



Global Forum on Agriculture

26 November 2012

Policy Coherence for Food Security
in Developing Countries

OECD Headquarters, Paris

**Policy Coherence and
Food Security: The
Effects of OECD
Countries' Agricultural
Policies**

Jonathan Brooks, OECD Secretariat,
jonathan.brooks@oecd.org



TABLE OF CONTENTS

POLICY COHERENCE AND FOOD SECURITY: THE EFFECTS OF OECD COUNTRIES' AGRICULTURAL POLICIES	3
1. Introduction.....	3
2. The charge of policy incoherence	4
3. The evolution of agricultural support in OECD countries	5
4. The spill-over effects of OECD country policies prior to the 2007-08 food price spike	7
5. Policy impacts in a context of high food prices	8
6. The rising importance of emerging economies, in particular the BRIICS	10
7. More coherent policies for global food security	12
Reforming policies to avoid negative spill-overs	12
Pro-active ways of improving policy coherence	13
BIBLIOGRAPHY	14

Tables

Table 1. Proportions of net buyers and net sellers of staple foods.....	9
Table 2. Bilateral shares of agricultural trade between OECD and BRIICS countries.....	10

Figures

Figure 1. OECD composition of Producer Support Estimate, 1986-2011	6
Figure 2. Agricultural commodity prices in real terms (2005=100)	8
Figure 3. OECD and emerging economies: evolution of PSE, 1995–2011	11

POLICY COHERENCE AND FOOD SECURITY: THE EFFECTS OF OECD COUNTRIES' AGRICULTURAL POLICIES

There have been important changes to agricultural policies in many OECD countries over the past decade, with reforms in the past five years facilitated by high international food prices. As a consequence, the international spill-over effects of support and protection in OECD countries have diminished. Remaining distortions could be eliminated with few immediate consequences for farmers' incomes, so now would be a good time to replace them with more efficient alternatives, including social safety nets and tools to help farmers manage risk. This would lock in the benefits of reform and simultaneously address charges of policy incoherence.

In the context of high food prices, new issues have emerged with potential implications for food security. They include export restrictions, the use of biofuel mandates, and the opportunities and threats presented by increased foreign investment in agriculture. On these issues, as well as in terms of conventional support mechanisms, policies in emerging economies (in particular the BRIICS¹) are increasingly important. More generally, the BRIICS are of rising importance to agricultural trade and investment, and their policies need to be factored into wider discussions of policy coherence. It is no longer relevant to view the issues in terms of an OECD versus developing country divide.

A pro-active agenda for policy coherence would involve not just eliminating policies that distort trade, but also enacting positive measures to increase food availability, for example by raising agricultural productivity, using resources sustainably, and eliminating waste and over-consumption. Across countries, there are important gains to be realised from knowledge sharing, and from multilateral action to provide global public goods – not least smoother functioning of the multilateral trading system.

1. Introduction

1. This paper examines ways in which agricultural policies, and wider policies affecting the performance of the food and agricultural sector, can be made more “coherent” with respect to the challenge of ensuring global food security. The focus is on OECD countries' policies, but the issues raised are of equal relevance to emerging economies with a significant presence on international markets.

2. In this context, policy coherence has two components. One is ensuring that OECD country policies have effects which support – or at least do not undermine – food security in developing countries. This is a question about policy *impacts*. A second aspect relates to the *coordination* of policies across sectors and ministries, so that they are mutually supportive as opposed to offsetting. For example, a coherent policy would be one which opens markets to developing country exports, while also helping developing countries boost their export supply capacity (for example through Aid for Trade). Conversely, an incoherent policy would be one which involved giving aid to support a country's agricultural development, while simultaneously blocking their exports and obliging their farmers to compete with subsidised agricultural production in the donor country.

1. Brazil, Russia, India, Indonesia, China, South Africa.

3. The focus of this paper is on the first aspect of policy coherence, i.e. the spill-over effects of OECD countries' agricultural policies, and of other policies related to the functioning of the food and agriculture system. The second aspect is touched on only insofar as policies which have adverse effects on food security in developing countries naturally undermine policy coordination and donor efforts to improve food security.² The basic charge is that high levels of support to farmers in OECD countries, and associated trade policies, have been fundamentally *incoherent*, i.e. one of the factors constraining development and thereby impeding food security in developing countries.

4. The FAO definition of food security, agreed at the 1996 World Food Summit, is a useful benchmark for looking at channels of impact. It states that "food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life." Food security implies, among other things, ensuring that enough food is available, that people have access to that food and can afford to buy it, that they consume nutritious food, and that their consumption can withstand shocks such as droughts. From a coherence standpoint, we need to know how policies in OECD countries and elsewhere influence these inter-related factors.

5. The paper is organised as follows. Section 2 considers the main channels through which agricultural policies in OECD countries impinge on the economies of developing countries. Section 3 then examines the evolution of support to agriculture in OECD countries, and the extent to which that has distorted international markets. Section 4 discusses OECD efforts to gauge the impact of OECD country policies prior to the 2007-08 food crisis, while Section 5 considers how those impacts have changed in the current context of high world food prices. Section 6 notes the rising importance of emerging economies, in particular the BRIICS, to international trade – and the corresponding need to factor their policies into discussions of policy coherence. Section 7 concludes by sketching out a "positive" agenda for policy coherence, focusing in ways in which OECD countries and emerging economies can contribute pro-actively to improved global food security.

