



# Trends in Agricultural Markets and Policy

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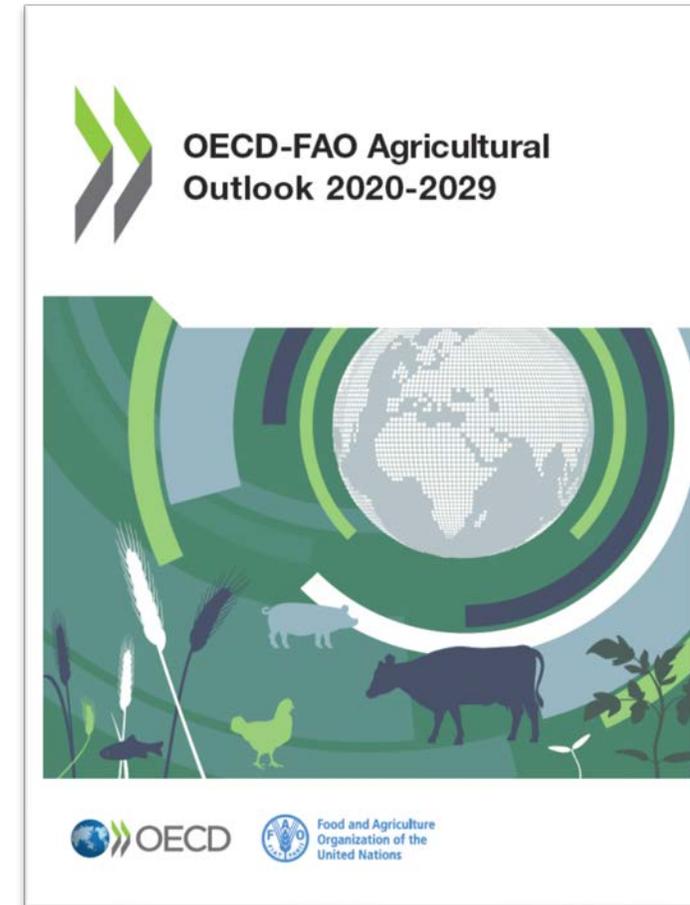
# Understanding trends in agricultural markets





