agricultural producers, food processors benefit from concessional credit and leasing of machinery and equipment from credit agencies of KazAgro Holding. Direct subsidies to interest rates and leasing fees are also available if loans or leasing are provided by commercial companies. Another principal form of support is the provision of subsidised credit for investment projects related to food processing and the grain infrastructure.

The country's main agricultural policy framework is the Programme for Development of Agro-Industrial Complex in the Republic of Kazakhstan for 2013-20 (further, Agribusiness 2020), which is currently in the third year of implementation. The Programme maintains the policy orientation taken since the early 2000s to boost agricultural production as part of the strategy to diversify the national economy. The Programme finances the principal domestic support mechanisms described above. A new component of Agribusiness 2020 compared to the previous agricultural programmes is the set of measures for the financial rehabilitation of the sector.

* Armenia, Belarus, Kazakhstan and the Russian Federation are the members of the EAEC and Kyrgyzstan is to join it officially in May 2015.

Activities for the development of phytosanitary and veterinary systems, agrochemical services, land improvement and water management have also received stronger emphasis in this current policy framework.

The aggregate budget of Agribusiness 2020 over its eight-year implementation period amounts to KZT 3.1 trillion (USD 21 billion), of which 80% will be provided from the national budget, 7% from local budgets, 10% through the emission of government securities, and 3% from the KazAgro Holding and its subsidiaries, such as the Food Credit Corporation. Around three quarters of all programme funding falls on the forthcoming implementation period of 2015-20. The four principal blocks of the Programme are: 1) financial rehabilitation of the sector; 2) subsidies and other budgetary support to the sector; 3) development of phytosanitary and veterinary systems; and 4) enhancement of state regulation (development of information systems, agrochemical services, seed testing, technical regulation, state inspections and control and other public services).

Domestic policy developments in 2013-15

During the period under review, the state agency Food Contract Corporation (FCC) mostly implemented sales of food wheat for regional use. Nearly half of these sales in 2014 were made to cap bread prices: in February 2014, the Ministry of Agriculture, local administrations and the FCC concluded a **memorandum on stabilisation of bread prices**. According to the memorandum, the FCC supplied specific regional milling enterprises with first grade flour wheat at fixed prices. The memorandum was extended until October 2015, and may be continued into 2016. This contrasts with the FCC activity between 2010-12 when wheat prices were supported above external market levels by high FCC purchase prices and export transportation subsidies. Since August 2012 the export transportation subsidies are no longer provided.

Financial rehabilitation of the agro-food sector has emerged as a strong policy concern by early 2010s. The debt situation had deteriorated as a result of the 2008-09 financial crisis and other unfavourable factors. As of January 2012, bad and sub-standard loans represented 42% of the total credit portfolio of the state KazAgro Holding and over one-half of the total agricultural credit portfolios in commercial banks. A **restructuring of agricultural loans** began in 2013. Its conditions foresee substantial concessions, with overdue loans prolonged for up to nine years. The interest rate on restructured loans for final borrowers will be approximately 14% per annum on average, which roughly corresponds to the market rate. However, final borrowers are eligible for interest rate subsidies, effectively bringing debt service costs to around 7% per annum on long- and short-term loans. As of the beginning of 2015, 292 agro-businesses have been covered by the restructuring procedures, with the amount of debt subject to restructuring reaching nearly KZT 313 billion (USD 1.7 billion). Furthermore, there is also a **write off of fines and penalties on overdue loans** amounting to KZT 2.9 billion (USD 16 million). The vast majority of debtors include entities specialised in crop production, however, the debt restructuring also concerns livestock-specialised producers, food processors and other businesses not belonging to primary agriculture. The resources underlying these mechanisms are drawn through emissions of state securities and directed to provide liquidity to KazAgro credit agencies and commercial banks which implement debt restructuring.

Along with the financial relief package, changes were introduced in the mechanisms of concessional credit. The aim was to increase the incentives of commercial banks to engage with agriculture. Starting from 2013, part of the funds previously allocated to credit agencies of KazAgro as credit resources for further lending, have been re-directed to the provision of **interest subsidies** on

loans taken from credit institutions outside the KazAgro system. In principle, this breaks the privileged access of KazAgro's credit agencies to budgetary funding. A partial re-direction of the budgetary funds to subsidise interests on credit from private lenders may also increase the total volume of credit that may be offered to agricultural borrowers on concessional terms. Previously, interest rate subsidies were relatively small and provided only on loans taken by agricultural processors from private banks. Now primary agricultural borrowers are also eligible for this support.

Three new credit programmes were launched in 2014 which provide concessional loans for small and medium-size producers for the purchase of sheep, the development of horse breeding and the construction of water networks for pastures.

Investment subsidies for new operations or the expansion of existing operations is a new measure applied as of 2014. This assistance is provided for eighteen "priority sectors". In 2014, it covered 1 087 investment projects, with the largest part of funds going to the projects on development of irrigation networks and livestock farming.

In 2014, overall investments in agriculture rose by KZT 27 billion (USD 151 million), the highest annual increase since mid-1990s. However, some business representatives question the rationale of the new investment financing, given that part of the previous facilities and those which have been launched recently are not yet functioning at full capacity. This possibly adds to existing constraints in the financing of other components of Agribusiness 2020.

The Agribusiness 2020 programme substantially increased **mineral fertiliser and herbicide subsidies**. This spending more than tripled between 2012 and 2014. The current level of fertiliser consumption in Kazakhstan is relatively low – around 0.2 kg of fertilisers in nutrient equivalent are applied per hectare of arable land, compared to 5.2 kg in Australia, a country with roughly similar land use structure. However, an adequate environmental assessment of increased fertiliser and chemicals subsidies seems to be currently lacking.

In 2013, a **regional specialisation scheme** for Kazakhstan was prepared. The scheme recommends the types of agricultural production for each country region based on climatic conditions, economic factors, proximity of markets, and availability of infrastructure. It is intended to provide producers the incentives to follow the recommended types of agricultural production by making support payments and access to concessional credit conditional on compliance with this scheme. This is to be implemented in stages and by 2020 beneficiaries are to be eligible for assistance if they fully comply with the regional specialisation scheme.

Several **infrastructure projects** have started that may ease constraints to agricultural development in Kazakhstan in general and agro-food export capacity in particular. A general national programme for development of transport infrastructure "Nurly Zhol" foresees the expansion of the railway network to facilitate access to the Persian Gulf region, among other components. This is estimated to potentially increase the country's grain exports by up to 4 million tonnes per year and open the opportunities for other agro-food exports. A Grain Storage Project began in the Kostanai region, one of the key grain producing areas, to construct a processing and storage complex of about 50 thousand tonnes of grain per year. The **Second Irrigation and Drainage Improvement Project** starts in 2015 with World Bank co-financing. This seven-year project succeeds the first one implemented in 1996-2004 and is aimed at improving irrigation and drainage service delivery in the four most densely populated regions of South Kazakhstan. USD 343 million is to be invested through this project, of which USD 102.9 million will be financed as a loan from the World Bank.

In 2015, changes in the tax regime take effect **limiting tax concessions to agriculture**. This has recently been an area of intense internal debate, which largely focused on land tax issues. Low land taxes are viewed as an impediment to the re-allocation of agricultural lands to more efficient users and result in some agricultural lands remaining uncultivated. The tax regime provides for special tax provisions for agricultural enterprises and individual farms – the two farm types being distinct entities in legal terms, including for taxation purposes. Agricultural enterprises, up until 2015 benefitted from a 70% discount on six key business taxes: land tax (or land use payment for land tenants), property tax, social tax, VAT, enterprise income tax, and tax on vehicles. Agricultural enterprises will no longer benefit from the 70% discount on land tax and will incur a five-fold increase in land tax rates. Furthermore, local authorities were given discretion in implementing a land tax increase (up to ten-fold the going rate) on agricultural land that remains uncultivated. As for individual farms, they are subject to a Single Land Tax which is set as a percentage of the cadastre value of land owned or used and which replaces the six business taxes mentioned above. Changes for these taxpayers include an increase in the Single Land Tax by 50% and a 3 500 hectare farm size limit for individual farm eligibility. Individual farms are now also subject to a cap on the exemption from enterprise income tax whereby individual farms, whose annual income exceeds KZT 150 million (USD 0.8 million), will pay the 10% tax rate as generally set for agricultural payers.

As a measure to attract **foreign investment into agriculture**, the term during which agricultural land can be used by foreign entities was increased in 2015 from 10 to 25 years.

Subsistence-oriented households are the dominant producers of meat, milk, potatoes and vegetables in Kazakhstan. This is seen by the government as a structural handicap and it recently prepared a **Draft Law on Agricultural Cooperation** to facilitate the creation and operation of producer groups. This draft law was submitted to parliament in December 2014.

Trade policy developments in 2013-15

Overall, no significant changes occurred in Kazakhstan's agro-food trade policy during the period under review. As a member of the Customs Union of the Eurasian Economic Union (see below), Kazakhstan applies **tariff rate quotas for meat** imports from outside the Commonwealth of Independent States (CIS). The TRQ volumes for Kazakhstan (and for Belarus and the Russian Federation) are set annually by the decision of the Eurasian Commission. For 2015, the following volumes were allocated to Kazakhstan: 20 tonnes of fresh or chilled beef (HS 0201), 10 thousand tonnes of frozen beef (HS 0202), 9.7 thousand tonnes of fresh, chilled or frozen pork (HS 0203), and 110 thousand tonnes of poultry (HS 0207). The changes in quota volumes since 2012 concerned only frozen beef and pork. The frozen beef quota was increased in 2013 and 2014 over the initial volume of 10 thousand tonnes at the moment of the quota introduction (2011), but then brought back to this level in 2015. The pork quota was increased over the initial level of 7.7 thousand tonnes and remains above this level.

A Treaty on the **Eurasian Economic Union** (EAEC) came into effect on 1 January 2015, with the Russian Federation, Belarus, Kazakhstan and Armenia as members and Kyrgyzstan to join it officially in May 2015. This represents a next stage of the regional integration, following the Customs Union (2010) and the Common Economic Space (2012). Beyond free trade and common customs territory EAEC establishes free movement of capital and labour and a "co-ordinated, agreed upon, or common" economic policy in member countries. EAEC foresees a unification of technical regulation among the country members: of 16 technical regulations related to agro-food area, 12 have been adopted (March 2015), the others being close to adoption. The unification also

concerns veterinary and phytosanitary area, with common veterinary and phytosanitary requirements, single list of goods subjected to veterinary and phytosanitary monitoring and control, quarantine objects, and quarantine rules and norms and other measures. Among recent developments, Customs Union's Draft Amendments to the Unified Veterinary (Veterinary and Sanitary) Requirements for Goods Subject to Veterinary Control (Surveillance) were submitted for public comment in August 2014.

Kazakhstan and other members of the EAEC Customs Union are at the final stage of **Free Trade Agreement** (FTA) negotiations with ***Viet Nam*** and are examining the prospects for FTAs with ***India*** and ***Egypt***.

Kazakhstan applied to join the World Trade Organization (WTO) in January 1996. The advancement of the negotiations was reflected in the revised draft Working Party Report in mid-July 2014. Further progress was achieved in January 2015 when Kazakhstan and the European Union initialled a bilateral market access agreement. Negotiations are ongoing with the United States related, in particular, to phytosanitary matters.

References

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Chapter 15

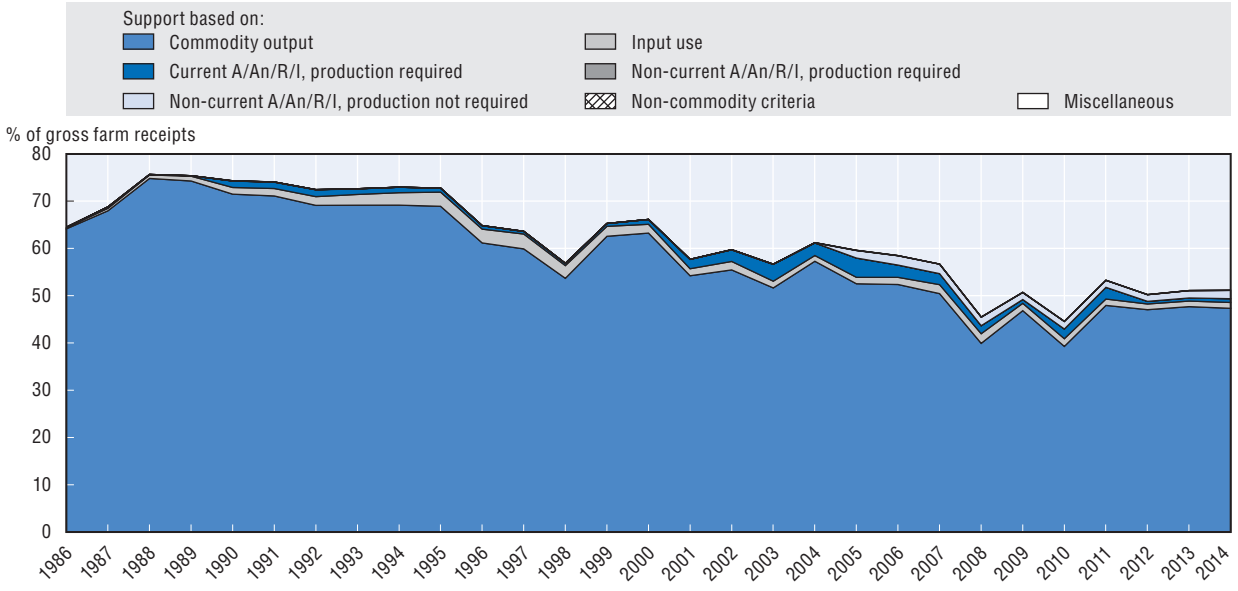
Korea

The Korea country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Overall, very modest progress has been made towards more market oriented policies. Although reduced from its level in 1986-88, producer support, as measured by the %PSE, is still 2.5 times higher than the OECD average. It is overwhelmingly dominated by the potentially most distorting forms of support.
- After a reduction in 2010, support in 2012-14 increased back to previous levels, due to a rebound in domestic rice prices and decreasing world rice prices. Although the share of support through budgetary payment schemes has gradually increased in most recent years, market price support still dominates. More than 90% of producer support is commodity specific, and concentrates on a small number of products. Further efforts are needed to shift from market price support to less distorting and better targeted forms of support.
- The Development Plan for Agriculture, Rural Area and Food Industry for the period of 2013-17 sets a quantity-based self-sufficiency ratio of grains at 30%. Achieving these targets will put a heavy burden on Korea. This could result in higher market price support if achievement of the target is sought through continued intervention in markets through target prices in combination with border measures.
- The tariffication of rice as of 2015, postponed for the last 20 years under the special treatment based on the WTO Agreement on Agriculture, is a step towards market orientation of the agricultural policy and will contribute to more efficient resource allocation. However, more attention should be paid to domestic rice policies to avoid an increase in market price support, such as raising the target price.

Figure 15.1. **Korea: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234824

Contextual information

Korea is a country with relatively high GDP per capita, dynamic growth and low levels of unemployment. It is a land-scarce country with high population density, where only 17% of the area is being used for farming. Most farms are small family farms with less than 2 hectares of agricultural land. The importance of agriculture in the economy has been decreasing with its share in domestic GDP declining to 2.3% in 2013, while its share of employment is 5.9%. Korea is one of the largest net agro-food importers in the world. The share of agro-food imports in total imports is around 4.8%, while that of exports is less than 1%.

Table 15.1. **Korea: Contextual indicators, 1995, 2013**[1]

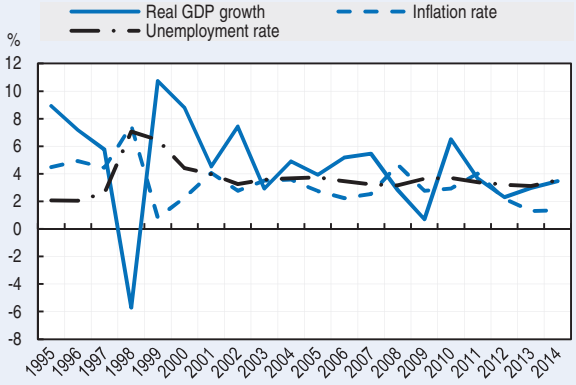
	1995	2013[1]
Economic context		
GDP (billion USD)	531	1 304
Population (million)	45	50
Land area (thousand km^2)	99	97
Population density (inhabitants/km^2)	449	495
GDP per capita, PPP (USD)	12 832	33 062
Trade as % of GDP	24.5	41.2
Agriculture in the economy		
Agriculture in GDP (%)	6.2	2.3
Agriculture share in employment (%)	11.2	5.9
Agro-food exports (% of total exports)	1.3	0.9
Agro-food imports (% of total imports)	7.0	4.8
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	-7 837	-19 368
Crop in total agricultural production (%)	77	63
Livestock in total agricultural production (%)	23	37
Agricultural area (AA) (thousand ha)	2 048	1 788
Share of arable land in AA (%)	87	85
Share of irrigated land in AA (%)	44	45
Share of agriculture in water consumption (%)	48	48
Nitrogen balance, kg/ha	258	215

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235385

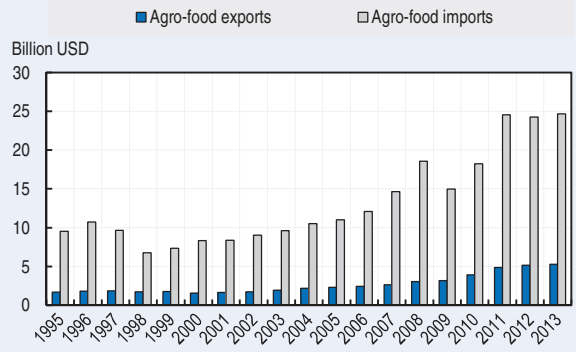
Figure 15.2. **Korea: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234836

Figure 15.3. **Korea: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234844

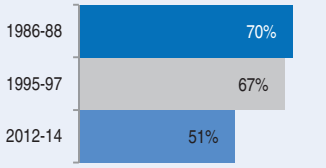
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Since 1986-88, Korea has gradually reduced its support to agriculture especially in the last decade. However, support still remains high and mostly financed by transfers from consumers. The share of potentially most production and trade distorting forms is still around 90% of the support. The level and developments of market price support reflect border protection on a number of commodities, of which rice is the major contributor. The ratio of total support to GDP at 1.9% is much above the OECD average (0.7%).

PSE as % of receipts (%PSE)

Korea has gradually reduced its support to agriculture since 1986-88. Despite this reduction the overall support remains relatively high (2.5 times the OECD average). After a sharp drop in the %PSE to 40% in 2010, the %PSE increased to 51% in 2012-14, back to the levels before 2010.

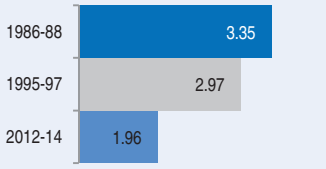


Potentially most distorting support as % of PSE

The potentially most distorting support (based on output and variable input use – without input constraints) still dominates at around 95% of total support to farmers in 2012-14.

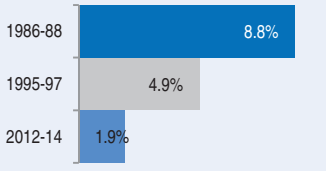
Ratio of producer price to border price (NPC)

The ratio of producer prices to border prices has been gradually reduced. Overall the prices paid to farmers were 2 times higher than world market prices as measured by the NPC in 2012-14. The highest NPC are for soybeans and red pepper.

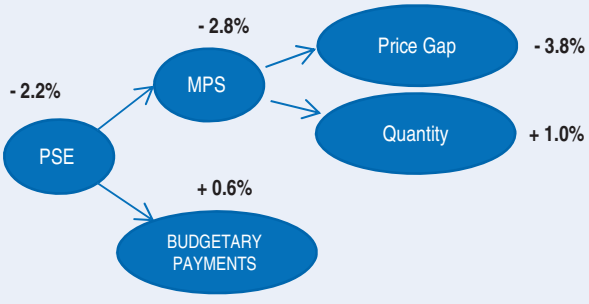


TSE as % of GDP

Total support as % of GDP was substantially reduced, mainly due to fast growth outside the agricultural sector, and was 1.9% in 2012-14. The expenditure on general services represented 13.7% of the TSE in the same period.

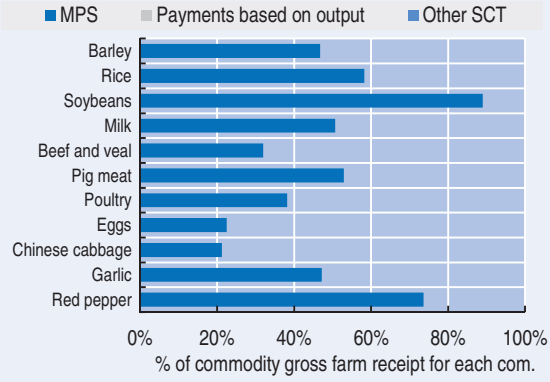


Decomposition of change in PSE, 2013 to 2014



The level of support decreased in 2014 mainly due to a decline of market price support in spite of a slight rise of budgetary payments.

Transfer to specific commodities (SCT), 2012-14



Single Commodity Transfers (SCT) represented 92% of the PSE. The share of the SCT in commodity gross farm receipts is lowest for Chinese cabbage, around 20%, and highest for soybeans at above 80%.

Table 15.2. **Korea: Estimates of support to agriculture**

Billion KRW

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**13 624**	**27 747**	**44 110**	**44 300**	**44 609**	**43 422**
***of which:** share of MPS commodities (%)*	72.0	64.3	61.9	57.6	61.2	67.0
Total value of consumption (at farm gate)	**14 367**	**30 693**	**53 920**	**57 719**	**52 498**	**51 543**
Producer Support Estimate (PSE)	**9 605**	**19 277**	**23 222**	**22 985**	**23 596**	**23 084**
Support based on commodity output	9 511	18 199	21 639	21 527	22 024	21 367
Market Price Support[1]	9 511	18 199	21 639	21 527	22 024	21 367
Payments based on output	0	0	0	0	0	0
Payments based on input use	70	871	553	552	547	559
Based on variable input use	23	136	241	255	233	235
with input constraints	3	11	72	76	76	64
Based on fixed capital formation	44	725	216	210	221	216
with input constraints	0	70	44	43	44	46
Based on on-farm services	3	10	96	87	92	108
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required	24	206	305	254	300	360
Based on Receipts / Income	24	196	254	210	251	302
Based on Area planted / Animal numbers	0	11	50	44	49	58
with input constraints	0	0	50	44	49	58
Payments based on non-current A/An/R/I, production required	0	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	725	652	726	798
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	0	0	725	652	726	798
with commodity exceptions	0	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0	0
Percentage PSE (%)	**69.7**	**67.1**	**50.8**	**50.2**	**51.1**	**51.1**
Producer NPC (coeff.)	**3.35**	**2.97**	**1.96**	**1.95**	**1.98**	**1.97**
Producer NAC (coeff.)	**3.38**	**3.09**	**2.03**	**2.01**	**2.04**	**2.05**
General Services Support Estimate (GSSE)[2]	**842**	**2 852**	**3 405**	**3 229**	**3 314**	**3 672**
Agricultural knowledge and innovation system	54	315	842	756	865	907
Inspection and control	21	63	195	195	196	195
Development and maintenance of infrastructure	374	2 121	1 669	1 617	1 682	1 708
Marketing and promotion	0	12	71	72	65	76
Cost of public stockholding	394	341	627	589	505	786
Miscellaneous	0	0	0	0	0	0
Percentage GSSE (% of TSE)	**7.9**	**12.7**	**12.8**	**12.3**	**12.3**	**13.7**
Consumer Support Estimate (CSE)	**-9 425**	**-19 748**	**-25 687**	**-27 680**	**-25 063**	**-24 319**
Transfers to producers from consumers	-9 304	-17 861	-21 187	-21 527	-21 301	-20 732
Other transfers from consumers	-181	-2 148	-4 546	-6 202	-3 810	-3 627
Transfers to consumers from taxpayers	59	260	45	49	48	39
Excess feed cost	0	0	0	0	0	0
Percentage CSE (%)	**-65.7**	**-64.8**	**-47.7**	**-48.0**	**-47.8**	**-47.2**
Consumer NPC (coeff.)	**2.94**	**2.91**	**1.91**	**1.92**	**1.92**	**1.90**
Consumer NAC (coeff.)	**2.93**	**2.89**	**1.91**	**1.92**	**1.92**	**1.89**
Total Support Estimate (TSE)	**10 507**	**22 390**	**26 672**	**26 262**	**26 958**	**26 796**
Transfers from consumers	9 484	20 009	25 733	27 729	25 111	24 359
Transfers from taxpayers	1 203	4 529	5 485	4 735	5 657	6 064
Budget revenues	-181	-2 148	-4 546	-6 202	-3 810	-3 627
Percentage TSE (% of GDP)	**8.8**	**4.9**	**1.9**	**1.9**	**1.9**	**1.8**
GDP deflator (1986-88=100)	**100**	**190**	**277**	**275**	**277**	**278**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Korea are: barley, garlic, red pepper, chinese cabbage, rice, soybean, milk, beef and veal, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235392

Description of policy developments

Main policy instruments

Tariffs and a wide range of tariff rate quotas (TRQs) continue to be the main instruments to support domestic prices. Rice has been one of the sensitive products. In compliance with the special treatment provision in the WTO Agreement on Agriculture, Korea did not convert non-tariff measures on rice to ordinary customs duty until 2014, but has established a minimum market access (MMA) quota at a 5% tariff rate. The MMA volume increased from 51 307 tonnes in 1995 to 408 700 tonnes in 2014. A public stockholding scheme for rice is maintained, which is a purchase and release mechanism and supports the price level and reduces fluctuations in the domestic market.

Direct payment programmes have been implemented from 1997 with different objectives; including early retirement payment, rice income compensation, promotion of environmentally-friendly agriculture, maintaining agriculture in less-favoured areas, and rural landscape conservation.

The most important direct payment is the rice income compensation scheme. This scheme includes both fixed and variable payment, and was introduced in 2005. While the fixed payment is decoupled income support, the variable payment is determined according to the difference between a target price and each year's post-harvest price. If the post-harvest price is lower than the target price, farmers receive 85% of the difference, after deduction of the fixed payment. The target price will be changed every 5 years based on the five-year price change and it is KRW 188 000 (USD 171) per 80 kilograms of rice for the crop year 2013-17, which was KRW 170 083 (USD 155) for the crop year 2005-12.

The *Framework Act on Agriculture, Fisheries, Rural Community and Food Industry* was established in 2007 and lays out the basic policy principles in agriculture. Based on the Framework Act, a five-year (2013-17) implementation plan, *Agriculture and Rural Community and Food Industry Development Plan*, was announced in 2013. Under the plan, Korea set out a target for food self-sufficiency. The volume-based target for the self-sufficiency ratio of grains (including animal feed) is 30% in 2017. In comparison, the actual level in 2013 was 23.1%. The plan emphasises adding value to agricultural products in an innovative way and creating jobs by converging agriculture with other industries such as manufacturing, processing, or information and communication technology.

Domestic policy developments in 2014-15

The rate of the fixed payment for paddy fields increased from KRW 800 000 (USD 727) in 2013 to KRW 900 000 (USD 818) per hectare in 2014. The government has announced that the rate will increase by KRW 1 000 000 (USD 909) in 2015. The variable payment, which had not been triggered since 2011, was paid in 2014 due to the decrease of the post-harvest price of rice and the increase of the target price in 2013. The rate of the variable payment was KRW 4 226 (USD 4) per 80 kilograms, which amounts to KRW 266 238 (USD 242) per hectare.

Product coverage of the agricultural insurance scheme, introduced for apples and pears in 2001, has been increased to 59 items including 43 crops and 16 livestock. A pilot multi-peril crop insurance (MPCI) programme for pears and sweet persimmons was launched in 2013 and 2014 respectively, which were previously covered only by specified-peril such as typhoon and hail. The MPCI programme covers unavoidable yield losses caused by natural disasters, wildlife damage and

fire until fruit thinning is completed. A pilot project of the agricultural revenue insurance scheme will be introduced for onions, soybeans and grapes in 2015. The system is expected to offer the additional option to cover price risks under the crop yield insurance schemes.

The Farm Registration Programme, implemented nation-wide in 2009 with a view to customise services for farmers and to improve the effectiveness of agricultural policies, began to serve as an integrated database system in 2014. Comprehensive data on each farm such as area of farmland, sales earnings and support payments are stored in the database. The government can monitor the status and performance of farmers through the database in order to avoid fraud with direct payments, and to verify that payments were made to eligible landowners.

As of 28 December 2014, the traceability of pork throughout the entire process from breeding to butchering, packaging and sales was implemented with an amendment of the previous law on the Traceability of Cattle and Beef. Cattle and beef have been covered by the traceability system since 2009. The traceability of pork will enable authorities to trace the pork trade and to provide consumers with information about location of pork breeders, dates of slaughter, and slaughter inspection results.

Trade policy developments in 2014-15

In July 2014, Korea announced that it would terminate the special treatment of rice and convert non-tariff measures into ordinary customs duty as of 1 January 2015, pursuant to Annex 5 of the WTO Agreement on Agriculture. The government calculated a tariff of 513% and formally notified to the WTO secretariat of its modified schedules on 30 September 2014. The government also clarified that a special safeguard tariff would be added in case imports increase sharply or the price fluctuates sharply. However, the MMA volume already in effect (408 700 tonnes) is still maintained at 5% tariff rate even after the tariffication, which is one of the conditions for the special treatment in the previous schedule.

A Free Trade Agreement (FTA) with ***Australia*** became effective on 12 December 2014 and a FTA with ***Canada*** became effective on 1 January 2015. Korea currently has nine other bilateral and regional FTAs with ***Chile***, ***Singapore***, ***EFTA (European Free Trade Association)***, ***ASEAN (Association of South East Asian Nations)***, ***India***, ***the European Union***, ***Peru***, ***the United States***, and ***Turkey***. The FTA with ***Colombia***, which was concluded in June 2012, is not effective yet pending the domestic approval process of Colombia.

There has been a significant advance in the FTA negotiations with other countries which had been delayed for years. After announcing a *de facto* agreement in November 2014, ***China*** and ***Korea*** initialled their FTA on 25 February 2015. The FTA agreement with ***Viet Nam*** was also reached *de facto* on 10 December 2014.

Korea concluded FTA negotiations with ***New Zealand*** and initialled in December 2014. Negotiations started in 2012 with ***Indonesia***, the negotiations of the ***Korea-China-Japan FTA*** and the Regional Comprehensive Economic Partnership in East Asia are proceeding actively. Korea is examining the possibility of participating through bilateral talks with each country. Korea is exploring ways to resume the FTA negotiations with ***Japan, Mexico*** and the ***Gulf Co-operation Council*** (Saudi Arabia, UAE, Oman, Qatar, Bahrain, and Kuwait).

Chapter 16

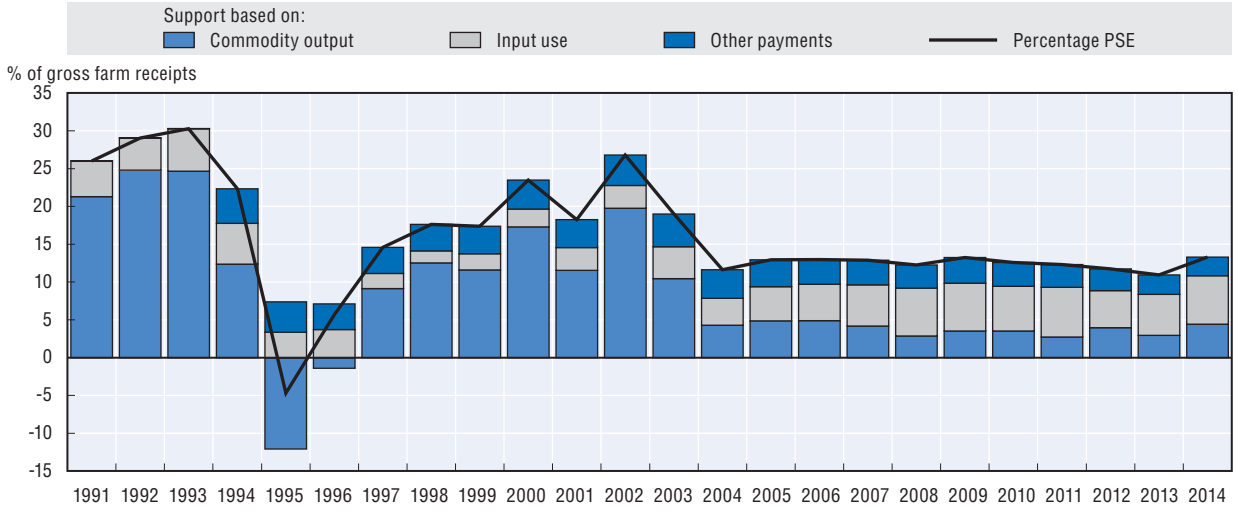
Mexico

The Mexico country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Mexico has significantly reformed its agricultural policies, halving its level of support measured by the %PSE (to 12% of gross farm receipts in 2012-14) as well as the share of the potentially most distorting support. Reform has been driven by trade liberalisation through WTO and the North American Free Trade Agreement (NAFTA), and resulted in a policy shift towards de-coupled payments. However, the new programme, Productive PROAGRO in 2014, which replaces PROCAMPO marks a re-linking of support to production and inputs. It reduces the transfer efficiency of payments by increasing leakages to upstream sectors. This is a step away from the past reform initiative to de-coupled payments, and needs to be re-considered to allow farmers more freedom to respond to market signals.
- Since 2000, Mexico has significantly increased expenditure on payments based on variable input use, in particular subsidies to electricity. The subsidies are used to pay for pumping water for irrigation. Expenditures are higher than those for infrastructure for better water management. This is inconsistent with Mexico's objectives for an optimal use of water highlighted in Mexico's *Agricultural Development Plan 2013-18*. The subsidies for electricity should be phased out and instead direct support to help farmers to adopt practices to improve the sustainable use of water should be considered.
- Public spending for agriculture such as research and development, training and education, and food inspection services is relatively low compared to the OECD average. Further efforts are needed to shift agricultural support in Mexico towards strategic investments in the long term productivity, sustainability and profitability of the sector. Such investments could contribute to promoting productivity and to supporting farmers' production decisions.
- The promotion of productivity in view of the dual structure of Mexican agriculture requires a targeted policy approach to respond to the different needs of commercial producers and smallholders producing largely for own consumption. Agricultural risk management measures should be introduced to enable commercial farmers to manage normal business risks while also offering predictable government support in response to unavoidable catastrophic events.
- High subsidies for specific instruments such as price hedging should be avoided. The programme needs a rigorous evaluation, and its objectives could be clarified towards more explicit goals and intended beneficiaries. As Mexico grows and develops its overall economy, poverty reduction should be pursued through regional development policies and social measures rather than through ineffective agriculture subsidies and land tenure restrictions.

