Analysis of government support for Australian agricultural producers

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Summary

Australian farmers are some of the least subsidised in the world – second only to New Zealand in terms of countries where comparable information is available. As measured by the OECD, just over 2% of Australian farmer revenues in 2016-18 were derived from government support. Globally, Norway (61%), Iceland (59%) and Switzerland (55%) in Europe, and Korea (52%) and Japan (46%) in Asia, provide the highest levels of agricultural subsidies.

Australia has reformed its approach to agricultural support over time, in line with national competition policy and other pro-competitive reforms and consistent with WTO obligations. Government support is now dominated by investments in sector capacity, such as R&D. Where direct farm support is provided, it is concentrated on risk management tools to help manage Australia’s uniquely variable climate. These tools include Farm Management Deposits and income tax smoothing.

Keeping subsidies low is important for both Australian producers and international markets. Australia’s reform experience shows that deregulating the agriculture sector and removing distorting forms of support spurs overall sector growth, increasing participation in global markets and the contribution that agriculture makes to the rural and national economy.

Current global levels of production and trade distorting support mean that global agricultural production and trade is lower than it could be and households are worse off. For Australia alone, estimates suggest that global subsidies and trade barriers could be costing Australian agriculture between $8 billion to $10 billion in exports annually (Anderson and Valenzuela 2020; Greenville et al. 2019c).

In recent years, with little progress at the WTO, global reductions in the level of production and trade distorting support have stalled. In fact, average levels of support across the OECD and emerging countries have been stable to rising. This trend has the potential to worsen with the introduction of some measures in response to the COVID-19 pandemic.

All governments have an interest in keeping agricultural markets free from distortions to promote global food security and contribute to rural development. Governments do need to make investments in agriculture to help meet global development goals, but it is important that these investments not harm producers elsewhere. Furthermore, the impact of rising levels of support have disproportionately larger negative impacts on the countries that implement those policies than on others. Future trade rules will be needed to help guide policy actions so they do not harm producers in other countries and to avoid an erosion of the past gains from freer agricultural markets made since the WTO Agreement on Agriculture came into effect.
1 Australian farmers are some of the least subsidised in the world

Australia has one of the lowest levels of agricultural support across OECD countries and when compared to major emerging economies. Measured by the OECD at just over 2% of producer revenues, levels of Australian support are second only to New Zealand (just below 1%) (Figure 1).

Figure 1 Australia has one of the lowest levels of support

Notes: Support measures as a share of gross farm receipts. The All countries total includes all OECD countries, non-OECD EU Member States, and the 12 Emerging Economies. The OECD total does not include the non-OECD EU Member States. Latvia and Lithuania are included only from 2004. The 12 Emerging Economies include Argentina, Brazil, China, Colombia, Costa Rica, India, Kazakhstan, the Philippines, Russian Federation, South Africa, Ukraine and Vietnam.
Source: OECD

The OECD measures all transfers made to farmers on the basis of how they are implemented. The subsidies account for all transfers made to producers directly, either as direct budgetary outlays or through implicit transfers through the tax system, the provision of in-kind services or exemptions from charges.

Countries such as Norway, Iceland and Switzerland in Europe, and Japan and Korea in Asia, have the highest levels of agricultural subsidies. In Norway, for example, around 60% of farmers’ incomes can be traced back to government measures. In terms of Australia’s major agricultural competitors, subsidies are higher in the United States (10%) and Canada (9%), while emerging competitors Brazil (3%) and Chile (2%) provide low levels of support.

High support levels change what gets produced and increases the cost of food for consumers. Generally high support levels mean producers in a country produce more of certain products compared to what they otherwise would and the prices consumers pay for food are also higher. In the longer term, high levels of support reduce sector growth and productivity.
Some countries also actually impose negative support levels (Figure 1). They do this by taxing their agriculture sector more heavily than other sectors in their economies, either through export taxes (such as in the case of Argentina) or domestic regulatory barriers that lessen the agricultural sector's access to international markets (such as in the case India and Vietnam). Such policies are often used in response to domestic food security concerns or as a means of widening the tax base. However, like positive subsidies, negative levels of support can create adverse outcomes for producers and international markets. In particular, export restrictions can limit trade and increase volatility in international markets to the extent that they can worsen global food security, as was experienced during the food price crisis of 2007–08 (Anderson et al. 2014). Further, negative and low levels of support as measured by the OECD at the country level may hide some significant interventions in agricultural markets (Box 1).

**Box 1 Negative and low overall support can hide some significant distortions**

Country level measures of support as shown in figure 1 can, for some countries, hide areas of heavy intervention in agricultural markets. At an absolute level, despite relatively low levels of support in India, and below OECD average levels in China, both India and China provide considerable subsidies to producers. For example, across a number of commodities, the absolute value of China’s subsidies considerably exceed expenditures in other countries (see Greenville 2017). This is due to both the size of the sectors and the large number of producers.