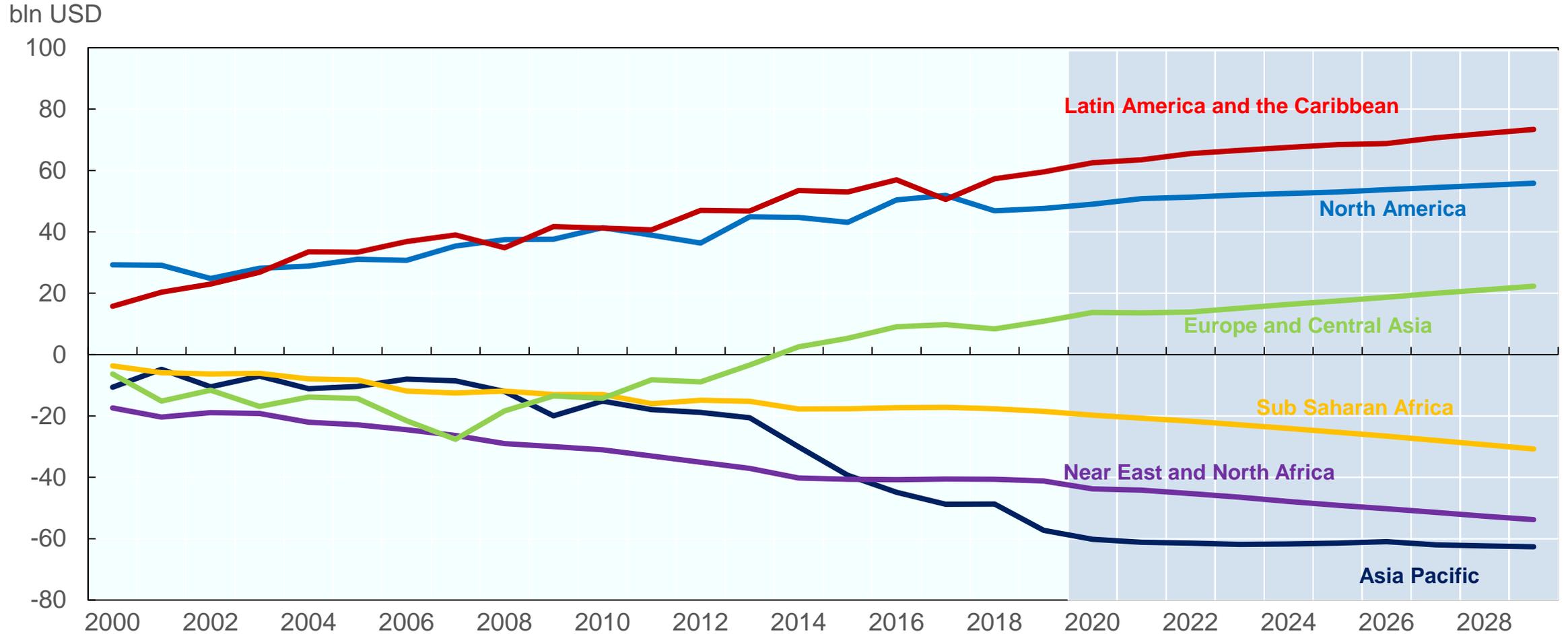
# OECD-FAO Agricultural Outlook

- Joint OECD-FAO report published annually in June/July
- 10 year horizon
- Projections based on modelling and global expert input
- Global coverage
- Detailed chapters for all major commodities
- New elements 2020:
  - Initial COVID-19 scenario
  - Chapter on additional products
  - Regional briefs for six FAO regions



