

Greening Agricultural Policies in OECD Countries: What Role for Cross Compliance?

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OECD: Membership is evolving...

OECD is currently in **Accession talks** with one country and
in **Enhanced Engagement** partnership with five others.

Members

Australia	Hungary	Norway
Austria	Iceland	Poland
Belgium	Ireland	Portugal
Canada	Israel	Slovak Republic
Chile	Italy	Slovenia
Czech Republic	Japan	Spain
Denmark	Korea	Sweden
Estonia	Luxembourg	Switzerland
Finland	Mexico	Turkey
France	Netherlands	United Kingdom
Germany	New Zealand	United States
Greece		(Newest members)

Accession candidate

Russia

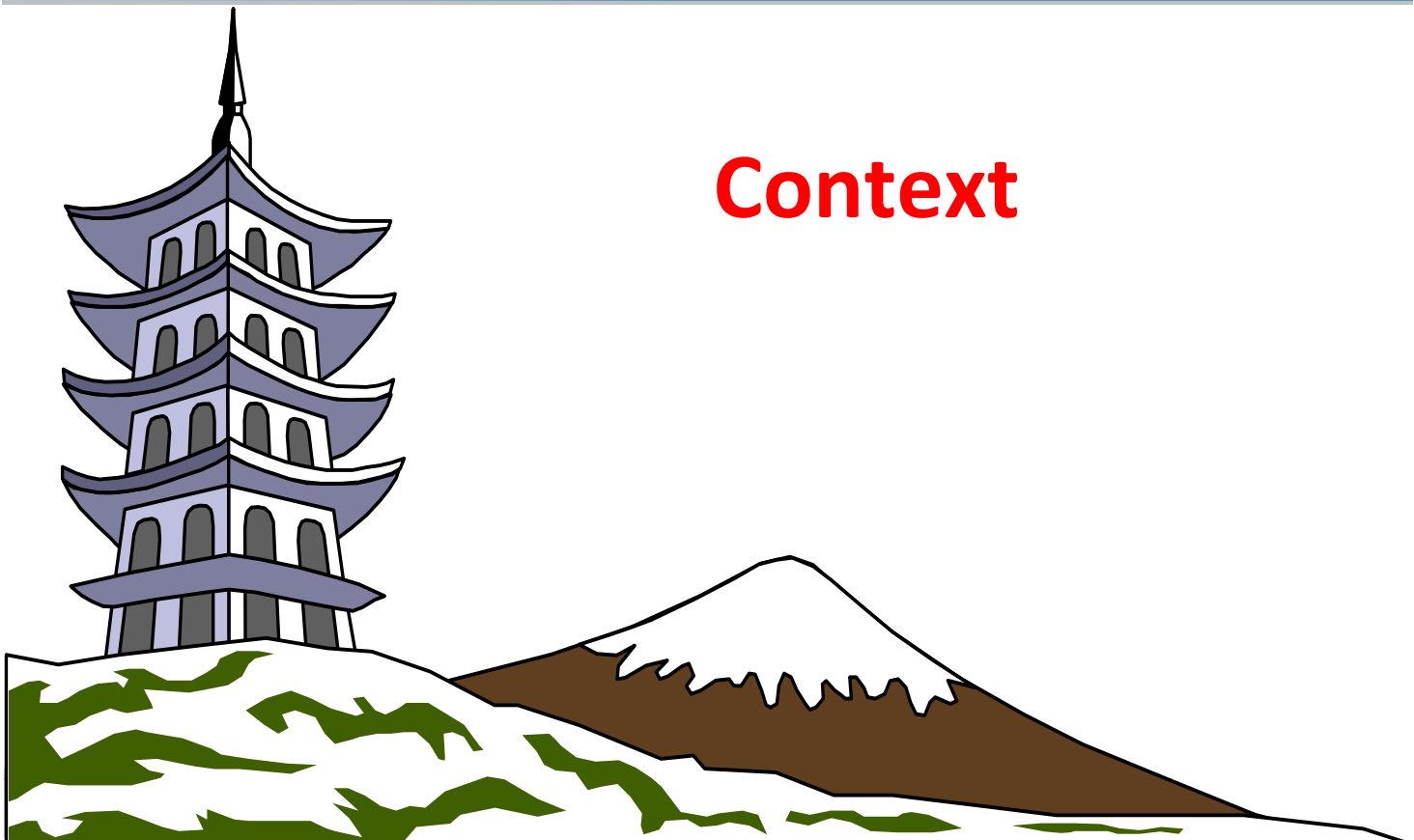
Enhanced Engagement partners

Brazil
China
India
Indonesia
South Africa

The Commission of the European Union also participates in OECD work

Outline of presentation

- **Context**
 - Greening agricultural policies
 - Need for green growth
- **Green growth and agriculture**
 - Linkages
 - Policy dimension
- **Role of cross compliance**
 - Concept
 - Evidence
 - Issues
- **Conclusions**



Greening agricultural policies

UNEP : Towards A Green Economy

FAO: Greening the Economy with Agriculture (GEA)

OECD: Green Growth

What is green growth?

Green growth is the pursuit of economic growth and development, while preventing environmental degradation, biodiversity loss and unsustainable natural resource use.

What is green growth?

Key characteristics:

- No necessary conflict between growth and environment in the long run
- Focus on fostering innovation, investment and competition that can give rise to new sources of economic growth
- Coherence of policies
- Tool to achieve sustainable development

OECD Green Growth Strategy

- Requested by OECD Ministers in 2009
- Multi-disciplinary inter-governmental process, involving 25 OECD Committees
- ***Delivered at the 2011 OECD Ministerial :***
 - *Synthesis Report: Towards Green Growth*
 - *Toolkit: Tools for Delivering on green growth*
 - *Indicators Report: Towards Green Growth: Measuring Progress – OECD Indicators*
- Green growth is mainstreamed in OECD

Why Green Growth?

