

Next Generation of Agriculture and Agri-Food Policy

Economic Backgrounder: Policy directions in other countries



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The Next Generation of Agriculture and Agri-Food Policy – A Federal, Provincial, and Territorial Initiative

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Policy directions in other countries

Changes in agricultural policies

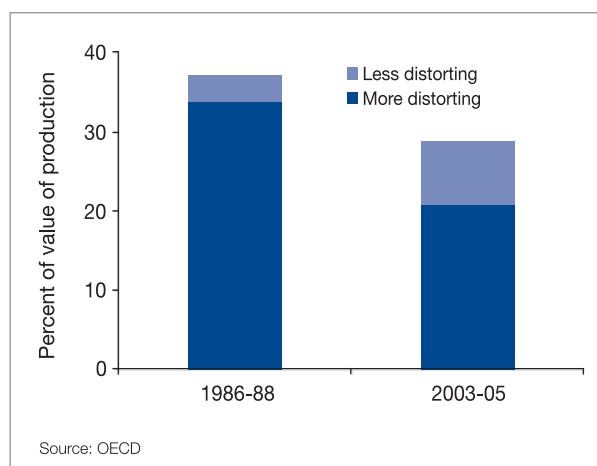
Global markets are affected by the agricultural policies of governments, both with respect to how open those markets are to competition as well as in relation to the incentives created by those policies regarding what and how much to produce. As world markets become more integrated, governments are adapting their agricultural policies to respond to new opportunities and challenges. High levels of spending and poorly targeted programs are increasingly difficult to sustain in a global economy.

The policies of members of the Organisation for Economic Co-operation and Development (OECD) countries are also becoming less linked to production and trade and better targeted to policy objectives. Less distorting support does not interfere with market signals. The pace of change depends on each country's own needs and context.

Current situation

Between 1986-88 and 2002-04, OECD countries reduced their support to producers from 37% to 30% of the total value of agricultural production (a measure known as the producer support estimate – PSE).

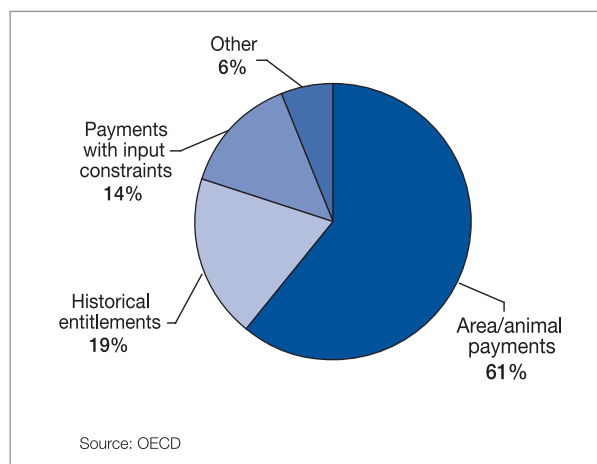
Figure 1: Support to producers in OECD countries



They have begun to change by moving away from payments or support prices that influence farmer's production decisions towards less distorting forms of support such as payments based on historical entitlement or which constrain input use.

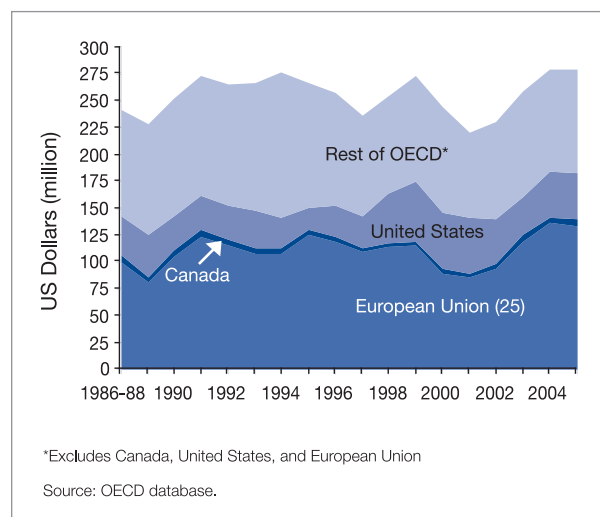
Between 1986-88 and 2002-04, the share of more distorting payments decreased from 34% to 23% of producer support, while less distorting payments increased from 3% to 8%.