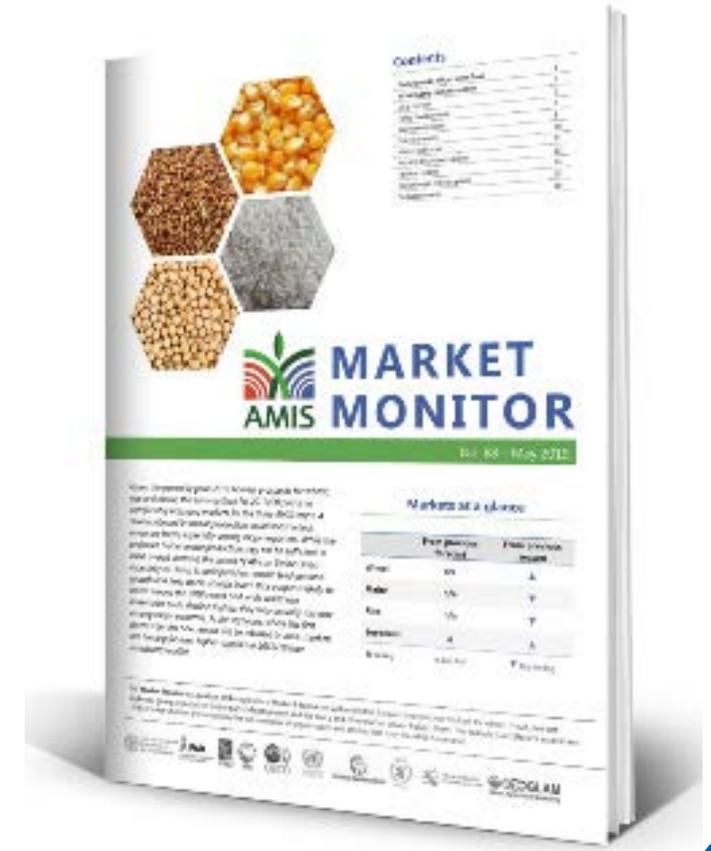
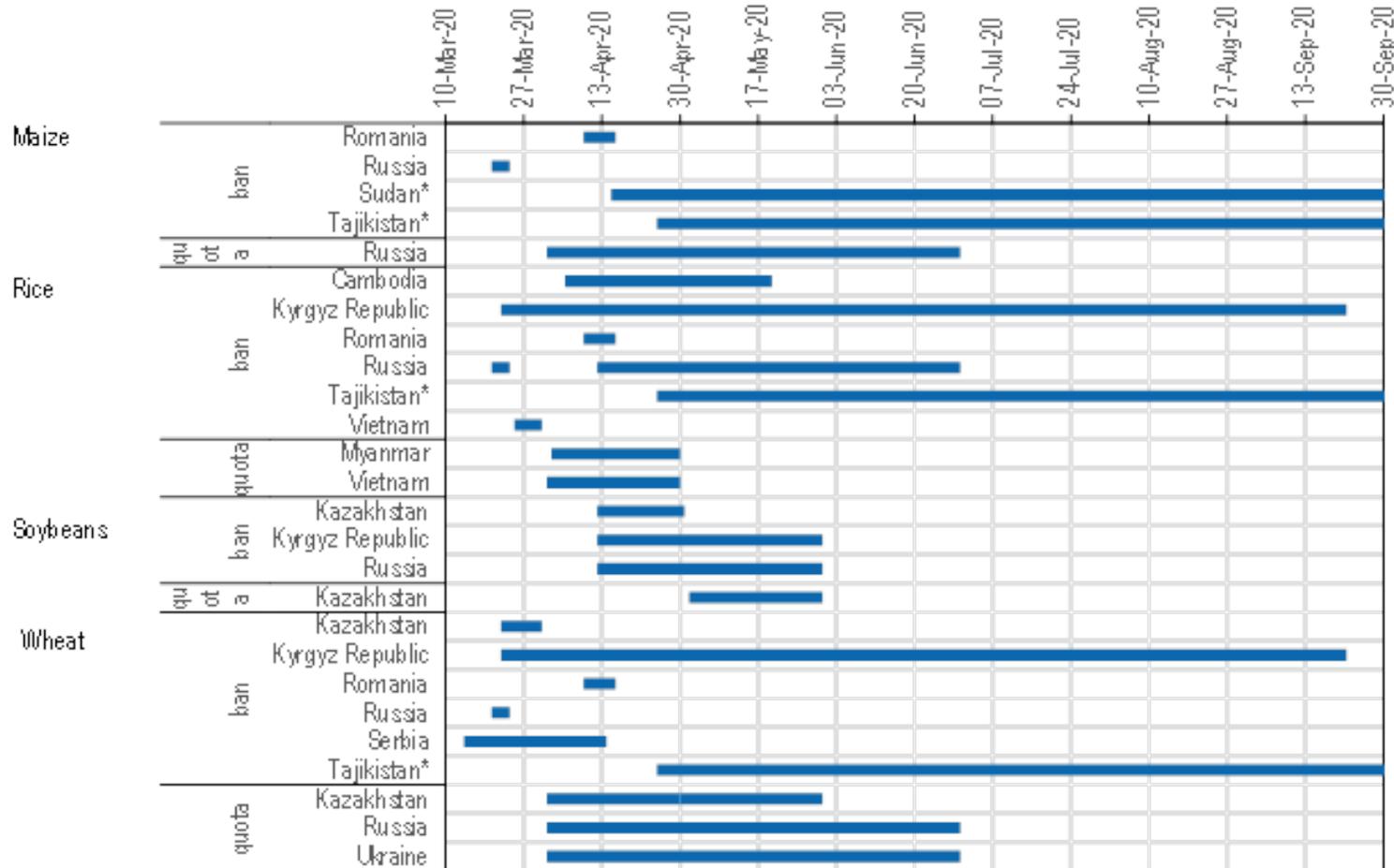


# Trade specialisation between regions increasing over time





# Transparency can help reduce market uncertainty, expose bottlenecks and highlight risks



Export restrictions imposed on staple crops in response to the Covid-19 outbreak



# Why monitor agricultural policies?

- **What is the context?**
  - Global trade tensions
  - Rising attention to social and environmental sustainability issues
  - Increasingly strained public budgets
  - Challenges arising from COVID-19
- **What is the issue?**
  - Extensive government interventions in agricultural sectors, but
  - Policies falling short relative to society's expectations
- **What is required?**
  - Understand nature and scope of policies (**Monitoring**)
  - Assess their effectiveness in achieving stated objectives (**Evaluation**)

*Objectives can be national (e.g. farm incomes, environmental sustainability) or global (e.g. food security, climate change mitigation)*





# How do we monitor policies, measure transfers?

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- **Systematic coverage and description of countries' policies**
  - Across various policy areas
  - Various ministries may be in charge
- **Measurement of implied transfers based on a key tool – a set of indicators**
  - Producer Support Estimate (PSE)
  - General Services Support Estimate (GSSE)
  - Consumer Support Estimate (CSE)



