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**POLICY REFORM PRIORITIES IN AGRICULTURE AND AGRICULTURAL TRADE**

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## POLICY REFORM PRIORITIES IN AGRICULTURE AND AGRICULTURAL TRADE

### Discussion note for the G20 session of the Committee for Agriculture

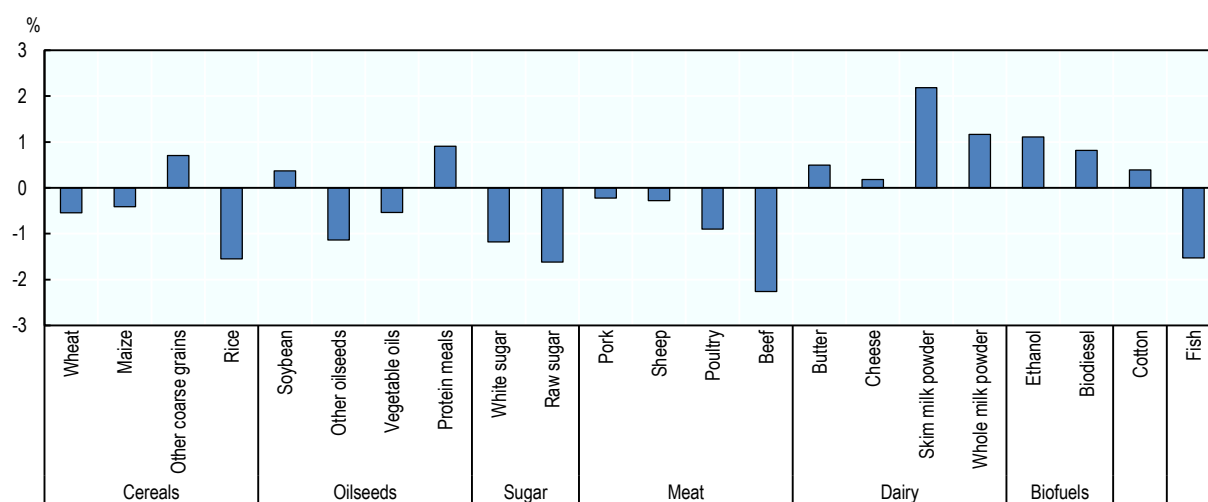
1. The past decade has been marked by a period of high and volatile international food prices. However, prices for major crop and livestock products have fallen in recent years, signalling that an era of high prices is likely to be over for all sub-sectors. The main factors behind lower prices have been robust supply growth, weakening demand growth due to the overall economic slowdown, lower oil prices and further accumulation of already abundant stocks.

2. The 2016 OECD-FAO Agricultural Outlook projects that demand growth for food will slow progressively over the next ten years, due to slowing population growth and a gradual saturation of food staple consumption in emerging economies. Productivity growth is projected to come mostly from yield improvements, with some scope to expand cropland in Latin America and Sub-Saharan Africa.

3. With supply and demand growth broadly matched, the Outlook's central projection is for relatively flat agricultural prices. With a latent demand for animal protein in emerging economies, livestock prices are projected to rise relative to crop prices, and the prices of coarse grains and soybeans are projected to rise relative to the prices of food staples (Figure 1).

**Figure 1. Projected annual price changes for agricultural commodities**

Measured in real US dollars (2010) between 2016 and 2025



Source: OECD/FAO (2016), "OECD-FAO Agricultural Outlook", *OECD Agriculture statistics* (database), <http://dx.doi.org/10.1787/agr-data-en>.

4. However, there are many uncertainties, including those stemming from variations in oil prices, yields and economic growth. If historical variations in these factors continue, then there is a strong chance of at least one severe price swing within the next ten years. Such wide inter-annual price movements can mask long-term trends. Climate change may add to this uncertainty, especially if the occurrence of extreme weather events intensifies.

5. The weaker market situation has shifted the focus of policy attention from high prices to low prices, with renewed concerns about farm incomes. OECD countries as a whole have been on a reform path that has seen support to farmers halve over the past 30 years, such that it now accounts for 17% of gross farm receipts. However, the pace of reform has slowed as markets have weakened. At the same time, average support levels in the nine emerging economies for which estimates are available have increased from very low or even negative levels to approach the average level of OECD countries (Figure 2). Within and outside the OECD area, these averages conceal widely divergent levels of support across countries.