Figure 2: Composition of less distorting support to OECD producers in 2002-2004



Payments based on area planted and animal numbers represent the largest category of less distorting payments in OECD countries.

Figure 3: Producer Support Estimate (PSE), 1986-88 to 2005



Ensuring that support is not linked to production, however, is not enough. Due to their sheer magnitude, high levels of decoupled support can also significantly increase production because the total amount of increased production will be large. This is the case with the U.S. and EU levels of support.

Emerging economies

The future policies of emerging economies such as Brazil, China and India will also have an impact on world markets. Low-cost and low-subsidy producers are rapidly expanding production and trade making international markets more competitive. Moreover, as these economies grow and incomes rise, world demand for agricultural and food products will increase.

Sustainability is at the very core of New Zealand's future agricultural policy directions

Past reforms

In the 1980s, macroeconomic pressures led New Zealand to reduce its subsidies and deregulate its agricultural policies.

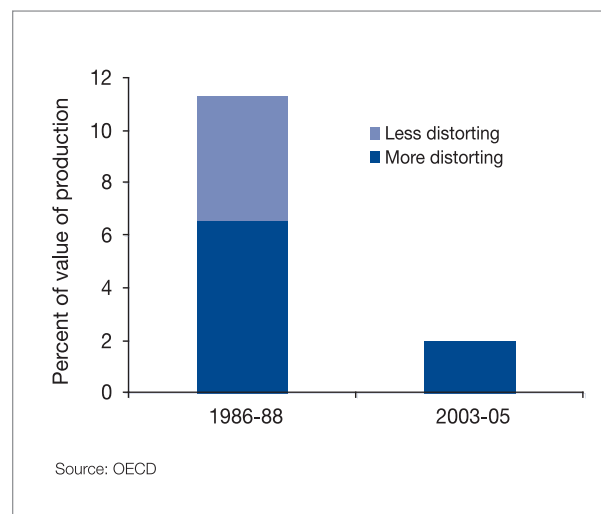
During these years, the government removed about 30 agricultural programs that supported prices, production and incomes.

Over the period, the government also took steps to deregulate marketing boards that had powers to control supplies on the domestic market or acted as single desk exporters. For example, with the creation of Fonterra Co-operative Group, the New Zealand Dairy Board's single desk monopoly on exports of dairy products ended. Under the *Dairy Industry Restructuring Act, 2001*, Fonterra retains its role as New Zealand's main exporter of dairy products but no longer has a statutory export monopoly.

Current situation

Between 1983 and 2002-04, support to producers in New Zealand decreased from 33% to 2% of the total value of agricultural production. It is now the lowest among OECD members.

Figure 4: Support to producers in New Zealand



Agricultural trade is a driver of New Zealand's economic prosperity. About 90% of agricultural production is exported and represents about 50% of the country's total merchandise trade. Since 1986-88, the country doubled its share of agricultural processed products within its total merchandise exports.

Looking ahead

New Zealand's current agricultural policy framework strives to enhance its "natural advantage" through leading the sustainable development of its biological resources.

Today, New Zealand's strategic priorities aim to encourage a high-performing sector, develop safe and freer trade, ensure healthy New Zealanders and protect New Zealand's natural resources.

NEW ZEALAND (2003)

- 17 million hectares of agricultural area
- Number of farms – 70,000
- Average farm size – 246 hectares
- Population – 4 million
- GDP – \$112 billion
- Per Capita GDP – \$27,944
- Total value of agricultural production – \$11.2 Billion

Source: World Bank, MAF, FAO.
Values in Canadian dollars.

The need for a more competitive economy led to major changes to Australia's agricultural policy

Past reforms

In the 1990s internal pressures to foster greater competition in the marketplace led to important agricultural policy changes.