# OECD and WTO: Different systems for measuring support

	OECD	WTO
<i>Purpose</i>	Facilitate policy dialogue	Evaluate observance of trade agreements
<i>Method</i>	Measure <ul style="list-style-type: none"><li>• Support to sector</li><li>• Based on criteria related to program implementation</li></ul>	Measure <ul style="list-style-type: none"><li>• Trade-distorting support</li><li>• Based on negotiated criteria</li></ul>
<i>Outcomes</i>	Comparative monitoring and evaluation report <ul style="list-style-type: none"><li>• Assess policy reform progress</li><li>• Research database</li></ul>	Annual notifications <ul style="list-style-type: none"><li>• Assess adherence to maximum support commitments</li></ul>



# OECD's and WTO's Market Price Support: Same name, different indicators

Feature	OECD MPS	WTO MPS
<i>Context and use</i>	Analyse and evaluate policy support	Verify compliance with ceiling limits on certain support
<i>Part of what?</i>	Single Commodity Transfer (SCT) of a commodity. SCTs are part of a country's Producer Support Estimate (PSE)	Current Aggregate Measurement of Support (Current AMS) of a commodity, which may be part of member's Current TAMS <sup>a</sup>
<i>Elements in gap calculation</i>	<ul style="list-style-type: none"> <li>• Producer price</li> <li>• Contemporaneous reference price</li> </ul>	<ul style="list-style-type: none"> <li>• Applied administered price (a policy variable)</li> <li>• A constant ("fixed external reference price", FERP)<sup>b</sup></li> </ul>
<i>Multiply gap by what</i>	Total production	Eligible production (a policy variable)
<i>Calculate for which commodities</i>	A commodity for which there are policies that can explain the existence of the price gap	A commodity for which an administered price is applied

a/ Most WTO members are not entitled to a Current TAMS greater than zero (32 members are entitled in August 2018 to a non-zero Current TAMS).

The relation between a product's AMS and the member's Current TAMS is governed by the *de minimis* rules of the AA (Article 6.4).

b/ The fixed external reference price, according to Annex 3 of AA, is based on the years 1986 to 1988. Almost all WTO members that acceded to the WTO since 1995 use later years than 1986 to 1988.

Source: Brink (2018): <http://capreform.eu/two-indicators-little-in-common-same-name-market-price-support/>

