

The role of market and risk management in agricultural policies: an international comparison

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Overview

- Key challenge:

How to help farmers thrive... ← universal challenge

... in diverse conditions? ← EU-specific challenge

Means reconciling competitiveness and diversity

- Stimulate competitiveness:

- Enhance productivity through innovation and investment
- Enhance efficient resource allocation and adjustment through markets

- Maintain diversity:

- Enable agriculture in adverse conditions

Agricultural policy support in selected OECD countries, 2014-16

	%PSE/ receipts	%distorting	NPC	%GSSE/AVA	%TSE/GDP
Japan	47	86	1.75	16.2	1.1
Turkey	27	91	1.31	4.4	2.4
Indonesia	25	98	1.32	1.6	4.0
EU	20	27	1.05	4.8	0.7
China	15	74	1.13	4.2	2.4
Russia	14	76	1.10	3.0	0.9
Mexico	10	40	1.02	2.1	0.6
Canada	9	67	1.06	6.6	0.4
USA	9	33	1.03	3.7	0.5
Brazil	4	37	1.01	2.6	0.5
South Africa	3	84	1.02	4.6	0.3
Australia	2	1	1.00	3	0.1
New Zealand	1	81	1.01	3.7	0.3

Producer Subsidy
Equivalent as % of receipts

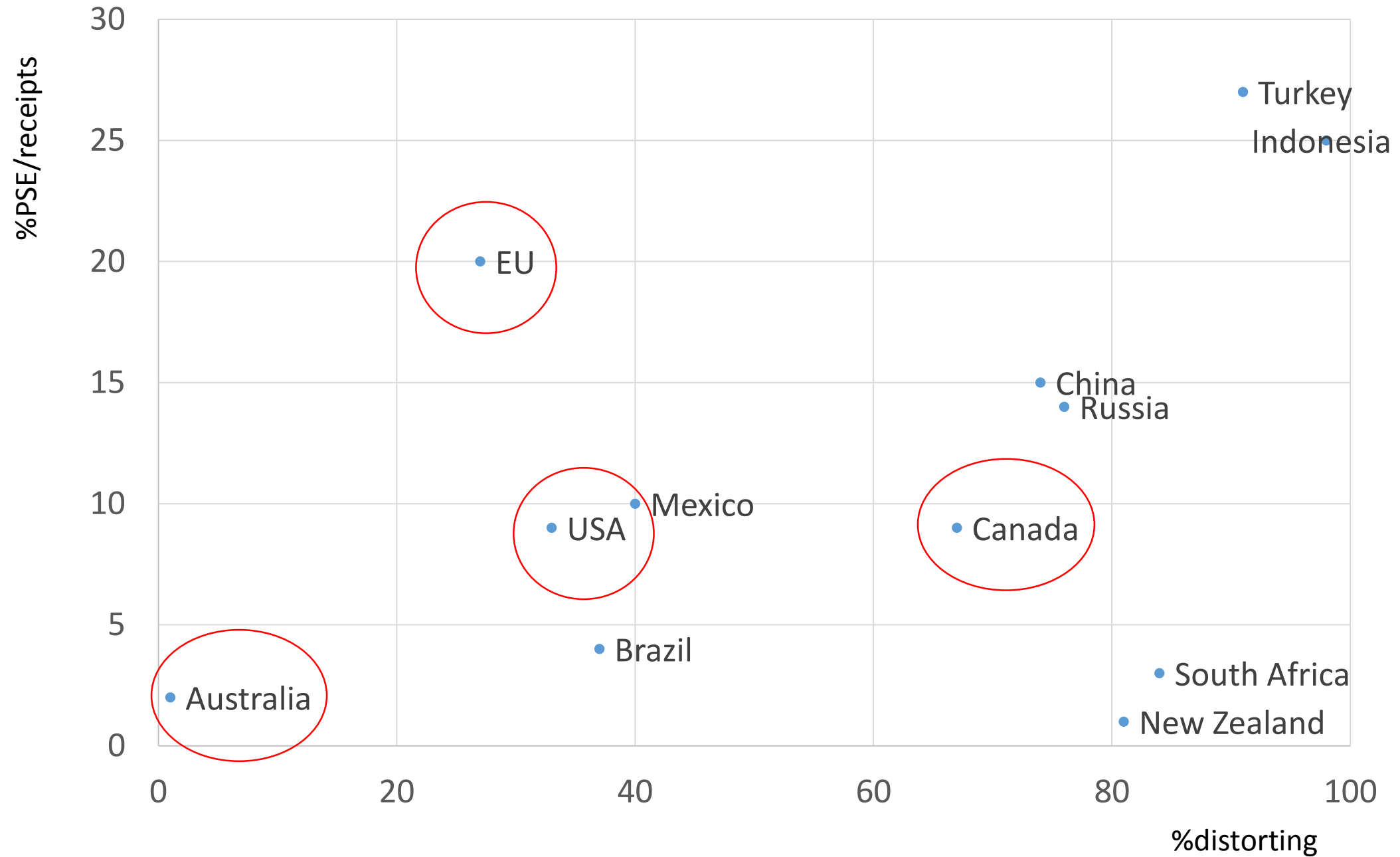
Potentially most distorting
support as % of PSE