Figure 16.1. **Mexico: PSE level and composition by support categories, 1991-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234850

Contextual information

Mexico is a large country in terms of population (118.4 million) and land area. Since the mid-1990s, the Mexican economy had been characterised by relatively low inflation and stable exchange rates. The economy shrunk in 2009, but has been growing moderately since. The agricultural sector produces 3.3% of GDP but employs 13% of the labour force. Mexico is a net agro-food importer, and the share of agro-food is 7% of total imports. Half of the territory of Mexico is subject to communal land ownership (*ejidos*) which, despite reforms, constrains the sale of agricultural land.

Table 16.1. **Mexico: Contextual indicators, 1995, 2013**[1]

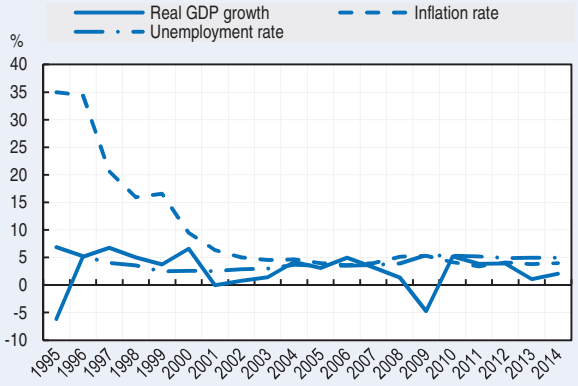
	1995	2013[1]
Economic context		
GDP (billion USD)	314	1.257
Population (million)	90	118
Land area (thousand km^2)	1 944	1 944
Population density (inhabitants/km^2)	49	62
GDP per capita, PPP (USD)	7 549	16 856
Trade as % of GDP	24.2	30.3
Agriculture in the economy		
Agriculture in GDP (%)	5.4	3.3
Agriculture share in employment (%)	22.2	13.0
Agro-food exports (% of total exports)	7.3	6.2
Agro-food imports (% of total imports)	7.2	7.0
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	593	-3 128
Crop in total agricultural production (%)	62	55
Livestock in total agricultural production (%)	38	45
Agricultural area (AA) (thousand ha)	107 200	106 705
Share of arable land in AA (%)	23	22
Share of irrigated land in AA (%)	5	5
Share of agriculture in water consumption (%)	85	77
Nitrogen balance, kg/ha	24	21

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235400

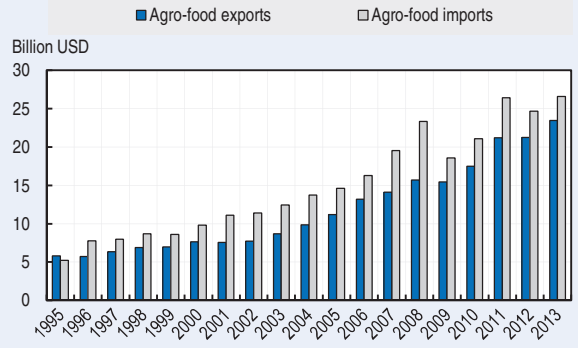
Figure 16.2. **Mexico: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234864

Figure 16.3. **Mexico: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234875

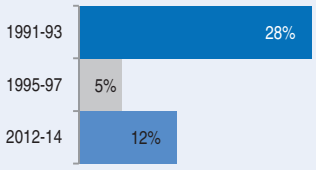
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Mexico has undertaken significant agricultural policy reform in the last two decades, reducing the share of support in gross farm receipts by more than half since 1991-93, and reallocating remaining support to less distorting instruments. Consequently, the level of price distortions has been reduced to only 1% in 2012-14 as documented by the Nominal Protection Coefficient. However, since 2000 Mexico has increased payments based on variable input use, in particular subsidies to electricity and to price hedging contracts. The new programme Productive PROAGRO 2014, that replaces PROCAMPO, relinks payments to their use for production purposes.

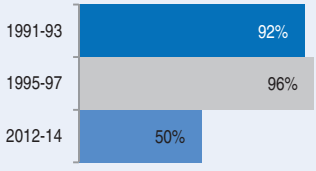
PSE as % of receipts (%PSE)

Support, as measured by the %PSE has been reduced from 28% in the reference period 1991-93 to 12% in 2012-14, below the OECD average. Border protection and price interventions have been significantly reduced, driven by trade liberalisation policies.



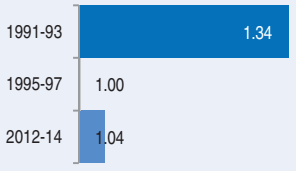
Potentially most distorting support as % of PSE

Market price support was reduced and partially replaced by direct payments based on non-current area and the number of animals. The potentially most distorting support (based on output and variable input use – without input constraints) has been reduced to 50% of total support in 2012-14, compared with 92% in 1991-93. Support based on input used has increased since 2000.



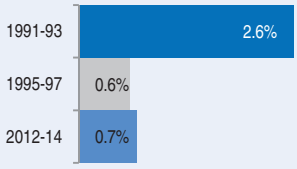
Ratio of producer price to border price (NPC)

Overall, prices received by farmers were 4% higher than world prices, compared with 34% in 1991-93.The commodities with the largest NPC are poultry, sugar and rice.

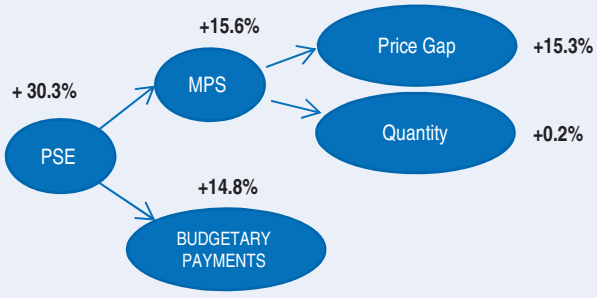


TSE as % of GDP

Total support to agriculture was 0.7% of GDP in 2012-14 slightly below the OECD average. Support to general services was 10.6% of total support.

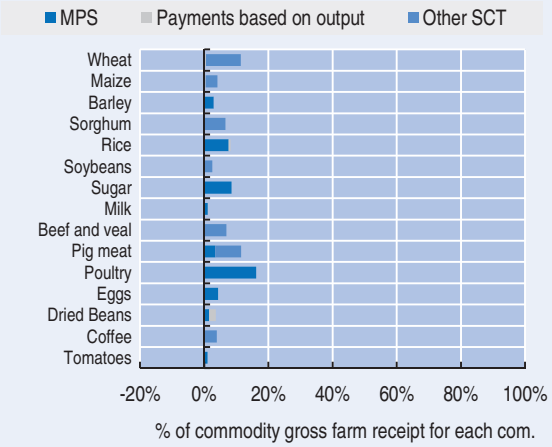


Decomposition of change in PSE, 2013 to 2014



The level of support increased by 30% in 2014 due to increases in gaps between domestic and border prices, in particular for pig meat, poultry meat and raw sugar, and increased budgetary payments mainly for fixed capital formation.

Transfer to specific commodities (SCT), 2012-14



The Single Commodity Transfers (SCT) represented 45% of the total PSE.

Table 16.2. **Mexico: Estimates of support to agriculture**

Million MXN

	1991-93	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**86 539**	**182 276**	**725 917**	**696 731**	**718 941**	**762 078**
***of which:** share of MPS commodities (%)*	68.7	70.1	69.1	69.2	69.1	69.1
Total value of consumption (at farm gate)	**82 475**	**181 410**	**780 880**	**802 246**	**763 843**	**776 550**
Producer Support Estimate (PSE)	**25 994**	**12 987**	**95 230**	**88 738**	**85 504**	**111 447**
Support based on commodity output	21 538	291	29 997	29 918	22 973	37 101
Market Price Support[1]	21 379	212	28 978	28 467	22 581	35 885
Payments based on output	160	79	1 020	1 451	392	1 217
Payments based on input use	4 445	5 729	44 491	37 207	42 536	53 730
Based on variable input use	2 296	2 373	17 425	17 132	17 356	17 787
with input constraints	0	0	0	0	0	0
Based on fixed capital formation	1 680	2 340	21 480	16 414	20 004	28 022
with input constraints	0	0	0	0	0	0
Based on on-farm services	469	1 016	5 586	3 661	5 176	7 922
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required	10	266	3 684	2 616	4 341	4 094
Based on Receipts / Income	0	100	0	0	0	0
Based on Area planted / Animal numbers	10	166	3 684	2 616	4 341	4 094
with input constraints	0	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	12 072	4 041	15 654	16 521
Payments based on non-current A/An/R/I, production not required	0	6 701	4 985	14 956	0	0
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	0	6 701	4 985	14 956	0	0
with commodity exceptions	0	9	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0	0
Percentage PSE (%)	**28.4**	**5.2**	**12.0**	**11.7**	**10.9**	**13.3**
Producer NPC (coeff.)	**1.34**	**1.00**	**1.04**	**1.04**	**1.03**	**1.05**
Producer NAC (coeff.)	**1.40**	**1.06**	**1.14**	**1.13**	**1.12**	**1.15**
General Services Support Estimate (GSSE)[2]	**3 229**	**2 743**	**12 207**	**12 547**	**12 340**	**11 734**
Agricultural knowledge and innovation system	889	1 486	5 834	5 540	5 785	6 176
Inspection and control	0	156	1 339	1 714	1 129	1 175
Development and maintenance of infrastructure	875	453	4 694	4 860	5 119	4 104
Marketing and promotion	255	161	339	434	305	278
Cost of public stockholding	1 210	487	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Percentage GSSE (% of TSE)	**10.1**	**..**	**10.7**	**11.6**	**11.7**	**8.9**
Consumer Support Estimate (CSE)	**-19 399**	**-762**	**-22 952**	**-25 774**	**-14 848**	**-28 233**
Transfers to producers from consumers	-21 870	-1 831	-27 895	-26 896	-22 581	-34 208
Other transfers from consumers	-771	-3 513	-2 593	-5 791	0	-1 988
Transfers to consumers from taxpayers	2 629	4 515	7 536	6 914	7 733	7 963
Excess feed cost	612	67	0	0	0	0
Percentage CSE (%)	**-24.3**	**1.3**	**-3.0**	**-3.2**	**-2.0**	**-3.7**
Consumer NPC (coeff.)	**1.38**	**1.02**	**1.04**	**1.04**	**1.03**	**1.05**
Consumer NAC (coeff.)	**1.32**	**0.99**	**1.03**	**1.03**	**1.02**	**1.04**
Total Support Estimate (TSE)	**31 853**	**20 245**	**114 973**	**108 199**	**105 577**	**131 144**
Transfers from consumers	22 640	5 344	30 488	32 687	22 581	36 196
Transfers from taxpayers	9 983	18 414	87 078	81 303	82 995	96 936
Budget revenues	-771	-3 513	-2 593	-5 791	0	-1 988
Percentage TSE (% of GDP)	**2.6**	**0.6**	**0.7**	**0.7**	**0.7**	**0.8**
GDP deflator (1991-93=100)	**100**	**201**	**693**	**677**	**687**	**714**

.. Not available

Note: 1991-93, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Mexico are: wheat, maize, barley, sorghum, coffee, beans, tomatoes, rice, soybean, sugar, milk, beef and veal, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235415

Description of policy developments

Main policy instruments

Mexico has reformed its agricultural policies in the last two decades, reducing border protection through WTO, NAFTA and other trade agreements and implementing direct payment programmes. However, Mexico still provides market price supports to some commodities, and implements a programme of payments based on output (*Ingreso Objetivo*), though the budgetary allocations had been reduced as commodity prices increased. Mexico has two large payment programmes based on historical parameters: Productive PROAGRO that is based on historical area, and Productive PROGAN that is based on historical livestock numbers and imposes environmental conditions.

A new policy framework for the food and agriculture sector, called *Agricultural Development Plan 2013-18* was approved in December 2013, which replaced the previous policy framework. The new policy framework stresses broad priority areas: productivity, competitiveness, sustainability, equity and guaranteeing food security (Box 16.1).

Subsidies to price hedging contracts and electricity consumption have recently increased and become significant agricultural programmes. Mexico also provides payments based on on-farm investment and subsidies to crop insurance through AGROASEMEX (National Insurance Institution). Consumption subsidies for basic staples targeted at poor families are provided through the DICONSA rural shops, LICONSA (for milk) and the SEDESOL food programme (in cash transfers to purchase food).

Over half of Mexican territory operates under some type of social land ownership – *ejidos* or agrarian communities – in which special management regimes govern both collective land and land plots granted to individuals. This communal land system was intended to facilitate certain societal needs given the absence of the broader social safety nets that exist in most OECD countries. Reforms of the community land system in 1990 had limited practical impact. Although considered socially important, some of the provisions of the community land which constraint the sale and usage of agricultural land, undermine investment in the agriculture sector, as well as its efficiency and adjustment capacity.

Domestic policy developments in 2014-15

A set of new policies focusing on promoting production was introduced in 2014. These reforms were in line with the Agricultural Development Plan 2013-18. First, PROCAMPO was replaced by Productive PROAGRO. The recipients of the Productive PROAGRO payments are divided into three groups: subsistence farmers (up to 5 hectares of rain-fed land or 0.2 hectares of irrigated land); transition farmers (from 5 to 20 hectares, or 0.2 to 5 hectares for irrigated land); and commercial farmers (more than 20 hectares of rain fed or 5 hectares of irrigated land). The amount of payment differs for each type of farm. Self-consumption farmers will receive MXN 1 300 (USD 98) per hectare, with a minimum payment equivalent to one hectare. If they have less than three hectares and are located in municipalities under the **National Program Mexico Without Hunger** (PNMSH), they will receive a higher payment of MXN 1 500 (USD 113). Other farmers will receive MXN 963 (USD 73) per hectare. The payment per person is subject to an area limitation of 80 hectares (from 2015), which is a decrease of 20 hectares from the previous year.

Unlike the previous payment, farmers have to give proof that the payment has been used for technical, organisational or investment improvements. That is, they have to be spent on technical assistance, machinery, certified seeds, fertilisers, insurance or price hedging. During 2014, 94% of

Box 16.1. **Mexico's Agricultural Development Plan 2013-18: Promoting productivity**

Following the announcement of the **National Development Plan** 2013-18, a new programming framework for the food and agriculture sector was approved in December 2013. The **Agricultural Development Plan** 2013-18 is a national plan for implementing policies on food, agriculture, and rural areas, which is revised every six years. The Plan fixes quantitative objectives in terms of increasing the share of domestic production in the supply of main grains and oilseeds from 58% in 2011 to 75% in 2018, doubling the agricultural GDP growth to an annual rate of 3% and bringing the agro-food trade balance to zero. To achieve these goals, the Plan is based on ten pillars: i) increasing the productivity of small farms; ii) optimal use of water; iii) enhancing the production of national inputs such as fertilisers and seeds; iv) enhancing innovation through new extension; v) risk prevention and management; vi) promoting the production of healthy food; vii) enhancing competitive financing; viii) boosting regional development; ix) supply and demand planning with information systems; and x) modernisation of the Agriculture Ministry. The Plan was developed against the backdrop of an increased need for productivity, profitability and competiveness of the food and agriculture sector in Mexico. This sector remains less productive than other sectors, and is characterised by a marked duality between a large number of small farms (two hectares or less) producing food mostly for their own consumption representing more than 70% of farms, and a small number of large-scale, commercial farms (more than 50 hectares) accounting for a large proportion of agricultural output. This duality requires an integrated policy approach to respond to two core objectives: further develop commercial agriculture and, at the same time, reduce rural poverty.

One of the main changes highlighted in the Plan is the transformation of the long-standing programme, "PROCAMPO" (the programme of direct payments to the countryside)" into a new programme more closely linked to productivity, "Productive PROAGRO" (the programme for the promotion of agricultural productivity). "PROCAMPO" started in 1994 aiming to facilitate the agricultural transition under NAFTA and to help farmers from ending direct price support programmes. The programme linked the payment to historical use of land but its focus had shifted to production in recent years. In 2014, PROCAMPO was replaced by Productive PROAGRO. The payment is grandfathered to existing recipients of PROCAMPO, but it is linked to specific actions to enhance productivity. It requires farmers both to produce and to give proof that the payment has been used for production purposes. Other important elements highlighted in the plan are the optimal use of water, and increasing agricultural inputs, both major challenges for promoting productivity in Mexico. Agriculture currently represents over 75% of water consumption in Mexico. It is strongly encouraged by a programme to subsidise electricity used for pumping groundwater in Mexico. This programme, which provides a tariff rate rebate for electricity use for groundwater pumping, covers more than 60% of the cost for pumping irrigation water. In 2011, investments in irrigation infrastructure amounted to MXN 855 million (USD 68 million), but it was only 10% of the expenditure of electricity subsidy. In addition, an increase in agricultural inputs such as fertilisers and seeds is another challenge for promoting productivity as Mexico currently imports more than 80% of fertiliser consumed. In January 2014, Mexico's state owned oil company PEMEX (*Petróleos Mexicanos*) purchased a fertiliser maker, Agro Nitrogenados, and announced its intention to start operations in early 2016. The project with the total investment of MXN 6 266 million (USD 475 million) by the Ministry of Agriculture and the PEMEX, aims to increase the production of fertilisers, and the productivity and income of small farms. Improved seeds of corn and wheat are developed through the MasAgro programme. Within the MasAgro programme, activities consist: agricultural research, grower's capabilities development and support through production incentives. The amount of MXN 582 million (USD 44 million) was channelled for the programme, that owns 50 research platforms and 233 MasAgro technologies and sustainable farming practices demonstrative modules.

Sources: Based on information available on the website of the Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food of Mexico, *www.sagarpa.gob.mx*; and OECD (2013).

applications were approved for the payment, which were used to pay for labour, fertilisers and improved seeds. Other changes include simplifying the application, transparent payment system (from cash payment to bank transfer), and changing the calculation of eligible lands (from each holding by farmer to all holdings by farmer). In 2014, approximately 2.1 million producers signed up for the payment.

Second, several new payments were introduced to support on-farm investments. These payments are provided to producers, producer associations, and food business operators for purchasing machinery and equipment to improve the capacity of processing, storage and handling of food. Sub-programmes such as Integral Agro Production and Agro cluster supported 377 infrastructure development projects in 2014. Payments for new programmes accounted for a total of MXN 3 738 million (USD 283 million) in 2014.

In line with the Agricultural Development Plan, under the organic farming sector, a sub-programme called Certification for agricultural productivity was introduced in 2014 for promoting a switch to organic crop production and certification. Support consists of assistance towards crop conversion, organic inputs, conformity assessment and National labelling for organic products.

In 2014, social programmes focusing on female entrepreneurs and small producers were transferred from the Ministry of Rural Development to the Ministry of Agriculture. The beneficiaries of PROMETE and FAPPA are women or small producers living in municipalities under the National Program Mexico Without Hunger (PNMSH).

In 2014, PROGAN (Programme to Improve Livestock Productivity) was renamed to Productive PROGAN with no major change. A fixed-rate payment set for 2014-18 differs according to species and size of farms; payment rates for small-scale farmers are around 25% higher than large-scale farmers for the same species. The payment per person is subject to a limitation of 300 animals per beneficiary. In addition, other services to support livestock farmers, including identifiers, technical services (technical assistance and training), and heritage protective services, are provided through the programme. As a requirement to receive the payment, former beneficiaries must re-enrol each period and have complied with previous period obligations (2008-13). 175 000 small and medium scale livestock producers were registered as beneficiaries in the directory in 2014.

Trade policy developments in 2014-15

In December 2014, Mexico reintroduced a 20% duty on rice imports that were removed in 2008 as a part of its efforts to reduce rice prices in the country.

Mexico has ten Free Trade Agreements (FTAs) in force with 45 countries (**NAFTA**, ***European Union***, ***Colombia***, ***Chile***, ***Israel***, ***EFTA***, ***Uruguay***, ***Japan***, ***Peru***, and ***Central America***). In 2014, Mexico signed a FTA with ***Panama*** and the Additional Protocol to the Framework Agreement with the ***Pacific Alliance*** (Chile, Colombia, México and Peru). Mexico is currently engaged in three other negotiations such as two bilateral FTA negotiations with ***Jordan*** and ***Turkey***, and one multilateral with the **Trans-Pacific Partnership Agreement** (TPP). The TPP includes 12 countries – ***Australia***, ***Brunei Darussalam***, ***Canada***, ***Chile***, ***Japan***, ***Malaysia***, ***Mexico***, ***New Zealand***, ***Peru***, ***Singapore***, ***the United States***, and ***Viet Nam***.

In December 2008, Mexico and Canada requested consultations on the United States mandatory country of origin labelling (COOL) provisions in the Food, Conservation, and Energy Act 2008 (2008 Farm Bill). These measures contain an obligation to inform consumers at the retail level of the country of origin of covered commodities, including beef and pork. The United States Department of Agriculture (USDA) issued a new COOL regulation on 23 May 2013. A WTO Compliance Panel was

established on 25 September 2013, to determine whether the new regulation brings COOL into conformity with WTO obligations. On 20 October 2014, the WTO Compliance Panel found that the new COOL regulations violate Article 2.1 of the TBT Agreement and Article III:4 of the GATT 1994 discriminating against Mexican and Canadian exports of cattle and hogs, and on 28 November 2014, the United States notified its decision to appeal certain issues of law covered in the compliance panel report and certain legal interpretations developed by the panel.

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Chapter 17

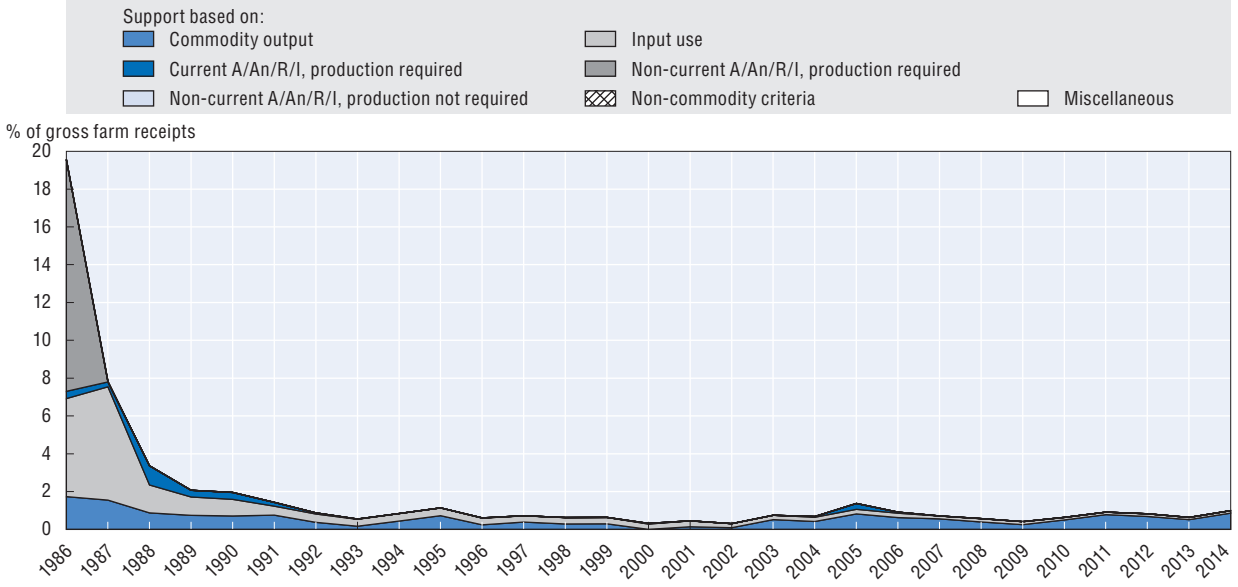
New Zealand

The New Zealand country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Following the reforms of agricultural policies in the mid-1980s, production and trade distorting policies supporting the sector have virtually disappeared. For more than two decades, the level of support in New Zealand has been the lowest across the OECD. Support is provided only in the context of animal disease control and relief in the event of natural disasters, and almost all domestic prices are aligned with world market prices.
- Since the elimination of statutory marketing boards during the 1980s and 1990s and the removal of remaining restrictions on rights to export dairy products into specific tariff quota markets by the end of 2010, practically all of New Zealand's agricultural production and trade is free from economic regulations. The kiwifruit sector is an exception as Zespri, a New Zealand company, is the only company that has automatic rights to export New Zealand produced kiwifruit to markets other than Australia. Other groups can export in collaboration with Zespri or independently to Australia.
- New Zealand policies have a strong focus on water and climate change. It has established national frameworks for land and water quality and allocation. Agriculture reports to the Emission Trading Scheme. Efforts to develop additional market-based approaches to environmental issues offer opportunities to enhance environmentally sustainable development.
- New Zealand's Import Health Standards effectively prevent fresh poultry, eggs and some bee products from being imported under current economic conditions, New Zealand should investigate alternatives to the current system for achieving its sanitary objectives.

Figure 17.1. **New Zealand: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

New Zealand is a small open economy with a relatively high dependency on international trade. New Zealand is a consistent net exporter of agro-food products, with more than half of its total exports coming from the agro-food sector. In turn, agro-food imports represent some 11% of the country's total imports. New Zealand is the world's largest exporter of dairy products and sheep meat. The importance of agriculture in the total economy is high compared to most other OECD countries, with agriculture accounting for some 7% in both GDP and employment. New Zealand's farming system is primarily based on year-round grass-fed livestock.

Table 17.1. **New Zealand: Contextual indicators, 1995, 2013**[1]

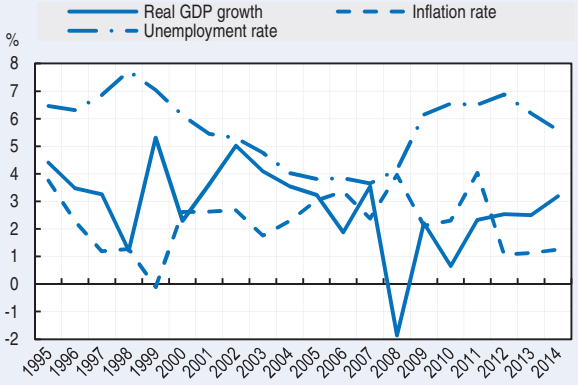
	1995	2013[1]
Economic context		
GDP (billion USD)	62	186
Population (million)	3.7	4.5
Land area (thousand km^2)	263	263
Population density (inhabitants/km^2)	14	17
GDP per capita, PPP (USD)	17 639	34 424
Trade as % of GDP	22.3	21.3
Agriculture in the economy		
Agriculture in GDP (%)	7.1	7.2
Agriculture share in employment (%)	9.4	6.5
Agro-food exports (% of total exports)	49.1	59.4
Agro-food imports (% of total imports)	7.8	10.7
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	5 657	19 173
Crop in total agricultural production (%)	25	20
Livestock in total agricultural production (%)	75	80
Agricultural area (AA) (thousand ha)	14 975	11 280
Share of arable land in AA (%)	11	5
Share of irrigated land in AA (%)	..	6
Share of agriculture in water consumption (%)	24	..
Nitrogen balance, kg/ha	34	52

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235428

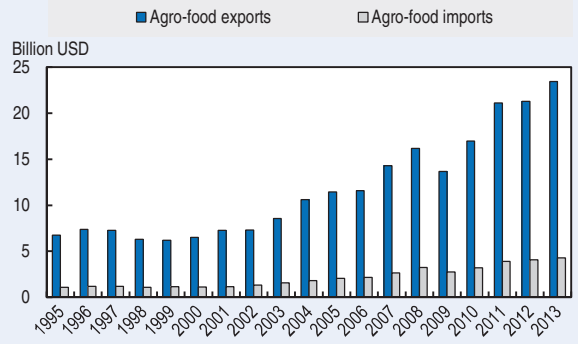
Figure 17.2. **New Zealand: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234899

Figure 17.3. **New Zealand: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234905

Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

New Zealand has an export oriented agricultural sector, representing more than half of the country's total exports. With the exception of a few products subject to import restrictions related to sanitary measures, domestic prices have been aligned with world markets for the last two decades, and the level of support is consistently the lowest among OECD countries. Policy focuses on sector-wide general services, particularly research, animal disease control and water management.

PSE as % of receipts (%PSE)

Producer support represented 0.8% of gross farm receipts in 2012-14, down from 10% in 1986-88. It has been the lowest in the OECD since the agricultural reforms of the mid-1980s.

Potentially most distorting support as % of PSE

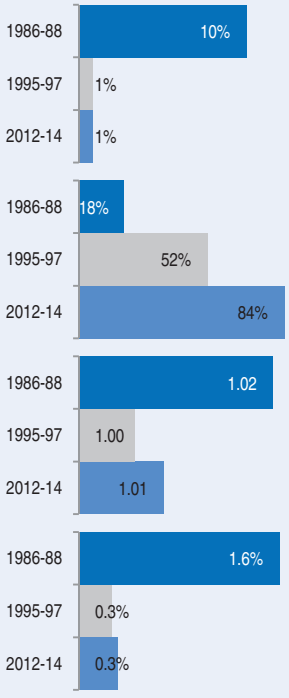
The bulk of the (very low) support to producers is provided as potentially most distorting support (based on output and variable input use – without input constraints): in 2012-14, these represented 84% of the PSE, up from 20% in 1986-88. It is exclusively a result of sanitary measures.

Ratio of producer price to border price (NPC)

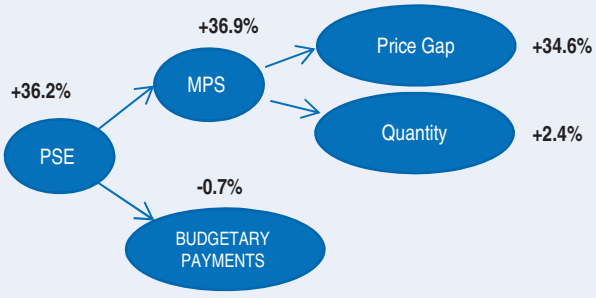
With domestic prices virtually perfectly aligned with international markets, agricultural receipts were almost identical to what they would have been at world prices in 2012-14. The only exceptions were poultry and eggs, due to sanitary import restrictions.

TSE as % of GDP

Total support t agriculture represented 0.3% of GDP in 2012-14, of which GSSE constituted approximately 73%.

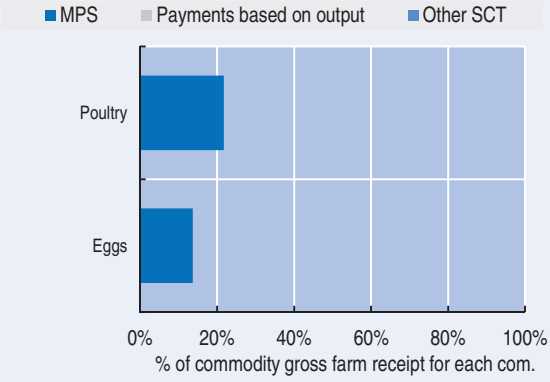


Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014 mainly due to the widened market price gap for poultry, following higher domestic and lower international prices.

Transfer to specific commodities (SCT), 2012-14



Producer SCT by commodity was 22% for poultry, 14% for eggs and zero for all other commodities in 2012-14.