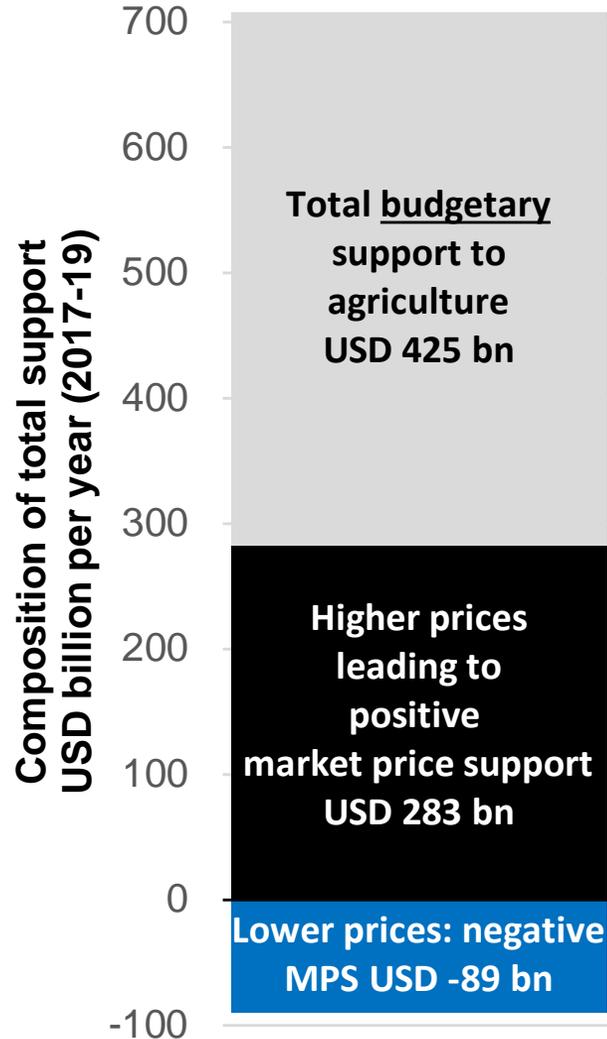


# Total support to the agriculture exceeds USD 700 billion per year

- **Governments of 54 countries<sup>\*)</sup> transfer more than USD 700 billion per year to their agricultural sectors**
- **Of this, more than USD 400 billion a year comes from government spending (> USD 1 billion per day) – even before COVID-19**
  - Remainder of support through higher prices for producers
- **There are positive initiatives in some countries**
  - New policies to increase agriculture's contribution to climate change mitigation and to improve environmental sustainability
  - Regional trade agreements to partly compensate for lack of progress at the multilateral level
- **But most policies remain ineffective or even harmful**
  - Significant scope for reforms that would contribute to sustainable productivity growth and greater resilience of the sector



# Price transfers remain a dominant form of support



## Effects of positive Market Price Support (MPS)

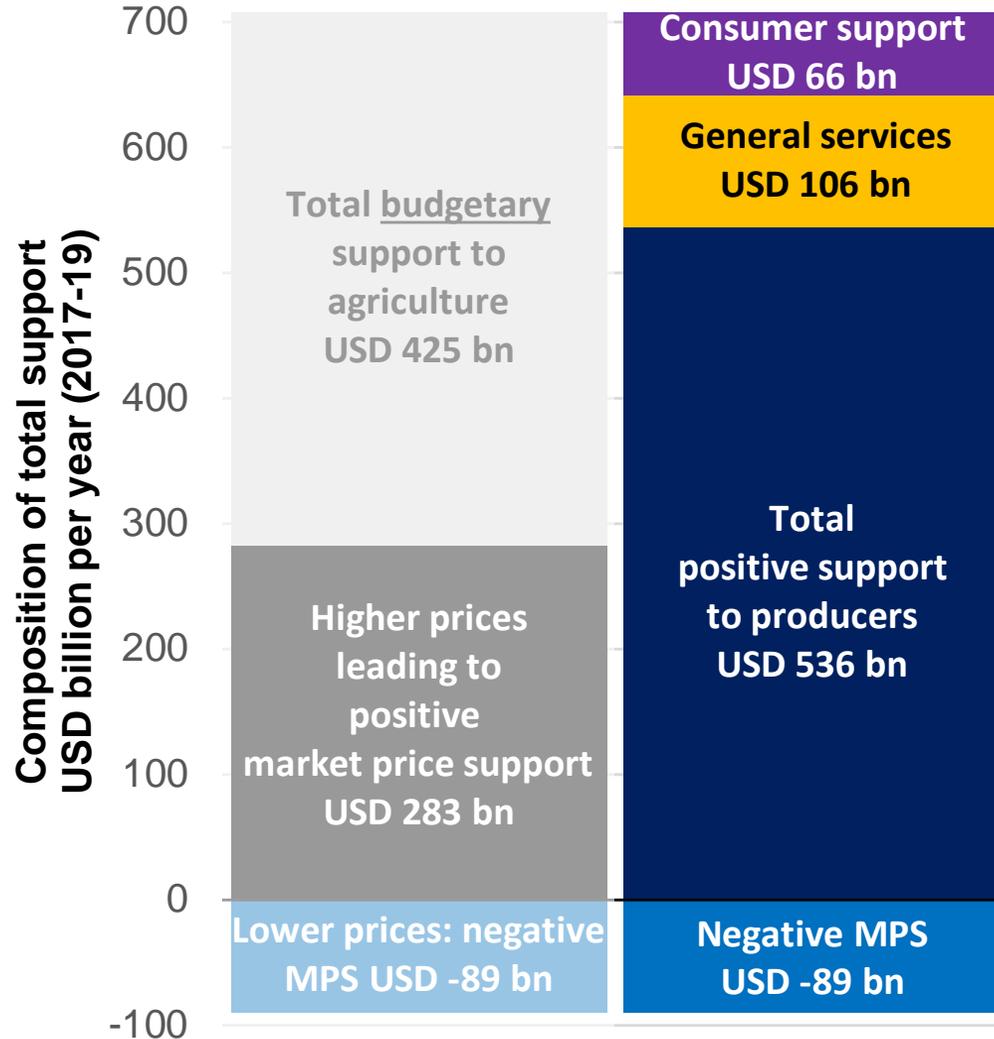
- Raises food prices for consumers
- Reduces competitiveness of food industry
- Inefficient and inequitable for supporting farmers' incomes
- Increases environmental pressures, raises GHG emissions
- Depresses international prices