Ratio of producer price to
border price

Expenditures for general
services relative to
agricultural value added

Total support as % of GDP

Source: OECD (2017), Agricultural Policy Monitoring and Evaluation 2017.



Australia

- No market intervention
- Investment subsidies
- Managing Farm Risk Programme (since 2016): only subsidies for costs for obtaining advice
- Farm Management Deposit Scheme: smoothing payments across years

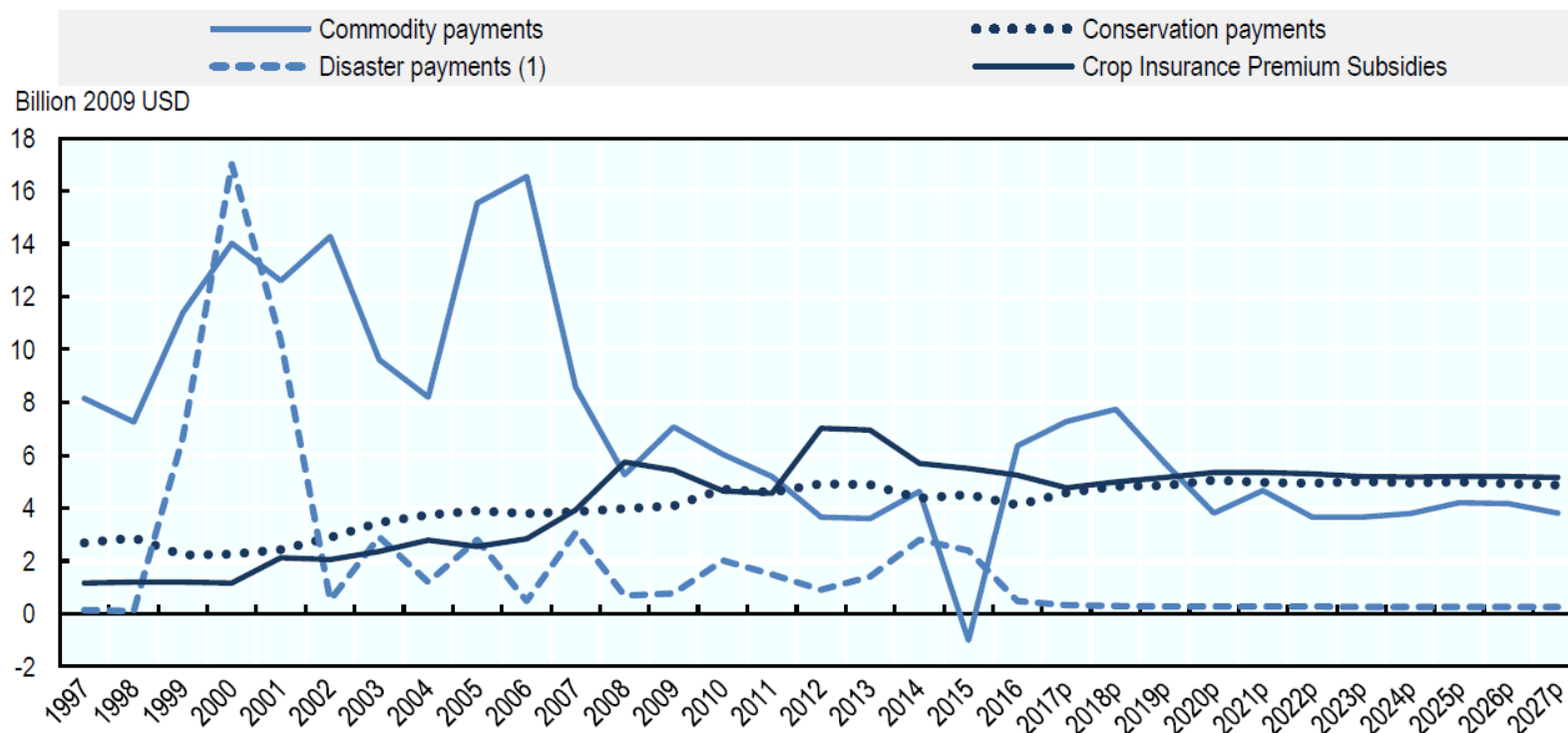
Canada: Growing Forward 2 (2013-2018)