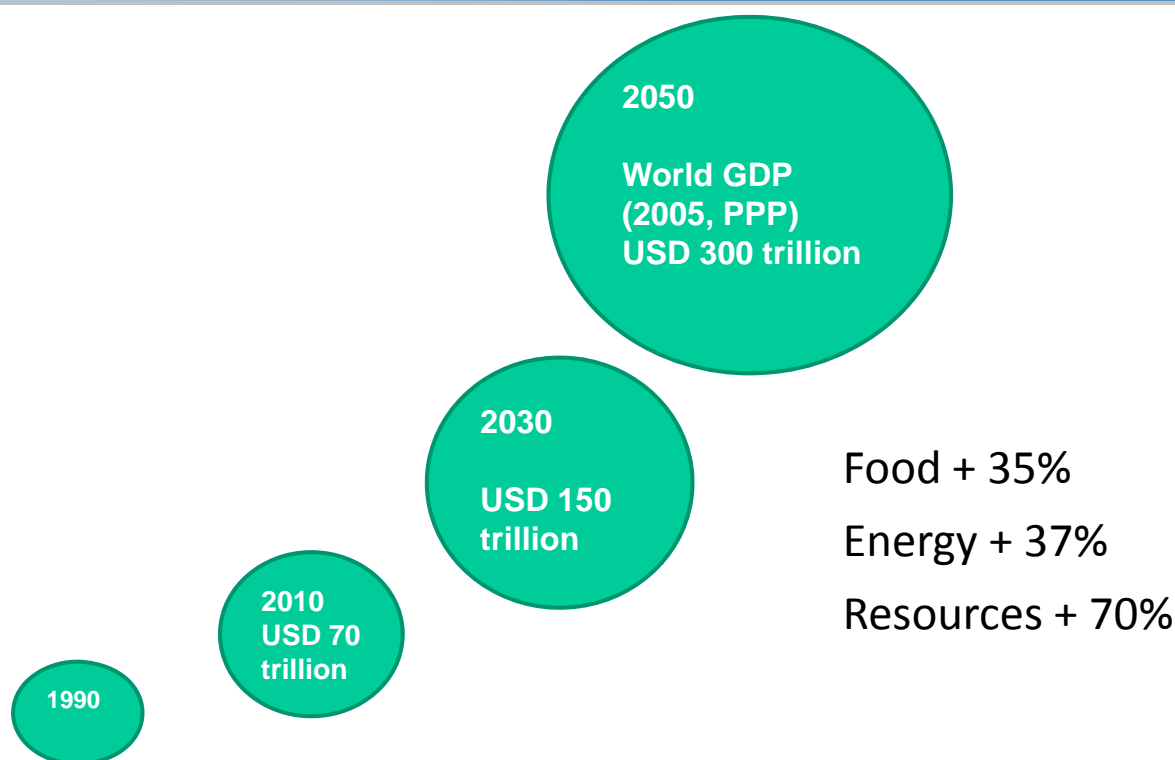
1. The need for *Growth*

- current sources of economic growth are placing unsustainable pressures on the natural resource base ⇒ economic and social burdens ⇒ high costs of inaction

2. and it *needs to be Green*

- opportunity of the crisis to replace stranded capital with cleaner alternatives (*e.g.* green stimulus packages) ⇒ industry, jobs and skills restructuring

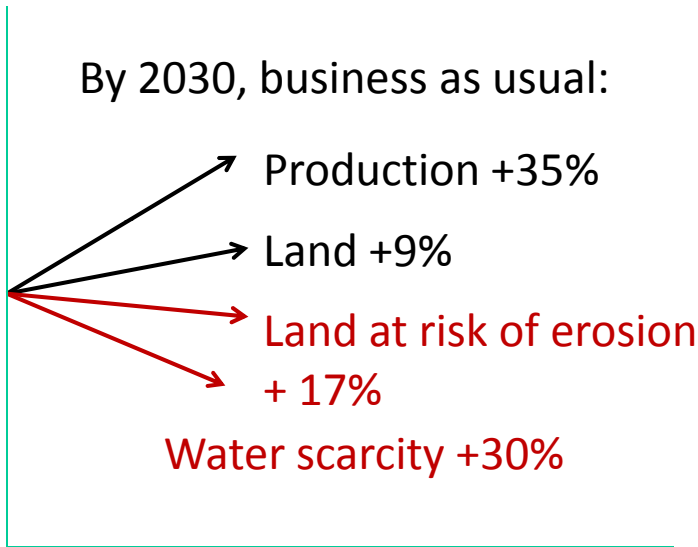
The need for green – future challenges



Source: OECD

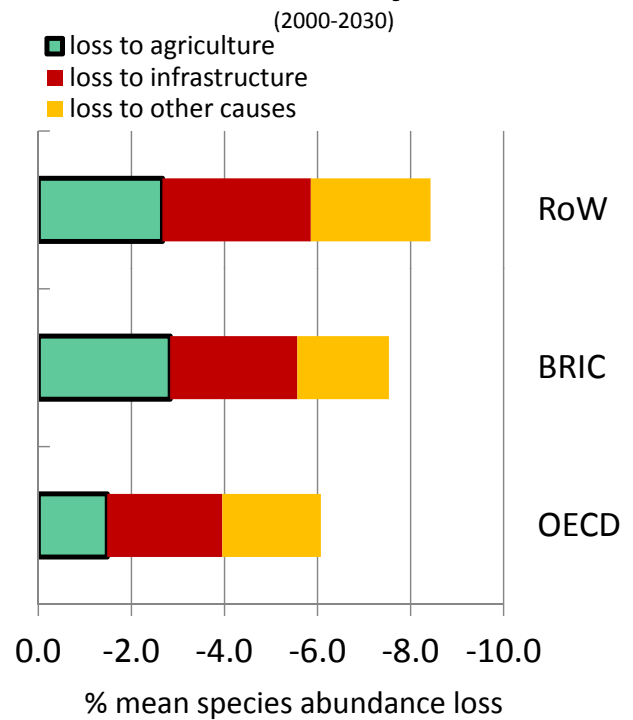
Risks in not going green: shocks to food supply

