

What makes a “good” agricultural policy? What have we learned?

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DEFRA-AES conference, 6th February 2017

After Brexit – Domestic Alternatives to the CAP

London, 6th February 2017

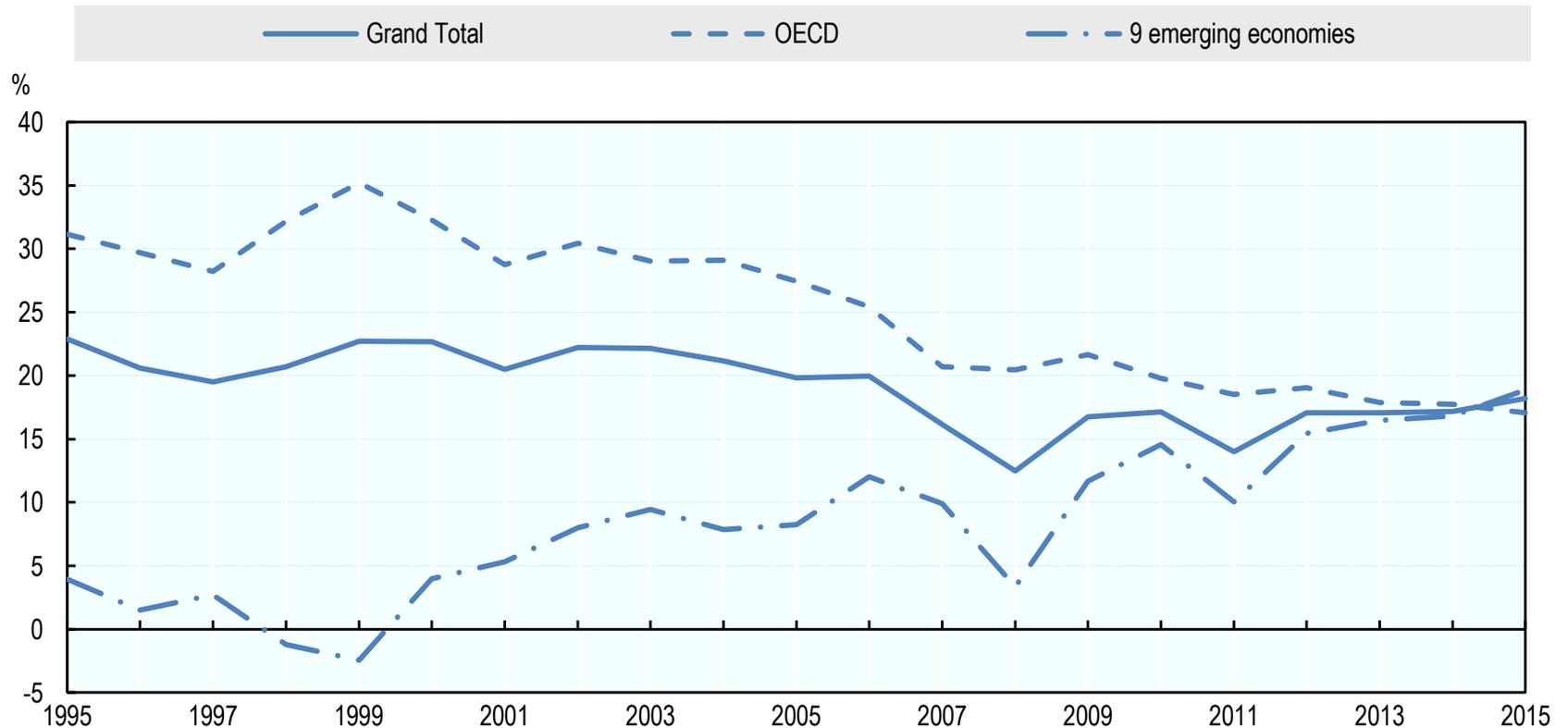
Issues to be covered

- Recap experience of what makes a “bad” agricultural policy
- Evolution of policy across OECD area – greater market orientation, incomplete reform of the “bad”
- OECD’s broad principles for agricultural policy reform – “ideal” policies
- How wide should the remit be? Food and agricultural policy? Agricultural and rural economy?
- Putting principles into practice: how can policy shift from “not bad” to “good”, and get close to “ideal”?