## Price interventions require trade protection

- Import restrictions to keep domestic prices above world prices
- Export restrictions to keep domestic prices below world prices
- Increases world price volatility
- Shifts burden of adjustment to market changes from domestic to foreign farmers



# The vast majority of support goes to individual farmers



**Producer support estimate (PSE) = market price support plus budgetary payments to farmers (USD 536 billion)**

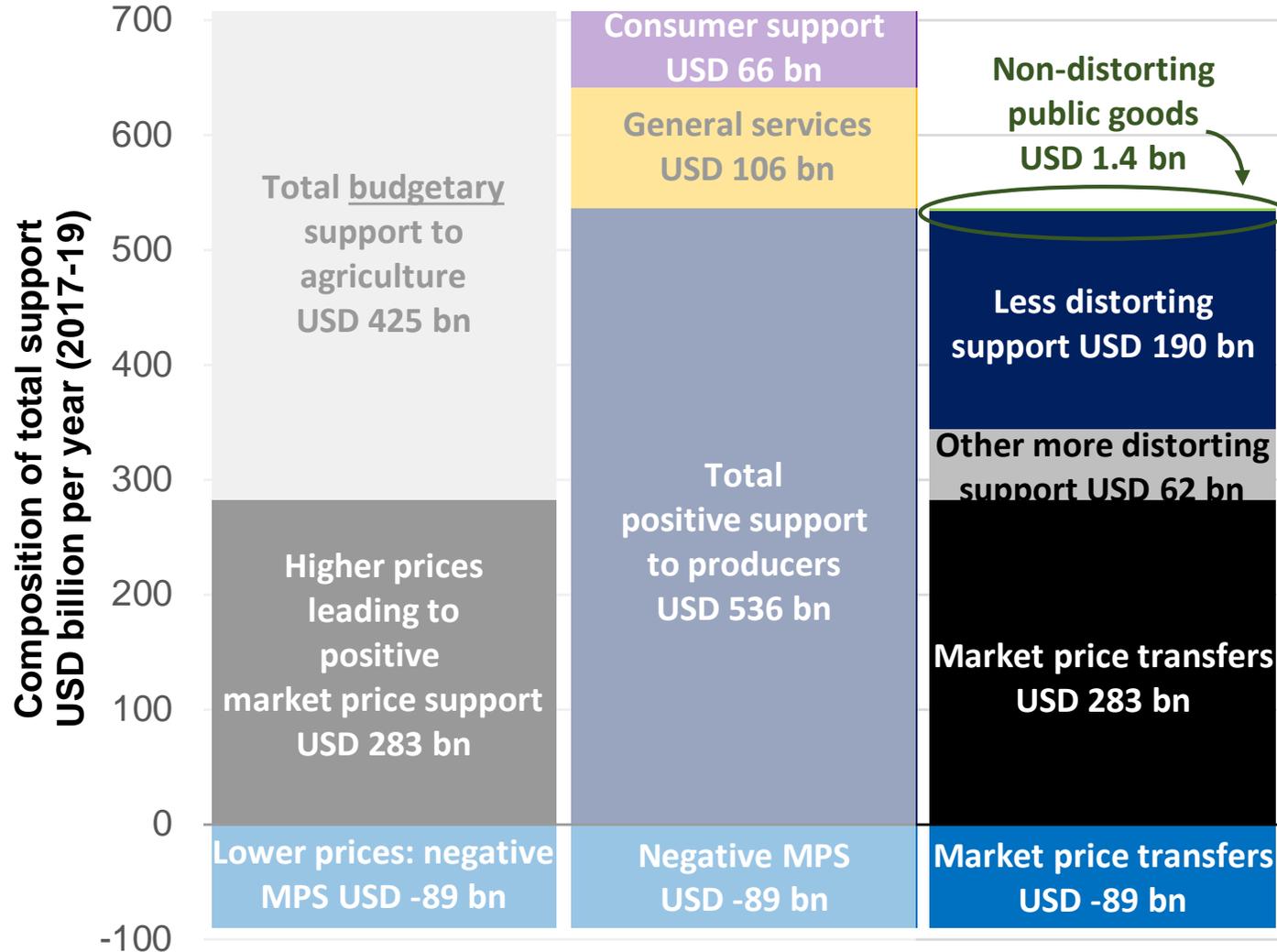
- Overall, more than one of nine dollars of gross farm receipts arises from policy interventions (%PSE = 12%)