2. The charge of policy incoherence

6. For years, the charge of policy incoherence stemmed from high levels of support and protection in OECD countries. In 2001, total support to the agricultural sectors of OECD countries, in the form of transfers from consumers and taxpayers, surpassed the emblematic threshold of USD 1 billion per day. Most of that support went to farmers, in the form of higher prices than those prevailing on world markets and trade-distorting subsidies linked to output or input use. These policies were seen to have a range of damaging impacts on developing countries.

- a. High tariffs on agricultural products, typically several times above those levied on industrial goods, restricted market access for developing country farmers with export potential.
- b. Elevated prices led to the accumulation of surpluses, which were subsequently "dumped" on developing country markets with the use of export subsidies (sometimes badged as food aid). This undermined local markets for developing country farmers competing with imports.
- c. Price supports and subsidies, by stimulating production, suppressed prices on world markets, again lowering returns to developing country farmers.

The latter two factors implied weaker terms of trade for developing countries that were specialised in agriculture. Policies to support farmers (in particular price guarantees) have also often been counter-cyclical, which stabilises domestic markets but exports instability onto world markets.

2. Wider questions related to how aid and development policies can be aligned with national food security strategies, and issues of aid and development effectiveness, are addressed in the next session.

7. Important caveats have sometimes been glossed over in public discussions of policy impacts on developing countries: Many of the restrictions on market access are lifted for poorer developing countries via trade preferences – making the constraint often more one of supply capacity than trade protection. Moreover, many of the products produced by low income countries (cash crops) do not compete with products produced in developed OECD countries, and for these producers the protection of OECD farmers is largely irrelevant. The critical restrictions on developing country exporters are for products such as grains, sugar and beef, which are produced by larger exporters such as Brazil and Argentina. Furthermore, exported surpluses could be good for urban consumers, while suppressed world food prices were, at least in the short run, of aggregate benefit to food importing countries and of individual benefit to net consumers of food, a group which includes many farmers.³

8. OECD analysis concluded that its members' agricultural policies – above all market access restrictions – did more harm than good to developing countries (OECD, 2006). From the standpoint of motivating reforms, however, OECD stressed that the most damaging impacts were to OECD countries' *own* economies. In terms of raising farmers' incomes, the mainstays of policy – price support and input subsidies – were inefficient, with a large share of the benefits leaking away to non-farming landlords or suppliers of purchased inputs. They were also inequitable, paying more to larger and richer farmers than to smaller and poorer ones, and taking money away from consumers and taxpayers to boost the incomes for households whose incomes were already above average (OECD, 2003). Moreover, only a small share of support (less than 5%) was targeted to environmental objectives.

3. The evolution of agricultural support in OECD countries

9. For more than twenty years, the OECD has recorded and measured agricultural policies in member countries and, on the basis of that data, evaluated policy impacts. The OECD's annual measurement of support to agriculture attaches a monetary value to the different forms in which support can be provided. One element is support to farmers, which can be provided by supporting prices above world market levels or by making direct budgetary payments. This support is captured by the Producer Support Estimate (PSE). A second element is budgetary support to agriculture in the form of "general services", for example for research and development, advisory systems, and food inspection. These are captured by the General Services Support Estimate (GSSE). Moreover, in some countries governments also transfer taxpayers' money to poor consumers through food subsidies. Together, the producer support, general services support and taxpayer transfers to poorer consumers represent the OECD's Total Support Estimate (TSE).