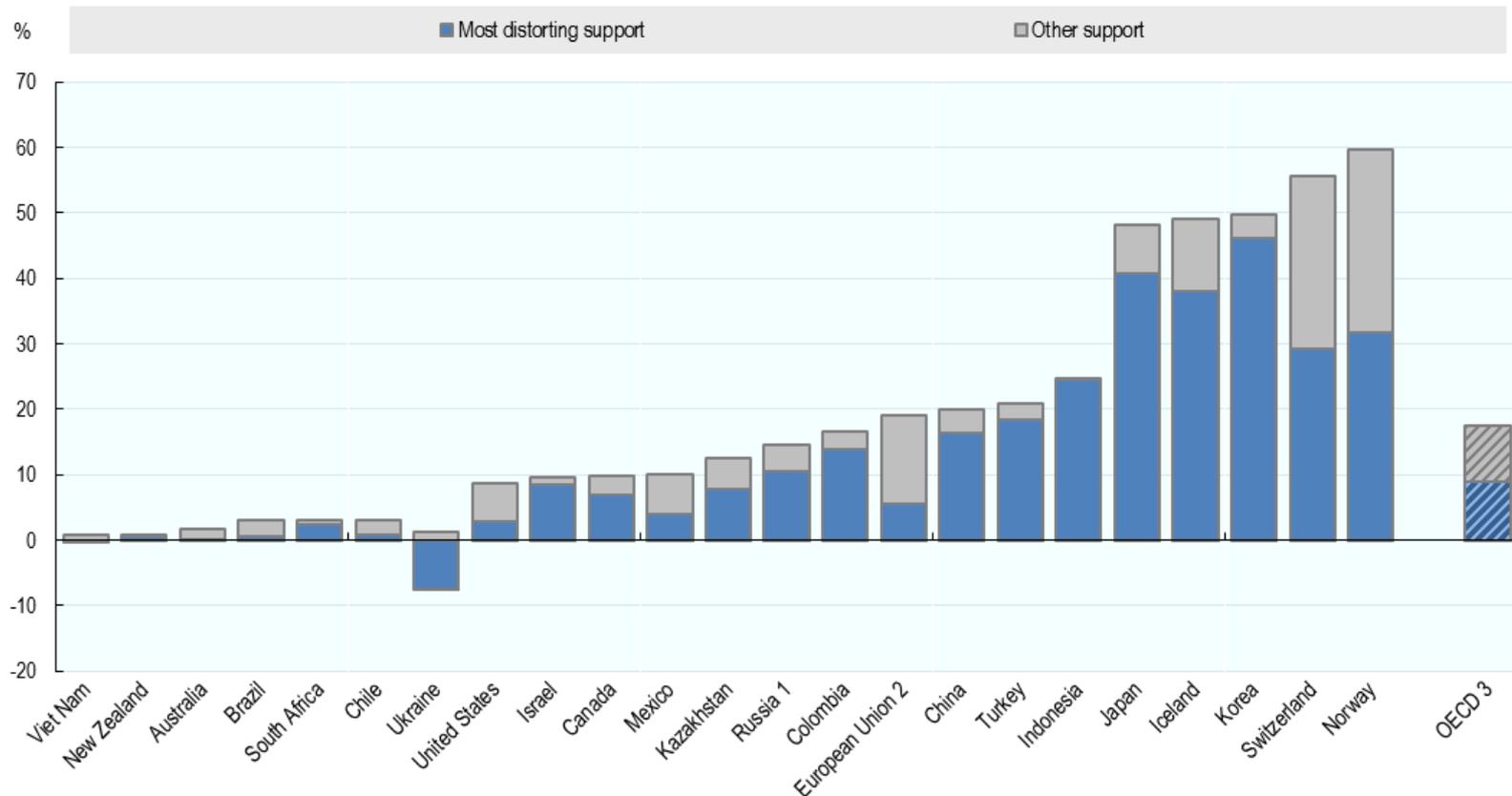
Critique of “traditional” agricultural policies

- Longstanding use of market price support and subsidies linked to output and input use
- These policies were **inefficient** (a large share of the benefits leaked away from the farmer) and **inequitable** (the big received more than the small)
- They also required the use of trade instruments (import protection, export subsidies)
- This harmed foreign competitors directly
- It also exported instability and the burden of adjustment

Rate of support to OECD agriculture (%PSE) has fallen from >30% to <20% in past 20 years, although it is on the rise in emerging economies



But there are wide variations in the level and composition:
 EU support (%PSE) is about average, but less distorting
 than the average



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

Principles for reform

Correct market failures (under-provision of public goods, externalities)

- Agricultural research and innovation systems;
- Invest in education and skills
- Invest in strategic physical infrastructure;
- Support those elements of risk management that cannot be absorbed by private risk markets or by farmers themselves
- Tax negative externalities (e.g. pollution) and subsidise positive ones (e.g. biodiversity)

Beyond that, income support fundamentally a matter of social (not agricultural) policy

Those principles broadly reflected in 2016 Declaration of Agriculture Ministers

46 countries plus the EU noted that:

- ***While policies for food and agriculture have begun to change, international and domestic policy settings are not sufficiently aligned with emerging needs.***

The ministers agreed that agricultural policies should be:

- **Coherent** (with economy-wide measures); **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
- Make innovation a priority
- Foster sustainable resource use and greater resilience of farmers to risk

Pay attention to the general policy framework

- Stable **macro-economic** conditions
- Good **governance** (e.g. contract enforcement)
- Financial markets: **access to credit**
- **Infrastructure** investment: roads, ports, ICT, etc.
- **Competition** policies, business environment
- Well functioning **trade and markets**
- **Tax** policy: e.g. special treatment for agriculture, R&D tax rebates
- **Regulations**, e.g. food safety, environment, land and water
- **Education and labour** policies
- **Information** systems

What should be the remit of agricultural policy?

Ensuring that markets are productive, competitive, transparent and environmentally sustainable

Case for a *food* and agriculture policy covering the whole value chain

Food and health policies will also affect agriculture

Spaced based policies for countryside management and natural resource use

Case for an agricultural and *rural* policy

Agriculture will also be expected to contribute to climate change mitigation

Three agriculture specifics

- **Agricultural productivity:** High I-term returns to R&D, and UK spending is relatively high; diverse farm management skills and uptake of technologies
- **Risk management:** Focus on catastrophic risks, avoid policies that deter farmer and market-based risk management (e.g. price triggers and subsidised insurance)
- **Environmental sustainability:** Pricing of natural resources; subsidies *and* taxes; focus on outcomes not practices

What are the constraints?

Domestic policy:

- Going the next step: moving away from direct payments to farmers, which are **linked** to objectives, but do not really **target** them
- Relinquishing budget resources: ensuring it will not lead to neglect of agriculture (role in food chain, contribution to environment)..less of an issue if there is a truly joined up agricultural/food/rural/climate policy
- What about farmers who are not potentially competitive?
Tangermann bonds?

Trade policy:

- How far will the UK be able to liberalise? What will be done to help farmers adjust to lower trade barriers?
- What access will UK producers have to EU and other markets?
- What standards will be adopted?
- Need to recognise that other countries' policies are changing too!



For further information

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