**Targeted support to consumers and to general services to the sector play a minor role in aggregate**

- In most countries, consumers pay higher food prices
- Consumer payments relevant only in few countries



# Most farm support distorts markets. Little provides public goods



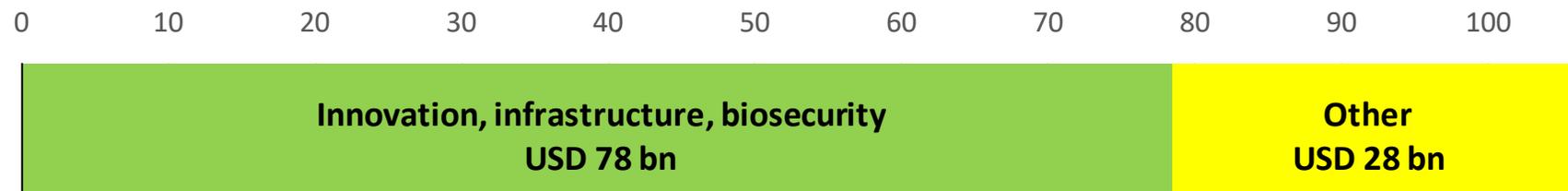
- **2/3 of support to farmers comes from market price support or distorting payments based on output or on variable input use**
- **A small share comes from less distorting payments, such as those based on historical production**
- **Little is used to provide public goods that do not distort markets and can be targeted (e.g. ecosystem services)**



# Support to general services is more limited

- Support to general services includes spending on **R&D**, rural **infrastructure** and **biosecurity** services, among others
- Potential to:
  - Improve long-term **productivity**
  - Enhance environmental **sustainability**
  - Foster **resilience** to various shocks (COVID-19 will not be the last)
  - Tackle the **climate emergency**
- Support to general services is a **non-distorting** way to help the agro-food sector
- Many governments tend to **over-spend** on distorting support, but to **under-spend** on these key services

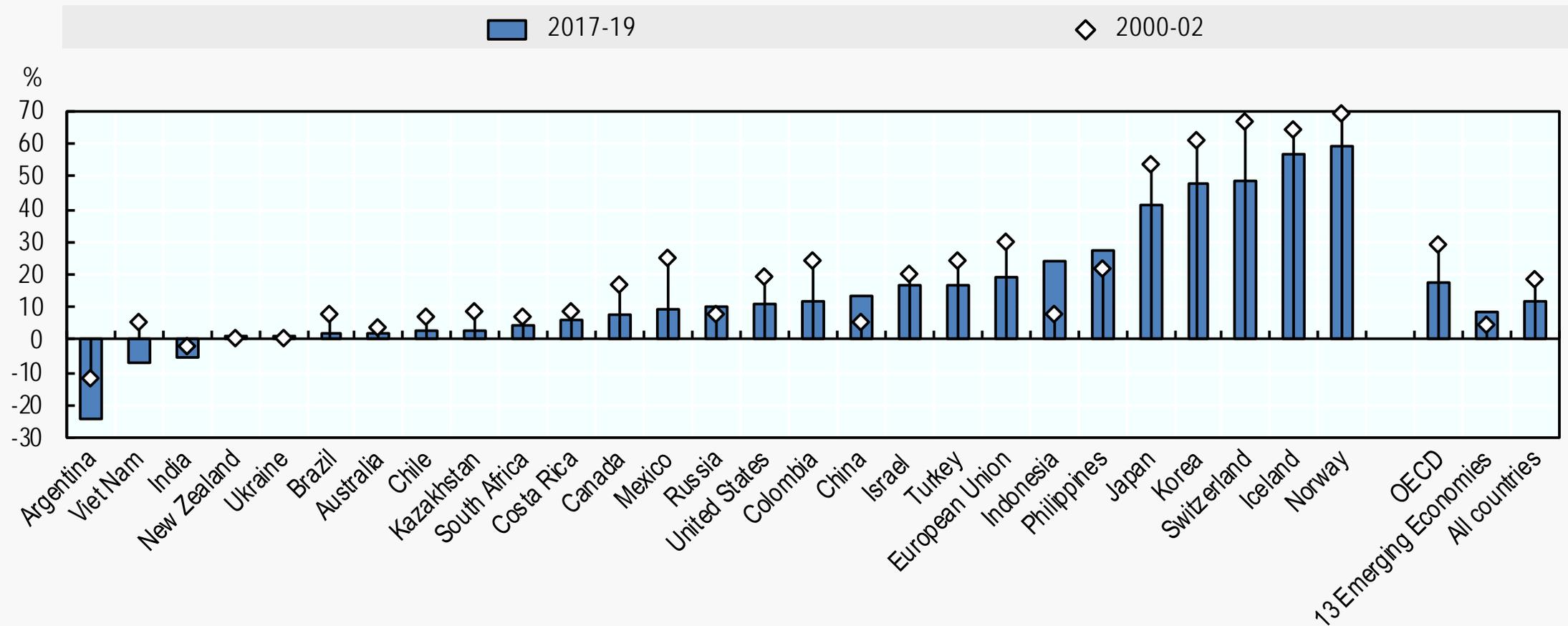
Composition of support to general services - USD billion per year (2017-19)