Pressures on natural capital



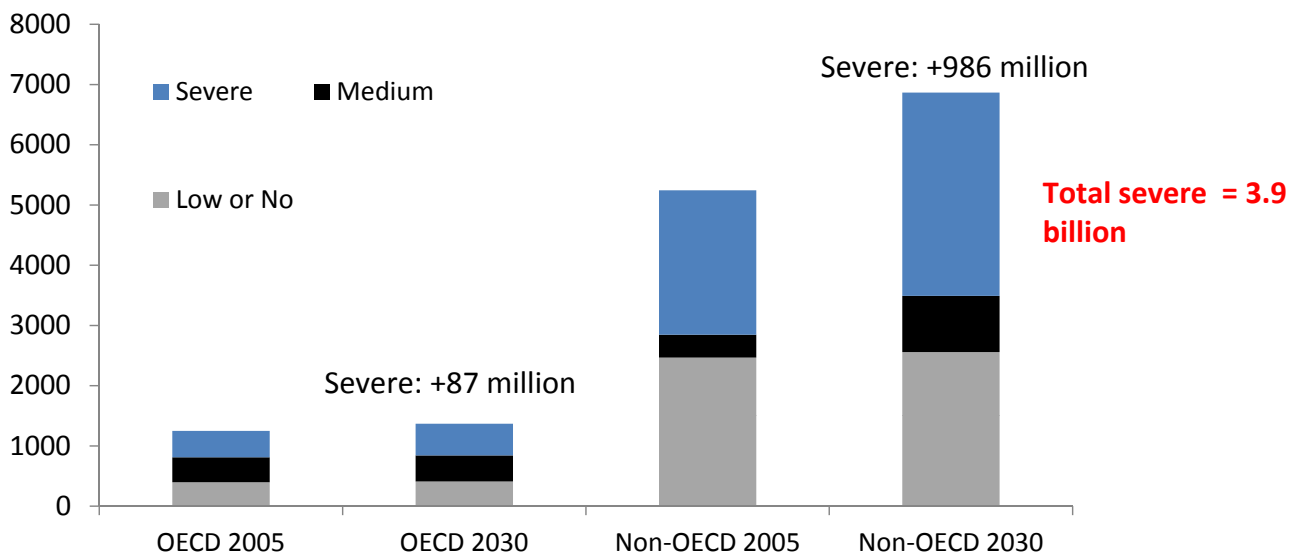
Source: OECD

Biodiversity loss



Risks in not going green: water scarcity

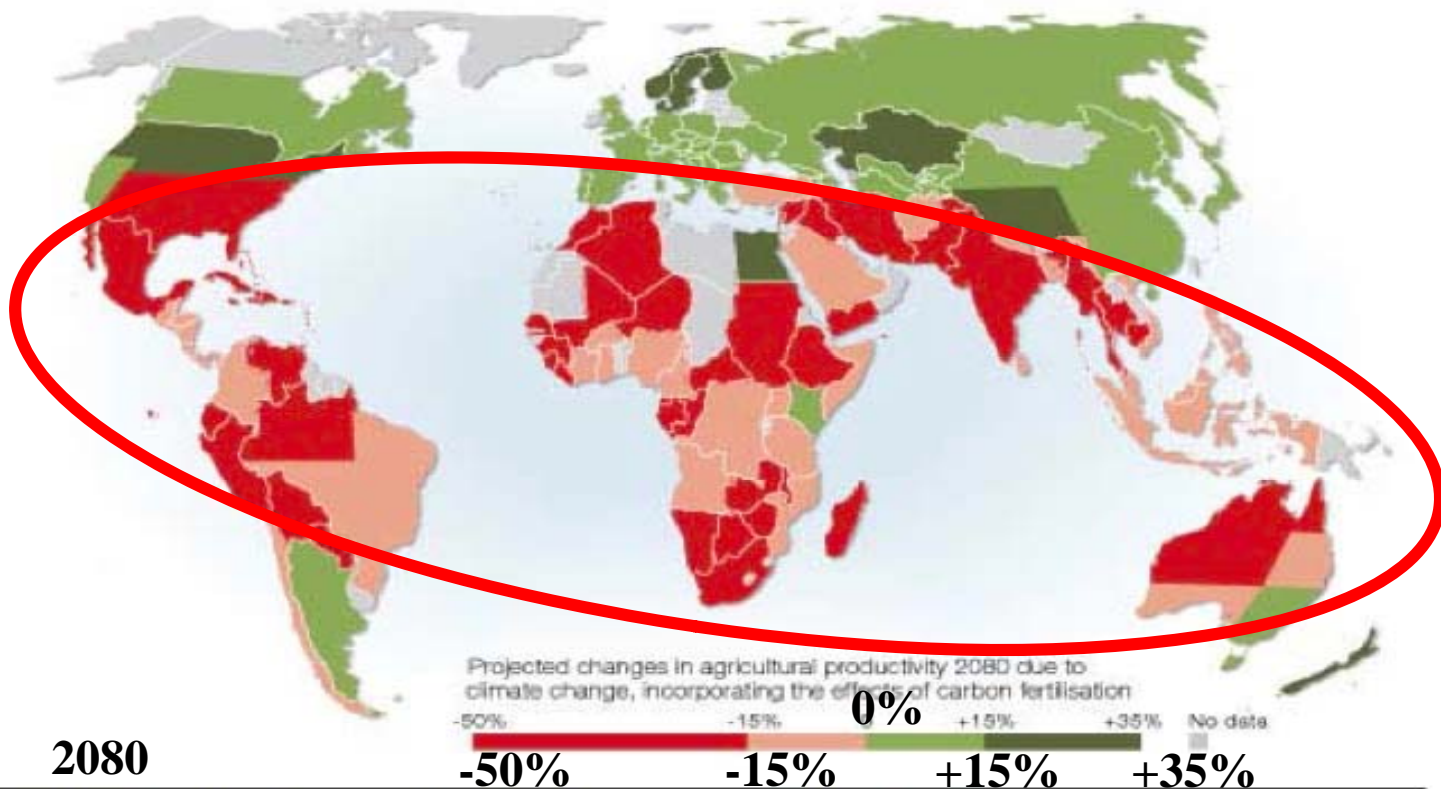
Living with risk of water scarcity (millions of people under water stress)



Source: OECD

Business as usual is not an option

Figure 8 Projected losses in food production due to climate change by 2080.



Source: The environmental food crisis - the environment's role in averting future food crises. A UNEP rapid response assessment. United Nations Environment Programme, February 2009, www.grida.no, page 46, quoting: Cline, W. R. (2007). Global warming and agriculture: Impact estimates by country.

... Agricultural challenges

- Food security
- Changing pattern of demand driven by increased income
- The growing pressure from bio-fuels
- Increasing vulnerability of agriculture to climate change
- Pre-harvest and post-harvest losses

Green growth and agriculture

Green growth and agriculture

- **Green growth in agriculture sector means :**
 - providing enough food, feed, fibre and fuel for 9 billion people in 2050...
 - ...in the context of greater pressure on land, water, fish stocks and biodiversity resources - and the impact of climate change...
 - ...and the need to limit the harmful and enhance the beneficial environmental impacts and reduce waste in the food supply chain

Agriculture and green growth

- Agriculture has a role to play in contributing to green growth
 - But the relationship between agriculture and green growth is complex
 - The context is critical – time dimension
- ❖ **And a lot of green is not priced...**

Agriculture green growth: **policy dimension**

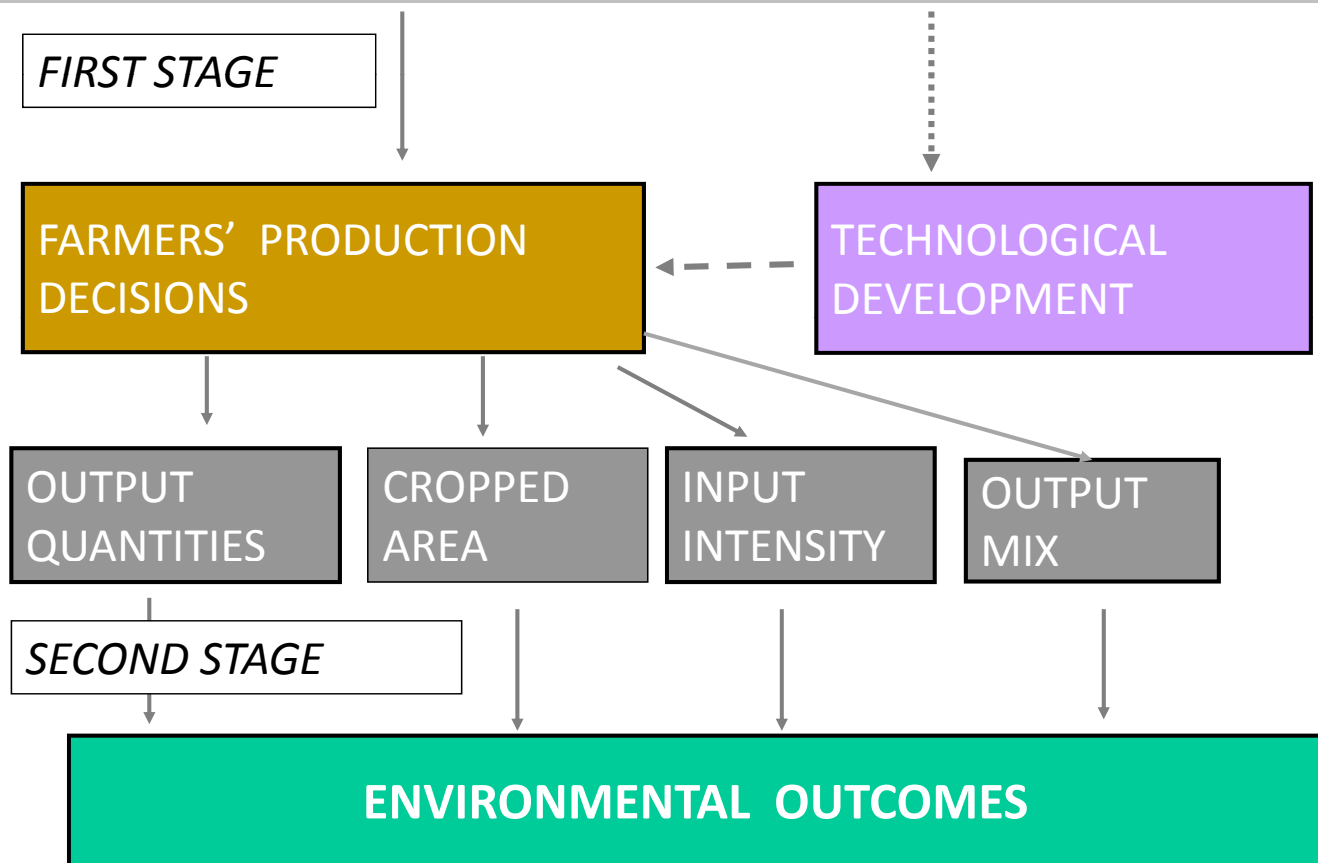
Policies that mutually reinforce green and growth