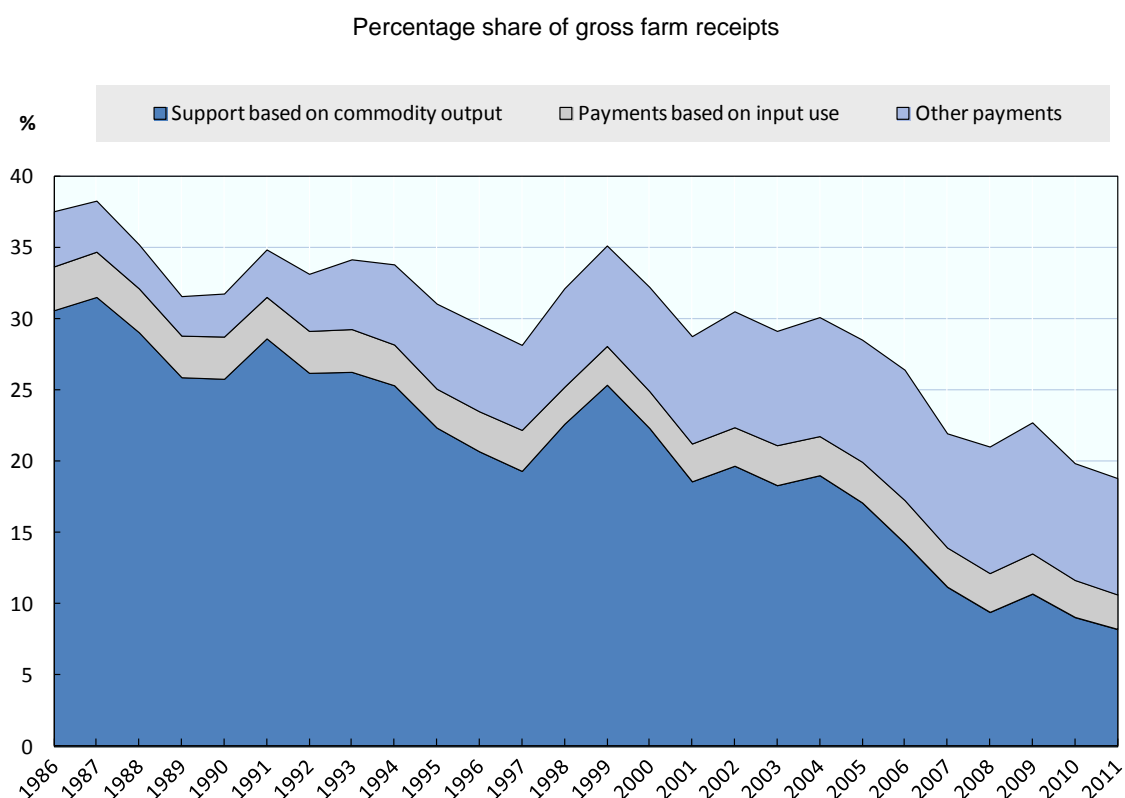
10. A key feature of the OECD methodology is that supports to farmers are classified, and the associated transfers quantified, according to their tendency to distort production and trade. For example, price support – and subsidies linked to output or input use – are distinguished from direct payments which are decoupled from production decisions. More distorting policies have greater consequences for domestic well-being, and generate greater spill-over effects on world markets. In order to gauge how the spill-over effects of OECD countries' agricultural policies have evolved, it is therefore helpful to take a long-term perspective on the level and composition of support, and compare the current situation with that in 1986-88, when the Uruguay Round of trade negotiations was just underway.

3. A moral point was also made. High levels of support to the agricultural sector were contrasted with low levels of overseas development assistance and declining aid for agriculture in particular. Total support to the sector was six times higher than all ODA, while the share of ODA going to agriculture was declining. The contrast appeared to symbolise the low priority that OECD countries attached to development objectives. However, a large share of support comprised resource transfers from consumers to farmers in the form of higher prices, and did not represent taxpayers' money that could be shifted readily to alternative uses such as ODA.

11. Total support in nominal US dollars increased from an average of USD 296 billion in 1986-88 to USD 389 billion in 2009-11, and averaged just over a billion dollars a day through the 2000s. The burden of this support on OECD countries, as captured by ratio of total support (TSE) to GDP, declined however from 3.0% to 0.9% over the same period. In other words, OECD country agricultural policies now cost consumers and taxpayers less than one per cent of GDP.

12. Of total support, the share going to farmers declined from 81% in 1986-88 to 64% in 2009-11. Conversely, the share of general services doubled from 13% to 26%. About two-thirds of those general services are for marketing and promotion, as opposed to public goods such as agricultural research and infrastructure. Over this period, support to farmers has changed little in nominal terms, but has declined in real terms and as a proportion of incomes, with the share of farmers' gross receipts coming from support (%PSE) falling from 37% to 20%. There are now only three countries (Japan, Norway and Switzerland) where government support accounts for a half or more of farm revenues.

Figure 1. OECD composition of Producer Support Estimate, 1986-2011



Source: OECD, PSE/CSE database, 2012.

13. The reduction in the degree of support provided has been accompanied by a shift in the ways in which support is provided – support has become less trade-distorting. Whereas in 1986-88 90% of farm support was linked to output or input use (predominantly higher prices for the former, lower for the latter), by 2009-11 that share was down to 58%. However, reform has been uneven. For example, the share of support in the European Union linked to output or input use fell from 96% to 33%, whereas the corresponding change in Japan was from 97% to 87%, and the change in the United States was from 64% to 46%. In recent years, there has been little use of export subsidies.

14. Some of the reforms implemented over the past 25 years have been as a result of political will and reflect fundamental shifts. But reforms are often easier to implement when world prices are high, and are not necessarily locked in. For example, the United States took the opportunity of strong prices to decouple support from production in 1996 with the Freedom to Farm Act, but then reintroduced a new form of counter-cyclical payment in 2002. Moreover, when domestic prices are fixed, the value of price support – as captured by the gap between domestic and world prices – declines naturally as world prices increase. The OECD has followed countries reforms closely, both through the annual Monitoring of agricultural policies and with country-specific reviews. Reviews of agricultural policies have recently been undertaken for the European Union, Japan, Korea and the United States. In each case, specific recommendations have been made for how reforms can be strengthened and consolidated.

15. The bottom line is that across OECD countries there have been important reforms, and several countries have shifted support towards less trade-distorting instruments. Yet support remains higher than it needs to be and counter-cyclical policies remain in place. Given high food prices, now would be a good time to remove all trade-distorting instruments and put in their place more efficient alternatives, including social safety nets are tools to help farmers manage risk.