# Producer support remains diverse across countries... and high in some countries

Producer Support Estimates by country, percentage of gross farm receipts, 2000-02 and 2017-19





# COVID-19 had significant consequences for food chains

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- **Unprecedented stresses placed on food supply chains**
  - Input bottlenecks, notably seasonal labour for harvesting
  - Labour shortages and shutdowns
  - Transport disruptions
- **Rapid and unprecedented shifts in consumer demand**
  - Consumption of food away from home collapsed, supermarket purchases of some items soared
- **Still some bottlenecks but remarkable resilience shown by food chains**
  - Supply chain actors responded flexibly
  - Policy makers alleviated unnecessary restrictions
- **Risks to food security**
  - Issues for the poor and vulnerable
  - More systemic risks in low income countries



# Inventory of nearly 500 agriculture and food policy responses to COVID-19

Type of measure	Sub-categories
1. Sector-wide & institutional measures	Declare 'essential sector'; functioning of government
2. Information and coordination	Websites & campaigns; market monitoring; coordination with private sector; international coordination (G20, AMIS...)
3. Trade and product flows	Trade facilitation; transport & logistic facilitation; trade restrictions; re-channelling product flows; facilitating internal market integration
4. Labour markets	Health protection of workers; agricultural labour measures
5. Agriculture and food support	General financial support; product/chain specific support; admin / regulatory flexibility
6. General support available to ag & food	Overall economic measures; social safety nets
7. Food assistance & consumer support	Food assistance; market measures to support consumers



# Findings in a nutshell

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- **Support to agriculture can do a lot of good ...**
  - Prioritising innovation and the wider enabling environment would make agro-food systems more responsive to societal demands, environmental pressures and industry needs
  - Targeted payments can increase supply of environmental public goods
  - COVID-19 responses helped the agro-food sector on short notice to remain functioning
- **but too much focus is put on inefficient or even harmful measures**
  - Most distorting support, including MPS, output payments and payments for unconstrained use of variable inputs, represents two-thirds of all policy-induced transfers to the sector
  - Income support often not supportive to productivity, sustainability, not connected to total incomes of farm households. Conditionality often not targeted to outcomes
  - Risk management measures rarely build preparedness



# COVID-19 as an opportunity

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- **Policy responses have been broadly in line with three key principles:**
  1. Keep domestic, regional and international agro-food markets open, transparent and predictable
  2. Ensure that food and nutrition needs of vulnerable populations are met
  3. Seize the opportunity to enhance the resilience, sustainability and productivity of the agriculture and food sector
  
- **But policy risks remain:**
  - Increased incentives for market distorting measures to shorten supply chains, for stockpiling, ...
  - Countries may choose policies that exacerbate market disruptions, undermining the ability to meet longer term objectives
  
- **Investments are required now to build resilience:**
  - Re-purpose support to make food systems more productive, sustainable, resilient
  - Re-invigorate efforts to enhance open and predictable markets and trade
  - Invest in people, innovation, and infrastructure
  - Provide temporary adjustment support to ensure that no-one is left behind



# Contact us

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Access all of the OECD's research and analysis on agriculture at

[www.oecd.org/agriculture](http://www.oecd.org/agriculture)



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