- Policies to encourage R&D and innovation
- Measures targeted to economic adaptation of farmers and farm households (*e.g.* training)
- Openness to trade and investment

Policies specifically aimed at greening growth

- Market-based instruments
 - Agri-environmental payments, environmental taxes, etc.
- Non-market instruments
 - Regulation, voluntary agreements, technical assistance

Agriculture and green growth: **policy effects**



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Agri-environmental policy

• and linking economic and ecological models is a big challenge:

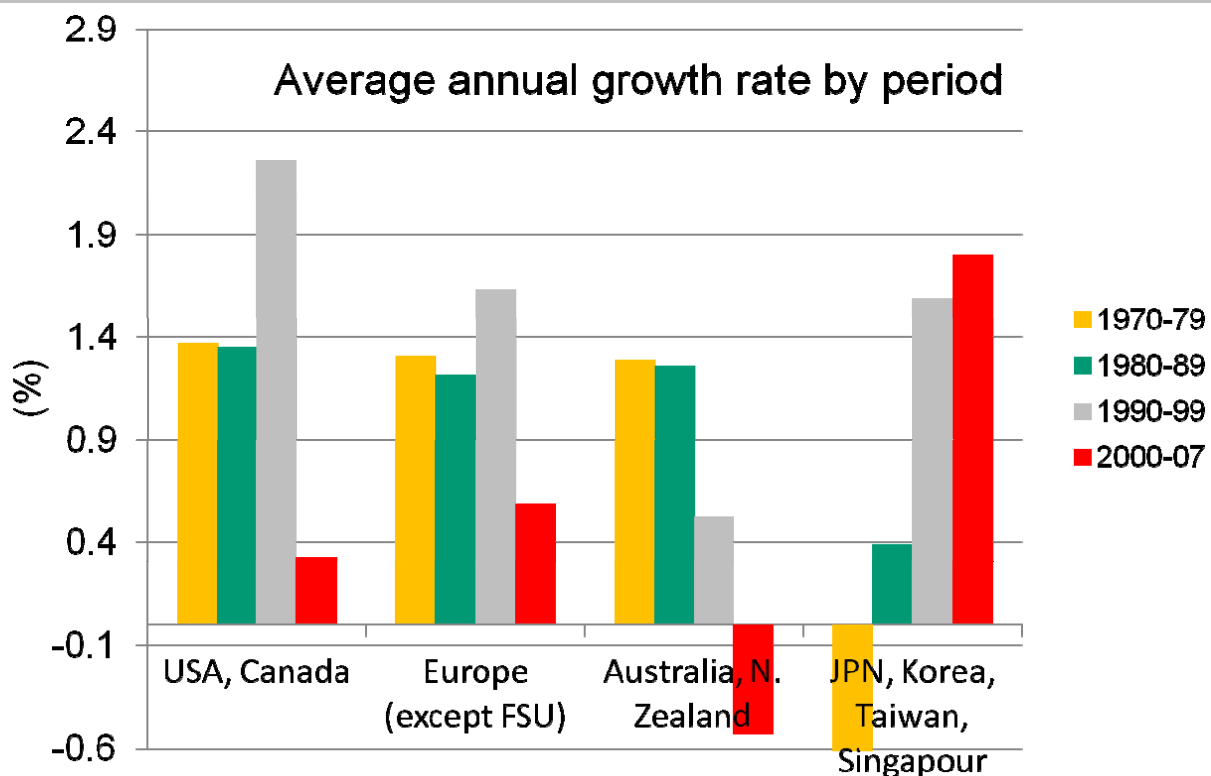
- aggregation,
- site specificity,
- choice of indicator, *etc.*

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- Shifting patterns of public support for R&D and productivity in high-income countries:
 - Slowdown in spending growth
 - Productivity slowdown

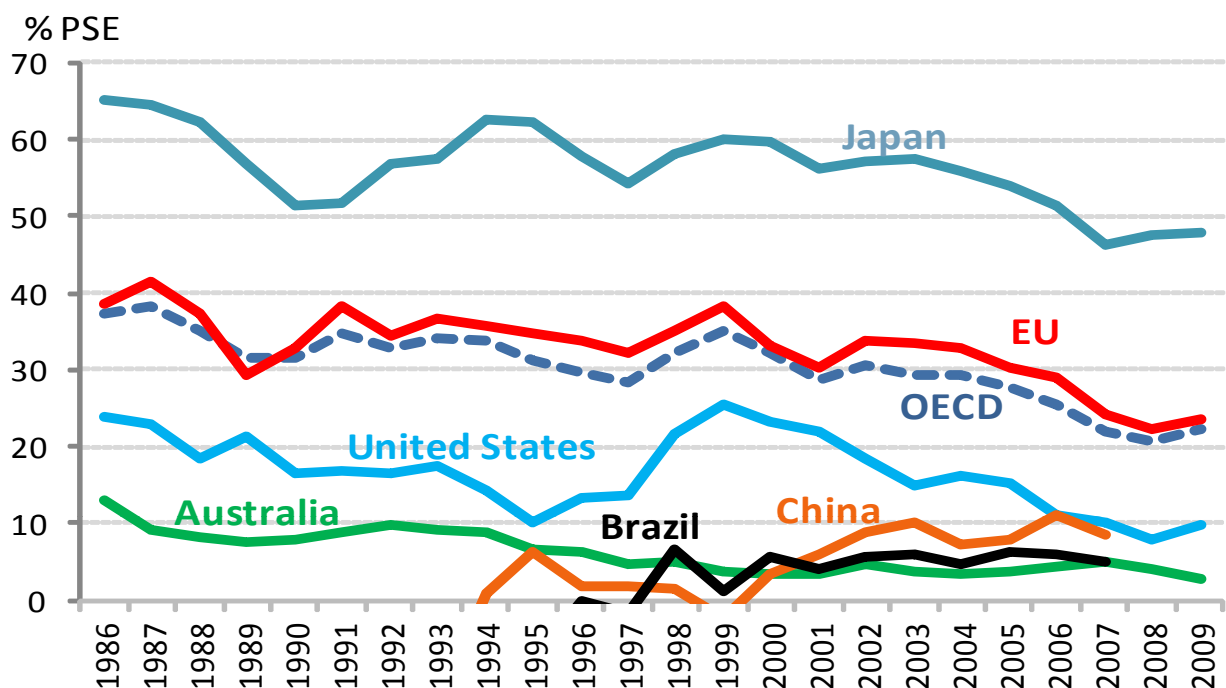
Agricultural total factor productivity growth