4. The spill-over effects of OECD country policies prior to the 2007-08 food price spike

16. The welfare impacts of OECD country policies on developing countries come via efficiency losses and terms of trade effects (which create both winners and losers). The last major OECD effort to calculate these impacts globally was in 2006 when prices were relatively low. In general, the price depressing effects of OECD country policies – calculated when support was considerably higher than it is now – were found to be relatively small for most products, with a 50% cut in all forms of support causing cereal and meat prices to be 2-3% higher than they would otherwise be, and prices for oilseeds and oilseed meal to decline slightly. Dairy products were a notable exception, with 50% cuts causing prices to increase by 13%. These findings were broadly in line with those of other studies conducted around that time (OECD, 2006).

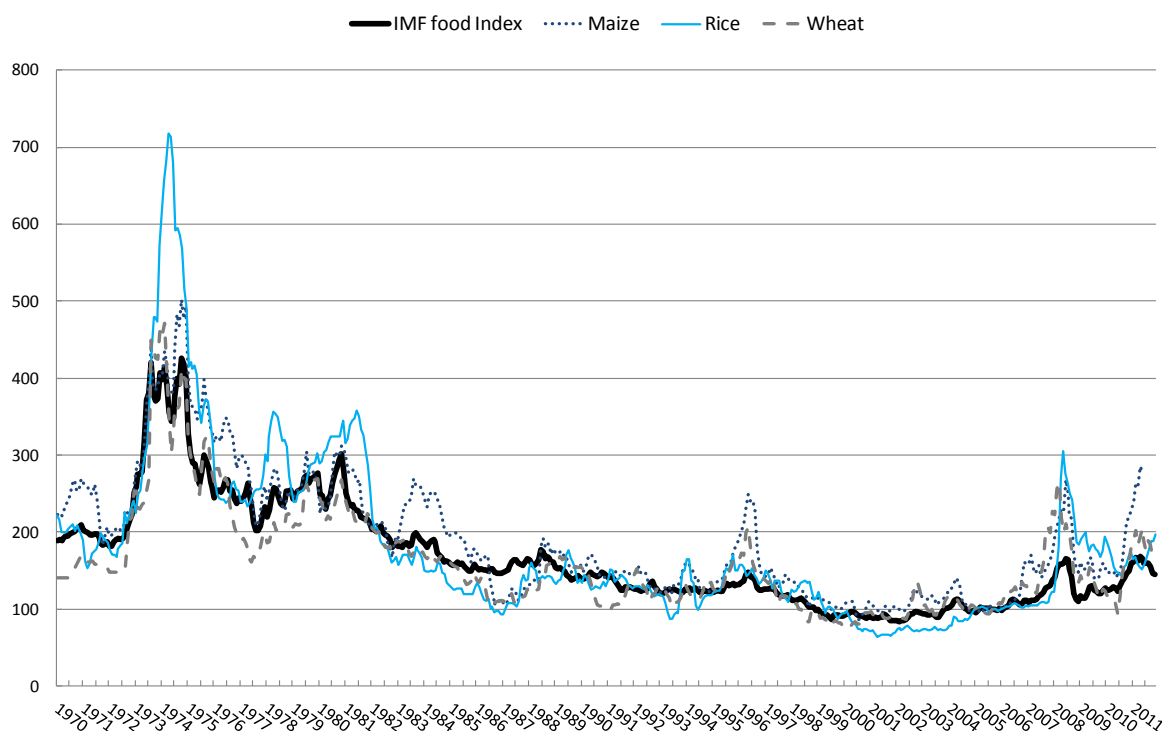
17. In terms of the overall welfare impacts (calculated using a version of the GTAP model), the main conclusion was that OECD countries should reform primarily because it was in their own interests to do so – in fact they would reap 90% of the benefits from global agricultural reforms. The OECD study noted that the welfare effects of reform on developing countries were complex and would vary by country. Specifically, competitive suppliers would gain from more open markets and from commodity price increases, while net importers of agricultural commodities would lose in the absence of corresponding increases in the prices of goods they export. Some countries also stood to lose from the erosion of benefits of preferential trading arrangements with OECD countries. On balance, OECD analysis concluded that most developing countries would gain from OECD country liberalisation, although the gains were small relative to the benefits of reforming their own policies. Moreover, a large share of the gains was concentrated among a few emerging economy exporters, in particular Brazil (OECD, 2006). As support has declined and become less trade-distorting, the magnitude of welfare gains and redistributive impacts will have shrunk correspondingly.

18. OECD's welfare analysis was supplemented by a range of work looking at particular concerns of developing countries with respect to OECD policies. The issues examined included tariff protection and tariff escalation according to the degree of processing (OECD, 2000), the use of non-tariff measures (such as sanitary and phyto-sanitary restrictions) as barriers to trade, and the impacts of regulations on intellectual property rights (OECD, 2001). A further OECD report synthesised a wide range of work on the coherence of countries' trade, regulatory and aid policies (OECD, 2005). This study classifies the policy instruments that need to be examined for impact on developing countries, articulates the "coherence perspective" and offers an analytical framework for policy-makers to make informed decisions.

5. Policy impacts in a context of high food prices

19. In 2007-08, world food markets were exposed to a severe shock, with world prices for major food staples showing their biggest increase in real terms since the 1970s (Figure 2). Since then, there have been two further price spikes. The magnitude of those price changes exceeds by an order of magnitude the price changes that models such as OECD's Aglink suggested would flow from OECD country reforms. They have prompted deeper concerns that: (a) the long-term trend of declining real prices has come to a halt and possibly even reversed; (b) that we have entered a new era of increased price volatility. These changes have important implications in terms of policy coherence.