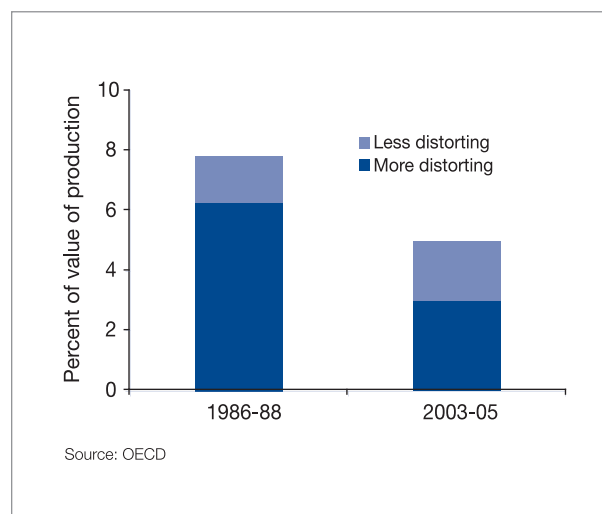
In 1995, Australian states and territories signed a Competition Principles Agreement to review all laws restricting competition by 2000. As a result, the national government removed statutory marketing authorities for commodities such as barley, canola, eggs and milk.

In the case of wheat, the Australian Wheat Board underwent substantial reform. Although exports of wheat remain under the exclusive control of single desk arrangements, producers now self-finance any losses of the board.

Current situation

Between 1986-88 and 2002-04, the support to producers in Australia decreased from 8% to 4% of the total value of agricultural production. Australia now has the second lowest level of producer support among OECD members.

Figure 5: Support to producers in Australia



Australia's agriculture is market driven and export-oriented. About 65% of agricultural production is exported and represents about 25% of the country's total merchandise exports.

The share of agricultural processed products in total merchandise exports doubled since 1986-1988.

Looking ahead

In 2005, Australia's Minister of Agriculture, Fisheries and Forestry commissioned a broad-based stakeholder group to recommend how to improve the profitability, competitiveness and sustainability of the sector. The group recommended a greater focus on innovation, cuts to regulatory red tape and more effective supply chains. It also called for phasing out interest rate and other transaction based subsidies by the end of 2010.

AUSTRALIA (2003)

- 439.5 million hectares of agricultural area
- Number of farms – 140,516
- Average farm size – 3,127 hectares
- Population – 19.8 million
- GDP – \$738 billion
- GDP per capita – \$37,155
- Total value of agricultural production – \$36.6 billion

Source: World Bank, OECD, FAO.
Values in Canadian dollars.

The next 2007 Farm Bill will set future U.S. lead agricultural policy directions

Past reforms

Under the 1996 *FAIR Act*, the U.S. took significant steps towards making its agricultural policies more market-oriented. It shifted away from supporting commodity prices by removing the link between income support payments and farm prices and introducing fixed annual payments. It also made modifications to the sugar, peanut and dairy programs that shelter domestic markets from international competition.

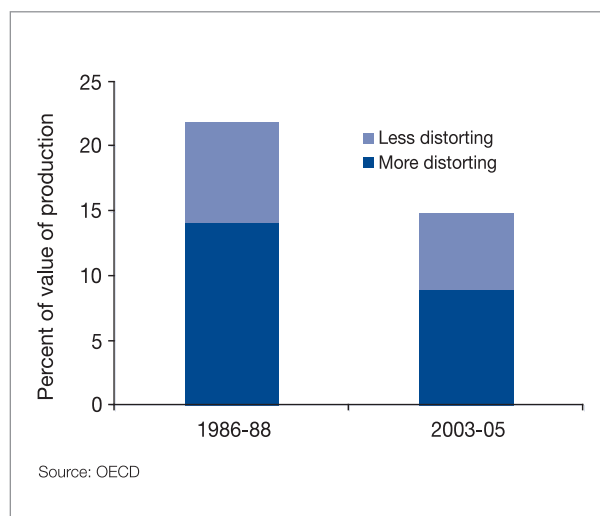
But the *Farm Security and Rural Investment Act* of 2002 reintroduced counter-cyclical payments that are based on historical production and target/market prices.

Current situation

Between 1986-88 and 2002-04, U.S. support to agricultural producers decreased from 22% to 17% of the total value of agricultural production.