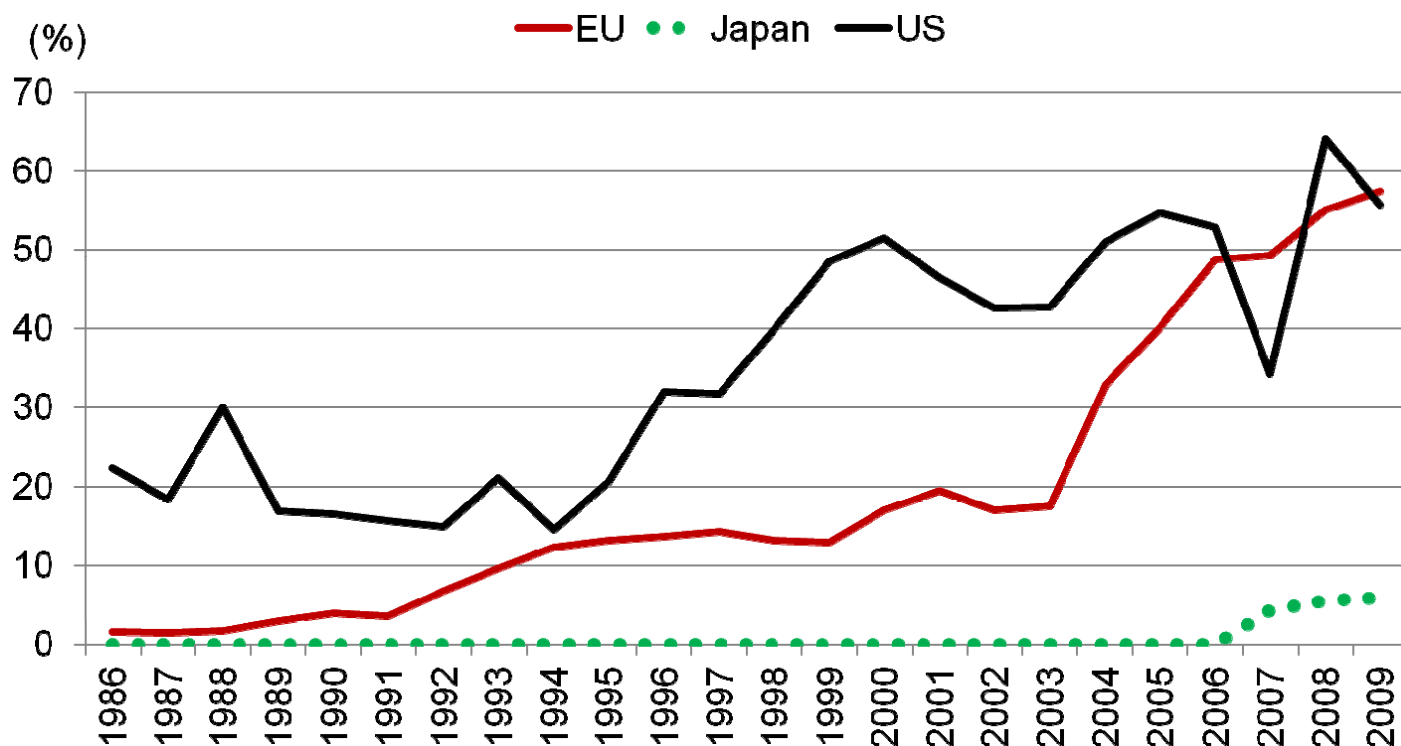
Agricultural policies : Evidence

- Agricultural policy in OECD countries has been changing – but still a protected sector.
- Some reduction in support and shift towards public goods (e.g. environment) and other objectives (e.g. rural development).

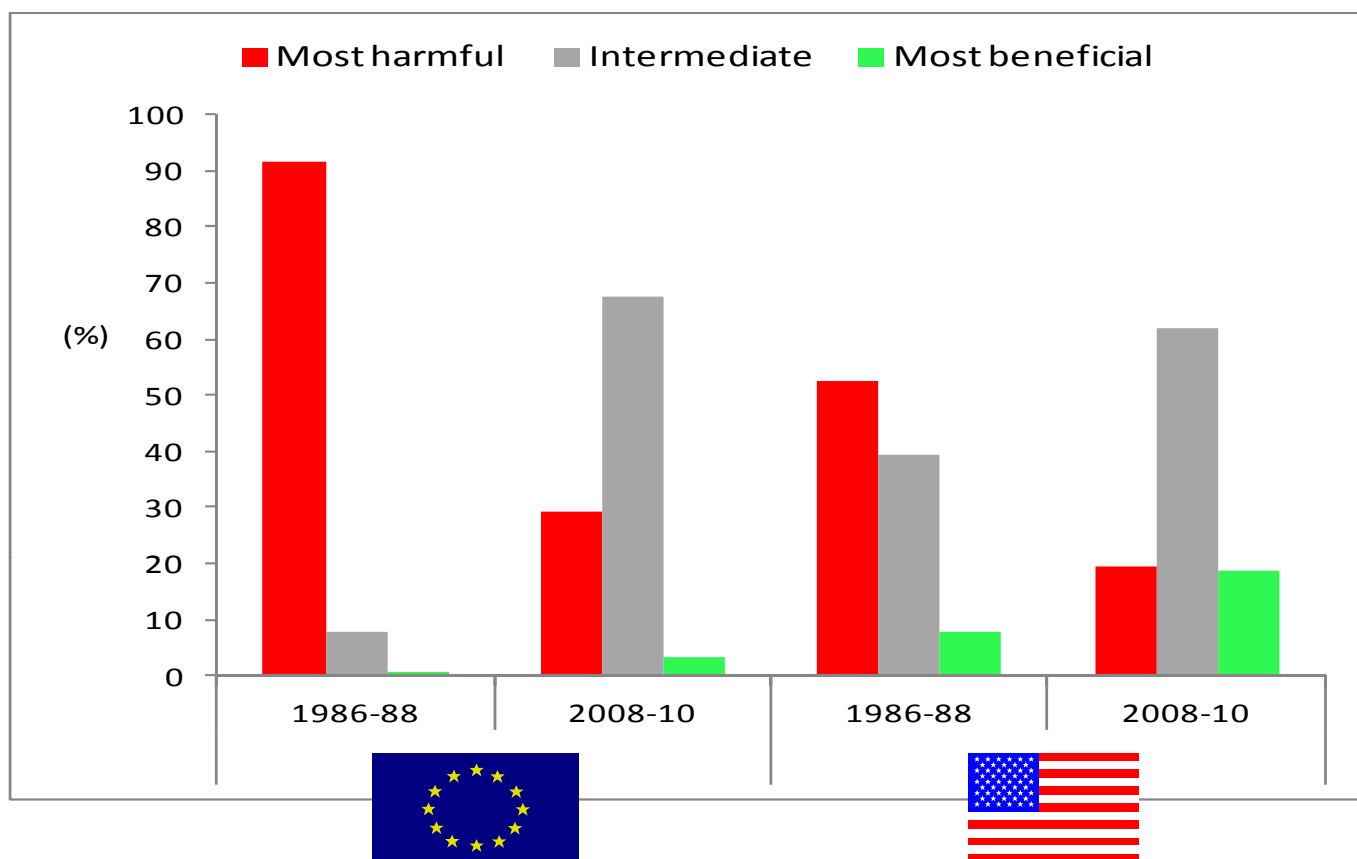
Farm support: Producer Support Estimates



