American University of Central Asia

Agricultural Policy and International Trade

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Agricultural Problems (terms of trade**,** agricultural price instability, dependence on commodities**,** Food Security)

Historical context of agricultural programs
European Union: Common agricultural policy (CAP)

- **CAP is aimed to provide a stable, sustainably produced supply of safe food at affordable prices for consumers.**

- The **EU agriculture sector** has roughly **11 million farms**, which provide work for roughly **44 million** including agri-workers, workers in the food processing, food retail and food services.

- The agri-food sector accounted for **6% of EU GDP**.

- The **EU** has become a **net exporter** of food and drink, with an average annual 8% growth in the value of exports over the past 10 years, reaching **€129 billion in 2015**.

- CAP has an annual budget of roughly **€59 billion**.

Historical context of agricultural programs
European Union: Common agricultural policy (CAP)

- ***1957***

The **Treaty of Rome** creates the **European Economic Community** (the precursor of today's EU), between six western European countries (**Germany, France, Italy, the Netherlands, Belgium and Luxembourg**).

- ***1962***

The common agricultural policy is born. The CAP is conceived as a common policy, with the **objectives of providing affordable food for EU citizens and a fair standard of living for farmers.**

The Council of the European Union gave the green light to setting up the **common market organizations for six agricultural products (cereals, pig meat, eggs, poultry meat, fruit and vegetables and wine),** competition rules were introduced, a schedule to assist intra-community trade for **dairy products, beef and veal** was introduced, and the **European Agricultural Guidance and Guarantee Fund (EAGGF)** was established.

Historical context of agricultural programs
European Union: Common agricultural policy (CAP)

- ***1984***

The CAP falls victim to its own success. Farms become so productive that they grow more food than needed. The surpluses are stored and lead to '**Food Mountains**'. Several measures are introduced to bring production levels closer to what the market needs.

- ***1992***

The CAP **shifts from market support to producer support**. **Price support** is scaled down and replaced with **direct payments to farmers**. They are encouraged to be **more environmentally friendly**. The reform coincides with the 1992 Rio Earth Summit, which launches the principle of **sustainable development**.

Historical context of agricultural programs
European Union: Common agricultural policy (CAP)

- ***2003***
- The CAP provides **income support**. A new CAP reform cuts the link between subsidies and production. Farmers now receive an income support, on condition that they look after the farmland and fulfil food safety, environmental, animal health and welfare standards.
- Single payment scheme (SPS); Single area payment scheme (SAPS)

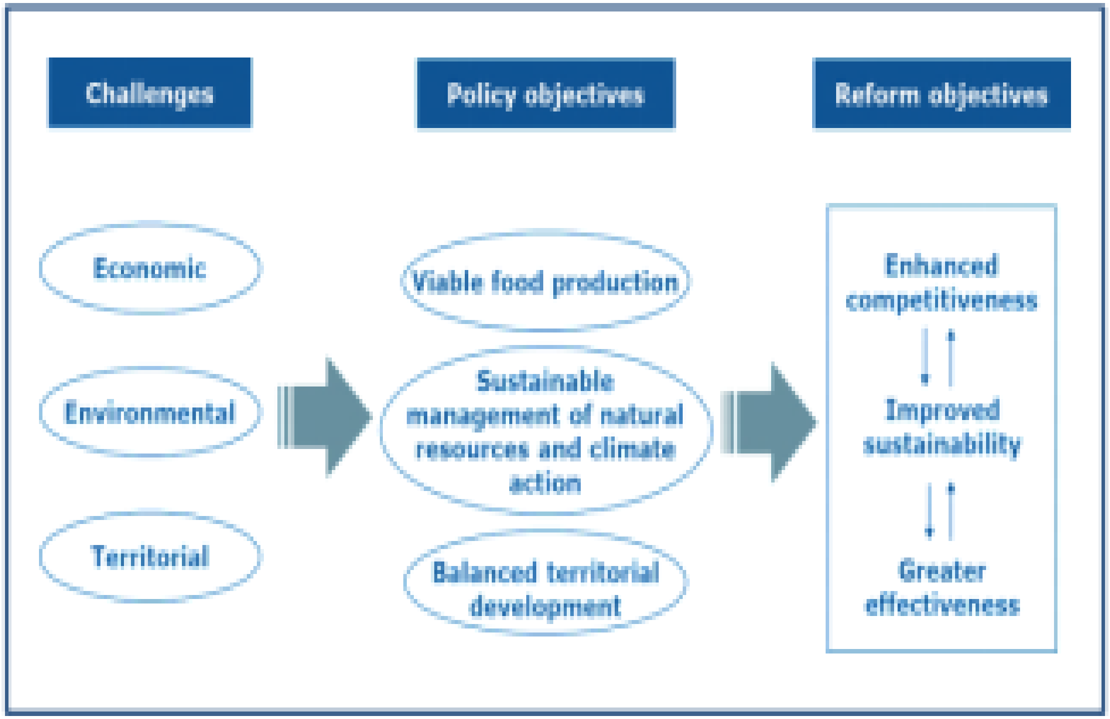
- ***2013***

The CAP is reformed to strengthen the competitiveness of the sector, promote sustainable farming and innovation, to support jobs and growth in rural areas and to move financial assistance towards the productive use of land.