Under the 2002 Farm Bill, commodity support programs account for 36% of spending.

Figure 6: Support to U.S. producers



Although direct payments are the least distorting, only about 25% of farms receive them. Over 90% of commodity program payments go to five crops (corn, wheat, soybeans, cotton and rice).

Looking ahead

The 2002 Farm Bill expires in 2007, but could be extended 6 to 12 months by Congress. The federal deficit, the WTO cotton case, the Doha Round and the need to better target support and promote competitiveness are mounting pressures for a significant shift in U.S. policy.

The U.S. President's Council of Economic Advisors and the American Farm Bureau Federation are key players advocating a more efficient farm policy. However, there will be strong pressure to extend the 2002 Farm Bill as it stands.

UNITED STATES

(2003)

- 409.3 million hectares of agricultural area
- Number of farms – 2.1 million
- Average farm size – 192 hectares
- Population – 290 million
- GDP – \$15.3 trillion
- GDP per capita – \$52,700
- Total value of agricultural production – \$299 billion

Source: World Bank, OECD, FAO.
Values in Canadian dollars.

EU CAP reform is contributing to a larger and stronger union

Past reforms

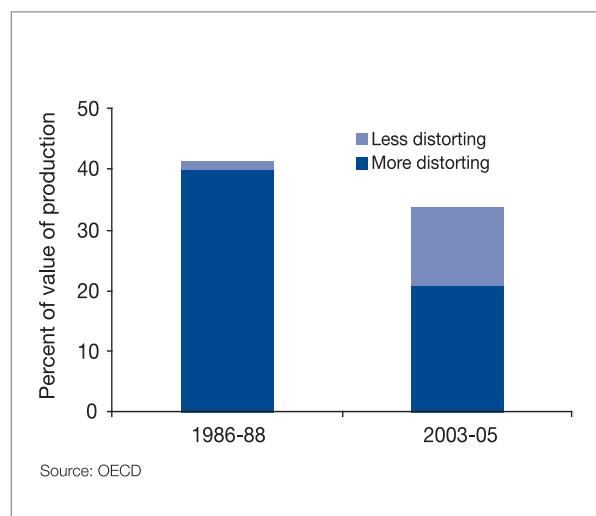
EU Member States share a Common Agricultural Policy (CAP) aimed to increase agricultural productivity and self-sufficiency for food security after wartime shortages. However, high support prices and tariffs led to artificially high levels of production.

The 1992 MacSharry reform initiated a major change in policy direction. It reduced support prices and introduced direct payments to compensate for lower prices. Later, the increasing CAP budget and the accession of 10 new member countries led to the Agenda 2000 reform, which resulted in further cuts in support prices and set the stage for the next major reform in 2003.

Current situation

Between 1986-88 and 2002-04, the EU reduced its support to agricultural producers from 41% to 34% of the value of agricultural production. The EU still provides a higher level of support to its agricultural sector than Canada and many other developed countries. However, CAP reform has improved policy effectiveness by reducing production and trade distortions and by shifting support towards broader societal needs.

Figure 7: Support to EU producers



The 2003 and subsequent CAP reforms took into account the need to limit budget expenditures in an enlarged EU, and the need to create leverage in the Doha Round. The major feature of this reform was to replace various commodity specific payments that were tied to production with a new single farm payment that is not linked to production. This reform also introduced a mechanism to reduce payments to larger farms and shift these savings to other priorities such as rural development and programs in new

member states. However, these reforms did not include reductions in import tariff protection.

Looking ahead

While some changes from CAP reform are in effect, others are being gradually phased in over several years. These changes are expected to contribute to a larger and stronger union, which could foster more integrated and competitive agricultural markets in Europe.

EUROPEAN UNION – 25

(2003/2004)

- 162 million hectares of agricultural area
- Number of farms – 9,871,000
- Average farm size – 16.5 hectares
- Population – 456 million
- GDP – \$16.6 trillion
- GDP per capita – \$36,500
- Total value of agricultural production – \$494 billion

Source: OECD, European Commission.
Values in Canadian dollars.