Similarly, in India, significant amounts are spent on input subsidies – around US$36 billion in 2018 (OECD 2019). India also heavily intervenes in its sugar market and regulates the production of many staple crops that alter the risk premiums on offer, also creating distortions to markets not captured in the OECD measures. Other measures, such as notifications of support at the World Trade Organisation (WTO), show significant levels of support in India across a wider range of commodities (Glauber et al. 2020).

Australia, across a number of different measures of support, is consistently measured as providing some of the lowest levels of subsidies to agricultural producers.
2 Keeping subsidies low is important

The reforms to agricultural policies that followed the WTO Uruguay Round in 1994 (then the General Agreement on Tariffs and Trade) helped grow agriculture globally and improved access to affordable food for many. With the introduction of discipline around policies that distort agricultural markets, agricultural trade steadily increased (Figure 2). These disciplines provided an environment for agriculture to become more productive and globally integrated, with clear benefits for global food security (OECD 2016).

Figure 2 Global reforms to distorting policies have enabled agricultural trade growth

Open agricultural markets allow food to be produced where it is most efficient to do so. The removal of trade distortions led to adjustments in the composition of agriculture sectors around the world and catalysed sector growth. Evidence shows that countries with low levels of agricultural subsidies and greater involvement in global agriculture and food value chains experienced stronger growth in farm incomes and sector value than those that remain subsidised (Greenville et al. 2019a).

The open global trading system has also been important for growth in developing and emerging countries (OECD 2016). Since 2001, production in regions in Asia and South America has grown particularly rapidly, while production in developed agricultural producing regions has seen more modest growth, or none at all. The result is that agricultural and food trade has become less concentrated (OECD 2016), reducing variability in agricultural prices and global food supplies, and been a feature that has supported the significant falls in global poverty (PC 2019).

An open global trading environment is only one input into the development of agricultural sectors. Other inputs include investments in research and development, improved infrastructure and logistics, and importantly, growth in other areas of the economy. Growth outside the agriculture sector is particularly important as it provides for higher incomes and alternative employment opportunities for those workers displaced by increased agricultural productivity.
For Australia, participation in global markets has supported sector development. With over 70% of agricultural production exported and close to 50% of employment in the sector derived from trade, Australia—more than most countries—is reliant on an open global trading environment (Jackson et al. 2020; Greenville et al. 2019b). In recent years, trade also has been an important driver of employment in the sector (Greenville 2019).
3 Australia’s support is targeted towards raising sector productivity

Australia’s approach to agricultural subsidies has changed significantly over time (Figure 3). During the mid-1980s, Australian agriculture was relatively heavily regulated and subsidised. Subsidies to agriculture accounted for around 9% of total farm revenues in 1988–89 (see Box 2 for details on how OECD measures support). In that year, Australian dairy producers received some of the highest levels of support, accounting for around 69% of farm revenues. Wool producers received around 10% of their revenues from government related programs in 1990, just prior to the collapse of the wool reserve price scheme and sugar producers received a similar level of support.

Figure 3 The evolution of Australia’s support has helped drive agricultural exports

Notes: The OECD measures agriculture subsidies as a share of gross farm receipts. This measure accounts for all the market revenues of farmers, along with any indirect payments that may be received through government concessions, such as concessional loans.
Source: OECD

Australia’s reform path began in 1973 with the dismantling of tariffs. And since the 1980s, implementation of National Competition policy reforms and the associated deregulation of many agricultural industries have significantly reduced government payments to the sector and spurred productivity growth (Gray, Oss- Emer & Sheng 2014).
Box 2 OECD’s measurement of support to agriculture

The OECD has been measuring support to agriculture for over 30 years. Initially as input into the Uruguay Round, measurement of the levels of support in a manner that captures the economic distortions created have been an input to agricultural policy reforms globally.

Support to agriculture is classified into two main categories. The first category is made up of subsidies paid directly to farmers by government or those received indirectly through concessions. It also includes subsidies flowing from restrictions to trade—such as tariffs and quotas. These restrictions increase domestic prices, creating a situation where domestic consumers provide subsidies directly to farmers. They do not appear in government budgets but have an equally important impact in terms of creating distortions to markets and farmer decisions. The OECD considers these kinds of transfers to be producer support.

The second category of support is government programs that seek to increase the competitiveness and productivity of the sector. These programs are generally targeted towards correcting market failures. They range from investments in research, development and extension, to investments in infrastructure, and those related to information asymmetries in developing trading relationships (for example, trade promotion activities conducted by AUSTRADE). The OECD considers these programs to be general services.