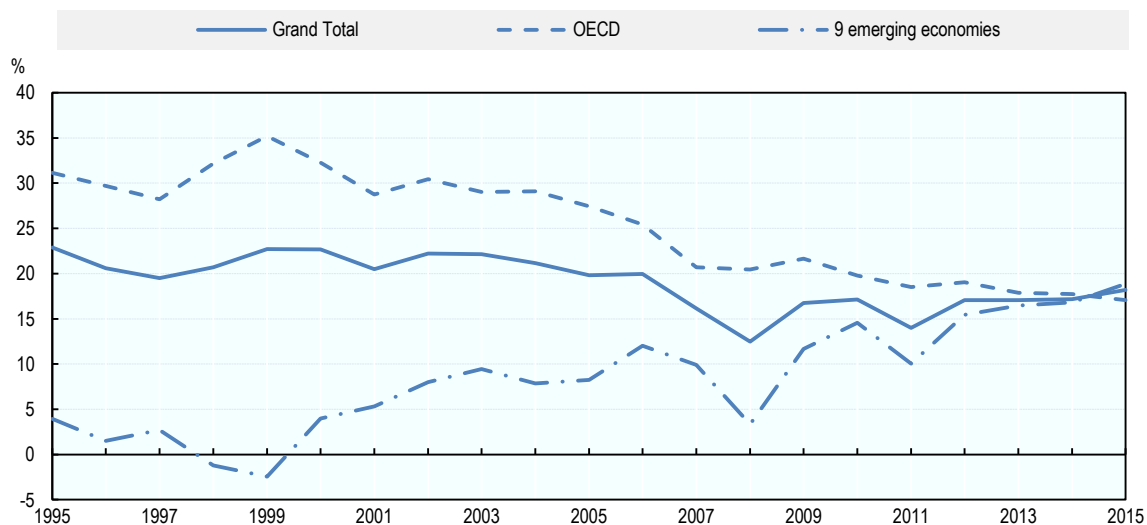
#### **Box 1. The 2016 OECD Agriculture Ministerial**

At the OECD Meeting of Agriculture Ministers on 7-8 April 2016, 46 countries plus the European Union agreed on a Declaration on Better Policies to Achieve a Productive, Sustainable and Resilient Global Food System. Ministers agreed that policies need to:

- Be coherent with economy-wide measures, including in relation to growth, development, trade, investment, employment, well-being, and the environment.
- Be transparent (with explicit objectives and intended beneficiaries), targeted (to specific outcomes), tailored (proportionate to the desired outcome), flexible (reflecting diverse situations and priorities over time and space), consistent (with multilateral rules and obligations) and equitable (within and across countries), while ensuring value for money for scarce government resources.
- Support a better-functioning multilateral trade system which will enable further integration of the sector, so that competitive suppliers are able to pursue market opportunities on an equitable, transparent, market oriented and non-discriminatory basis.
- Make innovation a priority in order to achieve sustainable productivity growth.
- Foster production systems that use available water, land, forest, energy, soil and biodiversity resources sustainably and which promote animal, plant and human health.
- Foster greater resilience of farmers to risk, to enable them to cope with more frequent, unpredictable events, such as weather-related shocks, disease outbreaks, and market volatility

6. Overall, the 50 countries covered by the 2016 Agricultural Policy Monitoring and Evaluation provided an annual average of USD 585 billion (EUR 469 billion) to support their agricultural producers directly in the years 2013-15, and an additional USD 87 billion (EUR 69 billion) on general services supporting the sector. Across all 50 countries, two-thirds of the direct support to farmers is linked to prices, output, or input use without constraints; these measures distort production decisions and can significantly distort markets and trade. Relatively little of the support provided addresses directly the recognized opportunities and challenges that confront the sector, or conforms to the guiding principles agreed by OECD Agriculture Ministers in April 2016 (Box 1).

Figure 2. Evolution of Producer Support Estimate, 1995 to 2015 (percentage of gross farm receipts)



Notes: % PSE: Producer Support Estimate in percentage of gross farm receipts.

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.

The emerging economies are Brazil, China, Colombia, Indonesia, Kazakhstan, Russia, South Africa, Ukraine and Viet Nam. Viet Nam is included from 2000 onwards.

Source: OECD (2016a), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>.

