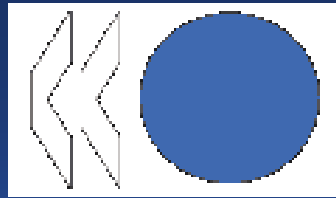


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Eco-Friendly Agriculture: Working with Government to Promote Responsible Agricultural Policies in OECD Countries

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Capitol Hill Club, Washington DC, 26 January 2006

OECD publications

- *Agriculture and the Environment: Lessons Learned from a Decade of OECD Work* (October 2004)
- *Understanding the Linkages between Agriculture, Trade and the Environment: Synthesis Report of the Case Studies on the Pig, Dairy and Arable Crop Sectors* (January 2006)
- *Environmental Indicators for Agriculture* (Late 2006)

Background

- Abundant food supplies in OECD countries
- High public concern of farming's environmental impact
- Markets for the environment are absent or function poorly
- Governments also want better environmental performance
- Global trade and environment commitments are key drivers
- Significant support given to the agricultural sector

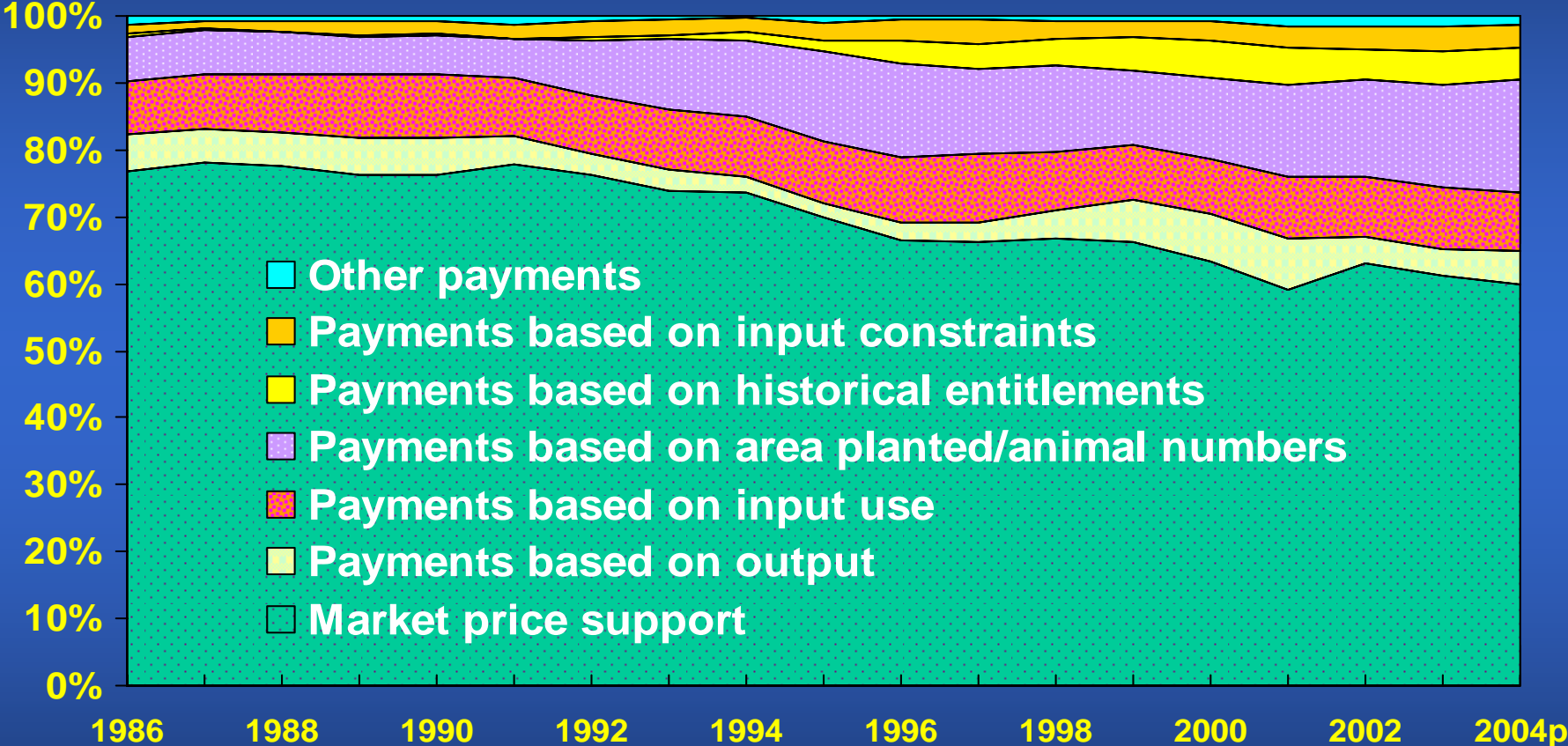
Agri-environmental performance

- Agriculture accounts for 40% of land and water use, impacting on soil, water, air, natural habitats, biodiversity and landscapes
- Land used for agriculture and soil loss has decreased, but agricultural water use has increased
- Reduction in nutrient surpluses in many countries, easing pressure on water quality, but pockets of high concentrations
- Less pesticide application, but risks unclear
- Long term decrease in biodiversity appears to have been halted
- Some reduction in greenhouse gas emissions

Agricultural policy trends

- High levels of policy support (\$279 bn) or 30% of farm receipts
- Production-linked support down from 91% of producer support in mid-1980s to 74% today
- Wide range of commodity and country support levels