Table 17.2. **New Zealand: Estimates of support to agriculture**

Million NZD

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**6 860**	**9 669**	**23 717**	**21 676**	**26 430**	**23 046**
***of which:** share of MPS commodities (%)*	72.1	72.1	78.2	77.5	80.3	76.8
Total value of consumption (at farm gate)	**1 667**	**2 319**	**3 913**	**3 748**	**4 075**	**3 916**
Producer Support Estimate (PSE)	**775**	**79**	**192**	**179**	**168**	**229**
Support based on commodity output	104	43	161	148	136	198
Market Price Support[1]	101	43	161	148	136	198
Payments based on output	3	0	0	0	0	0
Payments based on input use	314	35	31	31	31	30
Based on variable input use	3	0	0	0	0	0
with input constraints	0	0	0	0	0	0
Based on fixed capital formation	271	0	0	0	0	0
with input constraints	0	0	0	0	0	0
Based on on-farm services	40	35	31	31	31	30
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required	42	1	0	0	1	0
Based on Receipts / Income	42	1	0	0	1	0
Based on Area planted / Animal numbers	0	0	0	0	0	0
with input constraints	0	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	315	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0	0
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0	0
Percentage PSE (%)	**10.2**	**0.8**	**0.8**	**0.8**	**0.6**	**1.0**
Producer NPC (coeff.)	**1.02**	**1.00**	**1.01**	**1.01**	**1.01**	**1.01**
Producer NAC (coeff.)	**1.12**	**1.01**	**1.01**	**1.01**	**1.01**	**1.01**
General Services Support Estimate (GSSE)[2]	**203**	**180**	**514**	**530**	**493**	**519**
Agricultural knowledge and innovation system	102	116	250	252	244	255
Inspection and control	54	43	163	169	156	165
Development and maintenance of infrastructure	47	20	101	110	94	98
Marketing and promotion	0	0	0	0	0	0
Cost of public stockholding	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Percentage GSSE (% of TSE)	**26.9**	**69.7**	**72.9**	**74.8**	**74.6**	**69.4**
Consumer Support Estimate (CSE)	**-93**	**-36**	**-151**	**-143**	**-123**	**-186**
Transfers to producers from consumers	-93	-36	-151	-143	-123	-186
Other transfers from consumers	0	0	0	0	0	0
Transfers to consumers from taxpayers	0	0	0	0	0	0
Excess feed cost	0	0	0	0	0	0
Percentage CSE (%)	**-5.7**	**-1.6**	**-3.9**	**-3.8**	**-3.0**	**-4.7**
Consumer NPC (coeff.)	**1.06**	**1.02**	**1.04**	**1.04**	**1.03**	**1.05**
Consumer NAC (coeff.)	**1.06**	**1.02**	**1.04**	**1.04**	**1.03**	**1.05**
Total Support Estimate (TSE)	**978**	**259**	**706**	**710**	**661**	**747**
Transfers from consumers	93	36	151	143	123	186
Transfers from taxpayers	885	222	555	567	538	562
Budget revenues	0	0	0	0	0	0
Percentage TSE (% of GDP)	**1.6**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
GDP deflator (1986-88=100)	**100**	**128**	**184**	**179**	**184**	**187**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for New Zealand are: wheat, maize, oats, barley, milk, beef and veal, sheep meat, wool, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235432

Description of policy developments

Main policy instruments

Agricultural support in New Zealand is largely limited to expenditures on general services, such as agricultural research and bio-security controls for pests and diseases. To a significant share, the costs of regulatory and operational functions, including those for border control, are charged to beneficiaries.

In the event of **natural disasters** that are beyond the response capacity of private insurance, local farmer organisations or territorial local authorities, farmers may receive restricted assistance to help replace production capacity. In the event of a medium or large scale natural disaster farmers whose income falls below a threshold level may, for a limited period and if the farmers cannot support themselves with cash assets or with other sources of income, be eligible for the equivalent of the unemployment benefit.

New Zealand requires **Import Health Standards (IHS)** for all risk goods before they can be imported into New Zealand. Some products (representing a small share of New Zealand's agricultural output: eggs, uncooked poultry and some bee products) fail to meet the relevant IHS and therefore cannot be imported. These measures lead to some market price support for the mentioned products.

Since the elimination of statutory marketing boards during the 1980s and 1990s and the removal of remaining restrictions on rights to export dairy products into specific tariff quota markets by the end of 2010, practically all of New Zealand's agricultural production and trade is free from economic regulations. Such regulations continue to be maintained on **exports of kiwifruit**: the New Zealand company Zespri has the default but not sole right to export kiwifruit to all markets other than Australia. Other groups willing to export can do so independently to Australia or in collaboration with Zespri to other countries. In case of objection by Zespri to collaborative marketing applications, Kiwifruit New Zealand (the regulator) can still approve collaborative marketing applications if it expects overall wealth of New Zealand kiwifruit suppliers to increase.

The **Dairy Industry Restructuring Act of 2001 (DIRA)** aims to promote the efficient operation of the New Zealand dairy industry. In particular it aims at ensuring that farmers can freely enter and exit the Fonterra Co-operative, and that other processors can obtain raw milk necessary for them to compete in dairy markets. Since the DIRA regime was put in place the share of milk collected by the Fonterra Cooperative has declined from about 96% of the New Zealand total in 2002-03 to approximately 87% in the 2013-14 season.

"Industry good" activities[1] (such as research and development, forming and developing marketing strategies, and providing technical advice) previously undertaken by statutory marketing boards are now managed through producer levy-funded industry organisations under the **Commodity Levies Act 1990**. Under this legislation, levies can only be imposed if they are supported by producers, and producers themselves decide how levies are spent. With a very limited number of exceptions, levy funds may not be spent on commercial or trading activities. The levying organisations must seek a new mandate to collect levies every six years through a referendum of levy payers.

Two key policy measures that address agri-environmental issues are the **Resource Management Act 1991 (RMA)** and the **Sustainable Farming Fund (SFF)**. The objective of the RMA is to promote the sustainable management of natural and physical resources, including soil, water,

air, biodiversity and the coastal environment. RMA responsibilities are generally assigned to regional and district councils. They include environmental regulation, soil conservation, flood control and drainage works, and plant and animal pest control. In early 2013, the Government initiated proposals to reform the RMA. The proposals include increased national direction on planning matters, to provide greater consistency and improve certainty.

The SFF, which was set up in 2000, supports community and industry driven projects aimed at improving the productive and environmental performance of the primary sectors. In 2011, the SFF was expanded to include aquaculture reflecting the Ministry for Primary Industries' new responsibility for fisheries as well as agriculture, forestry and food safety. In late 2012, a smaller and additional funding round was held, which focused specifically on Maori agribusiness projects. Overall, the Fund has backed around 900 projects over 13 years, supporting sustainability and resilience in the primary sector.

The **Primary Growth Partnership (PGP)** programme was introduced in 2009 and is administered by the Ministry for Primary Industries. The PGP is a Public-Private-Partnership initiative (industry contributions must be at least equal to Crown funding) that invests in significant programmes of research and innovation to boost agricultural productivity, economic growth and the sustainability of New Zealand's primary, forestry and food sectors. The total PGP funding commitment from government and industry in these programmes as at the end of 2014 was around NZD 680 million (USD 567 million),[2] of which NZD 131.7 million (USD 110 million) have already been paid by the government by that date.

The **Irrigation Acceleration Fund (IAF)** was announced in the 2011-12 budget. The IAF superseded the Community Irrigation Fund established in 2007 and additionally builds on the grant funding support previously provided to irrigation-related projects through the Sustainable Farming Fund. The IAF has a budget of NZD 35 million (USD 29 million), spread over five years, and will support development of proposals to an investment-ready stage as well as strategic water management studies. To be eligible for funding, the projects need to promote efficient use of water, environmental management, and demonstrate a commitment to good industry practice. IAF grants up to the end of September 2014 amounted to NZD 27.5 million (USD 23 million) spread over 18 projects.

Domestic policy developments in 2014-15

The main policy developments that may impact on the agricultural sector include: encouraging innovation and sustainable growth; managing water and land resources; greenhouse gas initiatives; food safety policy and bio security. The detailed policy changes are as follows.

The **Crown Irrigation Investments Limited (CWI)** was announced as part of the 2013-14 budget and then established on 1 July 2013. The company has been established to act as a minority investor for regional off-farm water infrastructure projects, including potentially projects that were supported to the investment-ready phase by the IAF. The company will only provide bridging investment through the critical uptake risk period. Projects must be demonstrably viable in the medium term with clear exit strategies required before any investment proceeds. Until the end of 2014 only one project had met the necessary criteria, accounting for NZD 6.5 million (USD 5.4 million). The Government has indicated a total investment of up to NZD 400 million (USD 334 million); to date, NZD 120 million (USD 100 million) has been provided to the company.

Agriculture began mandatory reporting at processor level in the New Zealand **Emissions Trading Scheme (NZ ETS)** from 1 January 2012. This affects meat processors, dairy processors, nitrogen fertiliser manufacturers and importers, and live animal exporters, although some

exemptions apply. The NZ ETS also imposes an emissions cost on the transport fuels, electricity production, synthetic gases, waste and industrial processes sectors. This provides incentives to reduce emissions from farm inputs including petrol, diesel and electricity, as well as the transport and processing of farm products. The New Zealand Government continues to look at ways to develop mitigation technologies to reduce agricultural greenhouse gas emissions. This includes through funding the New Zealand Agricultural Greenhouse Gas Research Centre and by committing NZD 45 million (USD 38 million) until June 2016 to fund New Zealand's participation in the Global Research Alliance, of which New Zealand currently holds the Secretariat. The Alliance brings countries together to focus on research, development and extension of technologies and practices that will help deliver ways to grow more food (and more climate-resilient food systems) without increasing greenhouse gas emissions.

The Ministry for Primary Industries is supporting the industry-led programme for **managing the kiwifruit disease Psa** (*Pseudomonas syringae pv. actinidiae*). Since its first identification in New Zealand in 2010, Psa has spread to the majority of kiwifruit growing areas. In December 2012, the Government declared Psa to be a biosecurity event under New Zealand's Primary Sector Recovery Policy (which covers adverse climatic and biosecurity events). As a consequence, kiwifruit growers who have been severely impacted by Psa may be eligible for Rural Assistance Payments. Farm households must apply to receive the Rural Assistance Payment and are only eligible when they have no other significant income from the farm business as a result of the biosecurity event, or other sources of income and realisable cash assets. The level of the payment provides for essential living expenses only and at the same rate as unemployment benefits. Payments are for a maximum of 12 months and do not cover losses of income, livestock, land or other production factors. In the event that a climatic or biosecurity event occurs on a scale that will seriously impact the regional or national economy, central government may provide additional support to local community and regional organisations under the Primary Sector Recovery Policy.

The new **Food Act 2014**, which succeeds the old act dating from 1981, aims to make it easier and less costly to run food businesses, while ensuring the food produced is safe and suitable for sale. The Act also aims to give food businesses the tools to manage food safety themselves based on the level of risk associated with the kinds of food produced and in a way that suits their business. A central feature of the new Act is a sliding scale, where businesses posing a higher food safety risk will operate under more stringent requirements and checks than lower risk businesses.

In 2012, the Government amended the **Biosecurity Act 1993** to include a framework that enables government and industry to work together in partnership through a **Government Industry Agreement (GIA)**. In particular, this framework provides for joint decisions on such activities as well as for their joint funding, taking into account the public and industry benefits that the activities deliver. The objective of the GIA is to prepare for and effectively respond to biosecurity risks. To take part in GIA, an industry organisation – that fulfils all the requirements – must sign an agreement ("Deed of Agreement") with the government. The key elements of the GIA include: partnerships to deliver a better biosecurity system; shared decision-making and cost-sharing between government and industry to support an efficient and effective biosecurity system; and identifying and addressing priority risks to minimise harm. While signing a GIA is entirely voluntary, it allows the primary industry to have a direct say in managing biosecurity risks. At the end of January 2015, four primary industry bodies covering kiwifruit, pome, equine, forestry and pork have signed GIAs with the Ministry for Primary Industries (MPI). MPI provides advice and support to those industries considering signing up to a GIA.

During the year continued progress has been made on developing a **Maori agribusiness programme**. The focus of the programme is to provide Maori landowners with access to information, skills and networks to assist them with improving productivity on their collectively owned lands. A stocktake of initiatives that deliver skills, training and capacity development opportunities relevant to Maori was undertaken in 2012-13. Prototype projects, such as supporting the development of a Memorandum of Understanding (MoU) between iwi (tribal groups) for the joint management of a property, have also been launched. Projects are funded out of existing budgetary resources, such as the Sustainable Farming Fund (see above).

A new approach to management of New Zealand's fresh water resources was signalled in 2014, with the government issuing a revised **national policy statement on fresh water management** (NPS-FM) under the RMA. The statement requires regional councils to put in place systems to maintain or improve overall water quality in their region, and it will establish minimum water quality standards. Regional councils will have until 2025 to set these objectives and to have a plan for achieving them. The Government has indicated it will provide some funds to assist regional councils in meeting these requirements.

Trade policy developments in 2014-15

New Zealand currently has nine **Free Trade Agreements** (FTAs) in force, which account for some 50% of its primary industry exports. In the past seven years, New Zealand has entered into three new FTAs with individual countries: ***China*** (2008); ***Malaysia*** (2009); and ***Hong Kong (China)*** (2011). New Zealand has also entered into a regional trade agreement with the ***Association of South East Asian Nations (ASEAN)*** and ***Australia***. The **ASEAN Australia and New Zealand** Free Trade Agreement (AANZFTA) entered into force for all signatories on 10 January 2012. In 2013, an Economic Co-operation Agreement between New Zealand and the ***Separate Customs Territory of Taiwan***, ***Penghu***, ***Kinmen***, and ***Matsu (Chinese Taipei)*** was also concluded, which entered into force in December 2013.

During the 2013-14 period, New Zealand was heavily involved in FTA negotiations with: countries under the **Trans-Pacific Partnership Agreement** (TPP); the Regional Comprehensive Economic Partnership (RCEP); ***Korea***, and ***India***. FTA negotiations were also held with the ***customs union of the Russian Federation***, ***Belarus*** and ***Kazakhstan***, but these were suspended in March 2014. Negotiations with Korea were successfully concluded in November 2014 with agreement in principle on an FTA due to come into force in 2015.

Notes

1. Activities "beneficial to the industry, but whose benefits cannot be captured by those who fund or provide the activity", or "long-term investments in the industry made with the expectation of accelerating delivery of better technology and products for the industry" (NZIER, 2007).
2. All values in this policy description use the 2014 exchange rate for monetary conversion.

References

NZIER (2007), *Productivity, Profitability and Industry Good Activities*, Report to Dairy Insight, February, available at *http://nzier.org.nz/publication/productivity-profitability-and-industry-good-activities*.

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Chapter 18

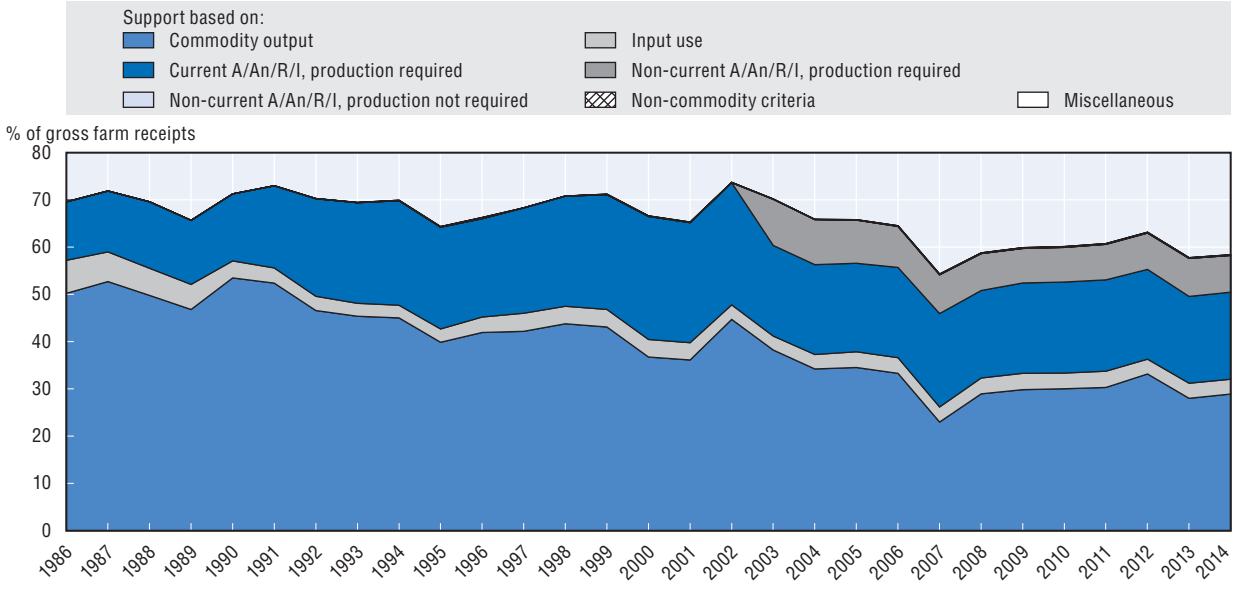
Norway

The Norway country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- The reduction of support has been rather modest and the farming sector is one of the most heavily supported in the OECD with 60% of gross farm receipts (i.e. three times higher than OECD average) generated by policies applied. More than a half of support to farming is through implicit taxation of consumers.
- Despite reduced price distortions, agriculture in Norway remains among the most highly protected. Greater efforts can be made to further reduce the share of price support, reduce border protection and increase market access. Policy reforms such as the removal of the administered price for beef, sheep meat and eggs, and a gradual elimination of milk quotas would improve market orientation and permit a better allocation of resources.
- Measures to improve environmental performance of agriculture, such as the action plan to reduce risk related to the use of pesticides with a stronger focus on integrated plant management, should further improve sustainability in production.
- Objectives such as maintaining population and economic activity in remote rural areas may be more effectively reached by more space-based rural development policies and complementary social policies, rather than blanket support to farming.
- Overall, Norway should continue its effort to reach its various policy objectives (food security, maintain agriculture across the whole country, landscape amenities) at lower costs to consumers and taxpayers. More market orientation of the sector and better targeted and territorially differentiated direct payments should be considered when developing the framework of future policy reforms.

Figure 18.1. **Norway: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234919

Contextual information

Norway is a developed high income economy. It has the second highest GDP per capita in the OECD region, relatively low unemployment and a modest inflation rate. Agriculture constitutes a relatively small share of GDP (1.5%) and employment (1.8%) in the most recent years. Norway has little comparative advantage for agricultural production. Given the cold climate and the widespread incidence of thin soils and mountainous areas, only a small fraction of the land area is suitable for cultivation. The farm structure is dominated by relatively small family farms, many of which are in remote locations operating under difficult conditions. Norway is consistently a net agro-food importing country. Agro-food imports represent around 9% of total imports while agro-food exports represent 0.7% of total exports.

Table 18.1. **Norway: Contextual indicators, 1995, 2013**[1]

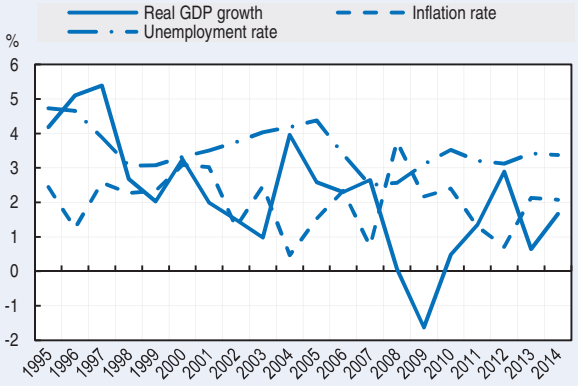
	1995	2013[1]
Economic context		
GDP (billion USD)	149	512
Population (million)	4	5
Land area (thousand km^2)	304	304
Population density (inhabitants/km^2)	11	13
GDP per capita, PPP (USD)	23 571	64 408
Trade as % of GDP	25.0	23.8
Agriculture in the economy		
Agriculture in GDP (%)	3.1	1.5
Agriculture share in employment (%)	4.3	1.8
Agro-food exports (% of total exports)	1.3	0.7
Agro-food imports (% of total imports)	6.2	9.0
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	-1 497	-7 046
Crop in total agricultural production (%)	25	25
Livestock in total agricultural production (%)	75	75
Agricultural area (AA) (thousand ha)	1 038	992
Share of arable land in AA (%)	88	82
Share of irrigated land in AA (%)	..	4
Share of agriculture in water consumption (%)	9	28
Nitrogen balance, kg/ha	108	95

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235447

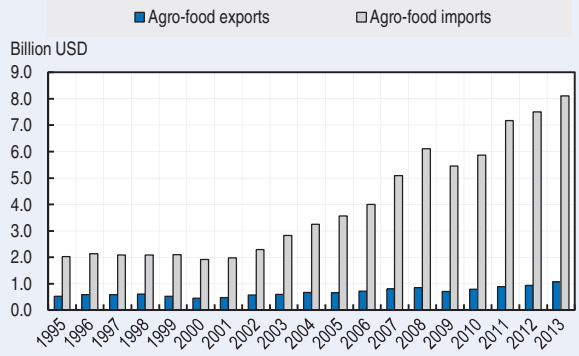
Figure 18.2. **Norway: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933234924

Figure 18.3. **Norway: Agro-food trade, 1995-2013**



Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933234931

Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Norway has made rather modest progress in reducing the level of support while a more pronounced shift in the composition of support has taken place. Commodity based support (market price support and payments based on output) now represents around half of total support. Despite the reduction in price distortions, prices received by producers are on average 74% above world market prices. There is a rather even distribution of support among commodities.

PSE as % of receipts (%PSE)

Support to farmers, measured as a share of gross farm receipts (%PSE) has been reduced only moderately by 10 percentage points, from 70% in 1986-88 to 60% in 2012-14. The %PSE has declined in the last few years, from 63% in 2012 to around 58% in 2013 and 2014. It remains around three times higher than the OECD average.

Potentially most distoring support as % of PSE

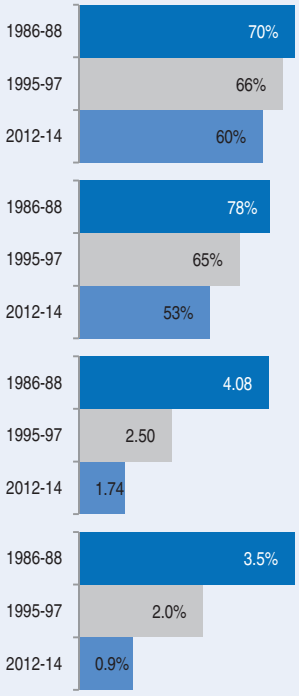
The share of most production and trade distorting forms of support (based on output and variable input use – without input constraints) in the PSE has decreased by 15 percentage points, but it is still more than half of total support. Market price support is the main component of the most distorting support.

Ratio of producer price to border price (NPC)

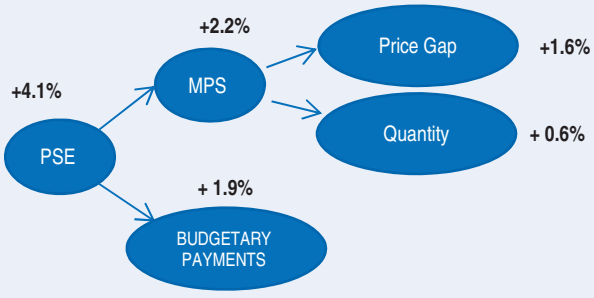
As measured by the NPC, prices received by farmers were 1.7 times higher than those on the world market in 2013-14. This is a significant reduction relative to 1986-88 when the prices were 4 times higher. NPC's are generally higher for livestock products.

TSE as % of GDP

Total support was less than 1% of GDP in 2012-14. Expenditures on general services (GSSE) represented around 6% of the Total Support Estimate.

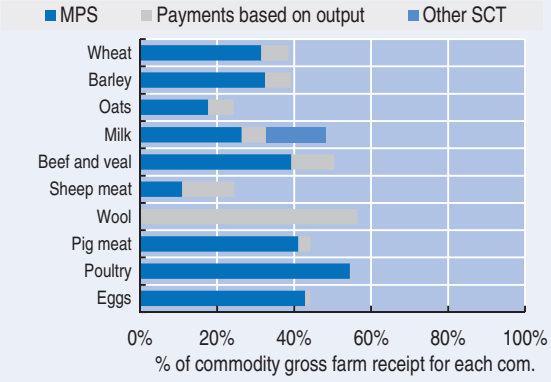


Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014. This was due both to increased MPS and budgetary payments. The rise in market price support reflects mainly an increase in the gap between domestic and world prices.

Transfer to specific commodities (SCT), 2012-14



Single Commodity Transfers accounted for 56% of the total PSE. The share of the SCT in the commodity gross receipts was higher for livestock products (with the exemption of sheep meat).

Table 18.2. **Norway: Estimates of support to agriculture**

Million NOK

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**17 354**	**18 232**	**26 780**	**25 974**	**26 803**	**27 563**
of which: *share of MPS commodities (%)*	73.3	77.5	74.9	71.2	76.6	76.9
Total value of consumption (at farm gate)	**17 899**	**18 129**	**29 527**	**30 279**	**28 873**	**29 430**
Producer Support Estimate (PSE)	**19 175**	**19 246**	**24 199**	**24 833**	**23 401**	**24 364**
Support based on commodity output	13 877	11 997	12 153	13 041	11 349	12 067
Market Price Support[1]	9 274	8 444	10 448	11 475	9 681	10 189
Payments based on output	4 603	3 554	1 704	1 566	1 668	1 879
Payments based on input use	1 721	960	1 278	1 232	1 293	1 309
Based on variable input use	1 020	551	729	710	739	736
with input constraints	0	1	0	0	0	0
Based on fixed capital formation	628	339	461	434	466	481
with input constraints	0	0	0	0	0	0
Based on on-farm services	73	70	89	88	88	91
with input constraints	2	0	0	0	0	0
Payments based on current A/An/R/I, production required	3 577	6 254	7 531	7 468	7 440	7 684
Based on Receipts / Income	0	0	908	892	896	935
Based on Area planted / Animal numbers	3 577	6 254	6 623	6 576	6 544	6 749
with input constraints	0	104	596	597	591	600
Payments based on non-current A/An/R/I, production required	0	0	3 178	3 027	3 262	3 247
Payments based on non-current A/An/R/I, production not required	0	0	0	1	0	0
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
Payments based on non-commodity criteria	0	34	59	62	57	57
Based on long-term resource retirement	0	0	0	1	0	0
Based on a specific non-commodity output	0	34	59	61	57	57
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	0	0	0	1	0	0
Percentage PSE (%)	**70.3**	**66.3**	**59.8**	**63.1**	**57.7**	**58.4**
Producer NPC (coeff.)	**4.08**	**2.50**	**1.74**	**1.74**	**1.71**	**1.78**
Producer NAC (coeff.)	**3.38**	**2.97**	**2.49**	**2.71**	**2.37**	**2.40**
General Services Support Estimate (GSSE)[2]	**842**	**970**	**1 380**	**1 285**	**1 323**	**1 532**
Agricultural knowledge and innovation system	466	547	752	672	687	897
Inspection and control	33	173	336	335	349	323
Development and maintenance of infrastructure	202	108	223	225	219	226
Marketing and promotion	141	120	69	54	68	85
Cost of public stockholding	0	22	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Percentage GSSE (% of TSE)	**3.9**	**4.7**	**5.3**	**4.8**	**5.3**	**5.8**
Consumer Support Estimate (CSE)	**-9 141**	**-8 343**	**-10 849**	**-10 486**	**-10 719**	**-11 343**
Transfers to producers from consumers	-11 381	-9 038	-10 682	-10 357	-10 358	-11 331
Other transfers from consumers	-959	-548	-769	-658	-836	-812
Transfers to consumers from taxpayers	1 522	542	479	437	427	574
Excess feed cost	1 677	700	122	92	48	226
Percentage CSE (%)	**-55.8**	**-47.5**	**-37.4**	**-35.1**	**-37.7**	**-39.3**
Consumer NPC (coeff.)	**3.24**	**2.13**	**1.64**	**1.57**	**1.63**	**1.70**
Consumer NAC (coeff.)	**2.27**	**1.91**	**1.60**	**1.54**	**1.60**	**1.65**
Total Support Estimate (TSE)	**21 539**	**20 757**	**26 059**	**26 555**	**25 151**	**26 470**
Transfers from consumers	12 340	9 585	11 451	11 015	11 194	12 143
Transfers from taxpayers	10 158	11 719	15 377	16 198	14 794	15 138
Budget revenues	-959	-548	-769	-658	-836	-812
Percentage TSE (% of GDP)	**3.5**	**2.0**	**0.9**	**0.9**	**0.8**	**0.9**
GDP deflator (1986-88=100)	**100**	**128**	**268**	**263**	**270**	**272**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Norway are: wheat, barley, oats, milk, beef and veal, sheep meat, wool, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

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Description of policy developments

Main policy instruments

Agricultural policy in Norway is based on the White Paper No. 9 (2011-12) *On Norwegian agriculture and food production*, approved in April 2012, which declares its four main objectives: food security; agriculture throughout all of Norway; creating more added-value; and sustainable agriculture.

The principal policy instruments supporting agriculture include border measures, domestic market regulation and budgetary payments. Market price support, in the form of wholesale target prices, is provided for milk, pork, grains, some fruits and some vegetables. These target prices and the budgetary framework for payments to farmers, are negotiated annually between the government and farmers' organisations. Marketing fees are collected from producers to finance marketing activities dealing with surpluses, including export subsidies for livestock products. Export subsidies of processed products to the EU and marketing activities for horticultural products are financed directly by the government. Norway has gradually reformed its target price system. For beef, lamb, eggs and poultry there are no longer target prices, but subsidies continue to be paid to meat producers to compensate for high domestic farm gate prices.

Milk production quotas were introduced in 1983 and a system of buying and selling quotas was introduced in 1997. Most of Norway's tariff-rate-quotas were eliminated in 2000 when the WTO bound tariff rates became equal to the in-tariff quota rates. Tariffs for most products are set between 100-400% although there is a system of "open periods" for imports at reduced tariff rates when domestic prices rise above threshold levels.

Various direct payments to farmers, including area and headage payments as well as payments based on product quantities (meat) continue to be provided. Many of these payments are differentiated by region and farm size in order to provide adequate income support across all type of farms and regions. Environmental levies on agricultural pesticides are applied.

Among the priorities of the new government which took office in October 2013 is the promotion of efficient agro-food production, associated with a reduction of import barriers and reduction of subsidies in the longer term. Plans are to abolish, to the degree possible, any limits on production quotas and licences that prevent full usage of capacity in individual and co-operative farms. The Government also aims for a clearer distinction between agricultural and regional policies.

Domestic policy developments in 2014-15

The annual negotiations between the government and the farmers' organisations in May 2014 resulted in no agreement on agricultural policies, to be applied in 2014-15. As a consequence, a decision was taken by the Parliament to add several modifications to the Government final proposal. Overall, there was no change in the budgetary support between 2013-14 and 2014-15.

The main policy changes in 2014-15 are the following:

- An increase in **target prices** with a total effect of NOK 340 million (USD 54.7 million) from 1 July 2014.
- A reduction of the number of support programmes (but not of the overall payments).
- Changes in the milk quota system (increase of the milk quota limits per farm).
- Increased budgetary support for local food products and green tourism.

In relation to the agricultural policy programme adopted for 2014/15 and the declared priorities of the new Government, several working groups were established to reflect on policy changes in areas such as:

- Reform of the market regulation system with a focus on eliminating the role of the large co-operatives in agricultural policies.
- Further simplification of programmes providing support to farmers.
- Environmental and Climate change policies in agriculture.
- Changing the regions of milk-quota sales.

Reports from these working groups are expected during 2015 and related policy change proposals in the form of a White Paper for the Parliament may be released in 2016.

From 2014 the start of the milk quota year was moved from 1 March to 1 January, in order to simplify the overall management of the quota system. For 2015 both the basic quotas and the actual production possibilities were kept at the 2014 level. The combined quota for goat and cow milk production per production entity (farm or company) was increased to 900 000 litres for 2015. This compares to the 2014 quotas of 412 000 litres for cow milk and 200 000 litres for goat milk for individual farms and of 773 000 litres (cow and goat milk cumulated) for co-operatives (i.e. from 2015 no distinction between individual farms and production co-operatives).

Most **agri-environmental measures** are included in the National Environmental Programme (NEP). This programme was revised in 2012 and includes the following key measures: Acreage Cultural Landscape Support, payments for extensive grazing and for grazing animals, organic agriculture, Regional Environmental Programmes (REP), and special environmental measures in agriculture. In 2014, the total payments provided within the REP increased to NOK 448 million (USD 76 million), representing up to about 10% of the total NEP budget. For 2015 the budget of the REP has been slightly reduced to NOK 436.5 million (USD 70 million) on the basis of estimated needs.

The **rural development** aspects of Norwegian agricultural policy include several programmes designed to stimulate innovation and establishment of alternative businesses on farms and alternative employment in rural areas. Most of the funding is financed through the Agricultural Development Fund (ADF). For 2014, the total allocation of ADF was NOK 1 191 million (USD 192 million), i.e. slightly less than in 2013. For 2015, the budgeted sum is of NOK 1 206 million (USD 194 million).

A White Paper on the production of (non-agricultural) goods and services related to the use of agricultural resources will be presented for the Parliament in the spring of 2015. The White Paper will look into the potential within this area, and point out further political ambitions for the future.

Trade policy developments in 2014-15

Article 19 of the ***European Economic Area*** (EEA) agreement provides that contracting parties will periodically carry out reviews of the conditions of trade in agricultural products. Another round of these reviews was agreed in 2013, and started in February 2015.

Within the European Free Trade Association (EFTA), Norway has negotiated 25 Free Trade Agreements with 35 partner countries. There are ongoing free trade negotiations between EFTA and ***India, Indonesia, Viet Nam*** and ***Malaysia***. Negotiations with the ***Philippines*** are foreseen to start in 2015. These Free Trade Agreements and negotiations include processed agricultural products and a range of primary agricultural products.

From 1 January 2015, Norway unilaterally eliminated the import duties on 114 agricultural tariff lines. These duties were low and for products not competing with Norwegian agricultural production. The elimination of these duties reduced the customs procedures and administrative costs.