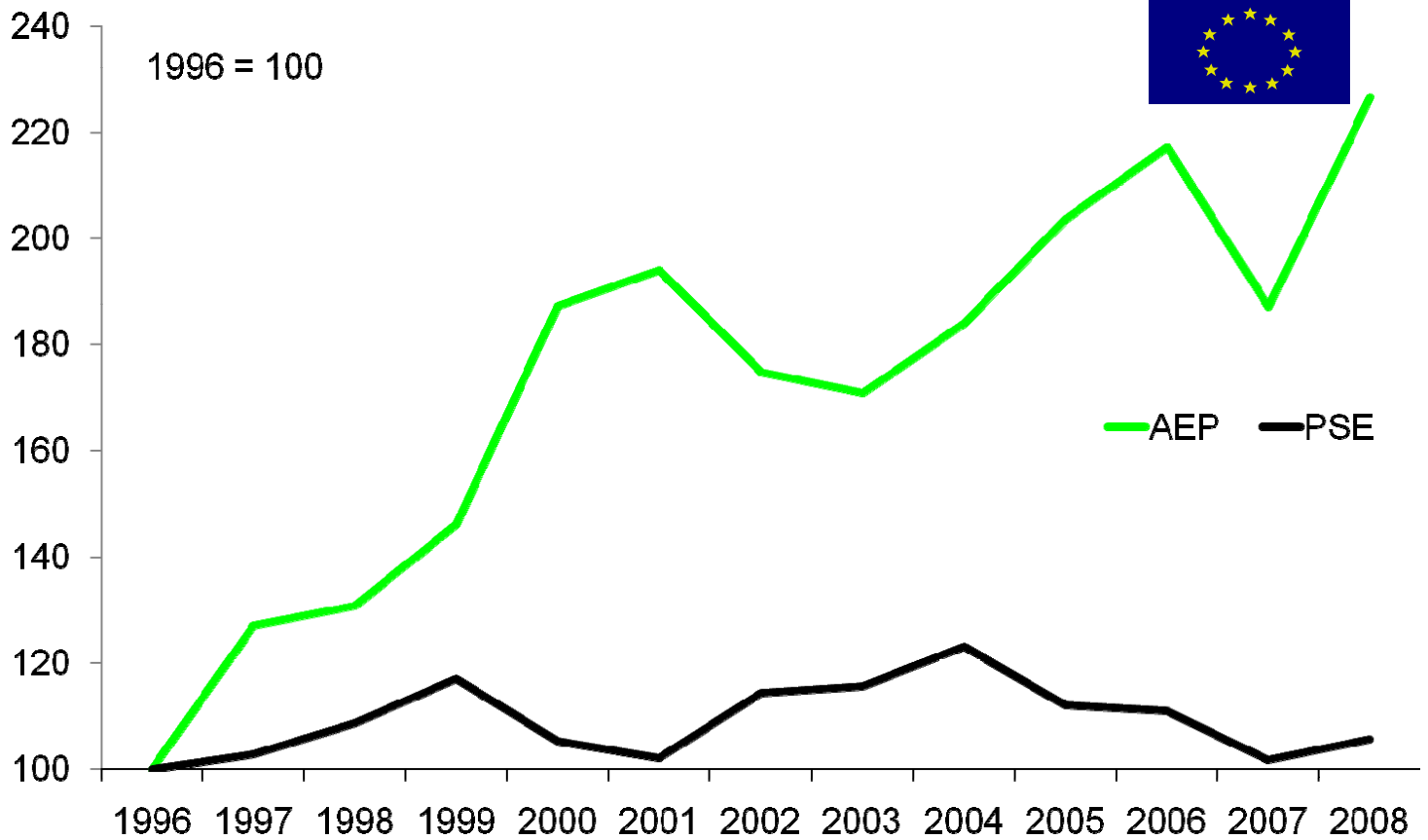
Farm support with input constraints



Ranking agricultural support to farmers by potential environmental impact



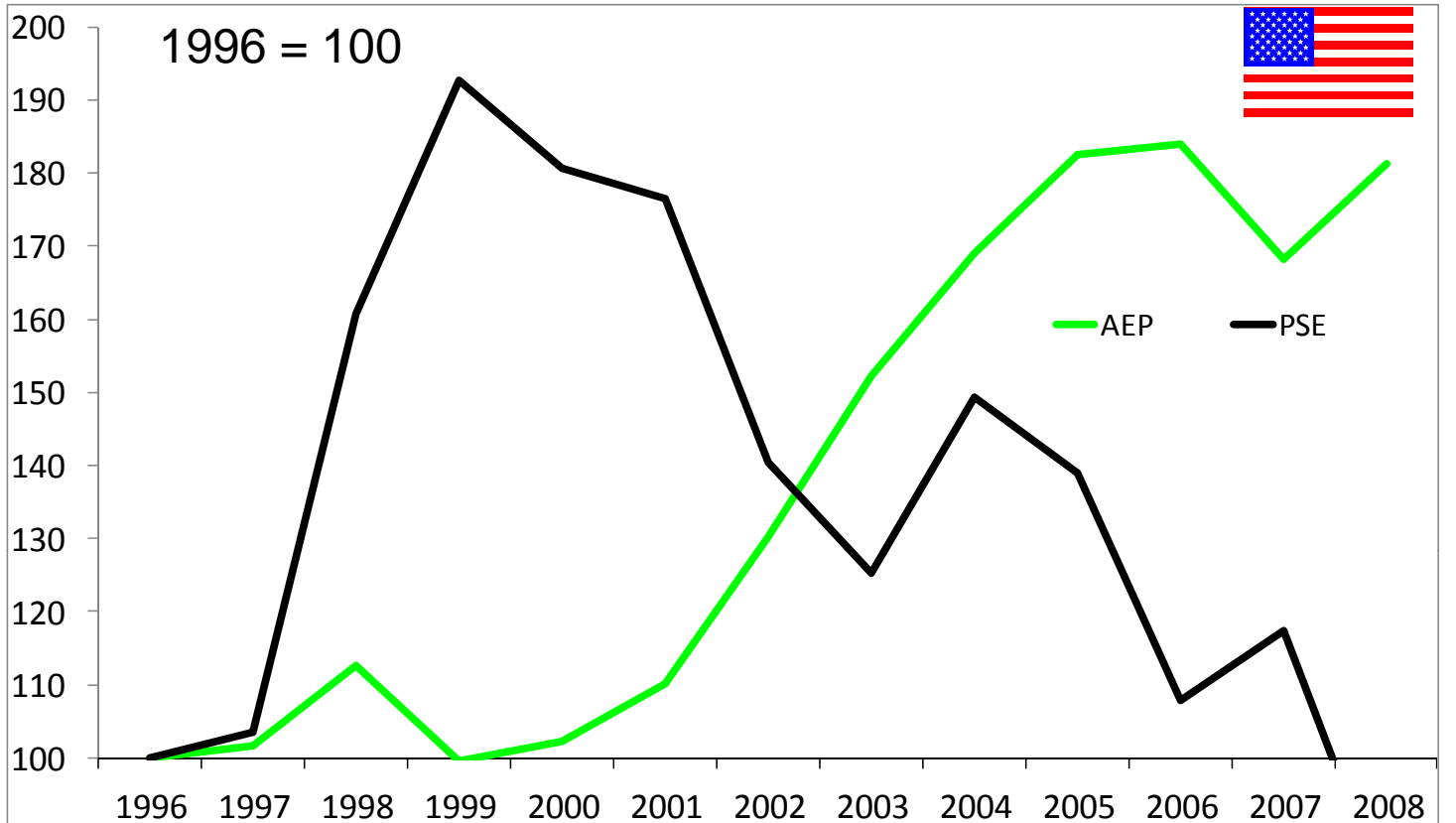
Evolution of AEPs and PSEs - EU



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Evolution of AEPs and PSEs - US



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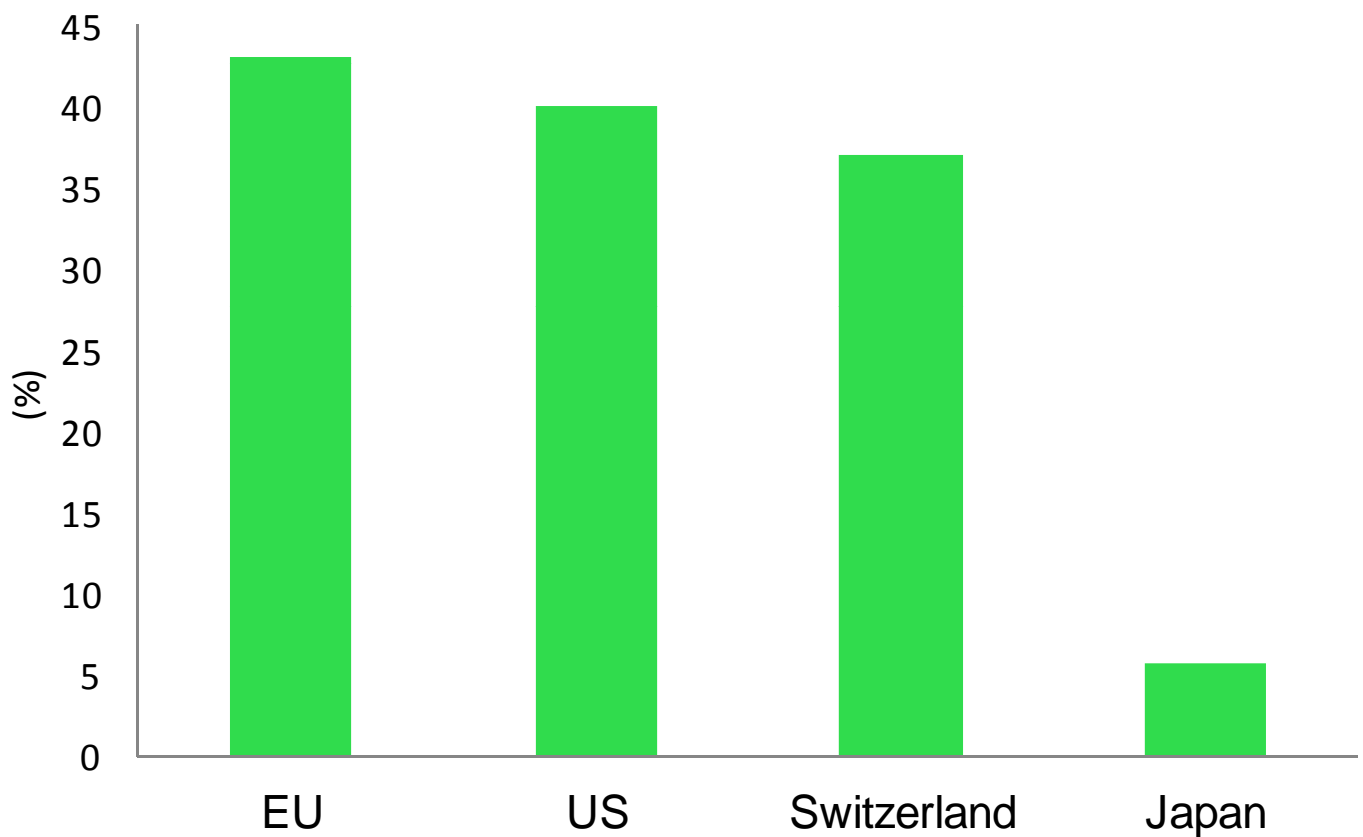
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Role of Cross Compliance (CC)

Cross compliance: **Concept**

- Receipt of payment depends on compliance with environmental requirements.
- US was the first to implement CC (1985).
- Switzerland introduced CC in 1999 as part of the Agricultural Policy Reform Programme 1999-2003.
- In the EU, CC became compulsory with the 2003 CAP reform.
- Japan (2007), Norway and Korea.