- Basic Payment Scheme (BPS)

Historical context of agricultural programs
European Union: Common agricultural policy (CAP)

Chart 1 The CAP post-2013: From challenges to reform objectives



Source: DG Agriculture and Rural Development.

Chart 7 Actions targeted under both Pillars

PILLAR I	TARGETED ACTION	PILLAR II*
Green payment	**ENVIRONMENT**	Agri-environment-climate Organic, Natura 2000
Top-up payment	**YOUNG FARMER**	Business development grants Higher investment aid
Top-up payment	**AREAS WITH NATURAL CONSTRAINTS**	Area payments
Alternative simplified scheme	**SMALL FARMER**	Business development grants
Improved legal framework	**PRODUCER COOPERATION**	Aid for setting up producer groups Cooperation and short supply chain

*Only main measures that target the specific issue under Pillar 2 are mentioned.

Source: DG Agriculture and Rural Development.

Historical context of agricultural programs
European Union: Common agricultural policy (CAP)

Budget

The Commission had proposed that, **in nominal terms**, the amounts for both pillars of the CAP for 2014-2020 would be frozen at the level of 2013. **In real terms** CAP **funding will decrease** compared to the current period. Compared to the Commission proposal, the amount for pillar 1 was cut by 1.8% and for pillar 2 by 7.6% (in 2011 prices).

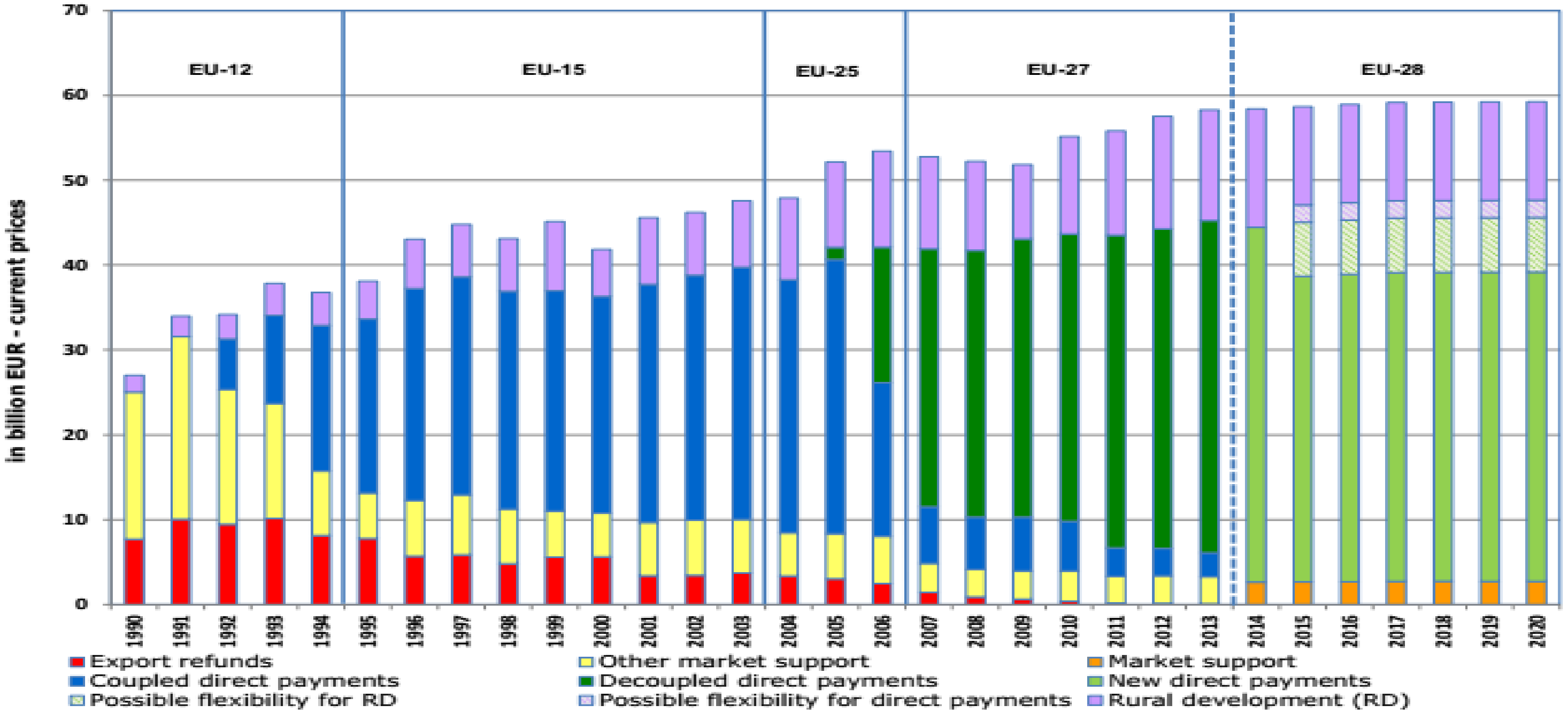
MFF Ceiling 2014-2020 *(in billion EUR)*