Chapter 19

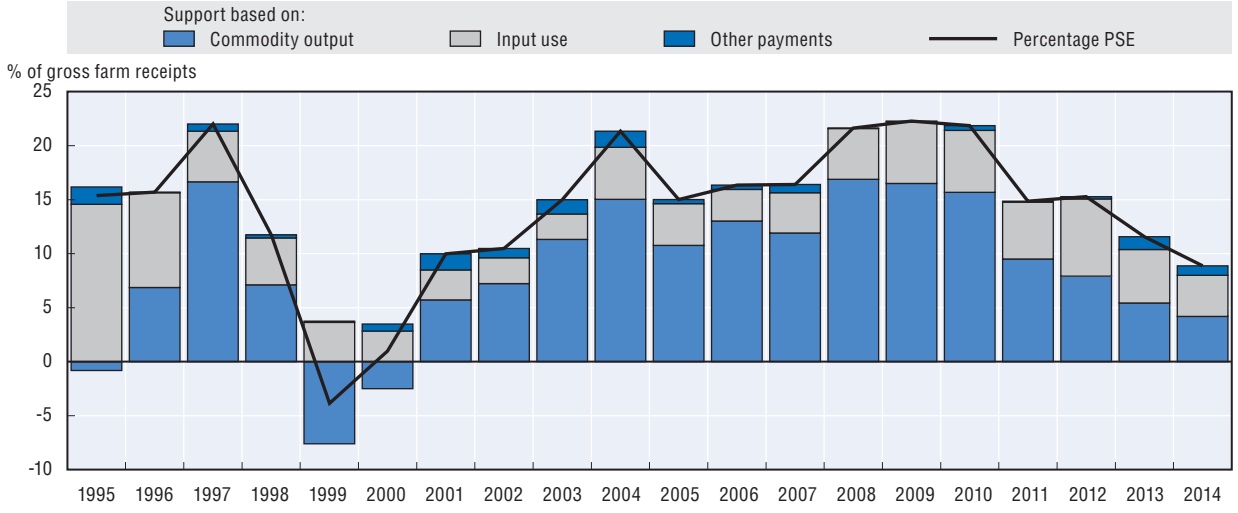
Russian Federation

The Russian Federation country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2013-15.

Evaluation of policy developments

- Support to agricultural producers has declined since 2010 and in 2014 it is below 10% of gross farm receipts, which is approximately the level observed at the beginning of the 2000s. The current relatively modest aggregate support level, however, disguises cross-commodity variations, with protection of import competing sectors and taxation of exporting ones.
- Agricultural policy formulated at the inception of the State Programme for Development of Agriculture for 2013-20 aimed at boosting agricultural production and agro-food import substitution. The exchange of sanctions between a number of countries and the Russian Federation in the difficult political context of the Ukrainian crisis has likely intensified the Russian Federation's import substitution orientation into a long-lasting self-sufficiency policy in agro-food area.
- Non-tariff border protection based on sanitary and phytosanitary and technical regulation continued to be an active policy, in certain cases raising concerns among trading partners about the Russian Federation's application of unjustified trade restrictions.
- Domestic policy has been concentrated on increasing the flows of financial resources into agriculture, particularly to support investments in import competing sectors. In late 2014, government action was also aimed at cushioning the effects of general recession and tightened financial markets on the agro-food sector.
- A new emphasis has been made on the development of domestic seed production and pedigree livestock breeding to reduce dependence on imports of these agricultural inputs, as well as on improvements in downstream infrastructure.
- Overall, distorting subsidy measures and import protection continue to prevail as policy instruments to achieve the stated goals. This in turn implies reliance on transfers from consumers and taxpayers to the agricultural sector in a situation, which at least in the short term, is characterised by macroeconomic risks and falling consumer incomes.

Figure 19.1. **Russian Federation: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

The Russian Federation has the largest land area in the world and is a country with very diverse natural, economic, and social conditions. According to the World Bank, it is the ninth largest world economy, with per capita income in purchasing power parity terms (PPP) more than quadrupling since the mid-1990s. In per capita PPP terms it ranks 44th in the world. Economic growth considerably decelerated in 2013 and 2014. Agriculture contributes around 4% of GDP and 8% of employment. The Russian Federation is one of the world's top importers of meat and has been a large wheat exporter since the early 2000s. Agricultural output has recovered steadily from a deep recession in the 1990s, with the exception of significant drops in 2010 and 2012 following severe droughts. The farm structure is dual, where commercial operations co-exist with small household units, the latter oriented mostly towards self-consumption. These two sectors contribute roughly equal shares to total agricultural output. Over one-quarter of the population lives in rural areas, with many of these areas suffering economic and social decline as well as depopulation.

Table 19.1. **Russian Federation: Contextual indicators, 1995, 2013**[1]

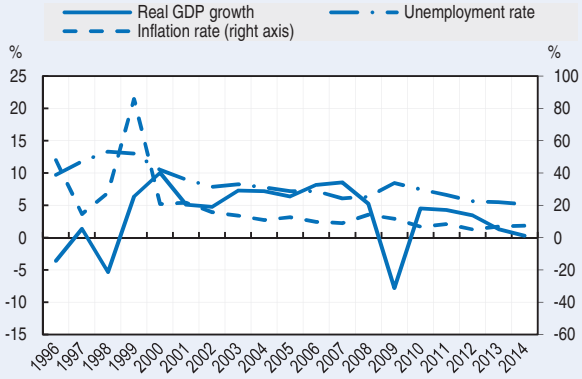
	1995	2013[1]
Economic context		
GDP (billion USD)	310	2 095
Population (million)	148	144
Land area (thousand km^2)	16 378	16 377
Population density (inhabitants/km^2)	9	8
GDP per capita, PPP (USD)	5 612	25 366
Trade as % of GDP[2]	19.1	20.1
Agriculture in the economy		
Agriculture in GDP (%)	7.2	3.9
Agriculture share in employment (%)	15.7	7.0
Agro-food exports (% of total exports)[2]	2.1	2.6
Agro-food imports (% of total imports)[2]	18.1	12.9
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)[2]	-9 214	-27 109
Crop in total agricultural production (%)	58	54
Livestock in total agricultural production (%)	42	46
Agricultural area (AA) (thousand ha)	216 400	214 350
Share of arable land in AA (%)	59	56
Share of irrigated land in AA (%)	..	2
Share of agriculture in water consumption (%)	..	24
Nitrogen balance, kg/ha	..	..

1. Or latest available year.
2. Data listed in 1995 refers to 1996.

Sources: *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235469

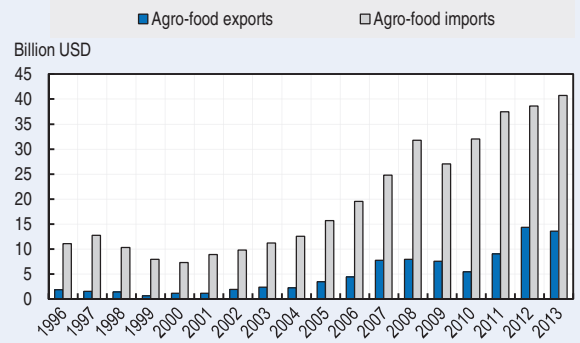
Figure 19.2. **Russian Federation: Main macroeconomic indicators, 1996-2014**



Source: *OECD Factbook Statistics.*

StatLink http://dx.doi.org/10.1787/888933234952

Figure 19.3. **Russian Federation: Agro-food trade, 1996-2013**



Source: *UN Comtrade Database.*

StatLink http://dx.doi.org/10.1787/888933234964

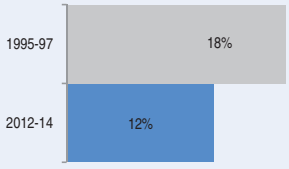
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Support to agriculture fluctuated over the long-term and declined in 2013 and 2014. Around 87% of producer support (PSE) derives from market price support, with border protection for imported livestock products and sugar and taxation of exported grains and oilseeds somewhat offsetting each other. Livestock producers also benefit from domestic grain prices being below the world levels. Budgetary transfers to producers are dominated by subsidies to variable inputs and investments. Over four-fifths of total support to agriculture (TSE) is provided to producers individually, with the rest directed to general services for agriculture.

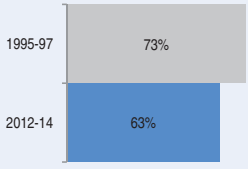
PSE as % of receipts (%PSE)

%PSE was at 12% of producer gross receipts in 2012-14, below the OECD average of 18% and below the level observed in 1995-97 (18%). % PSE decreased from 15% in 2012 to 12% in 2013 and further to 9% in 2014 – the lowest level since the early 2000s.



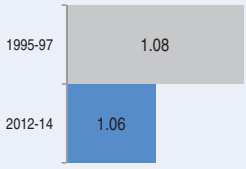
Potentially most distorting support as % of PSE

The share of the potentially most production and trade distorting forms of support (based on output and unconstrained input use) decreased from 73% to 63% of the total PSE between 1995-97 and 2012-14. This in part reflects the replacement of some previous input subsidies by per hectare payments.



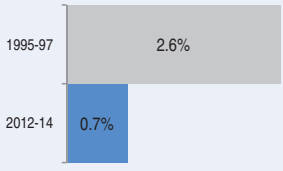
Ratio of producer price to border price (NPC)

Prices received by farmers were on average 6% above those observed on world markets in 2012-14, compared to 8% in 1995-97. Price protection has been declining in recent years in part due to tariff reductions related to WTO commitments and also due to the weakening of the national currency.

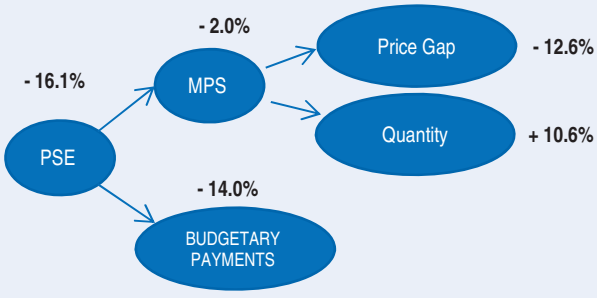


TSE as % of GDP

Total support to agriculture (TSE) as a % of GDP decreased from 2.6% in 1995-97 to 0.7% in 2012-14 as GDP grew more than total support. General services account for 16% of the TSE.

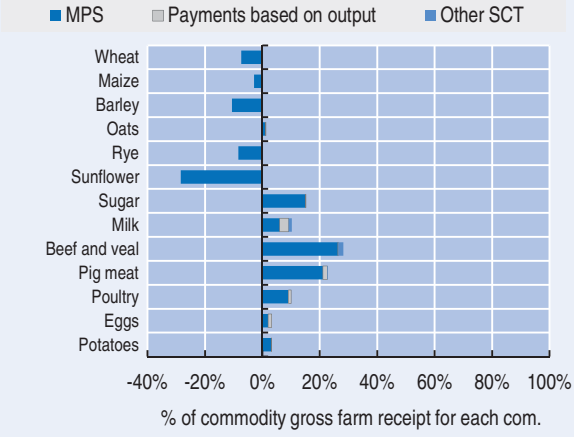


Decomposition of change in PSE, 2013 to 2014



The PSE decreased in 2014 reflecting largely a reduction in budgetary support against the high level of the previous year. Market price support (MPS) declined only slightly because the decreases in the price gap were offset by higher quantities receiving support. The average price gap narrowed as domestic prices weakened against border prices, in part due to a depreciation of the national currency.

Transfers to specific commodities (SCT), 2012-14



Transfers to specific commodities (SCT) vary considerably, with livestock products receiving support, and crop products, with the exception of sugar, facing negative transfers.

Table 19.2. **Russian Federation: Estimates of support to agriculture**

Million RUB

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**200 360**	**3 108 596**	**2 753 825**	**3 099 869**	**3 472 094**
***of which:** share of MPS commodities (%)*	82.0	76.6	75.7	75.2	78.9
Total value of consumption (at farm gate)	**245 824**	**3 744 916**	**3 533 123**	**3 623 599**	**4 078 027**
Producer Support Estimate (PSE)	**40 710**	**389 646**	**455 735**	**387 745**	**325 460**
Support based on commodity output	19 174	190 660	236 012	182 103	153 864
Market Price Support[1]	14 437	165 218	226 215	138 661	130 776
Payments based on output	4 737	25 442	9 797	43 442	23 088
Payments based on input use	19 943	172 548	213 293	165 395	138 958
Based on variable input use	11 959	56 210	87 987	45 818	34 825
with input constraints	0	0	0	0	0
Based on fixed capital formation	7 826	112 618	120 250	116 093	101 511
with input constraints	0	0	0	0	0
Based on on-farm services	159	3 721	5 057	3 484	2 622
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required	0	26 438	6 430	40 247	32 638
Based on Receipts / Income	0	2 242	5 423	1 277	26
Based on Area planted / Animal numbers	0	457	584	415	373
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	1 593	0	0	0	0
Percentage PSE (%)	**17.7**	**11.9**	**15.3**	**11.6**	**8.9**
Producer NPC (coeff.)	**1.08**	**1.06**	**1.08**	**1.06**	**1.04**
Producer NAC (coeff.)	**1.22**	**1.14**	**1.18**	**1.13**	**1.10**
General Services Support Estimate (GSSE)[2]	**10 625**	**77 303**	**62 210**	**101 705**	**67 994**
Agricultural knowledge and innovation system	1 268	32 634	30 225	33 608	34 069
Inspection and control	824	20 261	20 161	19 732	20 890
Development and maintenance of infrastructure	1 639	9 682	6 997	12 278	9 771
Marketing and promotion	119	327	51	398	531
Cost of public stockholding	0	316	0	448	500
Miscellaneous	6 774	14 083	4 775	35 242	2 233
Percentage GSSE (% of TSE)	**17.4**	**15.9**	**11.6**	**19.7**	**16.3**
Consumer Support Estimate (CSE)	**-20 372**	**-276 555**	**-377 485**	**-246 043**	**-206 138**
Transfers to producers from consumers	-12 636	-161 923	-205 941	-149 106	-130 721
Other transfers from consumers	-5 891	-130 122	-173 947	-124 203	-92 214
Transfers to consumers from taxpayers	15	23 124	20 313	25 660	23 398
Excess feed cost	-1 859	-7 635	-17 909	1 606	-6 601
Percentage CSE (%)	**-6.0**	**-7.6**	**-10.7**	**-6.8**	**-5.1**
Consumer NPC (coeff.)	**1.07**	**1.09**	**1.12**	**1.08**	**1.06**
Consumer NAC (coeff.)	**1.08**	**1.08**	**1.12**	**1.07**	**1.05**
Total Support Estimate (TSE)	**51 349**	**490 073**	**538 258**	**515 110**	**416 851**
Transfers from consumers	18 527	292 044	379 889	273 310	222 935
Transfers from taxpayers	38 712	328 150	332 316	366 004	286 130
Budget revenues	-5 891	-130 122	-173 947	-124 203	-92 214
Percentage TSE (% of GDP)	**2.6**	**0.7**	**0.9**	**0.8**	**0.6**
GDP deflator (1995-97=100)	**100**	**1 810**	**1 694**	**1 793**	**1 943**

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Russia are: wheat, maize, rye, barley, oats, sunflower, sugar, potatoes, milk, beef and veal, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235470

Main policy instruments

The Russian Federation applies a range of price policy instruments. The main one is **border protection**, including through Tariff Rate Quotas and non-tariff measures. Border measures are in large part implemented within the framework of Customs Union of the Eurasian Economic Union (EAEC). There are also domestic price regulation policies, such as **market interventions**. They can be implemented for grains, whereby the government can withdraw or purchase this product if the market price moves outside the established band between minimum and maximum prices. Prices at which market interventions are implemented, however, do not play the role of price guarantees. Restrictions on imports or exports can be imposed during the intervention periods. Grain intervention has been active since the 2008/09 season.

Payments based on output for marketed livestock products have been traditionally provided from regional budgets, but recently a new payment for milk was introduced, which is co-financed by the federal and regional governments. **Concessional credit** is one of the most important support instruments. Concessions take the form of subsidies on interest payments to borrowers of loans. The subsidy is set at a fraction of the central bank's refinancing rate, with this fraction varying by type of beneficiary and type of loan. In addition to interest subsidies, a range of **subsidies for variable inputs** are provided. Support is also provided through **leasing of machinery, equipment and livestock** at preferential terms. **Per hectare payments** is a new measure which replaced several previous nation-wide input subsidies. Agricultural producers also benefit from a number of **tax preferences** and **concessions on repayment of arrears** on federal taxes and social contributions.

The majority of support measures described above are implemented within a **multi-year State Programme for the Development of Agriculture** – the country's main agricultural policy framework. It is based on the principle of support measure co-financing by federal and regional governments, with significant regional variations in the co-financing rates. In addition to support included in the State Programme, regions implement their own, strictly **regional support measures**.

The on-going State Programme 2013-20 has entered the third year of implementation in 2015. It incorporates several sectoral sub-programmes related to the crop and livestock production, including two new ones introduced in 2015 (see below). Other components are cross-sectoral sub-programmes on technical and technological modernisation; development of small farming; support for pedigree livestock breeding and seed production; development of wholesale and distribution centres and food aid system; and development of financial and credit system. The last three cross-sectoral sub-programmes are also new and are implemented as of 2015. The State Programme 2013-20 also includes two federal "targeted" programmes on rural development and on land improvement.

Domestic policy developments in 2013-15

At its inception, the State Programme 2013-20 has been strongly inspired by the 2010 Doctrine on Food Security. Reaching the self-sufficiency targets in key foodstuffs set by the Doctrine was stated as the Programme's primary objective.* The exchange of sanctions between a number of countries and the Russian Federation in the context of the Ukraine crisis further strengthened a self-sufficiency orientation for agricultural policy. Towards the end of 2014, the government's actions were also focused on cushioning the impacts of a deteriorated macroeconomic situation,

* These targets are set at not less than 80-95% and cover the following products: grains, sugar, vegetable oil, meat and meat products, milk and meat products, fish and fish products and salt.

with a substantial slow-down of the overall economy, tightening of budgetary resources, and accelerated inflation. The rouble's value against the US dollar more than halved during 2014; although this increased the competitiveness of local products domestically and internationally, it also fuelled inflation, raising costs of inputs and borrowing.

At the end of 2014, the government amended the State Programme 2013-20. The overall budget was increased, new sub-programmes were introduced and funds re-allocated within and between sub-programmes. The revisions were aimed to support an "accelerated import substitution" for priority products taking into account also the deteriorated economic conditions. The priority products include milk and meat, greenhouse and early vegetables, seed potatoes, fruits and berries. The Programme's revision also foresees increased investments in marketing infrastructure and more support to seed production, crop selection and pedigree livestock breeding. These amendments translate into an additional federal funding of RUB 570 billion (USD 9 billion) for 2015-20, beyond RUB 1 189 billion (USD 19 billion) of federal funds earmarked for this period in the original version of the Programme. However, the revised financing is with a proviso that in view of macroeconomic uncertainty the financial targets of the State Programme may be further reviewed.

The **government intervened on grain markets** in 2012/13 to ease the effects on bread prices of a reduced grain crop and strong exports in late 2012: between October 2012 and July 2013, 3.4 million tonnes of grain were released from the Intervention Fund. In 2013/14, grain in contrast was withdrawn from the market (0.6 million tonnes) to stabilise falling prices after a large crop; purchases were renewed in the 2014/15 season following another good crop and virtual suspension of grain exports in late 2014 (see below). By March 2015, 0.43 million tonnes of grain had been purchased.

Regional budgets continued payments based on output in 2013-14 for marketed meat, milk, eggs and wool, with milk accounting for nearly 60% of the total. Starting from 2013, a **new per tonne milk payment** is provided, co-financed by regional and federal funds. This is implemented as a new instrument to stimulate growth in milk output, which is, together with meat output, the top priority of the State Programme. The overall annual outlays on the national milk payment are foreseen to increase up until 2017, but continuation beyond is uncertain. From the WTO perspective, the new per tonne milk payment increases the amount of support subject to domestic support disciplines. In 2013, exceptional assistance was provided to pig meat, poultry and egg producers. They received per tonne payments for their products to compensate for significant increases in feed costs after the 2012 drought. With the introduction of new milk payment and exceptional assistance in 2013, per tonne payments gained in importance, accounting for 9% of the total PSE in 2013-14 compared to 3% in 2010-12.

Concessional credit is the largest producer support category of the State Programme which in 2013-14 accounted for 38% of total Programme spending (federal and regional, but excluding costs of the Programme's administration). Over three quarters of total allocations for interest subsidies came from the federal budget in 2013, with the rest co-financed by regional budgets. Since the mid-2000s, the programme has substantially expanded in scope and scale. About two thirds of concessional credit issued in 2013-14 was directed to primary livestock and crop producers, the rest went to downstream borrowers. Around 78% of total concessional credit issued during this biennium was related to long-term loans.

The total amount of interest subsidies provided to all types of borrowers, all types of credit, and from federal and regional funds, rose from RUB 12 billion (USD 0.2 billion) in 2005 to approximately RUB 100 billion (USD 1.6 billion) in 2014. This reflects the increase in new lending

each year, an accumulating stock of long-term loans maturing after five to fifteen years, and additional concessions granted as part of relief assistance during this period.

Developments related to concessional credit reflect the intention to limit the long-term commitment of federal and regional governments, i.e. those arising from subsidising on-going and new investment borrowings. Thus, in 2013 the federal contribution to interest subsidies was reduced for most types of credit (except credit provided for milk and meat production). Procedures for access to concessions on investment credit were tightened, notably the selection of eligible investment projects is now approved at the federal and not at regional levels. These decisions were integrated into the State Programme 2013-20 at its start. Furthermore, in 2015 investors were enabled to opt for direct capital grants (from 20% to 30% of investment depending on the activity) shifting away partly from interest subsidies on investment loans.

However, an earlier orientation towards constraining credit support commitments seems to have been reversed in late 2014. The pledge to accelerate import substitution changed prior plans to stop new concessional investment loans for poultry complexes as of 2015, and for pig complexes as of 2017. It was decided to continue subsidising investment loans in these sectors until 1 January 2019 with the focus on Trans-Ural, Siberian and Far East regions. Another factor was the sharp deterioration of lending conditions, with Central Bank of Russia interest rate rising from 5.5% to 17.0% between December 2013 and December 2014. Although the situation has stabilised since, with the rouble appreciating and the Central Bank bringing its rate down to 12.5% in May 2015, the risk of volatility remains high. The largest agro-food lenders, such as *Sberbank* and *Rosselkhozbank*, reviewed their standing credit contracts, a process in which the government requested them to maintain the conditions unchanged for previously approved contracts with agro-food borrowers. The government also decided to transfer RUB 86.7 billion (USD 1.4 billion) to *Rosselkhozbank* for capitalisation over 2016-20. Other crisis-management measures included increases in initial federal allocations for interest compensation on short-term loans, mainly for sowing. An agreement was also reached with *Sberbank* and *Rosselkhozbank* to cap interest on such loans, so as to reduce the part effectively borne by borrowers. It was also decided to raise again the rate of federal contribution to interest subsidies on investment loans taken in 2015.

Subsidies for variable inputs were provided at regional level to purchase mineral fertilisers, chemicals and diesel fuel for seasonal works. There have also been national subsidies for electricity, mixed feed, high quality seeds, and subsidies to transport seeds of feed crop to areas with adverse climatic conditions. In the end of 2014, as part of anti-crisis measures and in view of rapid input price inflation, the government brokered an agreement for fertiliser producers to sell fertilisers domestically with a 10%-15% mark-down on their export prices, a concession which was gradually increased, reaching up to 30% by March 2015.

Support is also provided through **leasing of machinery, equipment and livestock** at preferential terms operated by the state-owned *Rosagroleasing* company. In 2013, it received RUB 2 billion (USD 33 million) from the federal budget for purchase of items destined for further leasing. The State Programme 2013-20 foresees more budgetary transfers to the company in 2016 and 2017. In addition to the national leasing programme, 39 Russian regions implemented their own programmes to support machinery acquisitions in various forms.

The federal law "On State Support in the Area of Agricultural Insurance" (2011) stated that support payments may be made conditional on producers being covered by catastrophic insurance. It stipulates a 50% **insurance premium subsidy** for insurance of catastrophic crop risks (crop losses in excess of 30% for arable crops and 40% for perennials). In 2013, the insurance premium subsidy also became available for livestock.

Up to 2013, **area payments** were insignificant, consisting of small subsidies to maintain permanent crop plantations. In 2013, a number of previously important nation-wide input subsidies (mineral fertiliser and chemicals subsidy and fuel subsidy) were eliminated and new area payments introduced. The amount of federal funding allocated to a particular region depends on its total crop area in the previous year, its land fertility score, and its crop yields. The subsidy rate formulas and payment procedures within the regions remain at their discretion. According to the information available for the main crop producing regions, these employ a generally similar method as at the federal level to set subsidy rates and allocate subsidies within the region, although there are variations in the complexity of formulas establishing the payment and related parameters.

Beyond the support above, assistance is delivered within the **economically important regional programmes**. In 2013, more than two-thirds of the Russian regions received federal co-financing for their programmes, with around 80% of aggregate federal and regional funding going to projects for the development of meat and milk farming and most of the remaining directed to the vegetable and potato sectors, as well as land improvement. In 2014, part of the initially budgeted allocations for the livestock projects were re-directed to credit subsidies, while the reduced funds were mainly spent for control of African Swine Fever.

Agricultural producers benefit from a number of **tax preferences**, including a zero income tax rate, and for certain group of agricultural taxpayers, exemptions from property tax and Value Added Tax (VAT). As part of the 2012 package to assist domestic producers to adapt to WTO membership, the previously existing tax concessions have been maintained. Up until 2011, a zero VAT rate applied to pedigree animals, their embryos and semen, and pedigree hatching eggs, but was set at 10% to be effective up to 2017. A proposal to bring VAT on these products back to zero awaits official decision.

Households spend around 28% of their final consumption expenditures on food. Food price inflation has been an increasing government concern during the period under review. In December 2014, food prices were 15% above their levels a year before. Administrative measures across the regions were applied to control wholesaler and retailer mark-ups. Anti-monopoly procedures were used, with large retail chains in particular coming under the spotlight. In January 2015, a number of large food retailers announced a temporary voluntary moratorium on increases of mark-ups on certain food items. RUR 2.4 billion (USD 39 million) were allocated in 2015 for organisation of a new food aid system, including the required infrastructure.

Trade policy developments in 2013-15

The Russian Federation's **meat imports** are subject to **tariff rate quotas (TRQ)** on imports from the non-CIS area. Upon WTO accession in July 2012, the Russian Federation maintained country-specific quotas for fresh and chilled beef, frozen beef; and frozen boneless poultry cuts. Total in-quota imports and bound tariffs remain the same over the implementation period for all three types of meat. However, tariffs on in quota pig meat imports were brought to 0% and over-quota tariff reduced in the first year of WTO accession. In 2020, pig meat TRQs are to be eliminated and a bound tariff rate of 25% will apply. No commitment to eliminate beef and poultry TRQs is included, but if the Russian Federation chooses to move to a tariff-only regime, bound rates of 27.5% and 37.5% shall respectively apply, both higher than the current in-quota tariffs, but lower than the pre-accession over-quota tariffs.

Dairy products are another of the Russian Federation's key agro-food imports. Skim milk powder is imported duty free from the CIS area, with deliveries from ***Belarus*** subject to an inter-governmental agreement. At WTO accession, tariffs for milk products were reduced, and for

certain groups are to be decreased further. In 2013-14, import tariffs were brought down for milk powder and certain types of whey. Tariffs for the majority of cheeses are predominantly combined: they were changed during the monitored period typically towards an increase in *ad valorem* rates and a reduction in specific components of the tariffs setting their minimum value. WTO scheduled tariff reductions for imported cheeses are to be implemented by 2015-17.

The Russian Federation's imports of sugar traditionally face high border protection. For **white sugar**, a duty of USD 340 per tonne is set for flows from outside the CIS. CIS deliveries are duty free if sugar is processed from sugar beet. However, imports of white sugar from ***Ukraine*** have been excluded from the CIS duty-free regime from its inception and both countries mutually apply their MFN tariffs. Belarus is one of the main suppliers of white sugar to the Russian Federation. These deliveries are regulated by inter-governmental agreements on annual import quantities, import prices, and the authorised Belarusian suppliers. For **raw sugar**, an import duty is set on the basis of a reference price for raw sugar which is derived from the average monthly price of the New York Mercantile Exchange (NYMEX). The levy can vary between the fixed minimum and maximum boundaries. A lower NYMEX price commands a higher levy and vice versa. In 2014, the levy corresponding to a lower NYMEX price boundary was bought down from USD 270 per tonne to USD 250 per tonne.

The treatment of tariffs has been questioned by some WTO members in terms of their consistency with the Russian Federation's WTO Schedule of Concessions and Commitments. In October 2014, ***the European Union*** initiated consultations with the Russian Federation on this issue as foreseen by WTO procedures. It referred to the Russian Federation applying duties "in excess of bound rates, in several different ways" for certain agricultural products. To date, the Russian Federation has provided clarifications to trade partners on the issues concerned, according to Russian officials.

The Russian Federation frequently resorts to **non-tariff restrictions** on agro-food imports, in particular with respect to livestock products. Current SPS requirements applied by the Russian Federation within the Customs Union of the Eurasian Economic Union present challenges to exporters and sometimes are subject to international controversy. On the request of ***the European Union***, a WTO panel was established in July 2014 on the legitimacy of the Russian Federation's import ban on EU live pigs, their genetic material and pig meat, reportedly introduced over SPS concerns.

An important event in agro-food imports occurred in the difficult political context of the Ukrainian crisis. Following the imposition of sectoral sanctions on the Russian Federation, the country responded by **banning imports** of agro-food items from ***the European Union***, the United States, ***Canada***, ***Australia***, and ***Norway***. The ban was introduced as of 7 August 2014 for a period of one year and covered a broad range of agro-food items, including meat, milk products, fruits and vegetables, prepared foods and fish. Live animals remained outside the ban. Based on 2013 trade data, an estimated 20% of all the Russian Federation's agro-food imports were affected with a value of USD 8.4 billion. This measure necessitated urgent actions on all sides. The Russian Federation re-allocated initial country quotas for meat TRQs to countries not subjected to the ban (according to the WTO agreement, ***the European Union*** receives 72% of total quota for fresh and chilled beef, and 80% for frozen boneless poultry cuts, while ***the United States***, ***the European Union*** and ***Costa Rica*** altogether receive 30% of the total quota for frozen beef). The Russian Federation also initiated arrangements on various agro-food items with other exporters, such as ***Brazil***, ***China***, ***India***, ***Mongolia***, ***Turkey***, ***Belarus***, ***Azerbaijan***, to establish alternative supplies. The ban affected, in particular producers, and agro-food companies in the European Union,

triggering emergency measures (Chapter 9). Beyond short-run effects, this ban may result in longer-term changes in mutual trade flows. Nevertheless, in January 2015 there were contacts between **EU** and Russian sanitary and phytosanitary authorities, as well as bilateral talks with several EU member states, on the prospects of resuming trade in pig meat and some beef products.

MFN import duties on a range of Moldavian agro-food imports were introduced in September 2014 following the ratification by ***Moldova*** of the Association Agreement with the European Union, with a Deep and Comprehensive Free Trade Area concluded. Previously these products entered the Russian Federation duty free based on the Agreement on Free Trade in the CIS Area.

The Russian Federation's grain export regulations change between restriction and stimulation in response to fluctuations in the domestic supply of grains and in food prices on the domestic market. In 2013, when drought hit Central Russia the government refrained from limiting grain exports but provided subsidies to livestock producers affected by the high cost of feed. Considerable depreciation of the rouble towards the end of 2014 acted as a strong export stimulus, raising government concerns about the outflow of grain from the domestic market and the impact this may have on food prices. The government intervened to limit grain exports, which were effectively restrained since late 2014 by administrative means, followed by an **export duty on food wheat** as of 1 February 2015 (15% plus EUR 7.50 per tonne but not less than EUR 35 per tonne). Grain traders and producers questioned the appropriateness of this measure, particularly in the situation of a relatively high supply. This duty was removed on 15 May 2015 ahead of the scheduled expiration date of 1 July 2015, but a new duty will be imposed as of that date, set at 50% of the customs value per tonne minus RUR 5 500 (around USD 100), but not less than RUR 50 per tonne.

Since 1992, **export duties** have been applied on **oilseeds**. As part of WTO commitments, the Russian Federation implemented subsequent oilseeds duty reductions, the most recent one in September 2014. Export duties on sunflower were brought down to 13.24% (but not less than EUR 19.88 per tonne) compared to a bound rate of 6.5% (but not less than EUR 9.75 per tonne) and for rapeseed to 11% (but not less than EUR 19.26 per tonne) compared to a bound rate of 6.5% (but not less than EUR 11.40 per tonne). Duties on soya beans were reduced to 6.67% (but not less than EUR 11.76 per tonne). Bound rates for sunflower are to be reached within four years after accession and on rapeseed within three years, while on soya beans duties are to be eliminated in 2015.

In the area of regional trade integration, a **Treaty on the Eurasian Economic Union (EAEC)** came into effect on 1 January 2015, with ***the Russian Federation***, ***Belarus***, ***Kazakhstan*** and ***Armenia*** as members and ***Kyrgyzstan*** to join officially in May 2015. Beyond free trade and common customs territory EAEC foresees free movement of capital and labour and a "co-ordinated, agreed upon, or common" economic policy in member countries. As part of the EAEC's Customs Union Russia is also engaged in bilateral free trade negotiations (see Chapter 14).