- Market price support for dairy, poultry and eggs (incl. quotas)
- Business Risk Programmes (co-financed federal-provinces):
 - **AgriInvest**: annual deposits with matching contributions from government to be used to recover from small income shortfalls or make investments to reduce on-farm risks (+ cross-compliance at provincial level)
 - **AgriStability**: margin stabilisation tool (activated when margin falls below 70% of reference)
 - **AgriInsurance**: subsidies for insurance premiums
 - **AgriRecovery**: disaster payments

USA (2014 Farm Bill)

- Direct payments abolished
- Commodity Programs (decoupled, base acres)
 - Agricultural Risk Coverage: payments when revenues below benchmark revenue
 - Price Loss Coverage: counter-cyclical payments below fixed reference price
 - Dairy Margin Protection Plan
- Insurance Programs: premiums subsidised
 - Agricultural Yield Protection
 - Agricultural Revenue Protection
 - Livestock Gross Margin
 - Supplemental Coverage Option

Developments in farm payments, 1997-2027



Source: OECD, 2017,
Evaluation of farm
programmes in the 2014 US
Farm Bill: A review of the
literature

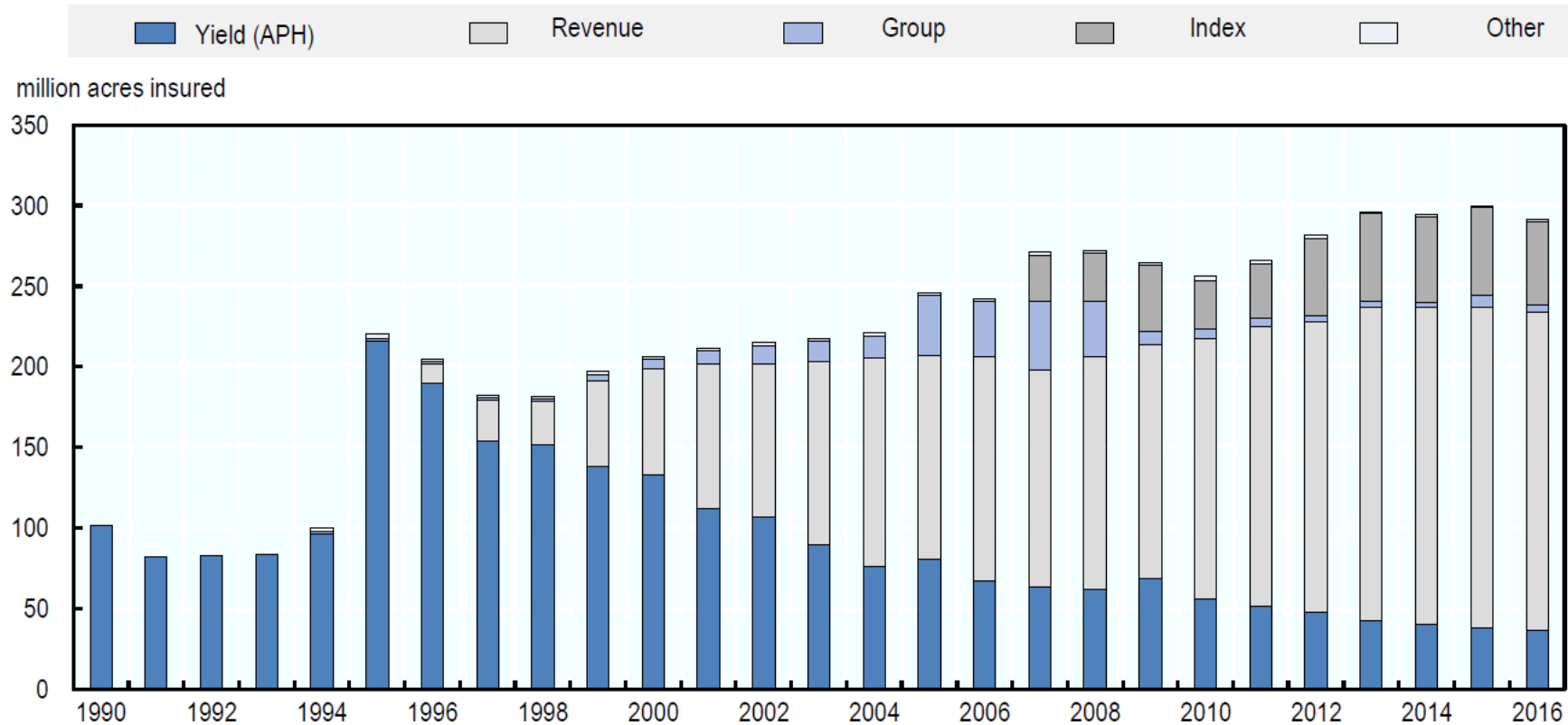
p: projected. Fiscal years (FY): 2016 runs from 1 October 2015 to 30 September 2016.

Constant 2009 USD obtained by dividing current values by the GDP deflator published in the November 2016 OECD Economic Outlook (OECD, 2016) for 2003-18, then assuming 1% inflation for 2019-27.

1. Disaster payments include Market Loss Assistance until 2007, Noninsured Disaster, Ad Hoc Disaster and SURE until 2012, and Livestock and Tree Assistance.

Source: ERS (2016), *Agricultural Act of 2014: Highlights and Implications*, May 2016, www.ers.usda.gov/agricultural-act-of-2014-highlights-and-implications.aspx; updated using CBO (2014, 2015, 2016 and 2017), www.cbo.gov/about/products/baseline-projections-selected-programs#25.