Japan's agricultural policy aims to secure food supplies

Past reforms

Traditionally, Japan has provided a high level of support and protection to producers in order to secure stable food supplies. The Basic Law on Food, Agriculture and Rural Areas has set out Japan's agricultural policy framework and direction, which is carried out by a 5-year basic plan.

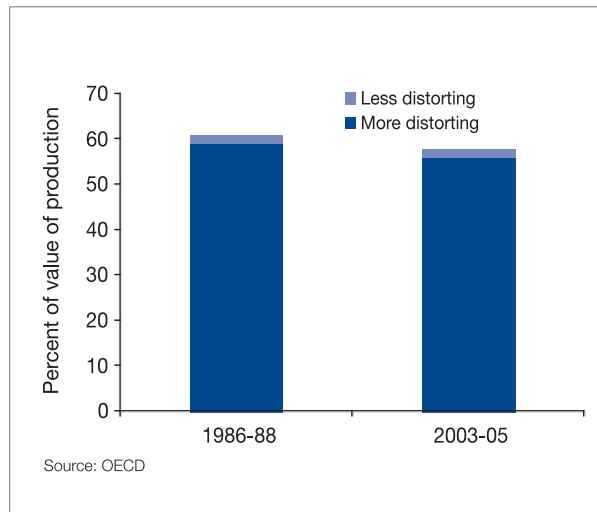
The 1999 *Basic Plan* announced detailed reforms by commodity, including the dairy sector. More recent plans have permitted the consolidation of farmland with a view to raising agricultural productivity.

Current situation

Japan is currently the world's largest net importer of food.

Since 1986-88, support to producers remains among the highest provided by OECD members at 56%. Total transfers to agriculture exceed the sector's small contribution to the GDP.

The 2005 *Basic Plan* sets targets to increase self-sufficiency on a calorie basis from 40 to 45% and on a production value basis from 70 to 76% by 2015. The Plan also identifies sustainable development, promotion of rural areas and the improvement of farm organization.

Figure 8: Support to producers in Japan

Looking ahead

Japan will aim to improve self-sufficiency, address concerns over food safety and changing demand, address structural reforms for agriculture and address the multifunctional roles of rural areas and globalization.

Factors affecting Japan's future agricultural policies will include possible pressures of a WTO Doha Round agreement to reduce the gap between domestic and international prices, Japan's aging and shrinking population and increasing concerns about health and the environment.

JAPAN

(2003)

- 5.1 million hectares of agricultural area
- Number of farms – 3.1 million
- Average farm size – 1.7 hectares
- Population – 127 million
- GDP – \$6 trillion
- GDP per capita – \$47,100
- Total value of agricultural production – \$107.5 billion

Source: World Bank, OECD, FAO.
Values in Canadian dollars.

Brazil's agricultural policy aims to a promotion of agricultural growth

Past reforms

Over the past 15 years, the Brazilian economy has undergone profound transformation. Following the abandonment of import substitution policies in the late 1980s, the government embarked upon a wide range of reforms.

Brazil achieved macroeconomic stability in the mid-1990s through budgetary restraint necessary to bring inflation under control. Structural reforms included the privatization of state-owned enterprises, the deregulation of domestic markets, and the establishment of a custom union – Mercosur – with other South American countries.

With respect to agriculture, Brazil scaled down its expenditures on price support and subsidized credit. It deregulated markets for wheat, sugar cane and coffee; and liberalized trade, not just on the import side, but also for exports, by eliminating export licences, quotas and taxes.

Current situation

As a result Brazil has become a major agricultural producer and exporter of commodities such as wheat, soybeans, beef and veal and sugar. These changes have enabled Brazilian producers to improve productivity, take advantage of lower prices for imported inputs and expand their agricultural land base.

A combination of short-term strengthening of world prices and low exchange rate has also favoured exports. Brazil achieved growth in production and exports with relatively little support to its farmers. Its support to producers averaged 3% of the adjusted value of production in 2002-04, mostly in the form of preferential credit and credit guarantees to the sector.

Looking ahead

Agricultural trade for Brazil, like Canada, has been a successful engine of growth. Brazil's challenge will be to sustain agricultural growth, while simultaneously making faster progression reducing poverty and curbing income inequality, as well as meeting their objectives of preventing deforestation of the Amazon.