Chapter 20

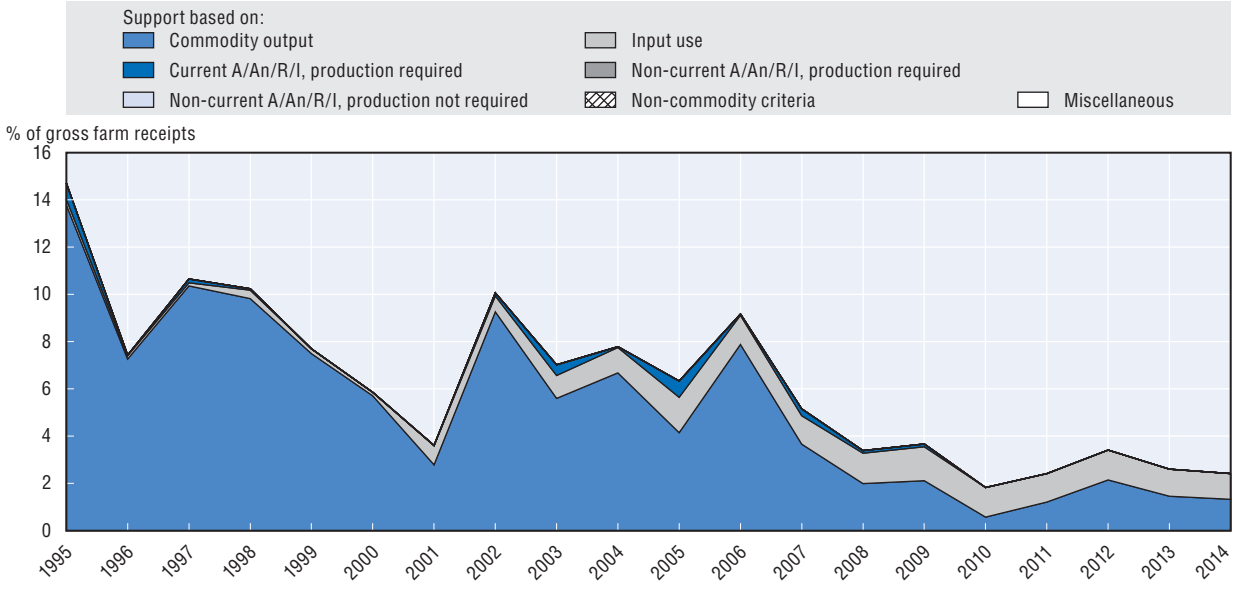
South Africa

The South Africa country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2013-15.

Evaluation of policy developments

- The current relatively low level of support to South African agriculture (around 3% of gross farm receipts) is the result of sharp policy reforms implemented in the mid-1990s. Policy changes resulted in deregulation of the marketing of agricultural products, liberalisation of domestic markets, and reduced barriers to agricultural trade. These reforms reduced market price support and budgetary support to commercial farming resulting in a substantial reduction of total support to agriculture.
- Increased budgetary spending went to financing the land reform process and to supporting its beneficiaries (subsistence, smallholder and commercial farmers). The main agricultural policy developments and the main challenges in most recent years are related to the implementation of the land reform programme and strengthening the enabling environment for new farmers. During 2013-15 policies aimed to ensure the viability of new entrants and to restore and recapitalise failed projects continued to be implemented with increasing budgetary spending.
- The implementation and good targeting of the support programmes, tailored to the needs of emerging farmers, remain the main challenge into the future. The involvement of private stakeholders (experienced commercial farmers) in the support programmes is an efficient way to engage existing resources and address weaknesses in supporting programmes and services from public authorities.
- The pace of the land reform should be closely linked to the development of the enabling environment for the beneficiaries of the land reform; otherwise the land redistribution by itself cannot deliver the expected outcomes such as improving the welfare of the black, rural population, increasing food security in rural areas and developing a viable commercial sector.

Figure 20.1. **South Africa: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933234977

Contextual information

According to its GDP per capita, South Africa is an upper middle income country. However, income inequality is severe and widespread poverty persists. It has a relatively moderate level of inflation but a persistently high rate of unemployment that is currently around 25%. Since 2011 the GDP growth rate has declined and was around 1.5% in 2014. The part of agriculture in the economy is relatively low with a share of 2.4% of GDP, and 5% of employment. The sharp reduction of employment in agriculture compared to the mid-1990s is the result of reforms and resulting reduction of labour use on commercial farms. South Africa is a net exporter of agro-food products. The share of agro-food exports in total exports is around 10%, while the share of agro-food imports is around 7%. South Africa has a large area of agricultural land, but only 14% is arable while the remaining is mostly semi-arid area suitable only for extensive pasture. There is a highly dualistic farm structure, with a well-developed and internationally competitive sector of commercial farms on one side, and a large number of smallholder and subsistence farms on the other side.

Table 20.1. **South Africa: Contextual indicators, 1995, 2013**[1]

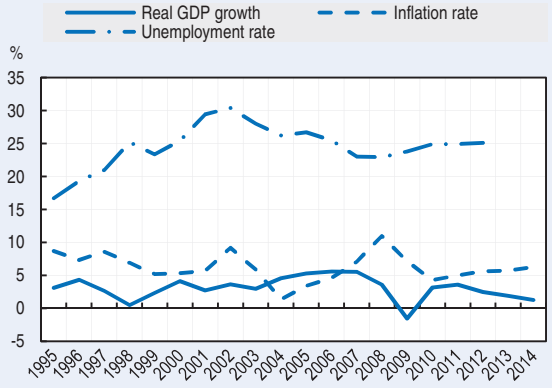
	1995	2013[1]
Economic context		
GDP (billion USD)	151	351
Population (million)	41	53
Land area (thousand km^2)	1 214	1 213
Population density (inhabitants/km^2)	34	43
GDP per capita, PPP (USD)	5 930	12 891
Trade as % of GDP	18.2	28.3
Agriculture in the economy		
Agriculture in GDP (%)	3.9	2.4
Agriculture share in employment (%)[2]	15.6	4.6
Agro-food exports (% of total exports)	8.3	10.2
Agro-food imports (% of total imports)	7.4	6.6
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	383	2.913
Crop in total agricultural production (%)	54	53
Livestock in total agricultural production (%)	46	47
Agricultural area (AA) (thousand ha)	99 525	96 341
Share of arable land in AA (%)	15	12
Share of irrigated land in AA (%)	..	1.3
Share of agriculture in water consumption (%)	..	60
Nitrogen balance, kg/ha	..	..

1. Or latest available year.
2. 2000.

Sources: *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235488

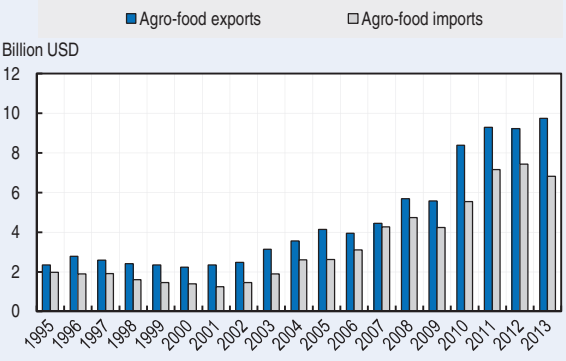
Figure 20.2. **South Africa: Main macroeconomic indicators, 1995-2014**



Source: *OECD Factbook Statistics.*

StatLink http://dx.doi.org/10.1787/888933234981

Figure 20.3. **South Africa: Agro-food trade, 1995-2013**



Source: *UN Comtrade Database.*

StatLink http://dx.doi.org/10.1787/888933234991

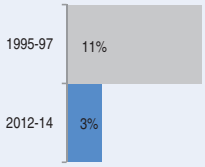
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

South Africa has a relatively low level of support around 3% of farmer's receipts in the most recent years. The relatively high share of the most distorting forms of support has to be interpreted against the low level of support as measured by the PSE. The level of price distortions has been low and in current years domestic prices are almost aligned to world price levels (except sugar) as documented by the Nominal Protection Coefficient. Most of the budgetary payments are related to the implementation of the land reform and assistance to emerging farmers and to general services to the whole sector.

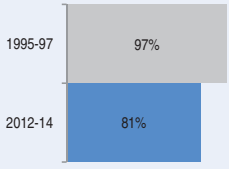
PSE as % of receipts (%PSE)

The level of support as measured by the percentage PSE has substantially declined and remains relatively low. Around 3% in 2012-14, it is well below the OECD average of 18%. Following a slight increase in 2012 to 3.4%, the share of support on total farm receipts dropped back to around 2.5% in 2013 and 2014.



Potentially most distorting support as % of PSE

The share of the most production and trade distorting forms of support (based on output and unconstrained input use) has declined but remains relatively high around 80%. However, this relatively high share is to be interpreted in the context of the low overall level of support).

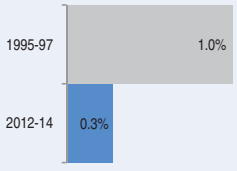


Ratio of producer price to border price (NPC)

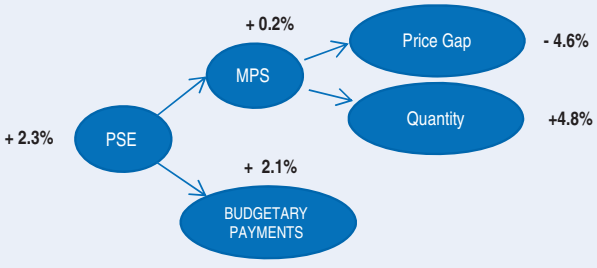
The relatively low level of price distortions was further reduced and the level of domestic prices was almost aligned to world price levels in 2013-14, as measured by the NPC. The NPC was highest for sugar, followed by wheat and milk.

TSE as % of GDP

The total support represented 0.3% of GDP in 2012-14, and the share of the general services in the total support estimate was around 40% over the same period, with a rise in most recent years.

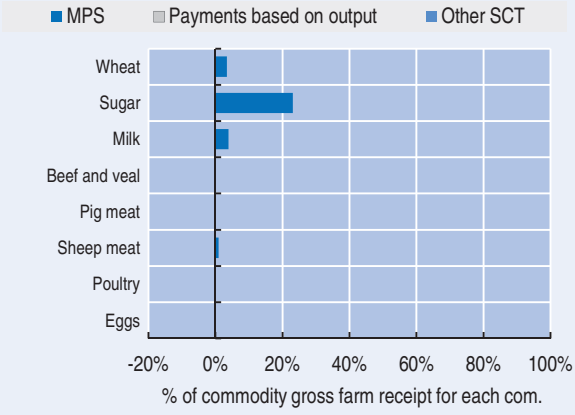


Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014 mainly due to a rise of budgetary payments related to the implementation of the land reform and supporting programmes to its beneficiaries.

Transfer to specific commodities (SCT), 2012-14



In 2012-14, the Single Commodity Transfer (SCT) represented 58% of the PSE. The share of the SCT in the commodity gross farm receipts was the highest for sugar (23%), around 4% for wheat and milk, and close to zero for the remaining commodities.

Table 20.2. **South Africa: Estimates of support to agriculture**

Million ZAR

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**37 243**	**184 546**	**162 407**	**186 047**	**205 184**
***of which:** share of MPS commodities (%)*	74.0	76.2	76.9	76.1	75.5
Total value of consumption (at farm gate)	**34 730**	**177 129**	**155 938**	**175 757**	**199 692**
Producer Support Estimate (PSE)	**3 983**	**5 175**	**5 613**	**4 899**	**5 013**
Support based on commodity output	3 824	3 012	3 534	2 745	2 755
Market Price Support[1]	3 824	3 012	3 534	2 745	2 755
Payments based on output	0	0	0	0	0
Payments based on input use	62	2 163	2 079	2 154	2 258
Based on variable input use	30	1 190	1 063	1 154	1 353
with input constraints	0	0	0	0	0
Based on fixed capital formation	30	947	984	972	884
with input constraints	3	0	0	0	0
Based on on-farm services	1	27	32	27	21
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required	97	0	0	0	0
Based on Receipts / Income	87	0	0	0	0
Based on Area planted / Animal numbers	10	0	0	0	0
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE (%)	**10.9**	**2.8**	**3.4**	**2.6**	**2.4**
Producer NPC (coeff.)	**1.13**	**1.02**	**1.02**	**1.02**	**1.01**
Producer NAC (coeff.)	**1.12**	**1.03**	**1.04**	**1.03**	**1.02**
General Services Support Estimate (GSSE)[2]	**2 120**	**3 835**	**3 166**	**3 977**	**4 362**
Agricultural knowledge and innovation system	1 797	1 572	1 404	1 611	1 702
Inspection and control	146	622	515	645	707
Development and maintenance of infrastructure	175	1 372	1 073	1 451	1 594
Marketing and promotion	2	268	174	271	359
Cost of public stockholding	0	0	0	0	0
Miscellaneous	0	0	0	0	0
Percentage GSSE (% of TSE)	**35.2**	**42.5**	**36.1**	**44.8**	**46.5**
Consumer Support Estimate (CSE)	**-3 922**	**-2 701**	**-3 347**	**-2 046**	**-2 711**
Transfers to producers from consumers	-3 681	-2 486	-3 279	-1 895	-2 283
Other transfers from consumers	-382	-227	-68	-161	-450
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	141	11	0	11	22
Percentage CSE (%)	**-11.4**	**-1.6**	**-2.1**	**-1.2**	**-1.4**
Consumer NPC (coeff.)	**1.14**	**1.02**	**1.02**	**1.01**	**1.01**
Consumer NAC (coeff.)	**1.13**	**1.02**	**1.02**	**1.01**	**1.01**
Total Support Estimate (TSE)	**6 103**	**9 010**	**8 779**	**8 876**	**9 375**
Transfers from consumers	4 063	2 712	3 347	2 056	2 733
Transfers from taxpayers	2 422	6 524	5 500	6 982	7 092
Budget revenues	-382	-227	-68	-161	-450
Percentage TSE (% of GDP)	**1.0**	**0.3**	**0.3**	**0.3**	**0.3**
GDP deflator (1995-97=100)	**100**	**316**	**307**	**325**	..

.. Not available

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for South Africa are: wheat, maize, sunflower, sugar, milk, beef and veal, pig meat, sheep meat, poultry, eggs, peanuts, grapes, oranges and apples.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235495

Description of policy developments

Main policy instruments

In the mid-1990s, substantial reforms reduced state intervention in agricultural markets, which lead to a stronger market orientation of the sector. Under the current system, there are no domestic market support interventions and no export subsidies applied. Other policy instruments used are input subsidies, mainly in the form of diesel rebate; programmes supporting new farmers benefiting from the land reform; and general services provided to the sector, mainly research, extension and inspection services. The *National Land Care Programme* (NLP) is a community-based and government supported approach promoting sustainable management and use of natural agricultural resources. The Land reform, launched in 1994, is the key policy issue related to the agricultural sector. The main objectives of the Land reform are to redress past injustices, foster reconciliation and stability, support economic growth, improve household welfare and alleviate poverty in the rural areas. Land restitution, land redistribution and land tenure reform are the main elements of the land reform.

The key Government bodies implementing these policies are the Department of Agriculture, Forestry and Fisheries (DAFF) and the Department of Rural Development and Land Reform (DRDLR). The *National Agricultural Marketing Council* (NAMC), a national public body, was established through the Marketing of Agricultural Products Act No. 47 of 1996, to provide the department with strategic advice on agricultural marketing issues; it undertakes investigations on agricultural marketing and marketing policy; and co-ordinates the implementation of all statutory measures implemented by the various agricultural industries. The *Agricultural Research Council* (ARC) is another national public body which fund and co-ordinates the research and extension activities related to the agricultural sector.

Attempts to rectify the racially skewed access to land and land ownership in South Africa are supported by the Provision of Land and Assistance Act (No. 126 of 1993) as amended, which addresses land restitution, land tenure reform and land redistribution. During the process of the implementation of the land reform a range of programmes (*Comprehensive Agricultural Support Programme; Illima/Letsema projects; Micro-agricultural Financial Institutions of South Africa – MAFISA*) were implemented to support activities creating an enabling environment for the previously disadvantaged farmers (subsistence, smallholders and commercial), such as capacity building, provision of appropriate information services and infrastructures.

A review of the *Land redistribution for agricultural development (LRAD)* projects indicated that a number of projects implemented are not economically viable. The DRDLA amended the land reform regulation in order to rationalise the land redistribution process and to assist the vulnerable projects. The *Agricultural Land Holding Account* (created in 2009) is responsible for land acquisition and, through the *Recapitalisation and Development Programme*, for recapitalisation and development of distressed land reform projects.

The *Integrated Food Security Strategy* (IFSS) introduced in 2002, is based on public and private civil society partnerships and focuses on household food security as the building block for national food security. The target goal of the IFSS is to reduce the number of food insecure households by half by 2015. One of the strategic approaches to reach this target is to increase household food supplies by providing production support services to households own food production. The food security objective is further supported by *Fetsa Tlala* integrated food production initiative (introduced in 2013), which is aimed at production of staple foods on fallow land with agricultural potential in communal areas.

A *Comprehensive Rural Development Programme (CRDP)* was launched in June 2009 by the newly created *Department of Rural Development and Land Affairs* (previously *Department of Land Affairs*). The main focus of CRDP is on providing education and skills, small farmer development, water resources management, storage capacities, promoting co-operatives and investment in social rural infrastructure (schools, clinics).

Domestic policy developments in 2013-15

During 2013 and 2014, South Africa increased it border protection for wheat and sugar. On 25 April 2013, a new variable wheat tariff was based on the US No. 2 HRW Gulf fob Price of USD 294/tonne which replaced the previous variable tariff based on the US No. 2 HRW Gulf fob Price of USD 215/tonne set in May 2010.[1] On 4 April 2014, SA increased the domestic dollar-based reference price (DBRP) for sugar from USD 358/tonne to USD 566/tonne based on the four-year average London No.5 settlement price of sugar.[2] The Sugar Agreement of 2000 (between different agents in the sugar production chain) still permits raw sugar to be exported only through a single-channel industry arrangement, and allocates quotas to individual producers for sugar sold on the domestic market.

Under a diesel refund system, introduced in 2000, farmers receive a refund on the tax and road accident fund levies paid on diesel fuel. The refund is applied for 80% of the total eligible purchases used in primary production. The refund per litre was ZAR 1.58 (USD 0.19) in 2012, ZAR 1.75 (USD 0.18) in 2013, and ZAR 2.10 (USD 0.19) in 2014.

A new programme was introduced in 2013 to foster food security in rural areas. The *Fetsa Tlala* food production programme provides support to subsistence and smallholder producers, mainly in communal areas, to put idle agricultural land back into production. Due to resource limitations, 70% of the allocation to the Comprehensive Agricultural Support Programme's infrastructure pillar (ZAR 1.7 billion or USD 157 million) has been redirected to this programme in 2014/15.

A large part of the smallholder sub-sector continues to be underproductive and economically unsustainable. The DAFF and the DRDLA provides post settlement assistance including production loans to new and upcoming farmers (mostly operating on redistributed or restituted land). Several programmes are implemented to support those farmers in order to assist them to develop commercially viable businesses.

The *Comprehensive Agricultural Support Programme (CASP)* focuses mainly on providing support in the following areas: on and off-farm infrastructure and production inputs; targeted training, skill development and capacity building; marketing and business development and support; information and knowledge management; technical and advisory services, regulatory services and financial services. Overall, the budgetary expenditure financing CASP were ZAR 1 137 million (USD 139 million) in FY 2012, ZAR 1 301 million (USD 135 million) in FY 2013, and ZAR 1 366 million (USD 126 million) budgeted for FY 2014.[3]

The *Ilima/Letsema Programme* was implemented in 2008/09 to increase food production, particularly by the smallholder farming sector. The funds were transferred to provincial departments of agriculture to finance conditional grants for specific production projects such as upgrading irrigation schemes and other infrastructure and on farm investments to support production capacity. The budget allocation to the programme was as follows: ZAR 416 million (USD 51 million) in FY 2012; ZAR 440 million (USD 46 million) in FY 2013 and for FY 2014 the budgeted amount is ZAR 461 million (USD 42.5 million).

As the majority of projects implemented within the land reform were not economically viable, the DRDLA amended the land reform regulation in order to rationalise the land redistribution process and to assist the vulnerable projects. Under the amended regulation, all the newly acquired land have been registered as state owned on the *Agricultural Land Holding Account* and provided to selected beneficiaries under lease contracts. The beneficiaries may dispose of the land after an agreed lease period, provided the project is economically viable. The *Land Reform Grants* programme is no longer used to buy agricultural land and transfer it directly to select beneficiaries. Its funds are now financing, together with the Agricultural Land Holding Account, the *Recapitalisation and Development Programme*.

The *Comprehensive Rural Development Programme (CRDP)* is providing support for the development of rural areas through two main programmes, both of them related to the agricultural sector. The *Rural Infrastructure Development* (RID) sub-programme expenditure increased significantly due to the increase in funding projects providing access to basic services, particularly sanitation, irrigation and roads. The RID funding increased from ZAR 253 million (USD 31 million) in FY 2012 to ZAR 783 million (USD 72 million) in FY 2014. The *Rural Enterprise and Industrial Development* (REID) sub-programme provides assistance in the co-ordination and facilitation or rural enterprise development, industrial development and support to rural communities to produce their own food. The budgetary expenditures financing the REID have been also steadily increasing from ZAR 287 million (USD 35 million) in FY 2012 to ZAR 600 million (USD 55 million) budgeted for FY 2014.

Due to an outbreak of foot and mouth disease, the expenditure on infrastructure was increased to finance the construction of fences along South Africa's border with Zimbabwe and Mozambique to manage the incidence of the disease. Additional funding was also provided in recent years to the Agricultural Research Council to upgrade the foot and mouth vaccine facility. Over the medium term, key activities will include reviewing and strengthening animal disease control measures in order to maintain the foot and mouth disease free country status, which SA regained in February 2014.

Trade policy developments in 2013-15

Import protection for agricultural and food products is based on specific and *ad valorem* **tariffs**. The zero import tariffs for maize (applied since 2007) continued in 2013-15. As a member of *South African Customs Union (SACU)*, South Africa applies the common external tariffs established for all members. The average tariff applied for agricultural products is around 10%, which is much lower compared to the 40% average MFN tariff bound for agricultural products.

Tariff rate quotas (TRQs) exist for a range of agricultural products under the WTO minimum market access commitments, with tariffs at 20% of the bound rates. For substantially all trade, preferential tariffs are granted to imports from the EU under the Trade, Development and Co-operation Agreement. Equally imports from Southern Africa Development Community (SADC) countries outside the SACU are duty free, with very few exceptions.

South Africa is a founding member of the *Southern African Customs Union (SACU)*,[4] This is a full customs union, with a common external tariff. In 1994, South Africa (SACU) became a member of the *Southern African Development Community (SADC)*,[5] For the implementation of the FTA, the SADC incorporated the principle of asymmetry: A phase-down (started in 2000) of SACU tariffs in five years (by 2005); and those of other SADC countries to be completed in 12 years, i.e. by 2012. The SADC free trade agreement (FTA) has now been fully implemented. Negotiations are underway

between SADC, EAC and COMESA (the three regional free trade areas in South and East Africa) within a *Tripartite Free Trade Agreement* (TFTA) with the aim to significantly reduce tariff barriers mainly for agro-food products.

The *SADC – EU Economic Partnership Agreements* (EPA) negotiations – A main element of the EPA negotiations was to replace the non-reciprocal trading preferences that African, Caribbean and Pacific (ACP) countries have been receiving from the EU (under the *Lomé* Agreement) with reciprocal free trade arrangements. The implementation of EPAs between the EU with the ACP countries was envisaged as from 1 January 2008; this however did not happen for the SADC countries. The EU and SADC member states subsequently agreed on a two-stage approach to the conclusion of EPAs, i.e. the first stage was to conclude an interim agreement, and a conclusion of a full agreement at a later stage. The *Interim Economic Partnership Agreement* (IEPA) with the EU was signed in June 2009 by Botswana, Lesotho, Mozambique and Swaziland, all of which are members of the SADC and, with exception of Mozambique, also SACU members. However, the most important members of the SACU, South Africa and Namibia have not signed the IEPA yet. The negotiations towards a final EPA are at the final stages, in fact, the text of the EPA has been initialled, marking the end of the negotiations.

Notes

1. The US No. 2 HRW Gulf fob Price is used as the World reference price in calculating the South African wheat tariff. If the US No. 2 HRW Gulf fob Price is USD 10/tonne below the set RSA World reference price (US No. 2 HRW Gulf fob) of USD 294/t for 3 consecutive weeks then RSA applies a tariff on wheat imports, based on the difference between the prevailing World reference price and the set SA reference price, taking into account the exchange rates prevalent at the period. If the World price (US No. 2 HRW Gulf fob Price) is above USD 294/t the tariff does not apply, imports can enter the country duty free.
2. The variable tariff on sugar works almost similar to the wheat tariff.
3. FY – financial year April/March.
4. The SACU members are: Botswana, Lesotho, Namibia, Swaziland and South Africa.
5. The SADC member countries are: Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

Chapter 21

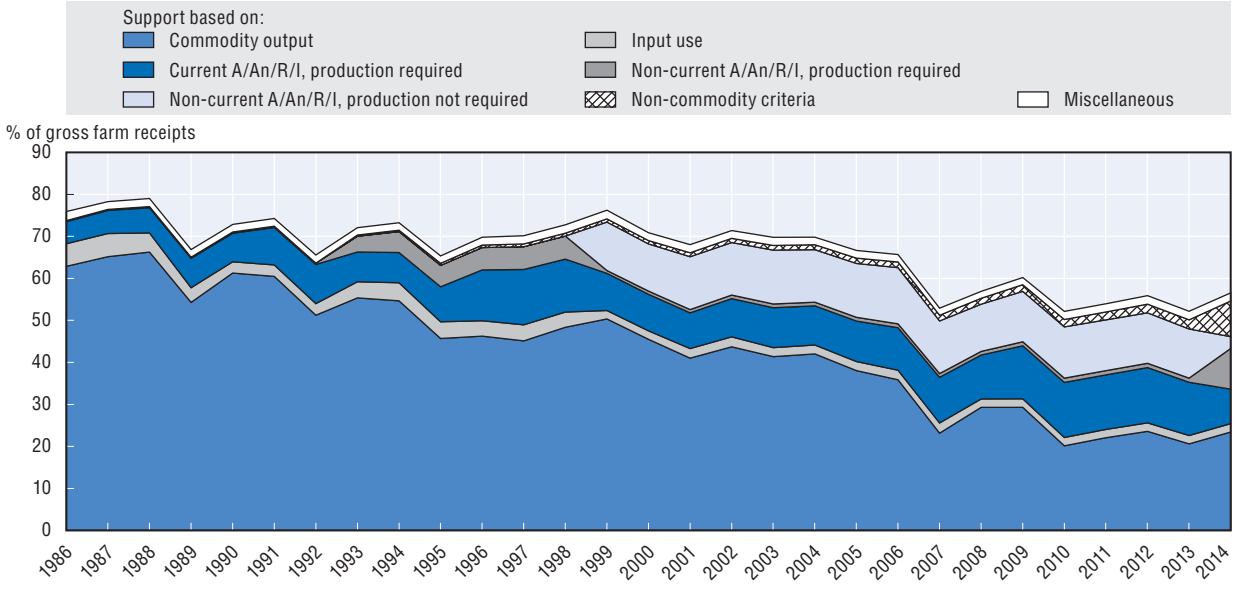
Switzerland

The Switzerland country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- With the market reforms started in the 1990s, progress has been achieved in reducing the huge market distortions. The share of market price support and of the potentially most production and trade distorting forms of support has declined. These policies represented 42% of total support in 2012-14, compared with 69% in the mid-1990s. However, due to an increase in direct payments the total level support to agriculture has fallen at a slower pace and at around 55% of gross farm receipts, it remains one of the highest in the OECD area, three times higher than the OECD average.
- The removal of milk price controls and milk quota, together with the elimination of export subsidies on primary agricultural products and the reduction of some tariff barriers has the potential to improve economic efficiency of the sector. Further reduction of tariff barriers and the elimination of the remaining export subsidies to processed products should be considered to further reduce the burden on consumers and interference with markets.
- Security of food supply should be sought through a more competitive agriculture. Much, but not all, of Swiss farming occurs in difficult natural conditions and support policies maintain production where it would not otherwise occur. A better distinction could be made, though, between policies that address market failures (the provision of positive externalities and public goods as well as the avoidance of negative externalities), and those that address income problems.
- The steps implemented in the Agricultural Policy package for 2014-17, to eliminate the general area payment and to replace the headage payments by area payments for pasture area are steps in the right direction. Focus should be put on further developing a set of better targeted direct payments to meet the various societal concerns and to further reduce border protection in order to meet the declared (and sometimes conflicting) objectives at lower cost to consumers and taxpayers.
- For some objectives such as sustainable use of resources and animal welfare the existing regulations could be made more stringent, while animal welfare and environmental compensation payments would be reduced. In practical terms current cross compliance requirements can be incorporated into mandatory regulation, which then provides a new baseline for more stringent cross-compliance requirements linked to support payments.

Figure 21.1. **Switzerland: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

StatLink http://dx.doi.org/10.1787/888933235000

Contextual information

Switzerland is a small open economy with a high GDP per capita and low inflation and unemployment. The share of agriculture in the Swiss economy is low at below 1%, while its share in employment is around 4%. This is mainly due to highly developed industrial and services sectors in the economy. The farm structure is dominated by relatively small family farms. Hills and mountain farming areas are used for extensive milk and meat production. Arable land and irrigated land represent respectively 27% and 2% of total agricultural area. Switzerland has consistently been a net agro-food importer; its share of agro-food imports in total imports is around 6%, while the share of agro-food exports in total exports is around 4%.

Table 21.1. **Switzerland: Contextual indicators, 1995, 2013**[1]

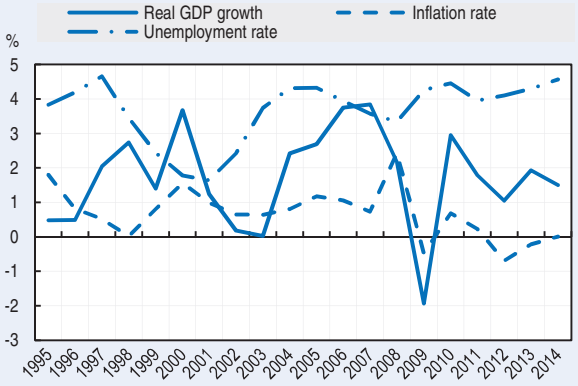
	1995	2013[1]
Economic context		
GDP (billion USD)	324	685
Population (million)	7	8
Land area (thousand km^2)	40	40
Population density (inhabitants/km^2)	170	196
GDP per capita, PPP (USD)	27 269	57 443
Trade as % of GDP	25.0	31.4
Agriculture in the economy		
Agriculture in GDP (%)	1.7	0.8
Agriculture share in employment (%)	4.4	3.9
Agro-food exports (% of total exports)	3.3	4.2
Agro-food imports (% of total imports)	7.0	6.2
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	-2 937	-2 931
Crop in total agricultural production (%)	30	29
Livestock in total agricultural production (%)	70	71
Agricultural area (AA) (thousand ha)	1 581	1 529
Share of arable land in AA (%)	27	26
Share of irrigated land in AA (%)	..	4
Share of agriculture in water consumption (%)	..	..
Nitrogen balance, kg/ha	73	68

1. Or latest available year.

Sources: *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235505

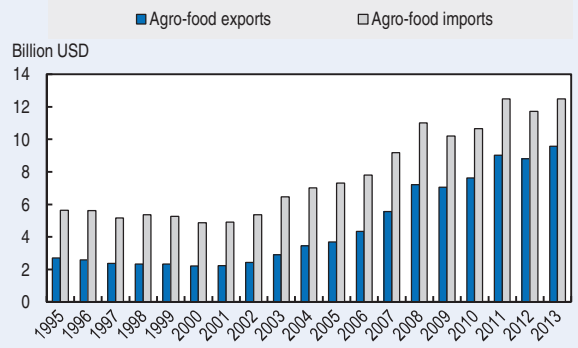
Figure 21.2. **Switzerland: Main macroeconomic indicators, 1995-2014**



Source: *OECD Factbook Statistics.*

StatLink http://dx.doi.org/10.1787/888933235010

Figure 21.3. **Switzerland: Agro-food trade, 1995-2013**



Source: *UN Comtrade Database.*

StatLink http://dx.doi.org/10.1787/888933235023

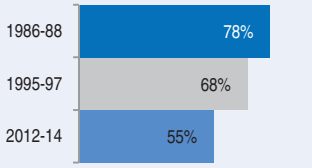
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Switzerland has progressively reduced its support to agriculture but the change is relatively moderate and support remains high at 55% of gross farm receipts, which is three times above the OECD average. The level of price distortions has been significantly reduced, although domestic prices remain on average 45% above world prices. Budgetary payments are mostly provided in the form of area payments and headage payments, but the share of payments targeted towards environment and animal welfare is steadily increasing.

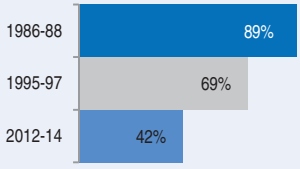
PSE as % of receipts (%PSE)

Switzerland has reduced its support to farmers by 23 percentage points between 1986-88 and 2012-14. Despite this gradual reduction, overall support remains three times higher than the OECD average of 18%. After a decline of 4 percentage points in 2013, the %PSE returned to the 2012 level in 2014 (around 56%).



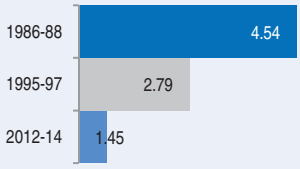
Potentially most distorting support as % of PSE

Due to changes in the way in which support is delivered during consecutive policy reforms, the most production and trade distorting support (based on output and variable input use – without constraints) dropped from almost 90% in 1986-88 to around 40% of the PSE in 2012-14.