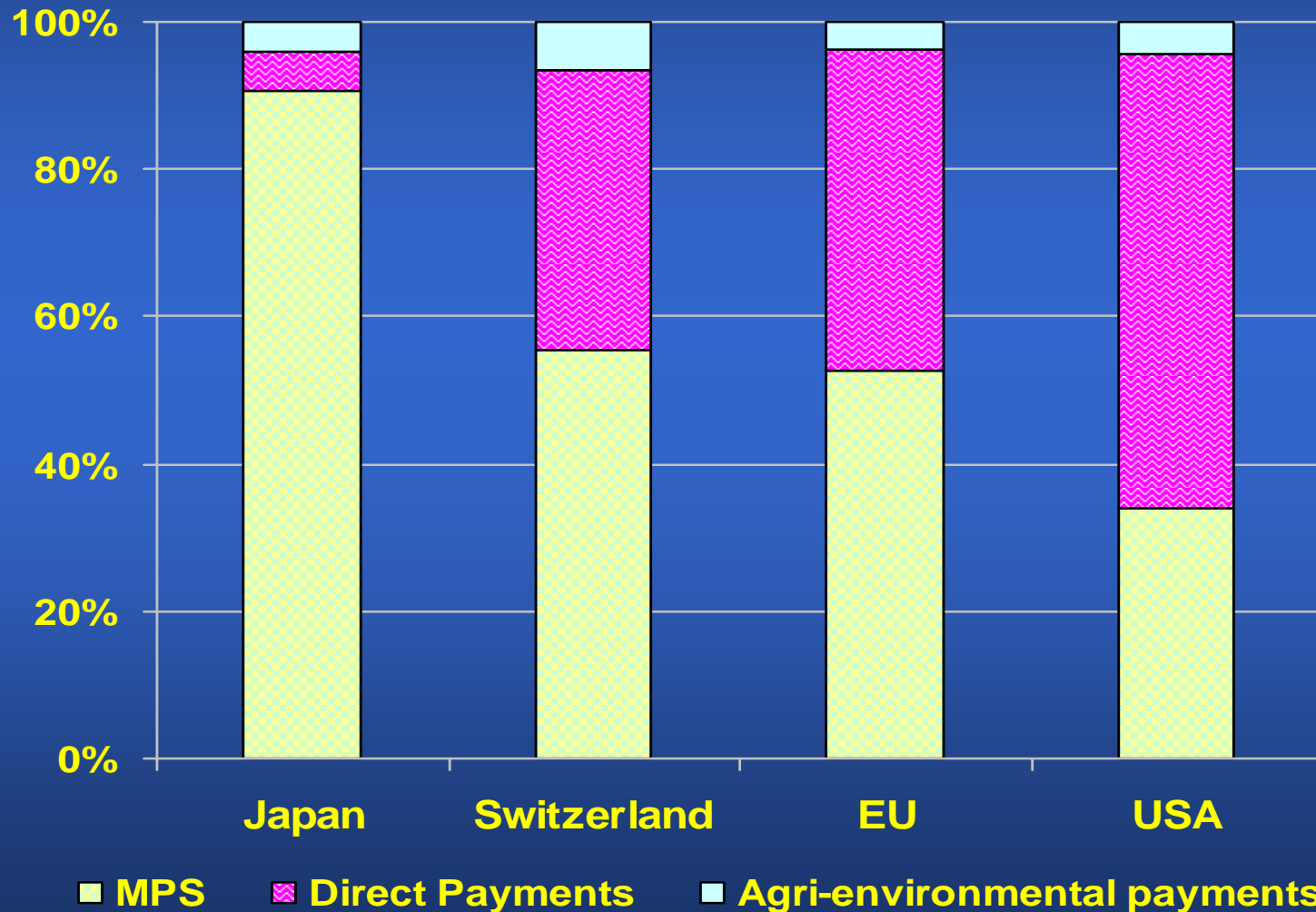
Composition of farm support



Agri-environmental policies

- Targets or thresholds common for pesticides, water quality, ammonia and greenhouse gas emissions
- Regulations intended to meet targets are widely used
- Payments to cover costs of meeting regulations, compensate income lost by adopting eco-friendly practices, and reward farmers for eco-services
- Use of taxes and charges is very limited
- Market-based approaches, such as tradable permits, and voluntary, co-operative efforts limited but growing
- Research, information and advisory measures widespread
- But, overall, low direct support for the environment (4%)

Types of support to farmers in 2004



Agriculture and the Environment

- Production-linked linked measures put pressure on the environment, encouraging monoculture, intensification use of sensitive land – but can maintain eco-friendly systems
- Production controls, cross-compliance and agri-environmental measures can weaken the environmental impact of agricultural support

Trade policy and the environment

- OECD domestic farm prices fell from 60% to 30% above border prices from 1986 to 2004
- No strong evidence of abandonment of farming with high environmental values due to trade liberalization
- Trade liberalization will generally benefit the environment
- But environmental benefits of trade liberalization higher when targeted measures address environmental externalities
- Transport of alien species may be environmentally harmful

Regulations and competition

- Regulations raise farmers' costs, may reduce trade competitiveness but enhance welfare
- Regulations account for a small share of farm costs
- Regulations can spur productivity gains through better management and, with labelling and certification, generate marketing premiums

Who pays for the environment?

- Whether farmers are required to pay depends on the pollution levels permitted; rights to pollute given to farmers; conditions applying to other sectors, and the costs of identifying polluters and controlling pollution
- Whether farmers are entitled to be paid depends on the amount of environmental services desired relative to what is remunerated from the market; and the costs of identifying providers and delivering payments

Markets and the environment

- Market based approaches (tradable permits, pricing environmental services) and voluntary, co-operative systems are most common in OECD countries with low support