Figure 2. Agricultural commodity prices in real terms (2005=100)



Source: IMF eLibrary – Data, except for rice: OECD Secretariat.

20. The factors driving the 2007-08 spike in food prices were complex. They included market fundamentals, with drought in Australia and unfavourable harvests in Russia, Ukraine and the United States contrasting with continued demand growth in the developing world. The spike was aggravated by low stocks and by policies adopted in many countries, including export restrictions and the hoarding of commodities. Further contributing factors were biofuel policies, which diverted agricultural supplies from food to energy uses, and the increased link of food to energy prices, which reflected both the use of agricultural products in biofuels and rising direct energy costs. There is also a lively debate over the extent to which short-term price movements may have been amplified by speculators on futures markets (OECD, FAO and others, 2011).

21. There was swift recognition that while strong prices offer long term benefits for farmers, the short to medium term impacts are predominantly negative. A key reason is that there are more net buyers than net sellers of food staples in developing countries as a whole, especially among the poor and

potentially food insecure, although there are some exceptions, such as Viet Nam. Table 1 shows the relative proportions in nine developing countries for which data are available, and which were used in recent OECD work (OECD, 2012a). A general finding is that, with a few exceptions, higher food prices harm more households than they benefit, and they harm the poorest most, since poorer consumers spend more of their incomes on food, while poorer farmers are more likely to be net buyers of staples.

Table 1. Proportions of net buyers and net sellers of staple foods

Country	Survey year	Urban net buyers	Rural net buyers	Rural net sellers
Bangladesh	2000	32%	50%	18%
Ghana	1998	33%	56%	11%
Guatemala	2000	42%	50%	8%
Malawi	2004	12%	82%	6%
Nepal	2003	28%	36%	36%
Nicaragua	2001	53%	37%	10%
Pakistan	2001	37%	52%	11%
Panama	2003	51%	44%	5%
Viet Nam	1998	27%	24%	49%

Note: Staples considered included all values of cereals, pulses, roots and tubers and oilseeds produced or consumed. Specific crops differed by survey.

Source: RIGA datasets.

22. However, in terms of the consequences for incomes, poverty and food security, the actual impact of international price changes in a given country depends chiefly on two other things: first, the degree to which price changes on international markets are passed through to domestic markets, and second the extent to which households and markets adjust. A preliminary conclusion is that while there was real hardship, the pass-through of price changes was uneven, other factors (such as general economic growth) offset the adverse impacts in some countries, and households adopted coping strategies of varying degrees of effectiveness. The exact outcomes will take time to gauge, but perhaps the most notable impact was that the price spike finally focused attention on a chronic problem that pre-dates high food prices.

23. Higher food prices have shifted attention from policies which suppress international prices to policies which push them yet higher. One issue export restrictions, which are only weakly constrained by WTO rules, and were used by several emerging economies during the 2007-08 food price spike (Jones and Kwiecinski, 2010). Export restrictions add to upward pressure on international food prices, and transfer price risk to the international market. Recent analysis suggests that the aggregate result of exporting countries imposing export restrictions, and importers temporarily reducing tariffs, has been equivalent to spectators standing up in a stadium in order to see better (Anderson and Nelgen, 2012). The first movers may have had some advantage, but in the end there has been little benefit to adopters of those policies, while non-adopters have suffered and more countries have lost than have gained.

24. A second issue is biofuel policies. In 2007-09, the share of global crop production devoted to biofuel production was 20% in the case of sugar cane, 9% for both oilseeds and coarse grains (although biofuel production from these crops generates by-products that are used as animal feed) and 4% for sugar beet. At present, the United States, Brazil and the European Union dominate the ethanol and biodiesel markets, while Argentina is also significant in the biodiesel market. Production and use of biofuels in United States and the European Union are driven predominantly by the policies in place. While policies have had an impact in Brazil, the growing use of ethanol is linked to the development of a flex-fuel vehicle industry and to import demand from the United States. Support policies make world market prices of these products (and their substitutes) substantially higher than they would otherwise be, while biofuel mandates also add to price volatility by creating demand that is less responsive to prices.

25. A third, and hugely contentious, issue that relates to high food prices is the rise in large scale land acquisitions in developing countries. While land purchases can provide much needed foreign investment, there are legitimate concerns regarding the terms of the deals and their implications for existing rights and livelihoods. Such investments raise coherence issues that extend far beyond agricultural policy and beyond the OECD's membership, applying in particular to emerging economies without a comparative advantage in agriculture, which see such investments as a way of meeting their food energy demand. OECD has developed a policy framework for sustainable investment in agriculture, which is designed as a practical tool to help policy makers enhance the development benefits of agricultural investment (OECD, 2012b). OECD is also developing, in conjunction with FAO, a practical guide to help private companies avoid infringement of existing internationally recognised principles and standards of responsible business conduct when investing in agricultural supply chains.