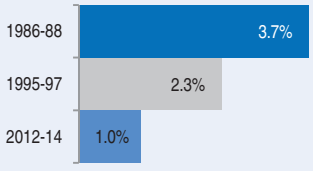
Ratio of producer price to border price (NPC)

The ratio of producer price to border price was substantially reduced over time. Overall, the prices paid to the farming sector were 45% above world prices in 2012-14 as measured by the NPC, a contrast with the 4.5 times higher domestic prices in 1986-88. The highest NPCs are for poultry and eggs.

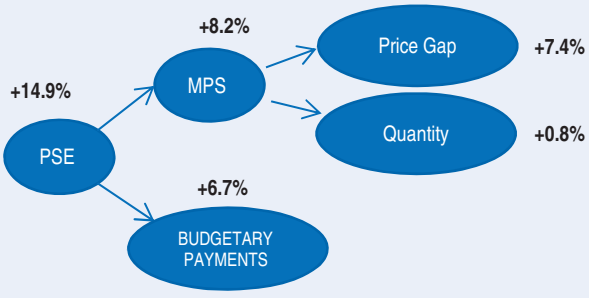


TSE as % of GDP

Total support was 1% of GDP in 2012-14 and the expenditure on general services was around 11% of the Total Support Estimate.

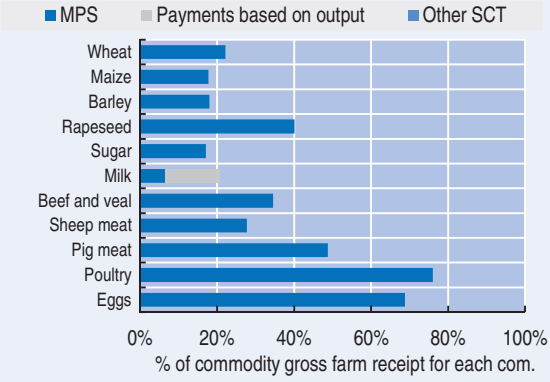


Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014, due both to an increase of MPS and of budgetary payments. The MPS increase is mainly the increased price gap, which mainly reflects the reduction of world prices in USD.

Transfer to specific commodities (SCT), 2012-14



Single Commodity Transfers (SCT) represented around 40% of the total PSE in 2012-14. The share of the SCT in commodity gross farm receipts was less than20% for sugar and other grains and around 70% for poultry and eggs.

Table 21.2. **Switzerland: Estimates of support to agriculture**

Million CHF

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**9 482**	**8 236**	**6 697**	**6 438**	**6 699**	**6 953**
***of which:** share of MPS commodities (%)*	81.5	82.3	69.4	71.0	69.2	67.9
Total value of consumption (at farm gate)	**11 394**	**9 557**	**8 122**	**7 787**	**8 223**	**8 355**
Producer Support Estimate (PSE)	**8 509**	**7 362**	**5 674**	**5 561**	**5 334**	**6 128**
Support based on commodity output	7 091	4 918	2 331	2 347	2 108	2 539
Market Price Support[1]	7 049	4 835	2 035	2 049	1 809	2 246
Payments based on output	42	83	297	298	299	293
Payments based on input use	563	411	207	201	204	216
Based on variable input use	454	309	81	81	80	83
with input constraints	0	180	14	14	13	16
Based on fixed capital formation	72	78	124	119	121	131
with input constraints	0	0	2	0	0	7
Based on on-farm services	36	25	2	2	2	2
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required	612	1 203	1 165	1 309	1 295	890
Based on Receipts / Income	15	0	0	0	0	0
Based on Area planted / Animal numbers	597	1 203	1 165	1 309	1 295	890
with input constraints	340	1 050	1 153	1 298	1 284	879
Payments based on non-current A/An/R/I, production required	28	569	417	102	101	1 049
Payments based on non-current A/An/R/I, production not required	0	0	899	1 195	1 196	305
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	0	0	899	1 195	1 196	305
with commodity exceptions	0	0	0	0	0	0
Payments based on non-commodity criteria	0	61	449	205	223	919
Based on long-term resource retirement	0	0	0	0	0	0
Based on a specific non-commodity output	0	61	449	205	223	919
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	216	200	206	201	208	210
Percentage PSE (%)	**77.7**	**68.4**	**54.9**	**55.9**	**52.2**	**56.6**
Producer NPC (coeff.)	**4.54**	**2.79**	**1.45**	**1.49**	**1.38**	**1.48**
Producer NAC (coeff.)	**4.51**	**3.18**	**2.22**	**2.27**	**2.09**	**2.30**
General Services Support Estimate (GSSE)[2]	**677**	**590**	**718**	**716**	**720**	**718**
Agricultural knowledge and innovation system	173	164	336	331	340	338
Inspection and control	14	15	11	11	11	11
Development and maintenance of infrastructure	126	83	89	87	90	89
Marketing and promotion	45	45	59	65	57	57
Cost of public stockholding	103	83	38	38	38	39
Miscellaneous	216	200	184	184	184	184
Percentage GSSE (% of TSE)	**6.6**	**6.5**	**11.2**	**11.4**	**11.9**	**10.5**
Consumer Support Estimate (CSE)	**-7 535**	**-4 994**	**-2 385**	**-2 339**	**-2 177**	**-2 637**
Transfers to producers from consumers	-7 088	-5 053	-1 862	-1 886	-1 636	-2 064
Other transfers from consumers	-1 767	-1 221	-547	-481	-563	-597
Transfers to consumers from taxpayers	1 099	1 053	8	4	11	8
Excess feed cost	221	227	17	23	11	15
Percentage CSE (%)	**-73.1**	**-58.7**	**-29.4**	**-30.1**	**-26.5**	**-31.6**
Consumer NPC (coeff.)	**4.50**	**2.91**	**1.42**	**1.44**	**1.37**	**1.47**
Consumer NAC (coeff.)	**3.74**	**2.42**	**1.42**	**1.43**	**1.36**	**1.46**
Total Support Estimate (TSE)	**10 285**	**9 005**	**6 400**	**6 281**	**6 065**	**6 853**
Transfers from consumers	8 855	6 274	2 409	2 367	2 199	2 661
Transfers from taxpayers	3 197	3 952	4 538	4 396	4 429	4 789
Budget revenues	-1 767	-1 221	-547	-481	-563	-597
Percentage TSE (% of GDP)	**3.7**	**2.3**	**1.0**	**1.0**	**1.0**	**1.1**
GDP deflator (1986-88=100)	**100**	**125**	**139**	**139**	**139**	**139**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Switzerland are: wheat, maize, barley, rapeseed, sugar, milk, beef and veal, sheep meat, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235517

Description of policy developments

Main policy instruments

Switzerland adopted a new policy framework for the period 2014-17 (*Politique Agricole 2014-17*). The main change is the suppression of general area payments and reallocation of payments more closely related to specific objectives (agricultural practices) complemented by a system of transition payments to make the reform socially acceptable. Another important shift is the replacement of general headage payments to ruminants by an area payment to pastures with a requirement for a minimal stocking density. Most of the animal welfare and agri-environmental payments from the previous period continue to be applied under this new framework (see below for more details). The environmental cross-compliance conditions are also maintained in the new system of payments. The overall budgeted annual amount of these payments remains stable for the whole period around CHF 2.8 billion (USD 3.1 billion), which is around the same level as in 2012 and 2013.

One of the main components of support provided to Swiss farming is the market price support due to important trade barriers applied at the border. These measures remain the principal policy element providing price support. Agro-food imports to Switzerland are regulated either by single **tariffs** or, for a number of products, by a combination of relatively low in-quota tariffs and high out-of-quota **import tariffs** within a system of **Tariff Rate Quotas** (TRQ). The latter, covers a number of basic agricultural and food products, in particular meat, milk products, potatoes, fruits, vegetables, bread cereals and wine. Since 1999, allocated TRQ volumes have been transferable from one importer to another. An auctioning system has been used to allocate some of the TRQs to traders. All **export subsidies** for primary agricultural products were eliminated by 1 January 2010, while those for some processed agricultural products were maintained. There are also payments based on output related to milk production (milk used for cheese processing and milk produced without silage) and since 2008 an area payment for sugar beet. A comprehensive and detailed analysis and evaluation of agricultural policies applied in Switzerland is provided in a recently published study (OECD, 2015b).

Domestic policy developments in 2014-15

Since the abolition of the **milk quotas** in May 2009, all dairy farmers are obliged to conclude milk delivery contracts with their milk purchasers. In 2014 inter-branch organisations for milk were responsible for standard milk delivery contracts that may be made compulsory by the Federal Council. Due to border measures the price paid to milk producers remained on average 28% above the world market prices (producer NPC) in 2012-14. Since 2010, **output payments** consist of an allowance for milk transformed into cheese and the additional allowance when milk is produced without silage feed. These payments are maintained under the PA 2014-17, and the yearly sum budgeted for 2014-17 is CHF 293 million (USD 322 million), i.e. slightly lower in CHF terms than in 2013, when it was CHF 299 million (USD 322.5 million).

Switzerland has adopted a new policy framework for 2014-17 (*Politique Agricole 2014-17*). The policy reform focuses on a re-arrangement and improved targeting of the *direct payment* scheme, intended to improve the effectiveness and efficiency of the measures, and set up a system of direct

payments linked to the various objectives. The revised *direct payments* scheme has seven categories, which are linked to the achievement of specific policy objectives and the provision of public goods:

1. *Payments for ensuring food supplies* (i.e. food-security payments): consist mainly of area payments, with rates differentiated between the plain and hilly and mountain regions. The payments for production in difficult conditions are also part of this category.
2. *Farmland payments:* are also area payments with a main function to maintain extensive forms of agricultural production in especially difficult conditions to maintain a cultivated landscape;
3. *Bio-diversity payments:* targeted to specific outcomes or farming practices; especially the enhanced quality of the ecological compensation areas is expected to improve the habitat and the possibilities for dispersal of target and indicator species in agriculture;
4. *Payments for landscape quality:* payments for preservation and promotion of landscape diversity (including more diverse crop rotation, flowering fields and traditional agricultural practices), based on local projects and co-financed by the Cantons;
5. *Payments for production systems:* area and headage payments to provide incentives for environment and animal-friendly production systems (e.g. *Payments for production systems*: area and headage payments to provide incentives for environment and animal-friendly production systems (e.g. organic farming).
6. *Resource-efficiency payments:* payments providing incentives to use specific production techniques (e.g. certain manure spreading methods and soil conservation methods like no-till).
7. *Transitional payments:* are provided to farmers who suffer a loss of direct payments under the new system. These payments are scheduled to decrease gradually to a half in 2017 and phased out totally within the following 4 years.

The system is complex and each category includes several programmes. These programmes are a combination of "new" programmes and "old" programmes, i.e. already implemented under the AP 2011 package (2008-13). Box 21.1 provides more detailed information on the programmes providing payments in the main categories of the AP 2014-17.

Trade policy developments in 2014-15

In November 2008, Switzerland and the European Union launched negotiations on full trade liberalisation in the agro-food sector. So far, three comprehensive rounds of negotiations have taken place, but the negotiations have recently slowed down. As a member of the European Free Trade Association (EFTA), Switzerland participates in ongoing free trade negotiations between the EFTA and, respectively, ***India***, ***Indonesia***, ***Viet Nam***, ***Malaysia*** and ***the Philippines***, as well as ***Central American States*** (Free Trade Agreements with ***Costa Rica*** and ***Panama*** are signed; negotiations with ***Guatemala*** are concluded in substance and are on hold with ***Honduras***). Negotiations with ***Algeria***, ***Thailand***, and the ***customs union of the Russian Federation***, ***Belarus*** and ***Kazakhstan*** are on hold for the moment. Negotiations with ***Bosnia*** and ***Herzegovina*** have been completed and the agreement entered into force on 1 January 2015. On a bilateral basis, Switzerland signed on 6th July 2013 a free trade agreement with ***China***; the agreement entered into force on 1 July 2014. These Free Trade Agreements and the ongoing negotiations cover also processed agricultural products and a range of basic agricultural products.

Preferential tariff rates are applied to imports from developing countries under a system of preferences. In the context of the initiative of the Swiss government to grant zero tariffs on all products imported from Least Developed Countries (LDC), since September 2009 all agricultural imports from LDC countries are duty and quota free.

Box 21.1. **ystem of direct payments introduced under the AP 2014-17**

A. Payments for ensuring food supplies

Basic Contribution (new): is a general area payment which replaces the headage payment to ruminants. This shift sets at the same level the payment for arable crops and grassland (the previous system privileged the grassland areas).

Contribution to production in difficult conditions (new): an area payment provided to farms in difficult conditions and replaces the headage payments for animals raised in difficult conditions (by definition this payment is for the mountain and hilly areas).

Contribution to arable land and perennial cultures (new): an additional area contribution to crops on arable land and perennial cultures.

B. Farmland payments

Contribution to maintain an open landscape (new)

Farming on steep slopes (old): area payments for farming in specifically defined conditions

Farming on very steep slopes (new): area payments for farming in specifically defined conditions

Wine production on steep slopes (old): area payments

Alpine pasturing (new)

Summer pasturing (old)

C. Bio-diversity payments

Contribution to environmental quality Level 1 (old): regroups the payments provided under the various programmes provided under Ecological compensation in the previous system (e.g. *payments for ecological compensation areas*).

Contribution to environmental quality Level 2 (old): corresponds to the payments provided under the Ecological quality directive in the previous system (e.g. *payments for creating networks of highly valuable biodiversity areas*).

Contribution to environmental quality Level 3 (new): these payments will be provided from 2016 to finance projects listed as objects of national importance.

D. Payments for landscape quality

Contribution for quality of typical regional landscapes (new): These projects are developed by Cantons and are co-financed from Federal and Cantonal budgets.

E. Payments for production systems

Payments for organic farming (old)

Payments for extensive production (grains and rapeseed) (old)

Payments for animal welfare: i) *payments for regularly keeping animals outdoors* (old); and ii) *animal welfare through housing systems* (old)

Contribution to meat and milk production on grassland (new): grassland based area payments conditional to minimal stocking densities and restricted use of concentrated feed.

F. Resource-efficiency payments

Contribution to spreading techniques limiting the emission of pollutants (new)

Contribution to cultivation techniques preserving the soils (new)

Contribution to precision application of phytosanitary products (new)

Contribution to water protection (Article 62) (old)

Contribution to sustainable use of resources (Article 77a/b) (old)

G. Transitional payments (new)

References

OECD (2015a), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

OECD (2015b), *OECD Review of Agricultural Policies: Switzerland 2015*, OECD Publishing, Paris, *http://dx.doi.org/10.1787/9789264168039-en*.

Chapter 22

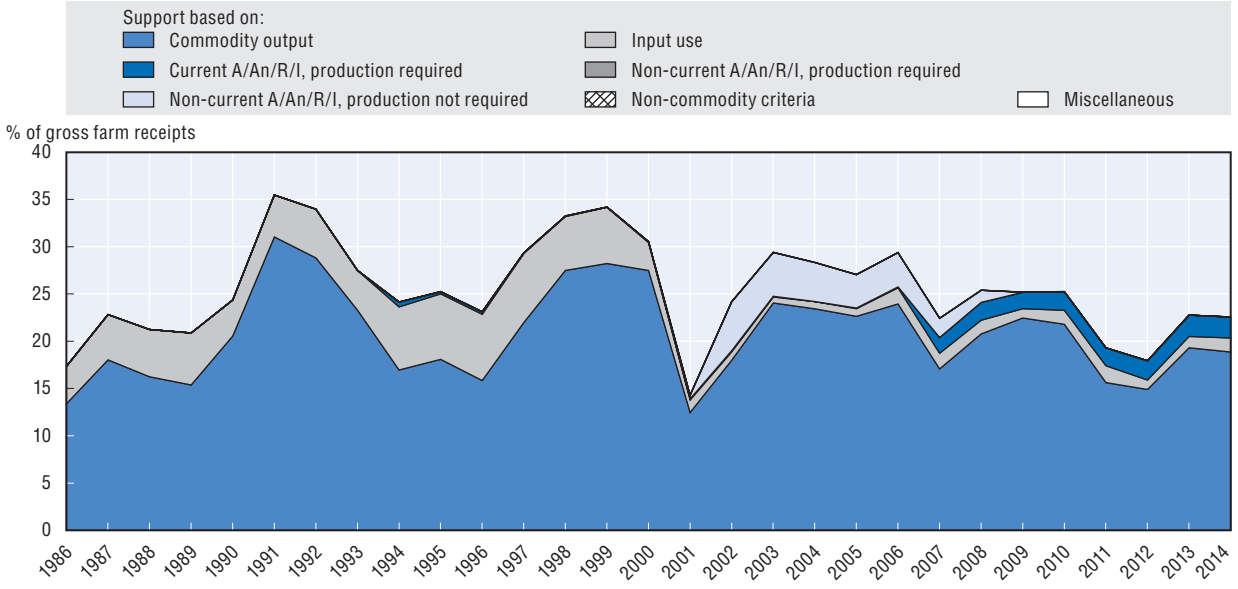
Turkey

The Turkey country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Since 1986-88, policy reforms aimed at improving market orientation have been variable. Frequent ad hoc changes to policy settings have been made, within a macroeconomic context of high inflation and volatile exchange rates. The share of producer support in gross farm receipts (% PSE) in 2012-14 remained almost unchanged from 1986-88 levels, at around 20%, which is slightly higher than the OECD average.
- Turkey now ranks as the world's 7th largest agricultural producer and has made impressive progress in recent years towards strengthening the agricultural sector's legal and institutional framework.
- While the inclusion of R&D, innovations and productivity among the strategic objectives of the Development Plan is a positive step in the right direction, continuing heavy reliance on the potentially most distorting types of support could prove to be a hindrance to improving agricultural productivity in a sustainable way.
- Greater efforts need to be made to transform the sugar state enterprises into truly commercial and economically viable entities, operating under more competitive market conditions.

Figure 22.1. **Turkey: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

Economic growth has lost momentum in 2014. Policies to hold back domestic demand in the face of a large current account deficit, increased volatility in capital flows and political uncertainties led to a sharp deceleration in private consumption and investment. The current account deficit is set to stay above 5% of GDP, while inflation reached 9% (7.5% in 2013).

Agricultural production, particularly crop production, has grown rapidly over the past two decades. Notwithstanding various structural bottlenecks, such as the predominance of small-sized and subsistence/semi-subsistence farms, and the high rates of illiteracy rates among farmers, Turkey ranks, globally, as a significant agricultural exporter (the world's 7th largest agricultural producer). Turkey's main trading partners are the EU, the United States and the Middle East. The agricultural sector is one of the most important sectors of the country's economy in terms of employment.

Table 22.1. **Turkey: Contextual indicators, 1995, 2013**[1]

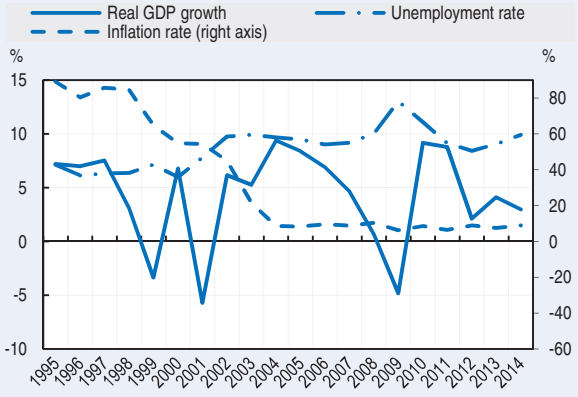
	1995	2013[1]
Economic context		
GDP (billion USD)	228	822
Population (million)	62	76
Land area (thousand km^2)	770	770
Population density (inhabitants/km^2)	75	96
GDP per capita, PPP (USD)	7 119	18 574
Trade as % of GDP	12.6	24.5
Agriculture in the economy		
Agriculture in GDP (%)	11.9	8.3
Agriculture share in employment (%)	44.1	23.6
Agro-food exports (% of total exports)	19.9	11.0
Agro-food imports (% of total imports)	9.9	5.3
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	778	3 315
Crop in total agricultural production (%)	68	59
Livestock in total agricultural production (%)	32	41
Agricultural area (AA) (thousand ha)	39 493	38 407
Share of arable land in AA (%)	62	54
Share of irrigated land in AA (%)	8	9
Share of agriculture in water consumption (%)	87	87
Nitrogen balance, kg/ha	33	31

1. Or latest available year.

Sources: *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235524

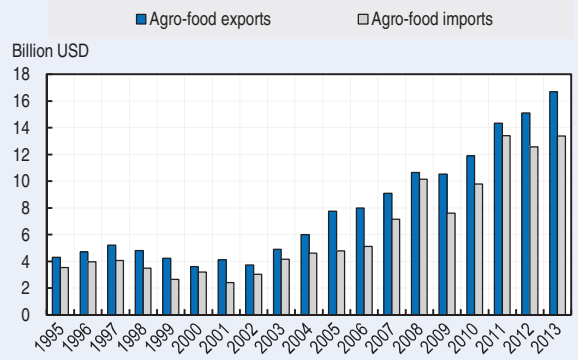
Figure 22.2. **Turkey: Main macroeconomic indicators, 1995-2014**



Source: *OECD Factbook Statistics.*

StatLink http://dx.doi.org/10.1787/888933235045

Figure 22.3. **Turkey: Agro-food trade, 1995-2013**



Source: *UN Comtrade Database.*

StatLink http://dx.doi.org/10.1787/888933235051

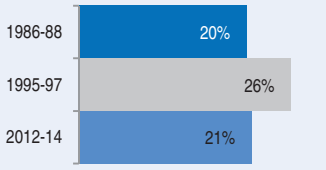
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Turkey has implemented a series of ambitious reforms since the late 1990s. However, the level of support made available varies from year to year and remains higher than the average for the OECD area, and the most distorting forms of support prevail. Decoupled direct payments were abolished in 2009, while payments based on commodity output have increased since then.

PSE as % of receipts (%PSE)

Support to producers (% PSE) increased by one percentage point to 21% in 2012-14, compared to 1986-88, and is higher than the OECD average. The % PSE in 2014 remained unchanged from 2013 at 23% of gross farm receipts.

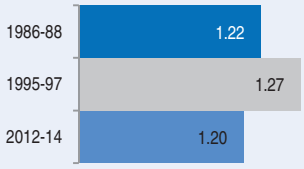


Potentially most distorting support as % of PSE

While the most production- and trade-distorting policies (based on commodity output and variable input use – without constraints) accounted for almost all producer support in 1986-88, in 2012-14 it was 88%.

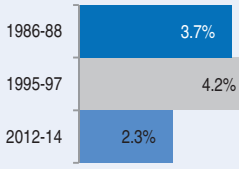
Ratio of producer price to border price (NPC)

Prices received by farmers in 2012-14 were about 20% higher than those received on the world market. They were 22% higher during 1986-88.

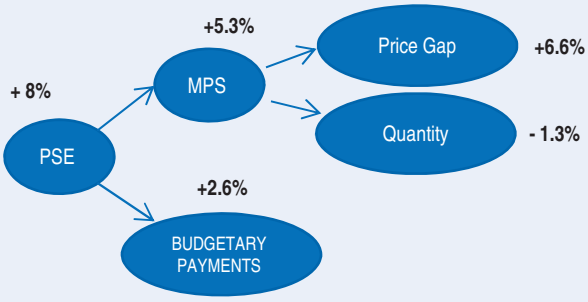


TSE as % of GDP

The share of total support to agriculture in GDP over 2012-14 was 2.3% and the share of general services in the total support estimate was around 15%. Expenditure on hydrological infrastructure accounts for 81% of the support to general services.

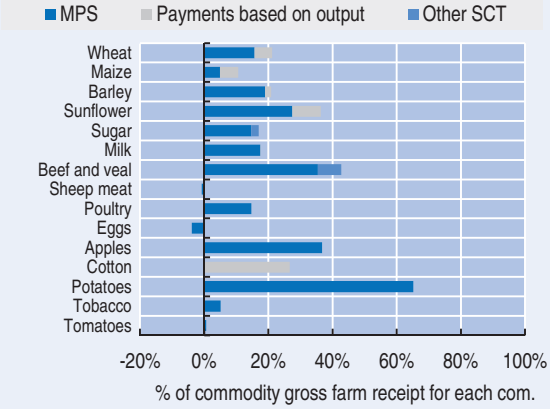


Decomposition of change in PSE, 2013 to 2014



The level of support increased in 2014 mainly due to the wider gap between domestic and border prices (MPS) for sunflower and potatoes.

Transfer to specific commodities (SCT), 2012-14



The share of single commodity transfers increased from 78% of producer support in 1986-88 to 88% in 2012-14. SCT were higher than 40% for potatoes and beef.

Table 22.2. **Turkey: Estimates of support to agriculture**

Million TRY

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**18**	**2 440**	**136 838**	**138 079**	**130 446**	**141 990**
***of which:** share of MPS commodities (%)*	56.5	74.9	69.3	63.2	70.3	74.5
Total value of consumption (at farm gate)	**15**	**2 227**	**108 012**	**107 549**	**102 322**	**114 165**
Producer Support Estimate (PSE)	**4**	**707**	**30 438**	**26 041**	**31 385**	**33 889**
Support based on commodity output	3	514	25 533	21 641	26 618	28 339
Market Price Support[1]	3	505	22 844	18 904	23 978	25 650
Payments based on output	0	10	2 689	2 737	2 640	2 689
Payments based on input use	1	189	1 778	1 447	1 655	2 233
Based on variable input use	1	182	1 377	1 114	1 299	1 717
with input constraints	0	0	0	0	0	0
Based on fixed capital formation	0	6	379	311	333	494
with input constraints	0	0	0	0	0	0
Based on on-farm services	0	1	22	22	22	23
with input constraints	0	0	0	0	0	0
Payments based on current A/An/R/I, production required	0	4	3 126	2 952	3 112	3 315
Based on Receipts / Income	0	0	300	263	290	347
Based on Area planted / Animal numbers	0	4	2 826	2 689	2 821	2 968
with input constraints	0	0	23	23	23	23
Payments based on non-current A/An/R/I, production required	0	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	1	1	1	1
With variable payment rates	0	0	0	0	0	0
with commodity exceptions	0	0	0	0	0	0
With fixed payment rates	0	0	1	1	1	1
with commodity exceptions	0	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0	0
Percentage PSE (%)	**20.5**	**25.9**	**21.1**	**17.9**	**22.8**	**22.6**
Producer NPC (coeff.)	**1.22**	**1.27**	**1.20**	**1.15**	**1.24**	**1.21**
Producer NAC (coeff.)	**1.26**	**1.35**	**1.27**	**1.22**	**1.29**	**1.29**
General Services Support Estimate (GSSE)[2]	**0**	**278**	**5 463**	**3 894**	**6 141**	**6 355**
Agricultural knowledge and innovation system	0	4	75	71	82	73
Inspection and control	0	7	104	92	105	116
Development and maintenance of infrastructure	0	58	4 483	3 731	4 582	5 137
Marketing and promotion	0	202	800	0	1 371	1 029
Cost of public stockholding	0	0	0	0	0	0
Miscellaneous	0	6	0	0	0	0
Percentage GSSE (% of TSE)	**7.3**	**27.7**	**15.1**	**13.0**	**16.4**	**15.8**
Consumer Support Estimate (CSE)	**-3**	**-492**	**-15 800**	**-12 093**	**-17 908**	**-17 399**
Transfers to producers from consumers	-3	-493	-16 472	-12 263	-18 706	-18 447
Other transfers from consumers	0	-28	-157	-173	-123	-173
Transfers to consumers from taxpayers	0	0	0	0	0	0
Excess feed cost	0	29	829	344	922	1 221
Percentage CSE (%)	**-19.2**	**-21.3**	**-14.7**	**-11.2**	**-17.5**	**-15.2**
Consumer NPC (coeff.)	**1.26**	**1.29**	**1.18**	**1.13**	**1.23**	**1.19**
Consumer NAC (coeff.)	**1.24**	**1.27**	**1.17**	**1.13**	**1.21**	**1.18**
Total Support Estimate (TSE)	**4**	**985**	**35 902**	**29 935**	**37 526**	**40 244**
Transfers from consumers	3	521	16 629	12 437	18 830	18 620
Transfers from taxpayers	1	492	19 429	17 672	18 819	21 797
Budget revenues	0	-28	-157	-173	-123	-173
Percentage TSE (% of GDP)	**3.7**	**4.2**	**2.3**	**2.1**	**2.4**	**2.3**
GDP deflator (1986-88=100)	**100**	**13 840**	**504 202**	**472 198**	**500 990**	**539 417**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Turkey are: wheat, maize, barley, sunflower, sugar, potatoes, tomatoes, grapes, apples, cotton, tobacco, milk, beef and veal, sheep meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235538

Description of policy developments

Main policy instruments

The strategic objectives of agricultural policies, as identified in the 10th Development Plan (2014-18) are: to develop a globally competitive and environmentally-friendly agricultural sector, whose fundamental aim is to provide sufficient and balanced nutrition to population. Particular emphasis is given to R&D, innovations, productivity, improvement strengthening of food safety infrastructure and the more efficient use of water in agriculture. The plan aims to achieve a growth of 3.1% in the agricultural sector annually, while the share of agricultural employment in total employment is projected to decline to 21.9% and the share of the sector in GDP is projected to be 6.8% by 2018.

The 2013-17 Strategic Plan defines five strategic areas in the agricultural sector; i) agricultural production and supply security; ii) food safety; iii) phytosanitary and animal health; iv) agricultural infrastructure and rural development; and v) institutional capacity building.

The tools of agricultural support to be used for achieving the strategic objectives include deficiency payments, compensatory payments, livestock support (for fodder crops, artificial insemination, milk premiums, risk-free livestock regions, bee-keeping and fisheries), support for crop insurance, rural development support and environmental set-aside.

Import tariffs – complemented by purchasing prices fixed for cereals, sugar and tobacco – provide support for domestic production. Export subsidies are applied to a number of products, including fresh and processed fruit and vegetables, derived food products, poultry meat and eggs. Production quotas at processing plant level are applied for sugar beet.

Deficiency payments ("premium payments") are provided for the products that are in short domestic supply. Producers of oilseeds, olive oil, cotton, cereals and tea (since 2005) benefit from such payments. Hazelnut producers receive payments based on area. Payments are also provided for fodder crops, organic farming, certified seeds, gasoline and fertiliser use implemented on the basis of area. Most farmers are exempt from income tax since the average farm size is small, and average farm income is rather low.

Input subsidies are provided mainly in the form of interest concessions and payments to improve animal breeds and farm production capacity (e.g. field levelling, drainage, soil improvement and protection, land consolidation and research and development). A number of regulations control water and soil pollution, and provide protection to wetlands. The government plays a major role in providing infrastructure investment, especially for irrigation. A feature of Turkish agriculture is its widespread co-operative organisation, involving production co-operatives (e.g. irrigation and sugar beet co-operatives) to credit and marketing co-operatives. Region specific programmes and investment support to improve dairy and beef farm structures are in place.

Domestic policy developments in 2014-15

A "basin-based support programme", which differentiates the crops that will be eligible for ***deficiency payments*** across agricultural basins, was presented to Council of Ministers by the Minister of Food, Agriculture and Livestock in April 2013. By differentiating budgetary crop-specific supports across regions, the government aims to: i) to increase productivity, with crops to be produced based on the most suitable ecological conditions; and ii) change the crop pattern by increasing the production of imported crops, while decreasing excess supply in some other crops.

Thirty basic agricultural basins were established in 2009, based on a sophisticated model developed by the Ministry of Food, Agriculture and Livestock, which takes into account ecological and production conditions.

Each farmer registered under the National Farmer Registration System (NFRS) received a so-called "diesel payment" of TRY 46 (USD 20) per hectare and a "fertiliser payment" of TRY 60 (USD 26) per hectare, on average, in 2014.

The ***insurance support scheme*** continued in 2014. As of end of 2014, 1 087 000 insurance policies were issued and TRY 357.4 million (USD 162.4 million) has been paid. Farmers and agricultural enterprises benefit from ***loans*** offered at concessional rates by the *Ziraat Bank* (TCZB) and *Agricultural Credit Co-operatives* (ACC), with a subsidy rate that varies between 25% and 100% of the TCZB's current agricultural credit rate, depending on the type of undertaking (organic farming, livestock breeding, irrigation, good farming practices and R&D). The difference between the current rates and the rates applied to farmers is paid by the Treasury to the TCZB and ACC (in the form of "income loss"). Treasury's payments reached a total of TRY 1 130 million (USD 516 million) in 2013. With regard to ***agricultural state economic enterprises***, the tobacco and salt public enterprise were privatised in late 2013, while the privatisation of sugar enterprise is still in process.

On ***rural development***, a new national Rural Development Strategy was issued in 2014. The ongoing support on rural development projects involves co-financing the beneficiaries to mobilise private-sector resources. Implementation of the second phase of the Pre-Accession Assistance Rural Development Programme (IPARD) 2017-13, which sets out Turkey's measures to achieve consistency with EU's rural development policy and the EU Common Agricultural Policy, continues. The total budget for the support of rural development programmes is EUR 536 million in 2014. For the programming period 2014-20, a new programme (IPARD-II) has been prepared and is under approval process by EU Commission.

Trade policy developments in 2014-15

The average rate of ***customs duties*** for agricultural products was 58% 2014 (58.9% in 2013). Customs duties on inulin, molasses and glucose were decreased; customs duties on walnut originating from Ukraine (within the frame of Agreement on Safeguard Measures) and some seeds increased.

Export subsidies for agricultural products were announced in the Official Gazette in 2014 and were applied on exports during the 2014 calendar year. In 2014, 16 commodity groups, out of the 44 groups eligible under Turkey's WTO commitments, received export subsidies. The subsidies are provided to exporters in the form of deductions to their payments to public corporations such as taxes, or the costs of social insurance premiums, telecommunications or energy.