Source: Bureau of Meteorology

According to the OECD, most (56%) of the current support provided by Australia is ‘general services’ (refer Box 2). These investments are made in the sector overall, generally aimed at correcting market failures. Investments in research and development are one example (Figure 4). The remaining 43% of support (Figure 4) was assessed to be producer support. According to the OECD, the total support provided to Australian farmers contributes very little directly to farmer revenues; around 2% over the period 2016 to 2018. That is, Australian farmers receive very little subsidies and so operate in open and competitive markets which are relatively free from government distortions. In the WTO context, these types of subsidies are considered ‘Green Box’ subsidies, since they have ‘no, or at most minimal, trade-distorting effects or effects on production’.

Support measures can be split into those that create the most distortions and those which have a lesser impact. Market price support measures, such as minimum prices or output subsidies, and subsidies for input use, are classified as ‘most distorting’. That is, they create the most disruption to agricultural markets and trade. In the WTO context, these types of subsidies are considered ‘Amber Box’ subsidies. Given the influence that such measures can have on agricultural markets, there are monetary caps in the WTO on these types of subsidies. The other category are payments that are unrelated to current production. These are labelled ‘less distorting’ as they have a lesser impact on production decisions that would alter outcomes in agricultural markets. In the WTO context there are often less rules governing the use of these payments, some of which are known as ‘Blue Box’ subsidies.

The OECD’s assessment is that of its already low subsidy levels, Australia provides relatively little in the way of distorting forms of support. In 2016-18 distorting forms of support accounted for 5% of total support to the sector. And within this, Australia provided no market price support (that is, distortions from tariffs and quotas). Most of Australia’s subsidies are in the form of input subsidies, primarily related to drought measures and on-farm water infrastructure investment. Of the other subsidies, most relate to programs that seek to enhance producer risk
management of Australia's uniquely variable climate. Income tax smoothing and farm management deposits (forgone tax expenditures) are the main contributors.

**Figure 4 The composition of Australian support is heavily R&D focused**

<table>
<thead>
<tr>
<th>Type of Support</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most distorting support</td>
<td>5%</td>
</tr>
<tr>
<td>Less distorting support</td>
<td>39%</td>
</tr>
<tr>
<td>Agricultural innovation system</td>
<td>30%</td>
</tr>
<tr>
<td>Inspection and control</td>
<td>6%</td>
</tr>
<tr>
<td>Agricultural infrastructure</td>
<td>19%</td>
</tr>
<tr>
<td>Marketing and promotion</td>
<td>1%</td>
</tr>
</tbody>
</table>

*General services support 56%*  
*Producer support 44%*

Notes: Most distorting support relates to payments linked to production in some form, such as inputs or where production is required. Least distorting support is not linked to production.

Source: OECD 2019.

What is unique in terms of Australia's support to its agricultural sector is its investment in general services. This is largely driven through Australia’s matched R&D funding system. In terms of shares of support to the sector, around 56% was the in form of general services between 2016 and 2018, compared to 13% globally. This focus on general support measures has gradually grown over time and has been part of the movement away from direct subsidies (Figure 5).

**Figure 5 Australia’s agricultural policy has shifted from producer support to general services**

Source: OECD
While Australia has low levels of support for agriculture by international standards, compared to other Australian industries, overall levels of support are higher. While measures are not directly comparable to the OECD measures, the Productivity Commission’s Trade and Assistance Review indicates assistance levels for Australian agriculture are now higher than for manufacturing (PC 2019). However, this measure combines a number of government expenditures that are targeted at market failures. As the context in which sectors operate and the market failures that are present differs, direct comparisons are problematic.
4 Global subsidies are concentrated in a small number of commodities

Globally, support to agriculture remains relatively concentrated in a few key commodities. Rice, sugar, sunflowers, beef and veal, dairy and pig meat attracted the highest levels of targeted subsidies on average over the period 2016 to 2018 (Figure 6). For rice, the average level of support to farmers covered in the OECD analysis was close to 60% of farm incomes. This is well above other commodities and is due to heavy government intervention in this sector. But it also reflects the sample of countries covered. For countries such as Indonesia, Japan and the Philippines, rice subsidies account for the majority of support to their agriculture sectors.

Figure 6 Targeted support is concentrated in a few commodities

Source: OECD

For the most heavily subsidised commodities, and for all targeted support, the vast majority of subsidies are created through trade barriers – tariffs and quotas. Furthermore, while general levels of support for agriculture have fallen since 2000, targeted support to the most heavily subsidised products has remained relatively stable (Greenville 2017).

For Australian farmers of these commodities, there are no targeted payments outside of those directed at the sugar industry. While specific sugar industry support has fallen from 1988–89 levels of around 9%, they averaged 2.6% between 2016 and 2018. This support represents the payments made under the Reef Trust program, and while paid directly to farmers based on input use (thus captured in producer support), they target an environmental outcome.