Despite this, impediments such as infrastructure, property rights, public debt (reaching approximately 60% of GDP) and environmental pressures will play a role in determining the development of agriculture over the next decade.

BRAZIL (2003)

- 263.6 million hectares of agricultural area
- Number of farms – 9.7 million
- Average farm size – 110.0 hectares
- Population – 172.3 million
- GDP – \$1.5 trillion
- GDP per capita – \$8,816
- Total value of agricultural production – \$94.2 billion

Source: OECD, FAO.
Values in Canadian dollars.

A new agricultural policy agenda is enabling China's transition to a market economy

Past reforms

Since the late 1970s, China has carried out fundamental reforms to gradually shift from a centrally planned to a market-oriented economy.

In the 1990s, China aimed to increase agricultural production, especially production of food grains. Under the policy reforms, China replaced its commune system with family farms and ensured that almost all rural households have access to land.

Current situation

Since 2000, improving farmer's incomes and narrowing the urban-rural income gaps have been top priorities for the Chinese government.

As a result of the policy reforms and developments, China's agricultural production rose sharply, rural industries absorbed a large part of farm labour, the incidence of poverty and the level and quality of food consumption improved significantly.

China's rapid agricultural growth has been achieved with very low levels of support. In 2003, support to producers represented about 9% of the total value of production. To remain competitive in its domestic market, the government has placed a strong emphasis on improving the efficiency of agricultural production. A high share of total support to the sector is directed to general services, in particular investments in agricultural infrastructure.

Looking ahead

As China's domestic markets become increasingly integrated with world markets, agricultural policy developments will have a global impact. The size of the Chinese market makes it extremely sensitive to changes in the trade regime induced by even small adjustments in domestic supply and demand.

Food security issues will remain important for China's large population and continue to significantly influence the development of Chinese agricultural policies. Of importance will be the provision of food safety agencies and agricultural price information and services, which provide widespread benefits to producers and consumers throughout the economy. Water management issues are also important in China, including policy choices that do not provide incentives to over exploit scarce resources.

CHINA (2003)

- 554.0 million hectares of agricultural area
- Number of farms – 247.9 million
- Average farm size – 4.5 hectares
- Population – 1.3 billion
- GDP – \$6.8 trillion
- GDP per capita – \$5,312
- Total value of agricultural production – \$351 billion

Source: OECD, Chinese Statistics Year Book (2004).
Values in Canadian dollars.

Broader economic reforms have benefited India's agricultural sector

Past reforms

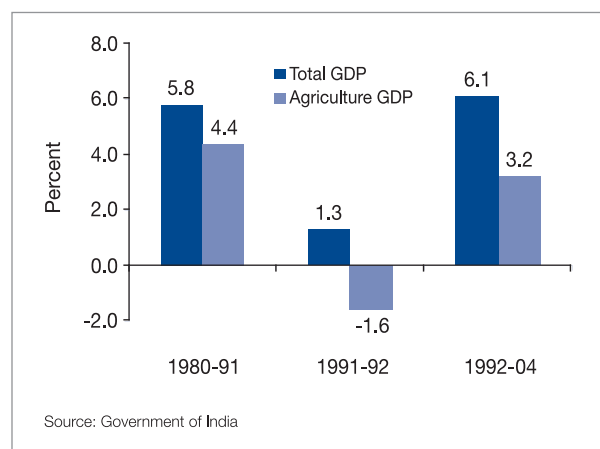
In the 1990s, in response to serious financial crisis, the Government of India undertook a set of economic reforms and deregulation that gradually shifted its policy mix from promoting self-sufficiency and import substitution to fostering export-based growth and competitiveness in international markets.

However, India's reforms largely bypassed the agriculture sector, except for the removal of some export controls on agricultural products. Rather than carry forward reforms in agriculture, where state governments have exclusive legal jurisdiction, the government increased support to the sector through higher farm subsidies and higher import tariffs.