6. The rising importance of emerging economies, in particular the BRIICS

26. As both exporters and importers, the BRIICS are becoming more important to world agricultural trade (Table 2). Whereas trade between OECD countries accounted for 58% of world agricultural trade in 1999, by 2010 that share had fallen to less than half. The BRIICS' share of world agricultural exports increased from 9.0% in 1999 to 14.7% in 2010, while that of other non-OECD developing countries increased more slowly, from 18.1% to 22.7%. Over the same period, the BRIICS' share of world agricultural imports increased from 6.8% to 12.7%, while the corresponding share of other non-OECD countries increased from 20.2% to 26.8%. Most of the increase in the BRIICS' share of world agricultural exports has come from exports to other BRIICS countries (notably exports from Brazil to China), with the share increasing from 0.9% to 3.0%, and from exports to other non-OECD developing countries, with the share rising from 2.8% to 6.2% of global agricultural exports. In the case of other non-OECD developing countries, there has been a significant increase in imports coming from the BRIICS and in the share of trade that occurs with other non-BRIICS developing countries. Adding across the two groups, the share of South-South trade (defined here as trade not involving OECD countries) in world agricultural trade increased from 13.2% in 1999 to 23.3% in 2010. This pattern is fairly similar to the one observed for total trade, where the share of trade taking place between countries outside the OECD area increased from 10.9% to 21.3%.

Table 2. Bilateral shares of agricultural trade between OECD and BRIICS countries

		1999				2010				
		<i>Imports</i>				<i>Imports</i>				
		OECD	BRIICS	Other	Total	OECD	BRIICS	Other	Total	Total
<i>Exports</i>	OECD	58.5	2.8	11.6	72.9	46.5	5.3	10.8	62.6	
	BRIICS	5.3	0.9	2.8	9.0	5.5	3.0	6.2	14.7	
	Other	9.2	3.1	5.8	18.1	8.6	4.3	9.8	22.7	
	Total	73.0	6.8	20.2	100.0	60.6	12.7	26.8	100.0	
<i>Exports</i>	OECD									
	BRIICS									
	Other									
	Total									

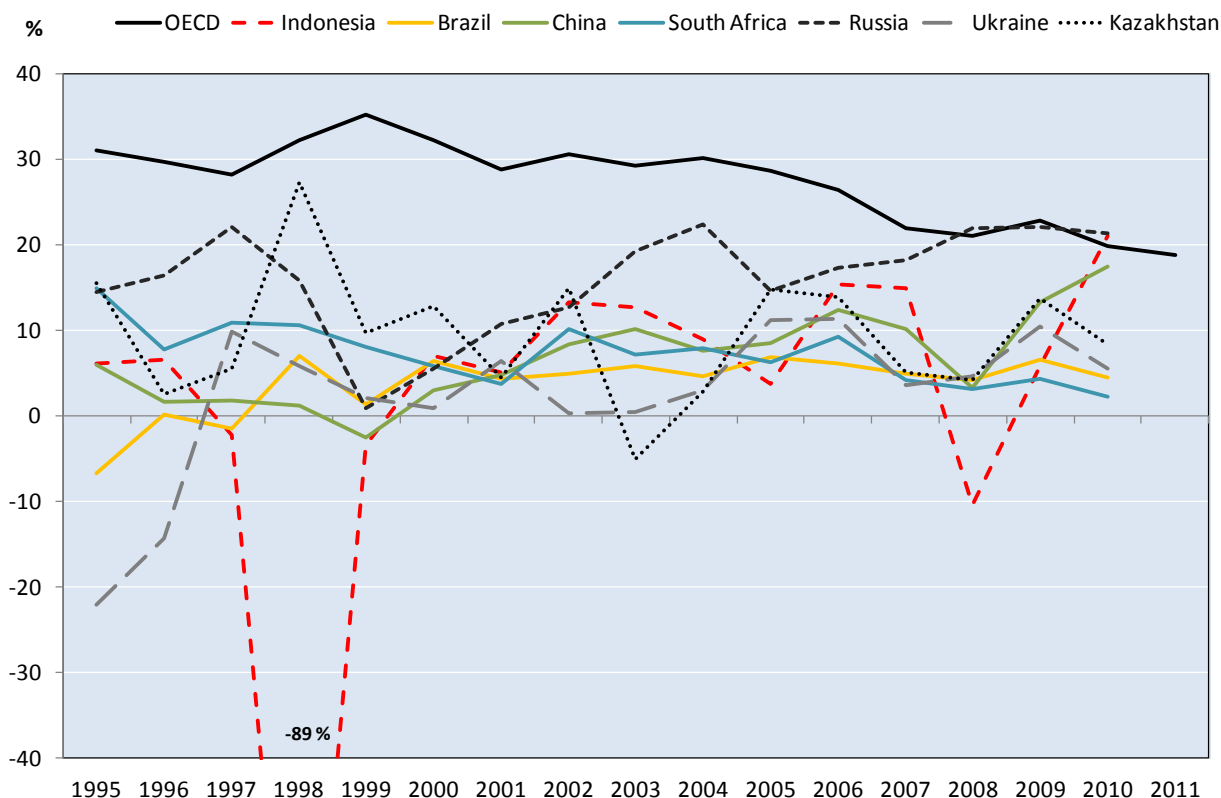
Source: UN ComTrade database.