For Australia’s most traded products—beef and veal and grains—there are no targeted subsidies provided to Australian producers. In contrast, global levels of support for beef and veal were around 13% of farm revenues, on average. Grains markets other than rice are relatively free from market distortions—on average 3% and 6% for wheat and barley, respectively.
5 Subsidies limit agricultural sector growth and performance in Australia and elsewhere

Global distortions to agriculture markets generally reduce global agricultural production and depress world prices. The OECD (2016) found that global agricultural and food production would increase if all forms of distorting subsidies to the sector and trade barriers were removed. For commodities like rice in South-East Asia, the complex system of domestic programs and trade barriers create a situation where less rice is produced than otherwise would be, and consumers in some emerging countries pay much higher prices (Greenville 2018).

**Figure 7 Removing distortions to agricultural markets would increase global production, trade and household incomes**

For Australian producers, the impact of global market distortions is lower production and lower returns compared to what might otherwise be possible. Estimates vary, but all suggest that the impact on Australian producers could be significant. Anderson and Valenzuela (2020) suggest that Australian annual farm exports would be up to 29% higher ($10.4 billion) and farmer net incomes 15% higher ($6.1 billion) in a world with no distortions to agricultural markets (based on 2014 levels). Greenville et al. (2019c), taking into account global supply network relationships, find that domestic value added – a measure of producer returns to land, labour and capital – could be around 7% higher, with export income (export value less intermediates cost) around 18% higher.
6 Important to avoid creeping protectionism in a post-COVID-19 trading environment

Australia has a clear interest in maintaining low levels of distortionary support to agriculture and promoting global reforms to agricultural policies. In recent years, with little progress at the WTO, improvements to the international agricultural trading environment have stalled. Average levels of support across the OECD and emerging countries have been stable to rising (Figure 8). This trend reinforces one that has been apparent in a number of emerging economies in recent years. And while for both groups there are notable exceptions—such as Chile and Brazil amongst the emerging economies and the European Union within the OECD—it suggests there is scope for further mutually beneficial reform.

Figure 8 Improving trends in agricultural subsidies have stalled

Notes: Support measures as a share of gross farm receipts. The All countries total includes all OECD countries, non-OECD EU Member States, and the 12 Emerging Economies. The OECD total does not include the non-OECD EU Member States. Latvia and Lithuania are included only from 2004. The 12 Emerging Economies include Argentina, Brazil, China, Colombia, Costa Rica, India, Kazakhstan, the Philippines, Russian Federation, South Africa, Ukraine and Vietnam.

Source: OECD

In response to the COVID-19 pandemic, countries are taking necessary steps to maintain economic activity and to keep businesses solvent. However, there is a risk of creeping protectionism in agricultural markets (Greenville et al. 2020).

Since late March, several countries have moved to impose export restrictions to shore up domestic food supplies. The focus of restrictions has been on staple commodities, like rice, wheat and some other grains. For most of these commodities, the level of restrictions were unlikely to have an impact on world markets. For those that might have affected world markets—such as Vietnam’s rice export restrictions—they have been removed.
Outside trade barriers, some countries have included measures in their domestic economic packages which could create further distortions in global agricultural markets. The US Coronavirus Food Assistance Program, for example, includes an additional US$16 billion in farm aid, on top of the extra support provided since 2018 in response to the US-China trade dispute. Matthews (2020) estimates that these measures could result in up to 40% of US farm incomes coming from government payments—up from 10% prior to the US-China trade dispute (OECD 2019).

The use of export restrictions and increases in support during COVID, along with the initial signs of a trend to rising overall levels of support brings into focus the need for an effective international system to ensure agricultural markets continue to address food security concerns and drive economic development. Glauber et al. (2020) suggest that the WTO rules, as they currently stand, cannot effectively discipline the fast rises in support in emerging economies such as China and India. Nor do they effectively discipline export measures that can risk global supply networks — as seen in the food price crisis and recently (Headey 2011; Greenville et al. 2020).

These drifts towards higher levels of protectionist policies have the potential to erode some of the gains from the shift to less distorted agricultural markets since the WTO Agreement on Agriculture came into effect. The OECD (2016) estimated that drifts on domestics support, in line with trends in countries such as China and India, could reduce global agricultural trade by 1%, while also decreasing overall economic activity and household incomes. Furthermore, the negative impacts of rising levels of support have disproportionately larger negative impacts on the countries that implement these policies.

Australian and New Zealand both provide examples where open markets and a redirection of government support towards investments aimed at enhancing agriculture sector productivity can contribute to sector growth and global food security. As noted by OECD (2019) and Glauber et al. (2020), governments will need to make investments in agriculture to help meet global development goals, but it is important that these investments do not harm producers elsewhere. Future trade rules will need to be set to help achieve this outcome.
Analysis of government support to Australian agricultural producers

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