Current situation

Economic reforms led to higher farm gate prices of food grains as well as increased trade of agricultural and food products. By 2003, agri-food export earnings increased to exceed \$11 billion. Similarly, agri-food imports increased to about \$7 billion. Despite these gains, the growth of the agriculture sector has lagged behind other sectors.

Figure 9: Average annual growth rates of GDP at 1993-94 prices



Agriculture remains an important economic sector in all states. It is widely seen as a driver of overall economic growth in rural areas and a major factor in rural poverty reduction. The sector accounts for 24% of the economy and employs 60% of the labour force. Lack of rural employment opportunities outside agriculture has retained high numbers of landless workers and marginal farmers in the sector at a relatively low productivity levels.

Looking ahead

India is rapidly emerging as one of the world's largest and fastest growing economies. By 2030, India could be the most populous country in the world.

India's ability to improve the performance of its agriculture sector and effectively address rural poverty will be critical in determining its potential as a future growth market for agriculture and agri-food products.

INDIA (2003)

- 180 million hectares of agricultural land
- Number of farms – 115.58 million
- Average farm size – 1.56 hectares
- Population – 1.1 billion
- GDP – \$841 billion
- GDP per capita – \$790.0

Source: World Bank, FAO.
Values in Canadian dollars.

Mexico's agricultural policy direction ensures the prosperity of its agricultural sector

Past reforms

In late 1980s Mexico embarked upon a wide range of reforms of its agricultural sector with the objectives to increase efficiency in resource use while allowing cheaper imports to restrain price increases and increase the welfare of rural population. Structural reforms included the privatization of state-owned agricultural marketing and processing enterprises and a shift from production-linked price support to direct payments to producers.

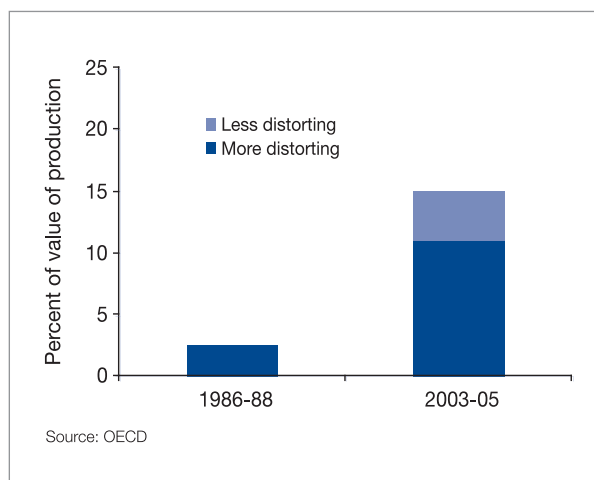
In 1984, the government introduced a 15-year decoupled program (PROCAMPO) to provide transitional income support to agricultural producers for structural changes under NAFTA. The program makes direct payments to eligible grains and oilseeds producers according to the area planted during a historical base period.

In 2001, Mexico enacted legislation affecting agriculture for the first time under the *Law for Sustainable Rural Development*. A year later, the government announced a new framework for agricultural policies supporting the law, which set out to improve welfare in rural areas, reduce regional disparities and foster agricultural production.

Current situation

Currently, Mexico's support to producers is at 21% of the total value of agricultural production compared to 3% in 1986-88. It is mainly provided in the form of market price support (tariffs), budgetary payments based on input use and those based on historical entitlements. Support is concentrated in oilseeds, sugar, maize, sorghum, milk and rice.

Figure 10: Support to producers in Mexico



Looking ahead

Budgetary constraints, the WTO trade negotiations and results of this year's presidential elections are among factors that will have impact on the future directions of Mexican agricultural policy. PROCAMPO is set to expire in 2008. Lack of credits for agricultural producers, poor infrastructure and rural poverty are issues that Mexican government will need to address to ensure prosperity of its agricultural sector and its economy as a whole.

MEXICO (2003)

- 107 million hectares of agricultural area
- Number of farms – 4.4 million
- Average farm size – 24 hectares
- Population – 102 million
- GDP – \$895 billion
- GDP per capita – \$8,947
- Total value of agricultural production – \$43.7 billion

Source: World Bank, FAO.
Values in Canadian dollars.

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