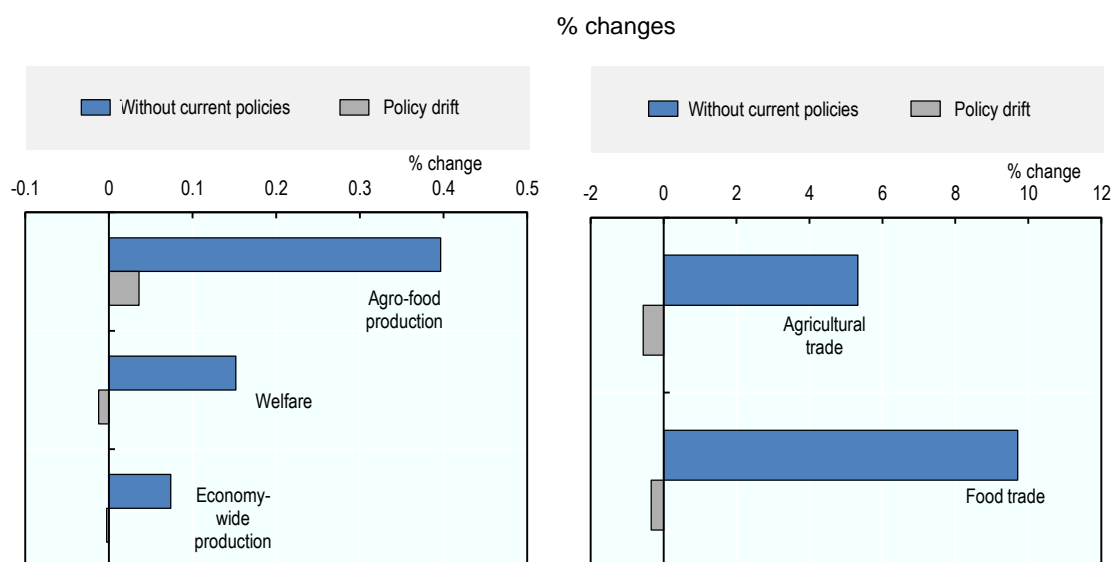
7. These support policies have required the use of trade protection. Agro-food tariffs have fallen globally, but on balance they still remain high. For many countries, tariffs and import protection through tariff-rate quotas form an important part of their agricultural policy settings; there are also pockets of very high tariffs. On the other side of the ledger, export subsidies have become less prevalent, and WTO members have agreed to eliminate them, although export restrictions were applied by several countries to counter high international prices between 2007 and 2012.

8. An assessment of the impacts of current policy settings (2011-14) in this new environment shows that agricultural domestic support and barriers to agricultural trade continue to impede the functioning of world markets (Figure 3).

- Overall, trade in all agro-food commodities would be higher in the absence of current support measures. Those policies particularly limit trade in intermediate agricultural products and, combined with generally higher tariffs applied on more processed products, hamper the development of global value chains in the agro-food sector.
- Trade and domestic support policies have not stimulated global food production, but displaced it away from regions with more productive systems. Thus they have promoted neither *global* food availability nor *global* food security.
- Current policies reduce global welfare. The convergence in average rates of support between OECD and emerging economies, together with the rising importance of South-South trade, means that the welfare gains from reform are more widely spread than before. Major developed agricultural supporters still stand to gain significantly, while the benefits for developing countries are now linked more to their own actions and the actions of other developing countries than they are to actions by developed countries.

- It is important to build on the momentum generated by past multilateral reforms, and lock in current levels of support and protection, rather than delay agreement in pursuit of small gains and risk a “drift” towards higher levels of support (Figure 3). The agreement reached at the November 2015 WTO Ministerial takes some steps in this direction but more are needed.

**Figure 3. Impacts of removal of current policies and “policy drift” on welfare and trade**



Notes: The policy drift scenario represents a situation where some large emerging agricultural producers increase tariffs and domestic support while other countries maintain their current policies.

Source: OECD (2016b).

9. Reduced trade protection would improve the stability of international markets, and enable agricultural trade to play its vital balancing role in moving food from surplus to deficit regions and dampening the price impacts of domestic supply shortfalls. Risk management policies could then be operated in a way that avoids systemic support and establishes clear boundaries between normal business risks, risks that can be handled through market-based tools, and catastrophic risks that require government intervention.

10. A shift away from distorting mechanisms of support and protection would enable countries to better address the key opportunities and challenges confronting the sector: to improve productivity growth, use natural resources sustainably and improve the resilience of farm households. In particular, it would free up resources for more cost-effective investments in people (education, skills, and in some cases health services), strategic physical infrastructure, and agricultural innovation systems.

## Questions

In a lower price environment, what needs to be done to achieve more effective domestic agricultural policies, in line with the principles agreed by Agriculture Ministers in March 2016?

What reforms are needed to ensure that domestic policies are implemented without imposing negative spill-overs on international markets?

What further OECD investments in data and analysis would enable governments to design agricultural policies that address their domestic objectives within a context of open markets?

**More information:**

Ministerial declaration from OECD Meeting of Agriculture Ministers 7-8 April 2016, Paris

OECD/FAO (2016), *OECD-FAO Agricultural Outlook 2016-2025*, OECD Publishing, Paris.  
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