27. In terms of country rankings, Brazil is now the third largest agricultural exporter in the world, after the EU and the US, with more than USD 63 billion of agricultural exports per year. China is simultaneously the fourth largest exporter and the third largest importer (with a net deficit), exporting labour intensive products and importing land intensive products in line with its comparative advantage. Indonesia and India are among the top ten exporters, while India is also in the top ten importers (despite being a net exporter). In some cases, particular bilateral relationships are becoming very important. For example, in 2011, 18% of Brazil's total agricultural exports went to China (accounting for 18% of China's agricultural imports), with almost two-thirds (66%) of Brazil's oilseed exports destined for China (corresponding to 37% of China's imports of oilseeds). From these figures, it is clear that the developed

(OECD) versus developing country distinction is becoming a less and less relevant lens through which to view the links between agricultural policies, trade and development.

28. In recent years, OECD has undertaken reviews of agricultural policies in each of the BRIICS (with the exception of India), as well as for Kazakhstan and Ukraine. Following a peer review on the basis of these studies, each is now incorporated in the regular cycle of policy monitoring that OECD employs for its member countries, although non-member policies are monitored on a biennial basis compared with an annual basis for member countries. Figure 3 shows the evolution of support in these emerging economies.

Figure 3. OECD and emerging economies: evolution of PSE, 1995–2011



Source: OECD, PSE/CSE database, 2012.

29. The broad lines of agricultural policy are correlated with levels of economic development, and the pattern of comparative advantage. Developing country governments have often taxed their agricultural sectors by suppressing food prices, as concerns for the welfare of urban consumers have weighed more heavily than considerations over farm incomes. However, as incomes have grown, this tendency has diminished and many middle income developing countries now support prices to farmers, implicitly taxing consumers. As they become wealthier, these countries also have more financial resources with which to support their agricultural sectors and address other objectives (such as those related to environmental sustainability). The emerging economies monitored by OECD all provide positive support to their farmers, although the degree of support is in most cases lower than the average in OECD countries (Figure 3). The net exporters typically provide modest support (as in Brazil), while support levels are relatively higher among net importers. For net exporters, the rate of support has declined over recent years whereas for some net importers, notably China and Russia, it has risen. For Kazakhstan, Russia and Ukraine, the distortions are worse than these figures imply because they are the net result of a tendency to support importables but tax (i.e. provide negative support) at least some exportables. China provides support to most commodities but taxes rice, very little of which is traded. For a given PSE (average level of support), taxing some

sectors while supporting others distorts the allocation of resources far more than uniform support to the sector. The seven emerging economies also rely relatively heavily on farm support delivered through market price support and payments based on inputs. More decoupled forms of support, such as direct payments to farmers, are less important than in OECD countries.

30. Across OECD and developing countries there are significant gaps between bound and applied tariffs (so called “water” in the tariff). Those gaps are particularly large in the case of developing countries, and the latitude they give to policy makers adds to uncertainty in world markets.

31. For larger developing countries, it is important to note that their agricultural and associated trade policies have increasingly important impacts in world markets. During the 2007-08 food price crisis, export restrictions were used predominantly by emerging and developing countries, and exacerbated the crisis – as well as placing a specific burden on some developing countries which could not source imports. The use of alternative non trade-distorting policies, such as temporary and targeted cash transfers, would provide domestic benefits and avoid undermining other countries’ food security.

7. More coherent policies for global food security

Reforming policies to avoid negative spill-overs

32. An immediate contribution that OECD countries can make to improving global food security is to eliminate support policies that create negative spill-overs. Trade-distorting agricultural support prevents an efficient allocation of resources. The use of price-based support requires restrictions on market access and, when countries have produced surpluses, has often led to the use of export subsidies. The former harms developing country exporters, while the latter depresses international prices, making conditions more difficult for competitors on international markets and for import-competing producers on domestic markets. Policies to support farmers have often been counter-cyclical, which stabilises domestic markets but exports instability onto world markets.

33. OECD countries have on average reduced the amount of support that they provide to agriculture, and in several countries there has been a significant re-structuring of policies, with public support increasingly decoupled from production decisions. As a result, the marginal impacts of that support on developing countries are now much lower. Those reforms have been facilitated in recent years by strong market conditions, which have reduced the gaps between domestic prices and world market prices. Moreover, as price gaps have narrowed, so the counter-cyclical element of domestic support programmes has declined.

34. As OECD analysis has long concluded, support for incomes can best be provided via social protection. The distinct role for agricultural policy lies in correcting market failures, which implies taxing the sector’s negative externalities, and paying for public goods and positive externalities such as an agreeable countryside that maintains biodiversity. That role can be fulfilled without supporting prices and without the trade measures that are required to hold such policies in place (OECD, 2002).

35. In a context of high market prices and strong farm incomes, trade-distorting policies can now be eliminated, and concerns about the effect of price volatility on incomes can be addressed by appropriate market-based risk management instruments. Removing trade-distorting policies needs to be accompanied by disciplines that would rule out their future use when international prices next decline. Insofar as such reforms reduce supply, they would add modestly to the level of food prices; but that would be a one-off effect, the rise would be small compared with the recent changes witnessed on world food markets, and the elimination of the policies’ counter-cyclical elements would help stabilise world food prices. At the same time, countries can avoid interventions that artificially contribute to higher world food prices, most notably

biofuel mandates. Reforms to biofuel policy were a specific recommendation of the Interagency Report to the French Presidency of the G20 in 2011.