Chapter 23

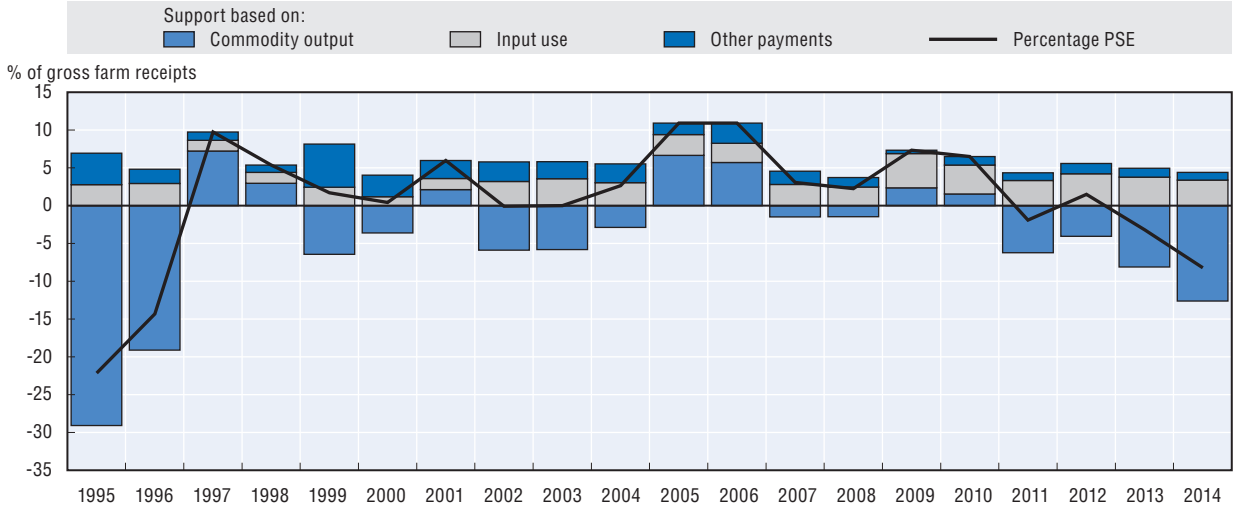
Ukraine

The Ukraine country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2013-15.

Evaluation of policy developments

- Producer support has been variable over the long term. In 2014 it fell to minus 8% – the lowest level since the mid-1990s. Policies thus taxed producers on aggregate, although the average results from a combination of taxation of export sectors and protection of import sectors. Over 80% of support was provided in ways that are production and trade distorting.
- External factors overwhelmed agricultural policy during the monitored period. Following the adverse political developments in Ukraine since the beginning of 2014, the economy plunged into crisis with the sharp rise of public debt, rapid depreciation of the local currency, high price inflation, and destabilisation of financial markets. This necessitated recourse to new international financial aid and financial austerity measures.
- The scope and scale of direct government action in agriculture was significantly limited, with only a part of measures on the books effectively financed. Financial austerity measures led to the elimination of some previously important tax concessions to agriculture.
- Agricultural policy is at a stage of redefinition. The government has committed to enabling a more market-oriented agro-food sector with a business friendly environment, while moving toward economic integration with the European Union and exploiting new international market opportunities.
- A new strategy for agriculture is in preparation as part of a broader reform agenda crosscutting all economic and governance areas. Future government actions in the agricultural area are to concern reduction of administrative burden in the agro-food sector, new privatisations, land market regulations, and taxation.
- A new agricultural policy framework and the underlying support measures are still being determined. Their specific contours ultimately depend on the progress of macroeconomic and political stabilisation which so far has been elusive.

Figure 23.1. **Ukraine: PSE level and composition by support categories, 1995-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

Ukraine is richly endowed with resources for agriculture, particularly fertile arable lands, placing it among the world's largest grain and vegetable oil exporters. The country is classified as a lower middle income economy. After stagnation in 2012 and 2013, GDP contracted by an estimated 6.3-6.8% in 2014. Agriculture contributes around 10% of GDP, below its 17% share of total employment. Agriculture's performance has been variable over the years, with annual fluctuations in grain output largely driving the overall situation. Total agricultural output increased by 2.8% in 2014 compared to 13.3% the year before. Commercial large-scale production generates around half of total agricultural output, with the rest coming from household production. Within the large-scale sector, modern and competitive operations have been rapidly developing, while some segments continue to suffer from low efficiency and lack investment. Nearly one-third of the population lives in rural areas, which are characterised by rapid ageing, high unemployment and high poverty rates.

Table 23.1. **Ukraine: Contextual indicators, 1995, 2013**[1]

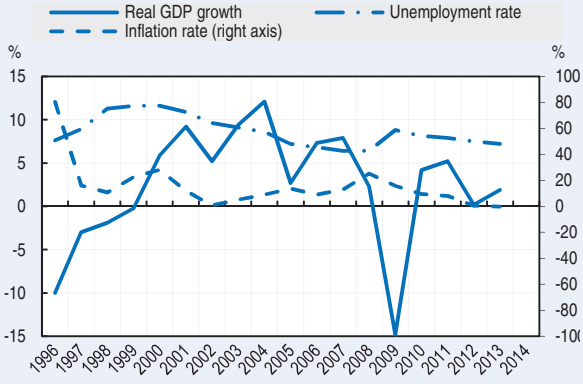
	1995	2013[1]
Economic context		
GDP (billion USD)[2]	45	182
Population (million)	51	45
Land area (thousand km^2)	579	579
Population density (inhabitants/km^2)	85	75
GDP per capita, PPP (USD)	3 708	8 790
Trade as % of GDP[2]	35.9	38.5
Agriculture in the economy		
Agriculture in GDP (%)	15.4	10.4
Agriculture share in employment (%)	22.5	17.2
Agro-food exports (% of total exports)[2]	21.6	27.0
Agro-food imports (% of total imports)[2]	7.6	9.5
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)[2]	1 767	9 743
Crop in total agricultural production (%)	64	70
Livestock in total agricultural production (%)	36	30
Agricultural area (AA) (thousand ha)	41 853	41 297
Share of arable land in AA (%)	80	79
Share of irrigated land in AA (%)	6	5
Share of agriculture in water consumption (%)	..	13
Nitrogen balance, kg/ha	..	..

1. Or latest available year.
2. Data listed in 1995 refers to 1996.

Sources: *OECD Statistical Databases*, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235544

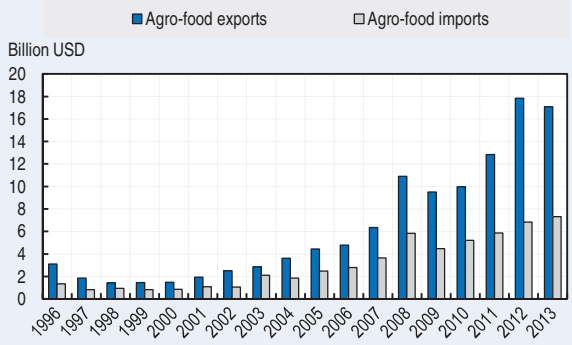
Figure 23.2. **Ukraine: Main macroeconomic indicators, 1996-2014**



Source: *OECD Factbook Statistics.*

StatLink http://dx.doi.org/10.1787/888933235078

Figure 23.3. **Ukraine: Agro-food trade, 1996-2013**



Source: *UN Comtrade Database.*

StatLink http://dx.doi.org/10.1787/888933235085

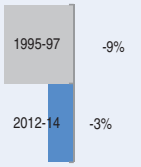
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Producer support has been variable over the long-term, largely reflecting fluctuations in market price support. The %PSE was negative in 2013 and 2014, as budgetary payments and price protection for imported commodities only partly offset negative market price support on exported commodities. A strong fall in support in 2014 is largely attributed to exchange rate depreciation which pushed the prices for exported products further below world levels, while price protection for imported products narrowed. On aggregate, producer prices are below world levels, but disparities in protection across commodities are significant. Over 80% of producer support is provided in the most production and trade distorting forms, with budgetary transfers dominated by input subsidies.

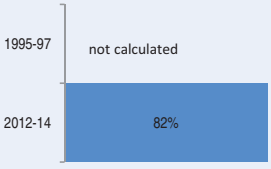
PSE as % of receipts (%PSE)

Support to producers (%PSE) was minus 3% in 2012-14, implying an implicit overall taxation, which was however less strong than in 1995-97 (minus 9%). Support declined in 2013 and 2014 and reached its lowest levels since mid-1990s, reflecting the crisis state of economy that has weakened domestic prices against world levels and substantially narrowed the government's capacity to provide budgetary support.



Potentially most distorting support as % of PSE

Because the value of market price support was negative and only partly offset by the budgetary transfers, the share of most distorting support in the PSE exceeded 100% in 1995-97. Potentially most production and trade distorting support accounted for over four-fifths of support in 2012-14.



Ratio of producer price to border price (NPC)

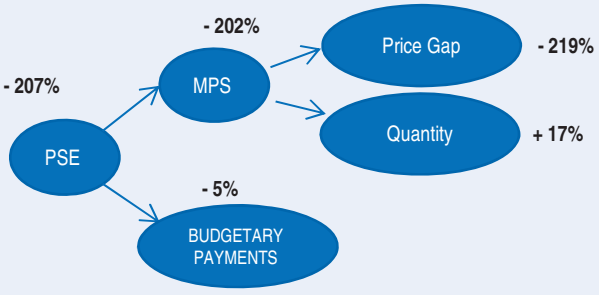
Prices received by farmers were on average 10% below those observed on world markets in 2012-14; they were 12% below such levels in 1995-97. Average NPC disguises significant disparities in price protection across commodities.

TSE as % of GDP

Not calculated.

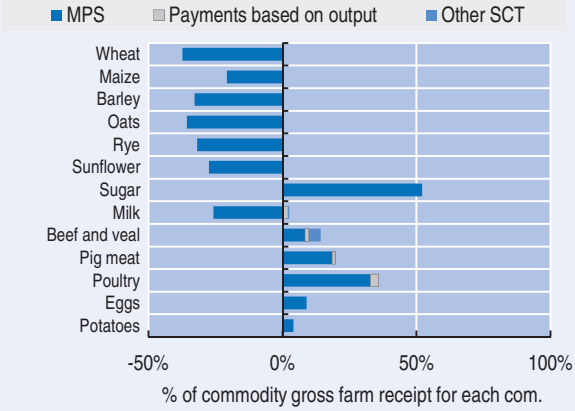
Transfers to general services almost halved in nominal terms between 2012 and 2014 and were largely offset by the overall taxation of agricultural producers (as measured by the PSE), with the result of total support to agriculture (TSE) becoming negative in 2012-14.

Decomposition of change in PSE, 2013 to 2014



The negative PSE declined further in 2014, overwhelmingly due to the fall in aggregate market price support (MPS). On average, the negative gap between domestic and world prices widened, this was only slightly offset by the changes in the quantities, i.e. less wheat, barley and sunflower seeds produced, commodities characterised by negative transfers. These price effects were compounded by a reduction in budgetary support.

Transfer to specific commodities (SCT), 2012-14



Transfers to specific commodities (SCT) vary considerably, with meat, eggs, and sugar receiving support, and grains, oilseeds and milk characterised by negative transfers.

Table 23.2. **Ukraine: Estimates of support to agriculture**

Million UAH

	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**22 623**	**335 901**	**278 947**	**330 901**	**397 855**
***of which:** share of MPS commodities (%)*	87.7	81.0	82.2	81.0	79.7
Total value of consumption (at farm gate)	**15 842**	**219 433**	**196 093**	**213 308**	**248 899**
Producer Support Estimate (PSE)	**-1 775**	**-13 659**	**4 472**	**-11 157**	**-34 294**
Support based on commodity output	-2 850	-31 070	-12 064	-28 486	-52 661
Market Price Support[1]	-2 866	-32 725	-13 881	-30 862	-53 432
Payments based on output	16	1 655	1 817	2 376	771
Payments based on input use	551	13 288	12 502	13 257	14 105
Based on variable input use	391	12 647	11 541	12 401	14 000
with input constraints	0	0	0	0	0
Based on fixed capital formation	139	641	961	856	105
with input constraints	0	0	0	0	0
Based on on-farm services	21	0	0	0	0
with input constraints	0	0	0	0	0
Payments based on current A/An/R/I, production required	525	4 123	4 034	4 072	4 262
Based on Receipts / Income	525	3 533	3 300	3 500	3 800
Based on Area planted / Animal numbers	0	589	734	572	462
with input constraints	0	0	0	0	0
Payments based on non-current A/An/R/I, production required	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	0	0	0	0	0
With variable payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
With fixed payment rates	0	0	0	0	0
with commodity exceptions	0	0	0	0	0
Payments based on non-commodity criteria	0	0	0	0	0
Based on long-term resource retirement	0	0	0	0	0
Based on a specific non-commodity output	0	0	0	0	0
Based on other non-commodity criteria	0	0	0	0	0
Miscellaneous payments	0	0	0	0	0
Percentage PSE (%)	**-8.9**	**-3.3**	**1.5**	**-3.2**	**-8.2**
Producer NPC (coeff.)	**0.88**	**0.90**	**0.94**	**0.90**	**0.87**
Producer NAC (coeff.)	**0.93**	**0.97**	**1.02**	**0.97**	**0.92**
General Services Support Estimate (GSSE)[2]	**521**	**4 977**	**6 191**	**5 253**	**3 487**
Agricultural knowledge and innovation system	131	2 261	2 837	1 995	1 951
Inspection and control	40	1 496	1 593	1 602	1 292
Development and maintenance of infrastructure	329	533	1 296	293	9
Marketing and promotion	5	36	37	56	16
Cost of public stockholding	0	551	305	1 168	180
Miscellaneous	17	100	123	139	39
Percentage GSSE (% of TSE)	..	..	**58.1**	..	..
Consumer Support Estimate (CSE)	**3 108**	**16 620**	**6 064**	**11 999**	**31 798**
Transfers to producers from consumers	3 210	24 176	12 858	20 273	39 397
Other transfers from consumers	245	-1 027	-947	-2 166	32
Transfers to consumers from taxpayers	0	0	0	0	0
Excess feed cost	-346	-6 529	-5 847	-6 108	-7 631
Percentage CSE (%)	**24.2**	**7.2**	**3.1**	**5.6**	**12.8**
Consumer NPC (coeff.)	**0.83**	**0.91**	**0.94**	**0.92**	**0.86**
Consumer NAC (coeff.)	**0.84**	**0.93**	**0.97**	**0.95**	**0.89**
Total Support Estimate (TSE)	**-1 253**	**-8 683**	**10 663**	**-5 904**	**-30 807**
Transfers from consumers	-3 454	-23 149	-11 911	-18 107	-39 429
Transfers from taxpayers	1 957	15 494	23 521	14 369	8 591
Budget revenues	245	-1 027	-947	-2 166	32
Percentage TSE (% of GDP)	..	..	**0.8**	..	..
GDP deflator (1995-97=100)	**100**	**1 164**	**1 157**	**1 171**	..

.. Not available

Note: 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for Ukraine are: wheat, maize, rye, barley, oats, sunflower, sugar, potatoes, milk, beef and veal, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235552

Policy developments

Main policy instruments

Ukraine uses a range of market price support instruments. These include tariff protection, non-tariff trade regulation, and various forms of domestic price measures. The state agency Agrarian Fund implements domestic **price interventions** through the operation of a state intervention fund. Initially dealing only with grain, the Agrarian Fund has become progressively involved in other activities, such as sugar commodity interventions, state purchases and sales of a broad range of agricultural and food products, forward-contracting, flour processing and wholesaling, and sales of diesel fuel and mineral fertilisers to agricultural producers. For purchases of the Agrarian Fund, official minimum and maximum intervention prices are set and cover commodities that are "objects of state regulation". The exact list of such products and the periods during which these administered prices will be in effect are defined by specific government decrees. Minimum prices do not play a role of guaranteed prices but are regarded as a floor-price reference for private market operators. Minimum intervention prices should not exceed market levels to comply with the Ukraine's WTO support domestic commitment.

The **sugar quota regime** is another element of price support policy. A national marketing quota for sugar produced from sugar beet and sold on the domestic market is set annually, together with the minimum in-quota prices for sugar beet and sugar. This quota does not account for sugar processed from imported raw cane sugar, which is subject to a Tariff Rate Quota (TRQ).

Input subsidies represent Ukraine's principal instruments of non-price support. In recent years, the bulk of this support was provided through specific procedures to use the Value Added Tax (VAT) due from agricultural producers and processors. Budgetary deficits led to some previously important input subsidies, such as cost compensation to farms involved in seed production and pedigree animal breeding, support to financial leasing and interest to be gradually reduced, while in 2013-14 they were not provided at all. The same applies to previously regular area and headage payments.

Agricultural producers are eligible for a **Single Tax** (the Fixed Agricultural Tax before 2015), set as a percentage of agricultural land value. Introduced in 1998, this tax replaced twelve taxes for which agricultural enterprises were liable as business entities. The preferences incorporated in this tax have been narrowing since then. At present, Single Tax replaces only three taxes – profit tax, land tax, and special water use fee – with agricultural taxpayers eligible for all other taxes due on agricultural business.

Agricultural policy in Ukraine is currently at a turning point. The country ratified the Association Agreement with the European Union in September 2014 and has begun its implementation. In January 2015, the "Strategy 2020" was released outlining Ukraine's national development agenda and the underlying broad reforms.

Of the two frameworks which set priorities and measures of agricultural policy – the Law "On State Support of Agriculture in Ukraine" and the "State Targeted Program for the Development of Ukrainian Rural Areas up to 2015" – the Law on State Support remains in effect to date, while the Targeted Programme is to be succeeded by a new one. In early 2015, the Ukrainian Ministry of Agrarian Policy and Food jointly with international organisations, local business groups and other stakeholders embarked on the preparation of a "Single and Comprehensive Strategy for Agriculture and Rural Development in Ukraine 2015-20". It distinguishes three broad policy areas:

approximation and deregulation; competitiveness; and rural development and environmental protection. The new Strategy for Agriculture is currently in the process of public discussion and is to be submitted to the government and the President by end-July 2015.

Domestic policy developments in 2013-15

The scope and scale of government action in agriculture has been significantly limited since the late 2000s due to the difficult recovery from the 2008 economic crisis. Since the beginning of 2014, the scope for agricultural policy in Ukraine has drastically narrowed further following the adverse political and economic developments. By January 2015, net public debt reached over 70% of GDP and consolidated government balance deficit widened to 4.4-4.5% of GDP in 2014, with, according to the IMF, another 5.7% of GDP deficit run by the state-owned *Naftogaz* oil and gas company. IMF financial assistance was approved for Ukraine in 2014 and 2015, conditional on Ukraine implementing broad structural reforms and austerity policy to deal with public deficit. Other substantial international financial assistance was also agreed upon.

The overall budget of the Ministry of Agrarian Policy and Food underwent an almost 75% cut in 2015 and amounted to UAH 1.67 billion (USD 71 million at the end-March exchange rate). The number of agricultural programmes has been reduced from 32 in 2014 to 19 in 2015. Among the important components, it is planned to allocate UAH 300 million (USD 12.8 million) for interest compensation on agricultural loans and UAH 250 million (USD 10.7 million) for support of the livestock sector.

While the agricultural sector registered almost 3% growth in 2014, it faced a significant rise in the cost of inputs, a large part of them imported, and an interruption of virtually all private credit to the sector due to high markets risks. The conditions for financing the 2015/16 sowing campaign were complicated.

The state agency Agrarian Fund continued the operation of **a state intervention fund** in 2013-14. Agricultural producers could enter **forward contracts** with the Fund and receive advance payments for future delivery of up to 50-70%. The contracted value was established on the basis of the minimum intervention price with the final settlement done on the basis of price quotations on contract's delivery date at the Agrarian Exchange or other accredited commodity exchanges. Through both forward and spot arrangements, the Agrarian Fund purchased around 2.1 million tonnes of grain in 2013 and 1.45 million tonnes in 2014. The Fund also bought relatively important quantities of sugar in 2013, and some small amounts of milk products, both in 2013 and 2014. The Fund is to continue forward contracting for grain in 2015. However, it will not be engaged in grain pledge operations enabling producers to withhold grain sale in anticipation of better price – this programme remained frozen in recent years. In 2014, forward grain contracts were also offered by the State Food and Grain Corporation; whether this will be continued in 2015 will depend on the availability of budgetary funding.

The domestic **sugar quota** was set at 1.826 million tonnes in 2013/14 and 1.811 million tonnes in 2014/15, with minimum prices increased in both seasons. Producers supplying sugar beet under the quota, in addition to minimum prices, are also eligible to receive payments per sown hectare; however, such payments were effectively paid only in 2010. Previous legislative initiatives to introduce changes to the quota mechanism were not renewed.

Approximately 80% of budgetary support to producers in 2013-14 was provided through application of two special mechanisms of collection and disposal of Value Added Tax (VAT).

One was the "re-direction" to livestock producers of VAT from milk and meat processors on processed products. One part of processors' VAT was transferred directly to primary suppliers as **price top-ups** for raw milk and animals delivered for processing. Another part was channelled to a Special Fund to finance different types of support to livestock producers. Between 2013 and 2014, the proportion of processors' VAT used for price top-ups decreased from 72% to 60%, with the remaining part going to the Special Fund. The latter was used to **support investments in livestock** production (capital grants for construction and acquisition of equipment and breeding animals). In 2013, the Special Fund also began providing **support to households raising livestock**: per head payments for keeping young cattle and per tonne subsidies for cattle and pigs delivered for slaughter. In 2014, part of the funds was used to cover arrears on various payments to the livestock sector. One of the most important changes during the monitored period was that as of 2015 this mechanism has been abolished as part of the overall tax reform, implying the discontinuation of the subsidy funds involved.

Another VAT-based support, the so-called **VAT accumulation mechanism**, is to remain in effect until 31 December 2017 despite earlier intentions of the new government to end it. According to this mechanism, agricultural producers can accumulate the VAT due on their primary and processed products on special accounts. Accumulated funds should be directed to cover the VAT on purchased inputs, while the residual sum can be used for any other production purposes. In 2013-14 this was by far the dominant and relatively stable support accounting for 96% of total input and investment subsidies provided during these two years. These transfers amounted to UAH 12.4 billion (USD 1.6 billion) in 2013 and around UAH 14.0 billion (USD 1.2 billion) in 2014.

Support financed through actual budgetary outlays in 2013-14 was limited to subsidies on establishment and maintenance of orchards and vineyards, with other support, for example, previously important interest subsidies on short-term and investment loans, not provided. However, it is planned to renew interest subsidies in 2015 to reduce the much increased cost of credit.

Starting from 2015, agricultural enterprises are eligible for a **Single Tax** (ST) which is set per hectare of agricultural land as a percentage of its value. ST payers are exempt from income tax, tax on agricultural land (only in the part which is used in production), and a duty for special use of water. ST replaces the previous Fixed Agricultural Tax with the principal change concerning the valuation of taxable land. An average annual ST was UAH 100 per hectare of arable land in 2015 (USD 4.27 at the end-March exchange rate) compared to the 2014 rate of UAH 6 (USD 0.50).

The changes related to the use of VAT tax and Single Tax described above reflect plans to **reduce tax concessions to agriculture** developed yet under the previous government, but they were prompted by current broad-ranging tax measures dictated by fiscal austerity. Additional steps may follow, but the extent to which this will further change the tax burden of agricultural producers is uncertain in view of the ongoing debate with stakeholders.

The **moratorium on the sale of agricultural land** was extended once again, now until January 2016. The lift of the moratorium is conditioned by coming into force of a law on turnover of agricultural land. Development of a modern land cadastre has been viewed as a necessary condition to move on agricultural land regulation reform. In early 2013, the Law on the State Land Cadastre came into force. Land plots are now subject to state registration in the Cadastre by opening "land plot books" that should contain detailed cadastral information about the plots. The new government has expressed the desire to engage in an "ambitious and pragmatic" land reform, which, among other things, may concern amendments to the regulations on land rent, currently the principal form of agricultural land use. In April 2015, amendments to the Ukrainian Land Code were adopted increasing the minimum term for agricultural land lease to seven years and

annulling the provision allowing a short-term land lease (for less than five years). Beyond Land Code, numerous amendments were introduced to other laws related to agro-food area, e.g. regulating land use and management, turnover of agrochemicals and pesticides, and veterinary procedures. These changes were largely focussed on deregulation of business activity and reduction of regulatory burdens on businesses.

In the area of structural policy, plans were announced to **privatise** around 500 **agricultural enterprises** currently under the auspices of the Ministry of Agrarian Policy and Food, of which only 92 remained in operation, while the rest were either in the process of reorganisation, non-operational, or were undergoing bankruptcy and liquidation procedures. Ukrainian National Farmer's Fund, with the overall capital of around UAH 26 million (USD 1.1 million at the end-March 2015 exchange rate) supports the **establishment and development of family farms** through five-year interest free loans. Newly established farms receive support during the first three to five years after official registration, while the established entities are assisted on a rotating basis.

Consumers in Ukraine suffered strong food price increases: in February 2015 food prices were almost 40% above their levels a year ago. The Agrarian Fund supplied flour produced from grain state stocks to bakeries at fixed prices below market levels. In 2014, 440 thousand tonnes of grain went to produce low-priced flour, almost double the volume in 2013. Such deliveries are to continue in 2015. Administrative price controls on foodstuffs are exercised at the local level, such as setting consumer price ceilings and mark-up limits for wholesalers and retailers. The national legislation empowers local authorities to cap the mark-ups on a number of essential foods and agricultural products (baby food, flour wheat bread, meat, butter, sunflower oil, sugar, and grains). In addition, the so-called "declaration", essentially an approval procedure, is applied to all of these products. In order to raise wholesale prices by more than 1% a month producers and traders have to receive permission from the local unit of the State Price Inspection Authority and from the local state administration. However, these mechanisms seem to be working with difficulty, recently leading the Ukrainian Antimonopoly Committee to open investigations on undue food price increases and to issue "recommendations" to dozens of food companies to refrain from such actions.

Trade policy developments in 2013-15

Ukraine has been a **member of WTO** since 16 May 2008. The country's WTO commitments foresee an important reduction in the average level of import protection for agro-food products. The majority of tariff bindings had been reached by 2011 and the remaining ones in 2013. Ukraine maintains TRQ for raw cane sugar of 267.8 thousand tonnes with a 2% in-quota tariff, however, the quota remained virtually unused since 2012 due to high carryover stocks.

In February 2015, Ukraine made recourse to GATT provisions permitting special measures to stabilise the balance of payments. A 5% to 10% **import tariff surcharge** was introduced on all imports to Ukraine for a period of twelve months. The maximum rate of 10% is applied to all agro-food imports (HS 01-24).

Ukraine's WTO commitments limit domestic support whereby the country's total Aggregate Measurement of Support (AMS) cannot exceed UAH 3.043 billion (USD 190 million at the official exchange rate in March 2015). According to Ukraine's domestic support notification to the WTO submitted in 2014, current AMS support was 73% of its base AMS in 2011.

Another principal WTO discipline concerns quantitative restrictions on exports. Ukraine continued to implement gradual **reductions of export duties**. They were decreased for sunflower seeds from 14% at accession to a final rate of 10% in 2012 and remained at this level since then. Prior to WTO accession, a 50% duty was imposed on live cattle exports, which is to be reduced by

5 percentage points per year to reach 10% (the duty rate was 15% in 2015). Raw hide duty is to be scaled down by 1% per year from the pre-accession 30% to the final bound rate of 20% (it was 23% in 2015).

Ukraine as a large grain exporter also made a commitment to remove restrictions on grain trade that existed at the time of WTO accession. However, subsequently it imposed export duties on several occasions until a **Memorandum of Understanding** was signed between the Ministry of Agricultural Policy and Food and representatives of grain exporters and producers. It was decided that at the beginning of the marketing year "agreed" export volumes for each of the main exported grains – wheat, barley, and maize – would be established. If exports of any type of grain reach certain levels of the agreed volume, the Ministry could "review" conditions of trade (implying possible introduction of export restrictions). This arrangement was first introduced for the 2011/12 season, marking a substantial progress in moving away from ad hoc and often inadequately grounded export restrictions that destabilised the grain sector. Similar memorandums were agreed for seasons that followed, including for the most recent one in 2014/15.

The current **VAT regime on exports** of grains, oilseeds and fibre crops exempts eligible exporters from VAT payment, making VAT refunds unnecessary. This provision was introduced in 2011 to be effective until 1 January 2014, but was extended until 1 January 2018. However, it does not apply to primary producers and first buyers of grain when they export grain – these businesses pay the VAT, but are not eligible to receive VAT refunds for exported grain as the tax is treated as their cost in this case.

A law was passed in February 2015 to **simplify administrative procedures** including provisions which may simplify agro-food exports: this law removes quarantine certification, shortens the time for export control, and streamlines food product registration. Fourteen related certificates and six licensees will no longer be required. An 'Easy Business Facility' has been set up by the Ministry of Agrarian Policy and Food focusing mostly on grain exports.

The major event in the area of regional trade integration was the ratification on 16 September 2014 of the **Association Agreement between the EU and Ukraine**, with a Deep and Comprehensive Free Trade Area (DCFTA) forming the trade component of this document.

The liberalisation of mutual trade is to be implemented within a transition period. The European Union opens zero-tariff rate quotas for Ukraine's principal agro-food products, such as grain, meat and milk products, and sugar, and grants free access for the others. Ukraine will implement phased market opening for goods originating from the European Union for around four-fifths of its agricultural tariff lines, starting with almost one-third when the DCFTA comes into effect. Ukraine has also secured the right to use safeguard measures and additional trading conditions; for example, to apply entry prices for a certain number of tariff lines. The parties committed to apply no export subsidies for mutually traded agricultural goods. The main barrier for trade integration remains Ukraine's ability to comply with EU food safety, veterinary and phyto-sanitary requirements. Thus, the DCFTA contains provisions for approximation of technical regulations, standards and conformity assessments, as well as technical co-operation in the field of technical regulations, standards and related issues between Ukraine and the European Union.

Following the Russian Federation's claim that the DCFTA, due to Ukraine being also a part of the CIS free trade area, poses risks to its economic interests, the implementation of the DCFTA was postponed until 31 December 2015. A compromise was reached after trilateral consultations whereby Ukraine maintains the pre-DCFTA regime for EU imports up to that date, but receives a liberalised access to EU market. During that period a free trade regime between Ukraine and the

Russian Federation would be maintained as provided for by the Agreement on Free Trade in the CIS Area. Effectively, since mid-July 2014, a range of Ukrainian exports to the Russian Federation have been suspended, reportedly on SPS and technical regulation grounds.

In April 2014, Ukraine received preferential access to the EU market as set in the DCFTA for the first year of its implementation. The European Union eliminated import duties on the majority of Ukrainian commodities (within HS 01-24 codes) and TRQs with zero in-quota tariffs opened. Of the total 34 TRQs that were opened, those for maize, wheat, poultry, honey, grape and apple juices were fully filled in 2014, while the remaining ones were filled within a range of 7%-28%. Poultry is the only Ukrainian meat product that can be exported to the European Union at present as other livestock exports have yet to achieve compliance with EU food safety and SPS standards.

Negotiations and consultations on possible free trade agreements are on-going with ***Canada***, ***Israel***, ***Morocco***, ***Serbia***, ***Singapore***, and ***Turkey***.

Chapter 24

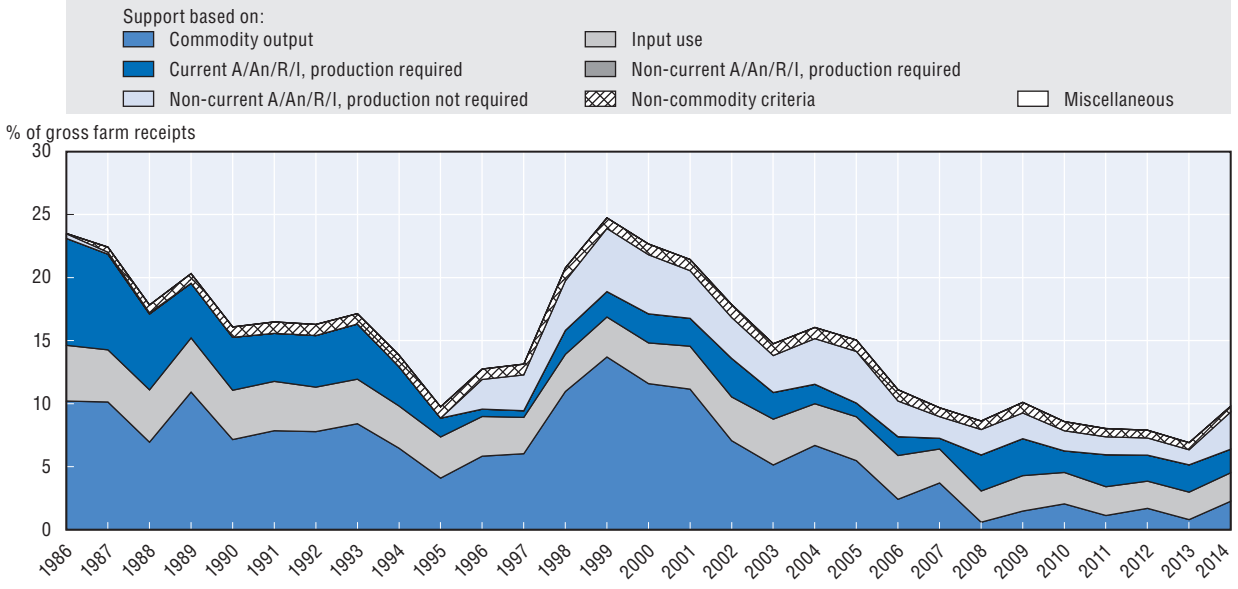
United States

The United States country chapter includes a brief evaluation of policy developments and related support to agriculture, contextual information on the framework in which agricultural policies are implemented and the main characteristics of the agricultural sector, an evaluation of support in 2013-14 and in the longer term perspective, and a brief description of the main policy developments in 2014-15.