- Increasingly the market demands farm goods that satisfy private environmental performance guidelines, through contracts between retailers and farmers, and public or private certification and labelling schemes (e.g. organic)
- But limits to how far agri-environmental services can be remunerated through markets, quasi markets, and zoning

Effect of policy measures

- Policies are one influence on production decisions affecting the environment
- Many agri-environmental policy measures in place to offset environmental damage from unrestricted production-linked policies
- Mixed signals to farmers!

Policy measures: how efficient?

- The cost of reducing environmental pollution through agri-environmental payments that offset environmental harm from production-linked agricultural policy measures is higher than would otherwise be the case
- The cost of rewarding farmers for the environmental services provided is lower if payments remunerate the costs of provision in the absence of cost-raising production-linked agricultural policy measures
- Production-linked support measures act as a disincentive to search for innovative market solutions

Conclusions

- Environmental sustainability is a widely-held policy priority, but policy action is still developing
- Most policies are production based and agri-environmental policy is a tiny share of support
- Property rights are only weakly enforced
- Cross compliance may improve the environment, but is not necessarily efficient
- Agri-environmental policy is often not evaluated
- Improving environmental performance would be less costly without commodity support measures

How to improve policies

- Reform agricultural and trade policies
- Clearly define environmental aims
- Encourage market, voluntary and local solutions
- Decouple support from output and target it directly to the environment
- Ensure polluters and beneficiaries pay - and providers get rewarded
- Policies and markets should give consistent signals to decision makers

Future priorities for the OECD

- Quantifying the effect of different policy measures on environmental performance
- Cross-compliance: effective and efficient?
- Which policies work and why
- Developing a handbook of good agri-environmental policies
- Exploring the policy implications of trans-boundary agri-environmental and natural resource issues

THANK YOU!

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