Crop insurance coverage by option, 1994-2016

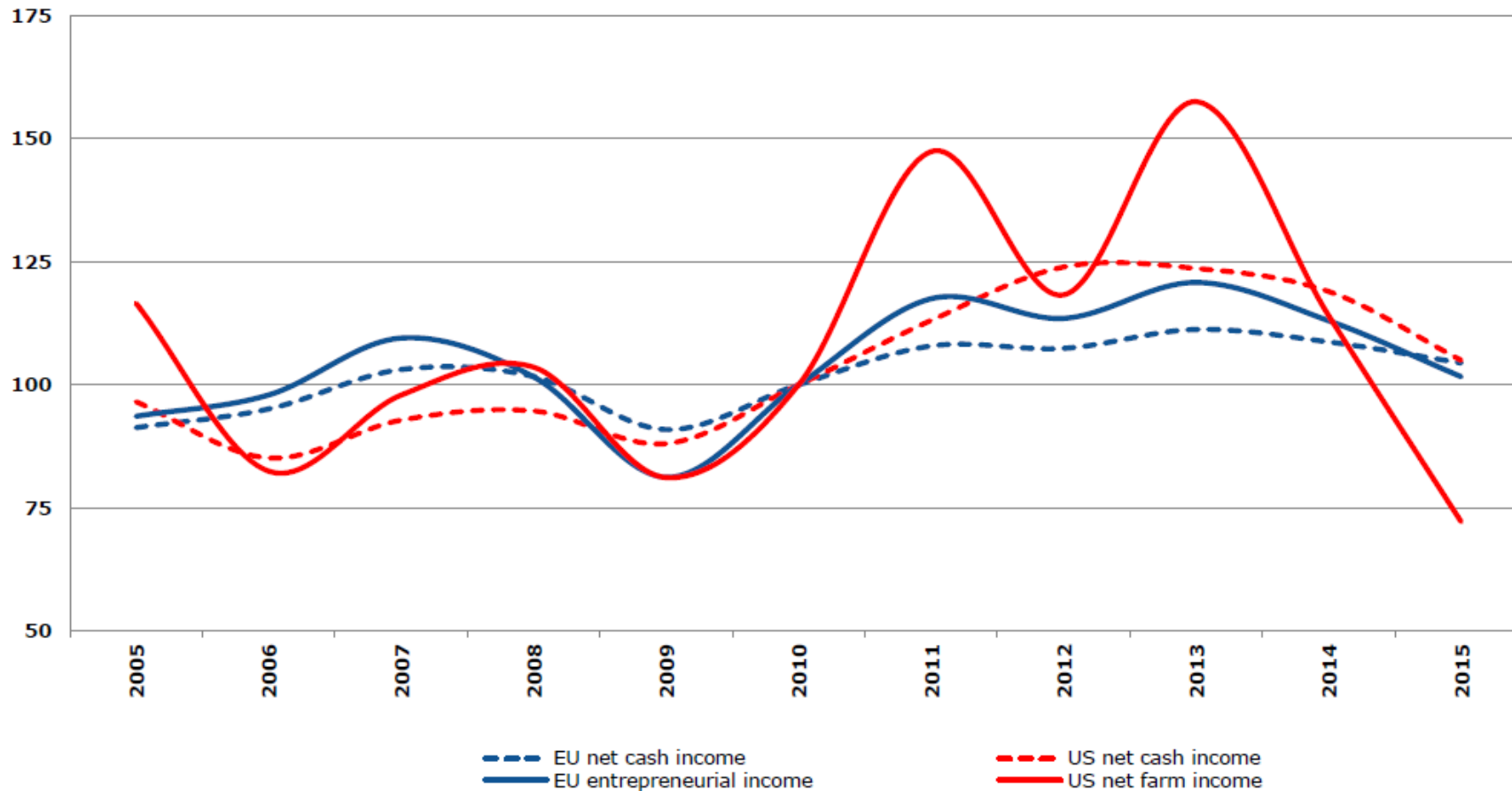


APH: Actual Production History (farm or sub-farm unit level). Revenue: APH yield x national price (farm or sub-farm unit level). Group: County yield (GRP) or county revenue (GRIP). Index: Rainfall or vegetation (pasture, rangeland and forage).

Source: ERS compilation of Risk Management Agency data.

Source: OECD, 2017, Evaluation of farm programmes in the 2014 US Farm Bill: A review of the literature

EU and US nominal farm income (2010=100)



Source: AGRI calculations based on ESTAT and ERS/USDA data.

Source: Haniotis, 2016, DG AGRI Comments to the EP-COMAGRI Hearing

EU

- Direct Payments
- Risk Management instruments
 - Crop and animal insurance (art. 37)
 - Mutual funds (art. 38)
 - Income Stabilisation Tool (art. 39): triggered when income 30% lower
- Reserve for Crises
- State Aid Payments

Comparison

	EU	USA	Canada	Australia
Direct payments	Yes	No	No	No
Market intervention	No	Counter-cyclical payments	Minimum prices for dairy, poultry, eggs	No
Crop insurance	Subsidised premiums	Subsidised premiums	Subsidised premiums	Private
Mutual funds	Yes, subsidised	No	Government matched deposits	No
Income stabilisation	Income stabilisation tool	Margin and revenue protection	Margin stabilisation tool	No

Conclusions

- Re-emergence of coupled support in some countries
- High uptake of risk management programmes in absence of direct payments
- Counter-cyclical payments and risk management programmes pose specific budgetary challenges
- Cross-compliance widespread
- More targeting needed to maintain diversity while promoting competitiveness
- Support for adjustment limited to not existing