Pro-active ways of improving policy coherence

36. Besides avoiding harmful policies, there are many positive ways in which OECD countries can respond to the broader challenge of feeding a world population that is expected to exceed 9 billion by 2050. Sustainable increases in supply will require continual improvements in agricultural productivity. The returns to public (and private) investment in agricultural research and development are high, although the lag times are long. Greater emphasis at the national level, accompanied by wider international collaboration, would help boost yields and wider productivity growth. At the same time, incentives to encourage more efficient use of land, water and biodiversity resources would contribute to sustainable supply increases in many regions. Innovation, broadly defined to include not just science but education, training, and organisational improvements, also offers a strong potential to mitigate and adapt to the negative impacts of climate change. On the demand side, improved information and public awareness could substantially reduce overconsumption, help the shift towards less resource intensive consumption patterns, and cut down on consumer waste.

37. A related area for action is in “knowledge sharing”. OECD countries, in particular countries that have developed recently, have potentially important experiences to share, including with respect to the role that agricultural development has to play in poverty reduction, and in terms of institutional changes and policies that have been effective. There may also be specific knowledge and expertise that can be transferred in areas such as agricultural research and innovation, and farm management techniques. Of course, knowledge sharing works in multiple directions. OECD countries can learn from the experiences of developing countries, and the benefits of information exchange among developing countries are becoming increasingly apparent. The OECD provides mechanisms for policy dialogue so that countries can benefit from such mutual learning.

38. Overseas Development Assistance may have an important role to play in improving food security in some countries, particularly those that do not generate enough tax revenues to pay for essential public investments and services. There is renewed recognition that aid needs to refocus on agricultural development, including promoting agricultural trade, as the sector is a key area of comparative advantage in many developing countries. It is beyond the scope of this report to provide conclusions for aid policies, beyond the principle that allocations should support national strategies. With regard to those strategies, OECD analysis suggests that agricultural development can best be achieved by prioritising agriculture’s enabling environment, rather than supporting specific production activities (OECD, 2012a). The basic pre-requisites are long term investments in public goods which improve competitiveness, such as research and development and rural infrastructure; coupled with targeted assistance to poorer households via social programmes.

39. Finally, there are areas where global action can help foster more coherent policies. In particular, it is easier to avoid policies which create negative spill-overs if the world trading system is transparent, open and reliable. The creation of an Agricultural Market Information System (AMIS) and associated Rapid Response Forum (RRF) at the behest of the G20 early in 2012 responds to the corresponding need for improved information on markets, stocks and policy developments. Successive inter-agency reports to the G20 recommended a strengthening of international disciplines on all forms of import and export restrictions; as well as on domestic support schemes that distort production incentives, discourage supply in response to market demand, and constrain international trade of food and agriculture products. Future work for the G20 will look at how government policies can help deliver the national and global benefits that derive from sustainable agricultural productivity growth.

BIBLIOGRAPHY

- Anderson, K. and S. Nelgen (2012), “Trade Barrier Volatility and Agricultural Price Stabilization”, *World Development*, 40 (1): 36–48.
- Brooks, J. C. and J. Dewbre (2006), “Global Trade Reforms and Income Distribution in Developing Countries”, *Electronic Journal of Agricultural and Development Economics*, Vol. 3, No. 1, pp. 86-111.
- FAO, OECD *et al.* (2011), “Price Volatility in Food and Agricultural Markets: Policy Responses”, Inter-Agency Report to the G20 including contributions by FAO, IFAD, IMF, OECD, UNCTAD, WFP, the World Bank, the WTO, IFPRI and the UN HLTF.
- FAO, OECD *et al.* (2012), “Sustainable Agricultural Productivity Growth and Bridging the Gap for Small-Family Farms”, Interagency Report to the Mexican G20 Presidency, with contributions by Biodiversity International, CGIAR, FAO, IFAD, IFPRI, IICA, OECD, UNCTAD, UN-HLTF, WFP, the World Bank and WTO.
- Jones, D. and A. Kwiecinski (2010), “Policy Responses in Emerging Economies to International Agricultural Commodity Price Surges”, *OECD Food, Agriculture and Fisheries Working Papers*, No. 34, OECD Publishing, doi: 10.1787/5km6c61fv40w-en.
- OECD (1990-2010), *Agricultural Policies in OECD Countries: Monitoring and Evaluation*, Paris.
- OECD (2002), *Agricultural Trade and Poverty: Making Policy Analysis Count*, Paris.
- OECD (2003), *Farm Household Income: Issues and Policy Responses*, Paris.
- OECD (2005), *Agriculture and Development: The Case for Policy Coherence*, Paris.
- OECD (2006), *Agricultural Policy and Trade Reform: Potential Effects at Global, National and Household Levels*, Paris.
- OECD (2009a), *Evaluation of Agricultural Policy Reforms in Japan*, Paris.
- OECD (2009b), *Evaluation of Agricultural Policy Reforms in the United States*, Paris.
- OECD (2011a), *Agricultural Policies Monitoring and Evaluation: OECD and Emerging Economies*, Paris.
- OECD (2011b), *Evaluation of Agricultural Policy Reforms in the European Union*, Paris.
- OECD (2012a), *Agricultural Policies for Poverty Reduction: A Synthesis for Policymakers*, Paris.
- OECD (2012b), *Policy Framework for Investment in Agriculture*, Paris.
- OECD and FAO (2011), *Agricultural Outlook*.