Producer support subject to CC, 2008-10



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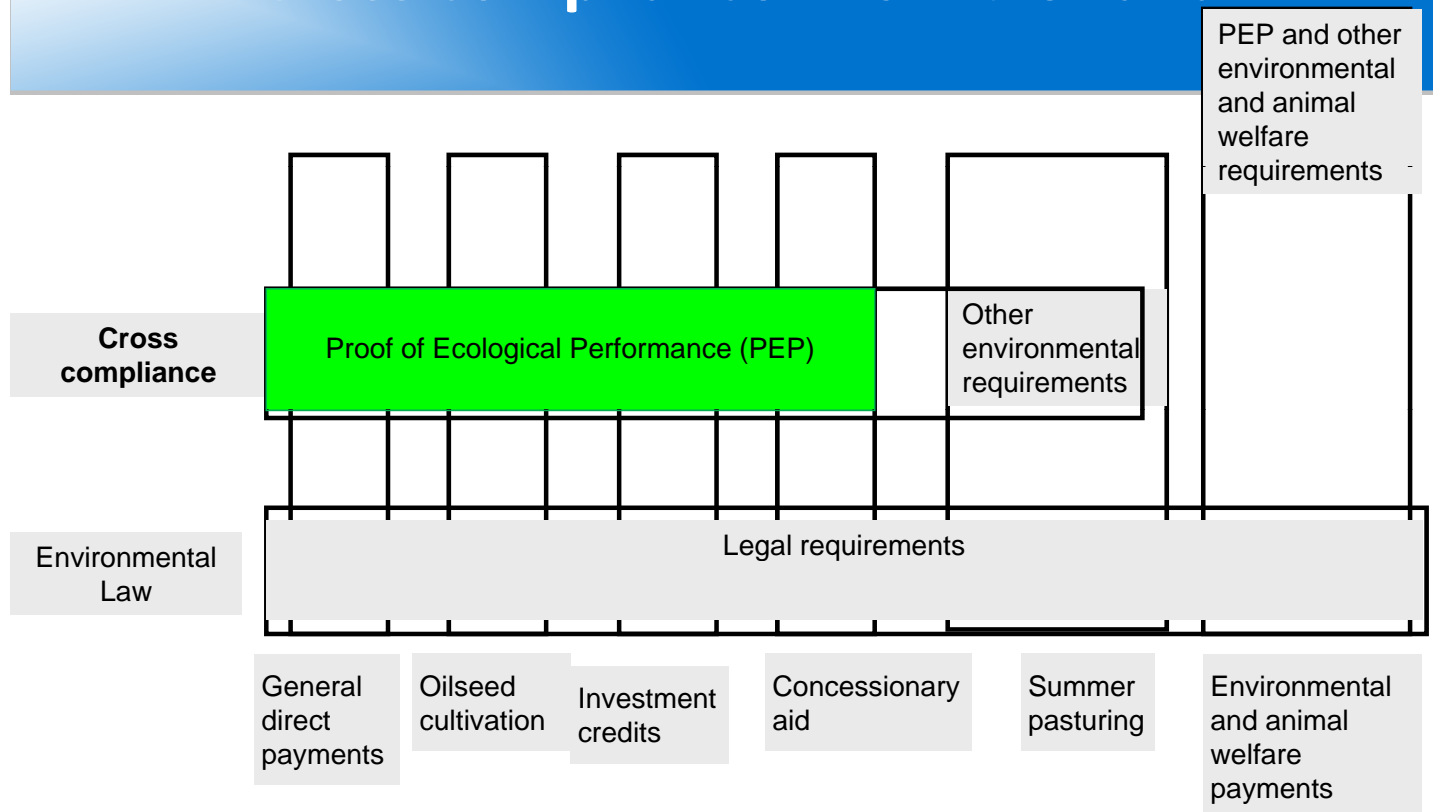
... but cross-compliance approaches differ

- The scope, coverage, method of control, monitoring and penalties imposed also differ.
- In the EU CC requirements align pre-existing environmental legislation, while in Switzerland and the US they go beyond legislation.

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Cross compliance in Switzerland



Cross compliance – EU evidence

- CC has expanded the area of land subject to basic requirements and have been more concrete and specific than reliance on “usual Good Practice”.
- Awareness of environmental requirements has increased and some members extended the baseline of environmental standards.

Cross compliance – EU evidence

- but CC not very popular neither with farming organisations, while environmental organisations argued that the potential of CC mechanism to deliver environmental benefits has not been maximised.

Cross compliance – EU evidence

- **European Court of Auditors (2008):**
 - Objectives are not **SMART**.
 - Certain issues (irrigation, air pollution) have been excluded from without justification.
 - The distinction between CC and agri-environmental measures is not always clear.
 - Control and sanction systems are weak
 - Data for monitoring often unreliable.

Cross compliance – US evidence

- CC has reduced soil erosion, but only accounts for 25% of the total observed change.
- CC not effective in addressing some environmental issues (nutrient management) because of incomplete coverage.
- Cost effectiveness of CC considerably less than targeted agri-environmental programmes.

Cross compliance – Swiss evidence

- Environmental performance has improved, but not clear how much is due to CC.
- Transaction costs are lower for CC measures than agri-environmental measures.
- In 2009, 43% of total farms inspected; 22% were not in compliance; payment reductions of CHF 811 per farm imposed. Offences concerned mainly incorrectly maintained records and non-compliance with animal-friendly practices.

Cross compliance – issues

- Limited effectiveness because basic eligibility and payment levels are determined by non-environmental objectives.
- Lack of environmental targeting reduces cost-effectiveness.
- When CC is built on statutory requirements that apply to all farmers, CC is redundant if the pre-existing legislation is not breached.
- Monitoring challenge
- Reluctance to impose penalties

Cross compliance – issues

- Medium-term sustainability of environmental effectiveness depends on maintaining level of direct income payments.
- In a post-reform situation where direct income payments are targeted to specific social objectives (minimum income, disaster relief, *etc*), the challenge is to manage policy development so that current benefit of CC is not lost and reform momentum continues.



Conclusions

Main messages

- **Business as usual is not an option!**
- Green growth is desirable and achievable
- Moving towards a greener growth model for agriculture is **challenging**, will involve trade-offs as well as synergies and will vary across countries
- A green growth strategy for agriculture needs to:
 - focus on increasing productivity in a sustainable manner
 - ensure that well-functioning markets provide the right signals
 - establish and enforce well defined property rights

...BUT

- These priorities aren't new – but governments need to move first to "**price the environment**" and business then has an incentive to follow the signals
- It's often difficult to overcome obstacles to implementation and the challenge is to provide **concrete implementable policy advice, measure progress, and learn from experiences across countries and businesses**

OECD Follow Work

- **Monitoring and evaluating progress**
 - Review country experiences

You can't manage what you don't measure



- **The Way Forward: Identifying policy priorities and cost-effective policy instruments**



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Green Growth framework

Enabling conditions

- Balanced tax structures
- R&D and innovation policy
- Competition
- Infrastructure investment
- Openness to trade and FDI

Key policy tools

- Pricing of pollution and resource use
- Subsidy reform
- Regulatory and policy predictability
- Support to basic research and emerging technologies
- Governance of natural assets

Major environmental issues

- Water scarcity
- Climate change
- Health impacts of pollution
- Biodiversity loss

Promoting transition

- Skills and labour market adjustment
- Distributional and competitiveness concerns
- Science and technology cooperation
- Development assistance
- Management of global public goods

Measurement agenda

- Productivity of resource use
- Physical evolution of the natural asset base
- Environmental quality of life
- Opportunities arising from environmental considerations
- Evolution of policy and social responses
- Promoting efforts consistent with international standards

Directions for future work

Timeline

Deliverables

2011 MCM

- ❖ Green Growth Strategy Synthesis Report
- ❖ Green Growth Indicators Report

2011/2012

- ❖ Green growth monitoring work: green growth indicators, further green growth chapters in Economic Surveys and Environmental Performance Reviews
- ❖ Green Growth Reports for Emerging Economies
- ❖ Report on Green Growth and Developing Countries
- ❖ *A Green Growth Strategy for Food and Agriculture* (preliminary report)
- ❖ Joint IEA/OECD Green Growth Study for Energy
- ❖ Monitoring green investment protectionism concerns
- ❖ Report on Green Innovation
- ❖ Green Growth and Biodiversity
- ❖ Green Cities Programme
- ❖ Project on Green Financing
- ❖ Green Growth and Water
- ❖ Project on green financing
- ❖ Environmental regulations and growth
- ❖ Green fiscal revenue
- ❖ Job potential of a shift towards a low-carbon economy

Framework for green growth indicators