Evaluation of policy developments

- Levels of producer support and border protection have decreased substantially since 1986-88. However, since 2002 the decline has been primarily due to higher world commodity prices, as several of the support policies in place are linked to changes in prices. Overall the support represented 8% of gross farm receipts in 2012-14 and has increased to around 10% in 2014.
- The increasing emphasis on insurance is, in principle, a good approach to providing support to farmers when in need. However, such programmes risk becoming income transfers rather than seasonal risk mitigation tools if the benefits are too generous, and they may disproportionately benefit wealthier farm operators who can afford premiums for the higher levels of coverage.
- While some environmental programmes appear to be effective in addressing soil conservation and water pollution problems, careful assessments are needed to ensure that newer programmes are well targeted to providing intended environmental benefits.
- The increasing spending on R&D is a positive development, although it remains to be seen whether it would be sufficient to stimulate R&D-induced productivity gains.
- Overall, the changes brought about by the 2014 Farm Act are likely to continue to support farm incomes, particularly for wealthier farm-households because benefits are tied to land assets; but the long-term effects concerning sustainable improvements in agricultural productivity and efficiency are less obvious.

Figure 24.1. **United States: PSE level and composition by support categories, 1986-2014**



Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture Statistics* (database), *http://dx.doi.org/10.1787/agr-pcse-data-en*.

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Contextual information

The United States is the world's biggest economy, with a high GDP per capita and low levels of inflation and unemployment. Six years after the onset of the financial crisis, the US economic recovery is gaining momentum. In 2014, the US economy grew by 2.2% and is projected to grow steadily in 2015 and 2016. The United States is one of the most important producers of agricultural commodities in the world, and, in addition to having a very large domestic market, it is the world's largest exporter of agricultural products. US agricultural policies therefore exert a strong influence on world agricultural markets. Agriculture is dominated by grains, oilseeds, cattle, dairy, poultry, and fruits and vegetables.

Table 24.1. **United States: Contextual indicators, 1995, 2013**[1]

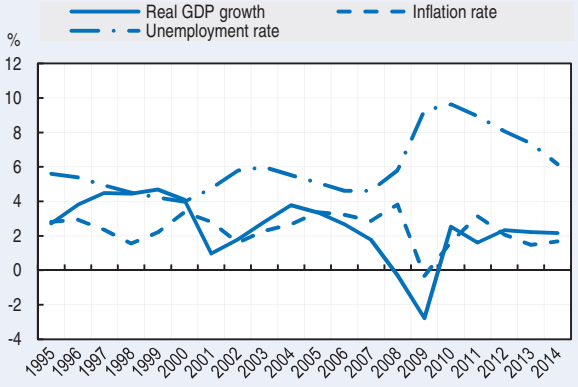
	1995	2013[1]
Economic context		
GDP (billion USD)	7 338	16 853
Population (million)	263	316
Land area (thousand km^2)	9 159	9 147
Population density (inhabitants/km^2)	28	33
GDP per capita, PPP (USD)	28 748	52 985
Trade as % of GDP	9.2	11.6
Agriculture in the economy		
Agriculture in GDP (%)	1.6	1.3
Agriculture share in employment (%)	2.9	2.2
Agro-food exports (% of total exports)	10.9	9.6
Agro-food imports (% of total imports)	4.4	5.0
Characteristics of the agricultural sector		
Agro-food trade balance (million USD)	29 671	36 255
Crop in total agricultural production (%)	61	59
Livestock in total agricultural production (%)	39	41
Agricultural area (AA) (thousand ha)	420 139	408 707
Share of arable land in AA (%)	43	38
Share of irrigated land in AA (%)	5	5
Share of agriculture in water consumption (%)	41	40
Nitrogen balance, kg/ha	37	28

1. Or latest available year.

Sources: OECD Statistical Databases, *UN Comtrade Database*, *World Development Indicators* and national data.

StatLink http://dx.doi.org/10.1787/888933235565

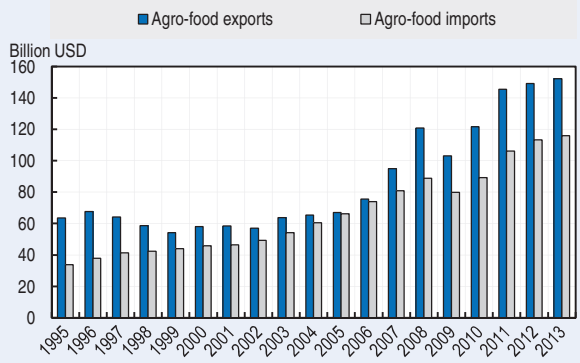
Figure 24.2. **United States: Main macroeconomic indicators, 1995-2014**



Source: OECD Factbook Statistics.

StatLink http://dx.doi.org/10.1787/888933235100

Figure 24.3. **United States: Agro-food trade, 1995-2013**



Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Source: UN Comtrade Database.

StatLink http://dx.doi.org/10.1787/888933235114

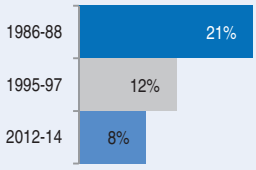
Note: Detailed definitions of contextual indicators and their sources are provided in the "Reader's guide".

Development of support to agriculture

Support to farmers in the United States is low, in comparison with other OECD countries. Over the 2012-14 period, producer support in the United States was the fourth-lowest in the OECD area, and less than half the OECD average.

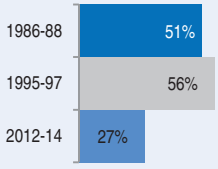
PSE as % of receipts (%PSE)

Support to farmers was reduced by 13 percentage points between 1986-88 and 2012-14. Support to producers in 2014 increased by 3 percentage points to 9.8%, compared to 2013.



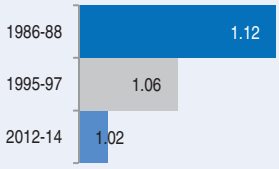
Potentially most distorting support as % of PSE

The share of the potentially most distorting support (based on commodity output and variable input use – without constraints) in the PSE decreased from 51% in 1986-88 to 27% in 2012-14.



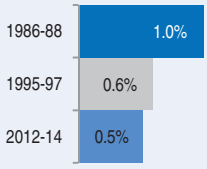
Ratio of producer price to border price (NPC)

Producer prices were 12% higher than world prices in 1986-88 and only 2% higher in 2012-14.

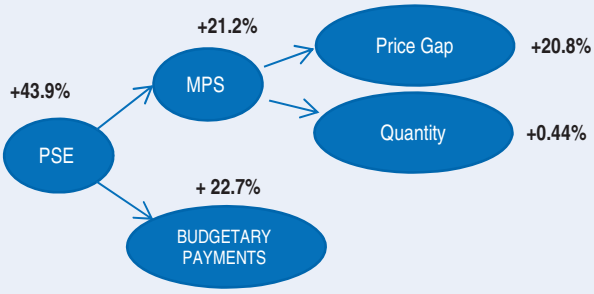


TSE as % of GDP

Total support to agriculture represents 0.5% of GDP in 2012-14. Support for general services provided to agriculture increased from 6% of total support in 1986-88 to 9% in 212-14.

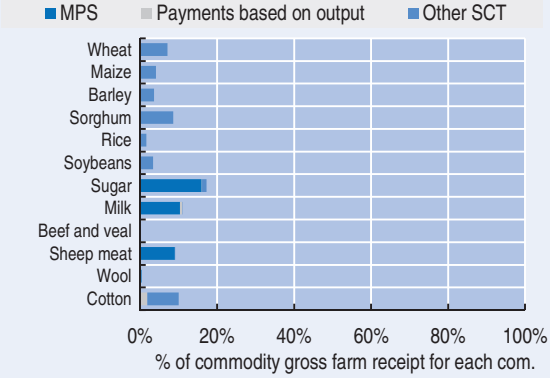


Decomposition of change in PSE, 2013 to 2014



The increase of the level of support in 2014 is mainly due to the wider gap between domestic and border prices for milk – brought about by higher producer prices of milk – and to projected payments associated with the implementation of two new programmes of the 2014 Farm Act – the Agriculture Risk Coverage and the Price Loss Coverage programmes.

Transfer to specific commodities (SCT), 2012-14



The share of Single Commodity Transfers (SCT) decreased from 70% of PSE in 1986-88 to 39% in 2012-14. The highest shares SCT in farm receipts were for sugar, dairy and sheep meat.

Table 24.2. **United States: Estimates of support to agriculture**

Million USD

	1986-88	1995-97	2012-14	2012	2013	2014p
Total value of production (at farm gate)	**143 469**	**200 325**	**393 035**	**396 606**	**391 580**	**390 918**
***of which:** share of MPS commodities (%)*	78.3	76.5	80.1	80.2	79.5	80.5
Total value of consumption (at farm gate)	**121 087**	**162 225**	**309 417**	**319 956**	**303 364**	**304 931**
Producer Support Estimate (PSE)	**35 337**	**25 617**	**34 565**	**33 412**	**28 821**	**41 461**
Support based on commodity output	15 114	11 487	6 687	7 171	3 343	9 548
Market Price Support[1]	12 003	11 336	6 282	6 695	3 020	9 130
Payments based on output	3 111	151	405	476	323	417
Payments based on input use	7 061	6 641	9 270	9 135	9 103	9 572
Based on variable input use	3 697	3 088	3 452	3 132	3 286	3 937
with input constraints	739	264	583	556	587	606
Based on fixed capital formation	1 233	554	1 834	1 931	1 951	1 619
with input constraints	1 233	537	1 795	1 905	1 876	1 602
Based on on-farm services	2 131	2 999	3 985	4 073	3 867	4 015
with input constraints	349	543	1 213	1 188	1 188	1 264
Payments based on current A/An/R/I, production required	12 231	1 825	8 557	8 728	9 033	7 910
Based on Receipts / Income	912	721	1 388	1 203	1 269	1 693
Based on Area planted / Animal numbers	11 319	1 104	7 169	7 525	7 764	6 217
with input constraints	2 565	557	6 988	7 179	7 591	6 195
Payments based on non-current A/An/R/I, production required	0	0	0	0	0	0
Payments based on non-current A/An/R/I, production not required	338	3 824	7 759	5 776	4 995	12 506
With variable payment rates	0	0	2 128	0	0	6 384
with commodity exceptions	0	0	2 128	0	0	6 384
With fixed payment rates	338	3 824	5 631	5 776	4 995	6 122
with commodity exceptions	0	3 824	4 531	4 822	4 043	4 726
Payments based on non-commodity criteria	592	1 839	2 292	2 603	2 347	1 927
Based on long-term resource retirement	592	1 839	2 247	2 556	2 283	1 903
Based on a specific non-commodity output	0	0	0	0	0	0
Based on other non-commodity criteria	0	0	45	47	64	24
Miscellaneous payments	0	0	0	0	0	0
Percentage PSE (%)	**21.2**	**11.9**	**8.2**	**7.9**	**6.9**	**9.8**
Producer NPC (coeff.)	**1.12**	**1.06**	**1.02**	**1.02**	**1.01**	**1.03**
Producer NAC (coeff.)	**1.27**	**1.14**	**1.09**	**1.09**	**1.07**	**1.11**
General Services Support Estimate (GSSE)[2]	**3 108**	**4 239**	**8 132**	**6 094**	**10 413**	**7 889**
Agricultural knowledge and innovation system	1 129	1 479	2 322	2 368	2 299	2 299
Inspection and control	372	559	1 288	1 201	1 335	1 328
Development and maintenance of infrastructure	13	27	2 076	-72	4 282	2 017
Marketing and promotion	495	654	1 220	1 373	1 267	1 020
Cost of public stockholding	0	52	1	0	4	-1
Miscellaneous	1 100	1 468	1 225	1 224	1 226	1 226
Percentage GSSE (% of TSE)	**6.4**	**8.9**	**9.0**	**7.0**	**11.9**	**8.2**
Consumer Support Estimate (CSE)	**-2 629**	**6 157**	**40 900**	**39 895**	**45 284**	**37 521**
Transfers to producers from consumers	-11 699	-11 146	-5 828	-6 490	-2 912	-8 082
Other transfers from consumers	-1 314	-1 143	-686	-766	-263	-1 031
Transfers to consumers from taxpayers	10 089	18 437	47 414	47 150	48 459	46 633
Excess feed cost	294	8	0	0	0	0
Percentage CSE (%)	**-2.4**	**4.3**	**15.6**	**14.6**	**17.8**	**14.5**
Consumer NPC (coeff.)	**1.12**	**1.08**	**1.02**	**1.02**	**1.01**	**1.03**
Consumer NAC (coeff.)	**1.03**	**0.96**	**0.86**	**0.87**	**0.85**	**0.87**
Total Support Estimate (TSE)	**48 534**	**48 292**	**90 111**	**86 656**	**87 693**	**95 984**
Transfers from consumers	13 013	12 288	6 514	7 255	3 175	9 113
Transfers from taxpayers	36 835	37 147	84 283	80 166	84 781	87 902
Budget revenues	-1 314	-1 143	-686	-766	-263	-1 031
Percentage TSE (% of GDP)	**1.0**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**
GDP deflator (1986-88=100)	**100**	**128**	**178**	**175**	**178**	**180**

Note: 1986-88, 1995-97 and 2012-14: unweighted averages. p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.

A/An/R/I: Area planted/Animal numbers/Receipts/Income.

1. Market Price Support (MPS) is net of producer levies and excess feed cost. MPS commodities for the United States are: wheat, maize, barley, sorghum, alfalfa, cotton, rice, soybean, sugar, milk, beef and veal, sheep meat, wool, pig meat, poultry and eggs.

2. A revised GSSE definition with new categories was introduced in 2014. When possible, the revision was implemented for the whole time series. The GSSE series and the resulting TSE are not comparable with the series published previously. (For more details see the Annex 1.A1 to Chapter 1).

Source: OECD (2015), "Producer and Consumer Support Estimates", *OECD Agriculture statistics* (database). doi: dx.doi.org/10.1787/agr-pcse-data-en

StatLink http://dx.doi.org/10.1787/888933235575

Description of policy developments

Main policy instruments

The Agricultural Act of 2014 (2014 Farm Act), which was enacted in February 2014, provides the basic legislation governing farm policy for the period through to 2018, and in the case of some provisions, beyond. The 2014 Farm Act makes major changes in commodity programmes, adds new crop insurance options, streamlines conservation programmes, modifies some provisions of the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), and expands programmes for specialty crops, organic farmers, bioenergy, rural development, and beginning farmers and ranchers.

Sugar is supported by a tariff-rate-quota (TRQ), together with provisions for non-recourse loans and marketing allotments. Milk and dairy products are no longer supported by minimum prices with government purchases of butter, SMP and Cheddar cheese, but tariffs and TRQs continue. There are marketing loans for wheat, feed grains, cotton, rice, oilseeds, pulses, wool, mohair and honey, and border measures (including TRQs) for beef and sheep meat. Since the enactment of the 1985 Farm Act, eligibility for most federal commodity programme payments is subject to cross-compliance requirements.

Environmental programmes focus on measures to: convert highly erodible cropland to approved conservation uses (including long-term retirement); re-convert farmland back into wetlands, and encourage crop and livestock producers to adopt practices that reduce environmental problems. Ethanol production is mainly supported in the form of mandated fuel use, tax incentives and loan and grant programmes. Research and advice are increasingly focused on food safety and the promotion of sustainable farming practices.

Domestic policy developments in 2014-15

On ***market price support and commodity loans***, the 2014 Farm Act repealed the Dairy Product Price Support Program, while the sugar support programme remains unchanged. The Marketing Assistance Loan Program continues unchanged under the 2014 Farm Act, except for an adjustment in the loan rate for upland cotton. The 2014 Farm Act sets the base quality marketing assistance loan rate for upland cotton at the simple average of the adjusted prevailing world price for the two immediately preceding marketing years. The marketing assistance loan rate cannot be less than 45 cents per pound or greater than 52 cents per pound.

On ***direct income payments***, the Direct Payments, Countercyclical Payments, and Average Crop Revenue Election (ACRE) programmes are repealed by the 2014 Farm Act. New direct payment programmes under the 2014 Farm Act include the Price Loss Coverage (PLC) and Agriculture Risk Coverage (ARC) programmes. Both programmes are available to producers with historical base acreage of covered commodities (wheat, feed grains, rice, oilseeds, peanuts and pulses). Participating producers must make a choice, on a commodity-by-commodity basis, between the two programmes. This choice holds for the life of the 2014 Farm Act. Producers may reallocate, but not increase, base acreage on their farms using 2009-12 average plantings of covered commodities. Former upland cotton base acreage (termed "generic base acres") may not be reallocated. Producers may also update programme yields on base acres, which will be used in calculating PLC payments if they enrol base acreage in the PLC programme. To receive payments under these programmes, producers must comply with applicable conservation requirements, which also apply to producers participating in conservation and crop insurance programmes. Farmers will

make their choice for both the PLC and the ARC programme during the sign-up period of 17 November 2014 through to 7 April 2015. Payments, if any, for crop year 2014 will be made in October 2015.

The PLC programme makes payments to producers on 85% of enrolled base acres when market prices fall below fixed reference prices. Producers may also receive payments on former cotton base acreage (termed "generic base acres") that are planted to a covered commodity. Payments will be reduced on an acre-by-acre basis for producers who plant fruits, vegetables, or wild rice on payment acres.

The ARC programme makes payments to enrolled producers when actual revenue falls below rolling average benchmark revenues. Payments are made on base acres, not current plantings. Producers may choose county-based or individual coverage. Producers may choose to participate in ARC using individual farm revenue instead of county revenue. For county ARC, payments are based on county revenue benchmarks and made on 85% of enrolled base acres. In the individual ARC case, payments are issued when the actual individual crop revenues, summed across all covered commodities on the farm, are less than the ARC individual guarantee.

Upland cotton producers are not eligible for PLC and ARC payments, but they are eligible to purchase a new insurance product, the Stacked Income Protection Plan (STAX). During the interim period before the STAX programme is fully implemented, the 2014 Farm Act authorises Cotton Transition Assistance Program (CTP) payments. CTAP is only authorised for the 2014 crop year, but extends for the 2015 crop year in counties where the new STAX is not yet available. CTP payments are made on 60% of former cotton base acreage during 2014 and on 36.5% of the base area in areas where the programme continues in 2015. Producers are not required to plant cotton or any other commodity, in order to be eligible for CTP payments.

Payment limitations of USD 125 000 apply to each individual actively engaged in farming, without specific limits for individual programmes. A spouse may receive an additional USD 125 000. The limitation is applied to the total of payments for covered commodities from the PLC and ARC programmes, and marketing loan gains and loan deficiency payments under the Marketing Assistance Loan programme. A separate limit of USD 125 000 is provided for payments for peanuts under these programmes. Cotton transition payments are limited to USD 40 000 per year. Benefits under the Federal crop insurance programme and the new Supplemental Coverage Option (SCO) and the STAX for upland cotton producers have no payment limitations.

The limit on eligibility to receive farm programme benefits no longer distinguishes between farm and non-farm income. Under the single adjusted gross income limit, any individual with an annual adjusted gross income above USD 900 000 (including non-farm income) is ineligible to receive farm programme payments under commodity or conservation programmes.

Two new programmes for dairy producers came into force: the Margin Protection Program (MPP) for dairy producers; and the Dairy Product Donation Program (DPDP). The Margin Protection Program (MPP) for dairy producers makes payments when the difference between milk prices and feed costs falls below a minimum level. Producers elect how much of their historic production will be covered and at what margin, between USD 4 and USD 8 per hundredweight, they will receive payments. Elections above USD 4 per hundredweight require payment of an additional premium above the base fee. Under the DPDP, the government will purchase dairy products at prevailing market prices for distribution to low-income Americans through food banks and feeding programs when dairy margins fall below legislated targets under the MPP programme. The Milk Income Loss Contract (MILC) programme continues until MPP is operational, but is then repealed. Enrolment for MPP began on 2 September 2014.

On ***disaster assistance***, the Emergency Assistance Program for Livestock Honeybees, the Farm-Raised Fish Program and the Tree Assistance Program are renewed with mandatory funding and made permanent and retroactive to cover losses in fiscal years 2012 and 2013, when many producers were impacted by severe weather. The 2014 Farm Act expanded the Non-insured Crop Disaster Assistance Program (NAP) for crops that traditionally have been ineligible for federal crop insurance. The new options provide greater coverage for losses when natural disasters affect specialty crops such as vegetables, fruits, mushrooms, floriculture, ornamental nursery, aquaculture, turf grass, ginseng, honey, syrup and energy crops. Previously, the programme offered coverage at 55% of the average market price for crop losses that exceed 50% of expected production. Producers can now choose higher levels of coverage, up to 65% of their expected production at 100% of the average market price. Producers will pay a premium for this additional coverage. Beginning and traditionally under-served producers, as well as farmers with limited resources who already receive fee waivers for basic coverage, will also receive premium reductions for expanded coverage. More crops are now eligible for the programme, including expanded aquaculture production practices, and sweet and biomass sorghum. In addition, and for the first time, a range of crops used to produce bioenergy will be eligible.

On ***farm credit***, the 2014 Farm Act makes permanent the USDA's Farm Service Agency Microloan Program, which is designed to help small and family operations, and beginning and socially disadvantaged farmers, to secure loans under USD 35 000. The 2014 Farm Act revisions to the Farm Operating Direct and Guaranteed Loan Programs expand the types of entities eligible, provide favourable interest rates for joint financing arrangements, increase loan limits for microloans, make youth loans available in urban areas, and eliminate term limits for guaranteed operating loans. The 2014 Farm Act revisions to the Farm Ownership Direct and Guaranteed Loan Programs expand the types of entities eligible, provide favourable interest rates for joint financing arrangements, provide a larger percentage guarantee on guaranteed conservation loans, increase the loan limits for the down payment programme, and authorise a re-lending programme to assist Native American producers to purchase land.

On ***crop insurance***, the 2014 Farm Act authorises the Supplementary Coverage Option (SCO), which offers producers additional area-based insurance coverage in combination with traditional crop insurance policies. Producers who elect to participate in the Agriculture Risk Coverage programme are not eligible to purchase SCO coverage. Participants in the new Stacked Income Protection Plan (STAX) may not purchase SCO policies for the same upland cotton acreage. The 2014 Farm Act also authorises the new STAX, which provides premium subsidies to upland cotton producers to purchase area-based revenue insurance policies. The programme seeks to address US obligations under the WTO ruling that US upland cotton subsidies, under previous Title I programmes, affected world prices and thus distorted trade.

The 2014 Farm Act requires the Federal Crop Insurance Corporation to offer producers of ***organic crops*** – as soon as possible but not later than for the 2015 reinsurance year – price elections for all organic crops produced in compliance with USDA standards that reflect the retail or wholesale price, as appropriate. The 2014 Farm Act also directs USDA's Risk Management Agency to develop peanut revenue insurance coverage, to be available starting in crop year 2015, subject to the development of an actuarially sound product. The Federal Crop Insurance Board is authorised to consider and offer privately developed index-based weather coverage for commodities not well served by existing products. Research and development activities are also authorised to study new insurance products for bioenergy crops, catfish, alfalfa, livestock diseases and business interruptions, whole-farm diversified operations, and food safety for specialty crops.

The 2014 Farm Act adds provisions to the Federal Crop Insurance Act to improve access to crop insurance for beginning farmers and ranchers, defined as a farmer or rancher who has no more than 5 years of experience. These provisions include a 10 percentage point reduction in their insurance premiums and exempting beginning farmers and ranchers from paying the USD 300 administrative fee for catastrophic level policies. It also authorises an increase, from 60 to 80% of transitional yield, as a substitute for low actual yields resulting from naturally occurring causes of loss.

On ***research***, the 2014 Farm Act authorises the establishment of the Foundation for Food and Agriculture Research, a new non-profit institution to foster research and technology transfer through public-private collaborations. The Act mandates USD 200 million in initial funding for the foundation, to be matched with outside funds. The 2014 Act also broadens support for animal health and disease research and veterinary services, and sets aside USD 5 million per year for capacity and infrastructure grants in these areas. Mandatory funding for research and extension for specialty crops will increase to USD 80 million per year, including at least USD 25 million for emergency citrus disease research. High-priority research areas designated by the Act include pulses, coffee plants, corn and soy meal and other grain by-products, and food safety training. Pollinator research is expanded to include health and population surveillance and a broader definition of pollinator disorders.

On ***technical assistance***, the 2014 Farm Act increases mandatory funding from USD 75 million to USD 100 million for 2014-18 under the Beginning Farmer and Ranger Development Program for training, education, outreach, and technical assistance to beginning farmers and ranchers. Priority is to be given to partnerships and collaborations led by or including non-governmental and community-based organisations.

On ***natural resources and environmental*** measures, the Conservation Reserve Program (CRP) acreage cap is reduced to 24 million by 2017. Current enrolment has fallen to 25.6 million acres. Up to 2 million acres of grassland can be enrolled, replacing the non-easement portion of the Grassland Reserve Program. Funding for the Transition Incentives Program (TIP) was increased by more than 30% in the 2014 Farm Bill, providing up to USD 33 million through to 2018. TIP allows retiring farmers and ranchers enrolled in CRP to receive two additional years of payments if they transition expiring CRP acreage to socially disadvantaged, military veteran, or beginning producers who return the land to sustainable grazing or crop production. The Wildlife Habitat Incentives Program was repealed, although 5% of Environmental Quality Incentives Program funds will be set aside for habitat-related practices. The new Agricultural Conservation Easement Program (ACEP) consolidates the Wetland Reserve Program, the easement portion of the Grassland Reserve Program and the Farmland Protection Program. ACEP will provide just over half the funding level that was provided for the three consolidated programmes in the 2008 Farm Act. The Regional Conservation Partnership Program (RCPP) is designed to co-ordinate conservation programme assistance with partners to solve problems on a regional or watershed scale. The RCPP consolidates functions of existing regional programmes: the Agricultural Water Enhancement Program, the Chesapeake Bay Watershed Program, the Co-operative Conservation Partnership Initiative and the Great Lakes Basin Program. The RCPP is funded at USD 100 million annually, plus 7% of the funding for the Environmental Quality Incentives Program, Conservation Stewardship Program, Agricultural Conservation Easement Program and Healthy Forests Reserve Program will be directed through RCPP. Crop insurance premium subsidies are again linked to conservation compliance (conservation of highly erodible land and wetlands) for the first time since 1996.

On agricultural-related ***rural development*** measures, the 2014 Farm Act extends the Value-Added Agricultural Product Market Development Grants. Funding is increased, from USD 15 million to USD 63 million, for each fiscal year 2014-18. Priority consideration will be given to projects that best contribute to creating or increasing marketing opportunities for operators of small and medium sized farms, and for veteran, beginning, and socially disadvantaged farmers and ranchers. The 2014 Farm Act extended programmes for improving access to rural broadband telecommunication services. Programmes are extended with new instructions and definitions covering eligibility requirements for loans, follow-up on loans granted, data collection metrics, and studies of loan programme effectiveness. Broadband is re-defined as transmission capacities of 4-Mbps downstream and 1-Mbps upstream. The new Rural Gigabit Network Pilot Program aims to bring ultra-high-speed Internet service to rural areas. The 2014 Farm Act mandates that the secretaries of Agriculture and Transportation complete an updated study on freight transportation of agricultural products, renewable fuels, and other issues of importance to rural community economies.

The 2014 Farm Act re-authorises the Biomass Crop Assistance Program (BCAP), which provides financial assistance to farmers and ranchers who establish and maintain new crops of energy biomass, or who harvest and deliver forest or agricultural residues to a qualifying energy facility. Of the total USD 25 million per year authorised for BCAP, the 2014 Farm Bill requires between 10-50% of the total funding to be used for harvest and transportation of biomass residues. Traditional food and feed crops are not eligible for assistance. The 2014 Farm Act also enacted several modifications for BCAP, including higher incentives for socially disadvantaged farmers and ranchers, and narrower biomass qualifications for matching payments, among other changes.

The 2014 Farm Act re-named the Bio-refinery Assistance Program the "Bio-refinery, Renewable Chemical, and Bio-based Product Assistance Program" and added coverage for the production of renewable chemicals, manufactured bio-based products, and other bio-refinery by-products. The Act provides for mandatory loan guarantee funding of USD 200 million for 2014-16, with an additional authorisation of appropriated funds up to USD 75 million each year for 2014-18.

The 2014 Farm Act re-authorised the Rural Energy for America Program (REAP), but with reduced funding. The Act created a new programme, the Rural Energy Savings Program, to help families and small businesses in rural areas, including farmers, achieve cost-effective energy efficiency. Funding is authorised at USD 75 million per fiscal year.

On ***organic farming***, the 2014 Farm Act also expands programmes for organic agriculture. It more than doubles the mandated funds for cost-sharing to assist organic producers and handlers with organic certification; expands total mandatory organic research funding; exempts certified organic producers from having to pay for conventional commodity promotion programmes on their organic production, and establishes the option for an organic promotion programme; requires improvements in crop insurance for organic producers; and strengthens enforcement of organic regulations.

On ***horticulture***, the 2014 Farm Act expands programmes for specialty crops, particularly in the areas of research, disease prevention and management, and the availability of fruits and vegetables through nutrition programmes. The Act re-authorises Specialty Crop Block Grants with increased funding; expands the Specialty Crop Research Initiative and the Farmers Market and Local Foods Promotion programmes; expands the Fresh Fruit and Vegetable Program for schools; and extends funding through fiscal year 2018 for initiatives on market data and food-safety education and information collection and trade promotion programmes.

On ***food safety***, the 2014 Farm Bill amended the Meat Inspection Act to broaden the species of farmed catfish under FSIS jurisdiction to include both native and non-native species. On ***domestic food assistance***, the new Farm Act re-authorises the Supplemental Nutrition Assistance Program

(SNAP), the Nation's largest food and nutrition assistance programme. The Act maintains the programme's basic eligibility guidelines, but restricts access to an income deduction that boosted benefits for some households. It provides additional SNAP funding for enhanced employment and training activities, increased healthy food options, and expanded anti-fraud efforts. The Act also includes provisions aimed at increasing the variety of healthy foods available to schoolchildren throughout the school day. The total funding of SNAP was USD 82.5 billion in 2013 and USD 76.2 billion in 2014. The sums included into the CSE (the share of SNAP expenditures attributable to farm level production) are estimated at USD 21.5 billion in 2013 and USD 19.9 billion in 2014. The 2014 Farm Act established the Dairy Product Donation Program (DPDP). Under the DPDP, the US Department of Agriculture will purchase dairy products at prevailing market prices for distribution to low-income Americans through food banks and feeding programmes when dairy margins fall below legislated targets under the Margin Protection Program for dairy producers.

On ***international food aid***, the 2014 Farm Act re-authorises international food assistance programmes, including the McGovern-Dole Food for Education and Food for Progress programmes. It also establishes the pilot Local and Regional Procurement food aid programme as an authorised programme with appropriations authorised at USD 80 million for each year 2014-18.

Trade policy developments in 2014-15

The 2014 Farm Act repeals the Dairy Export Incentive Program and re-authorises the Market Access Program, Foreign Market Development Program and Technical Assistance for Specialty Crops Program. On ***trade agreements***, the United States and ***Brazil*** reached agreement to settle the long-standing cotton dispute in the WTO. Under the terms of the agreement, Brazil agreed to terminate the cotton case, giving up its rights to countermeasures against US trade or any further proceedings in this dispute. Brazil also agreed not to bring new WTO actions against US cotton support programmes, while the 2014 Farm Act is in force or against agricultural export credit guarantees under the GSM-102 programme, as long as the programme is operated consistent with the agreed terms. The 2014 MOU provides for additional support for the technical assistance and capacity-building activities begun under the 2010 Memorandum of Understanding. The United States will make a one-time final contribution of USD 300 million to the Brazil Cotton Institute, or IBA. The 2014 MOU also provides for additional uses for the funds, such as research in conjunction with US institutions.

Organic processed products certified in the United States or ***Korea*** can now be labelled as organic in either country. This will allow American organic farmers, processors and businesses greater access to Korea's growing market for organic products. The arrangement between the two nations took effect on 1 July 2014. The arrangement covers organic condiments, cereal, baby food, frozen meals, milk and other processed products. The United States signed a **Trade and Investment Framework Agreement** (TIFA) with the Economic Community of West African States (ECOWAS). The United States continues to engage with its partners in negotiations towards completion of the **Trans-Pacific Partnership Agreement** (TPP) and **Transatlantic Trade and Investment Partnership** (TTIP).

On ***labelling***, a WTO compliance panel held on 20 October 2014 found that the requirements for muscle cut meat under the new US rule for Country of Origin Labelling (COOL), which came into effect on 23 May 2013, continued to be inconsistent with US obligations under the WTO Agreement on Technical Barriers to Trade. On 28 November 2014, the United States notified the DSB of its decision to appeal to the Appellate Body certain issues of law covered in the compliance panel report and certain legal interpretations developed by the panel.

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Tables with detailed information on support to agriculture in the countries covered in the report are available at ***http://dx.doi.org/10.1787/agr_pol-2015-en***.

Data for the calculations of support are available at ***http://dx.doi.org/10.1787/agr-pcse-data-en***.

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