	2014-2020 Ceiling (Current Prices)	**2014-2020 Ceiling** (2011 Prices)
Pillar 1	312,74	277,85
Pillar 2	95,58	84,94
Total CAP	408,31	362,79

Source: DG Agriculture and Rural Development

Historical context of agricultural programs
European Union: Common agricultural policy (CAP)

The path of CAP expenditure by calendar year (in current prices)



Source: DG Agriculture and Rural Development

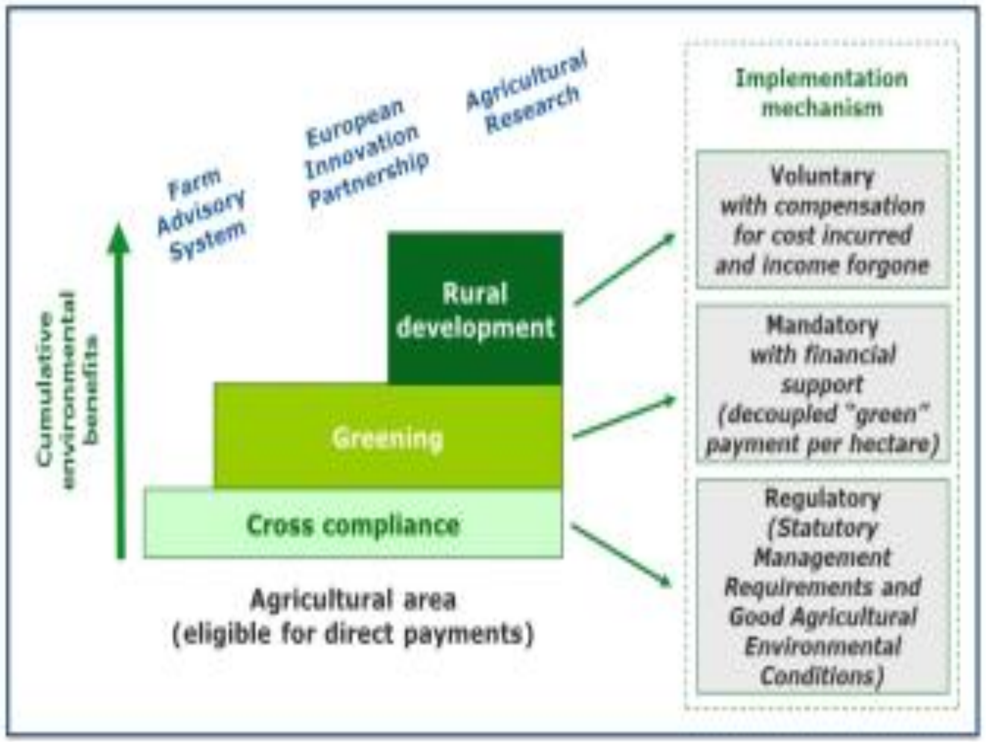
Historical context of agricultural programs
European Union: Common agricultural policy (CAP)

In **1992** market management represented over **90% of total CAP expenditure**, driven by export refunds and intervention purchases. By the end of **2013** it dropped to just **5%** as market intervention has become a safety net tool for times of crisis and direct payments are the major source of support; **94%** of which are **decoupled from production**.

Historical context of agricultural programs European Union: Common agricultural policy (CAP)

- On top, from 2015 onwards, the CAP introduces a new policy instrument in Pillar 1, the **Green Direct Payment.** Farmers should be rewarded for the services they deliver to the wider public, such as landscapes, farmland biodiversity, climate stability even though they have no market value. Therefore, a new policy instrument of the first pillar (greening) is directed to the **provision of environmental public goods**, which constitutes a **major change** in the policy framework.
- This accounts for **30% of the national direct payment envelope** and rewards farmers for respecting **three obligatory agricultural practices**, namely maintenance of permanent grassland, ecological focus areas and crop diversification.

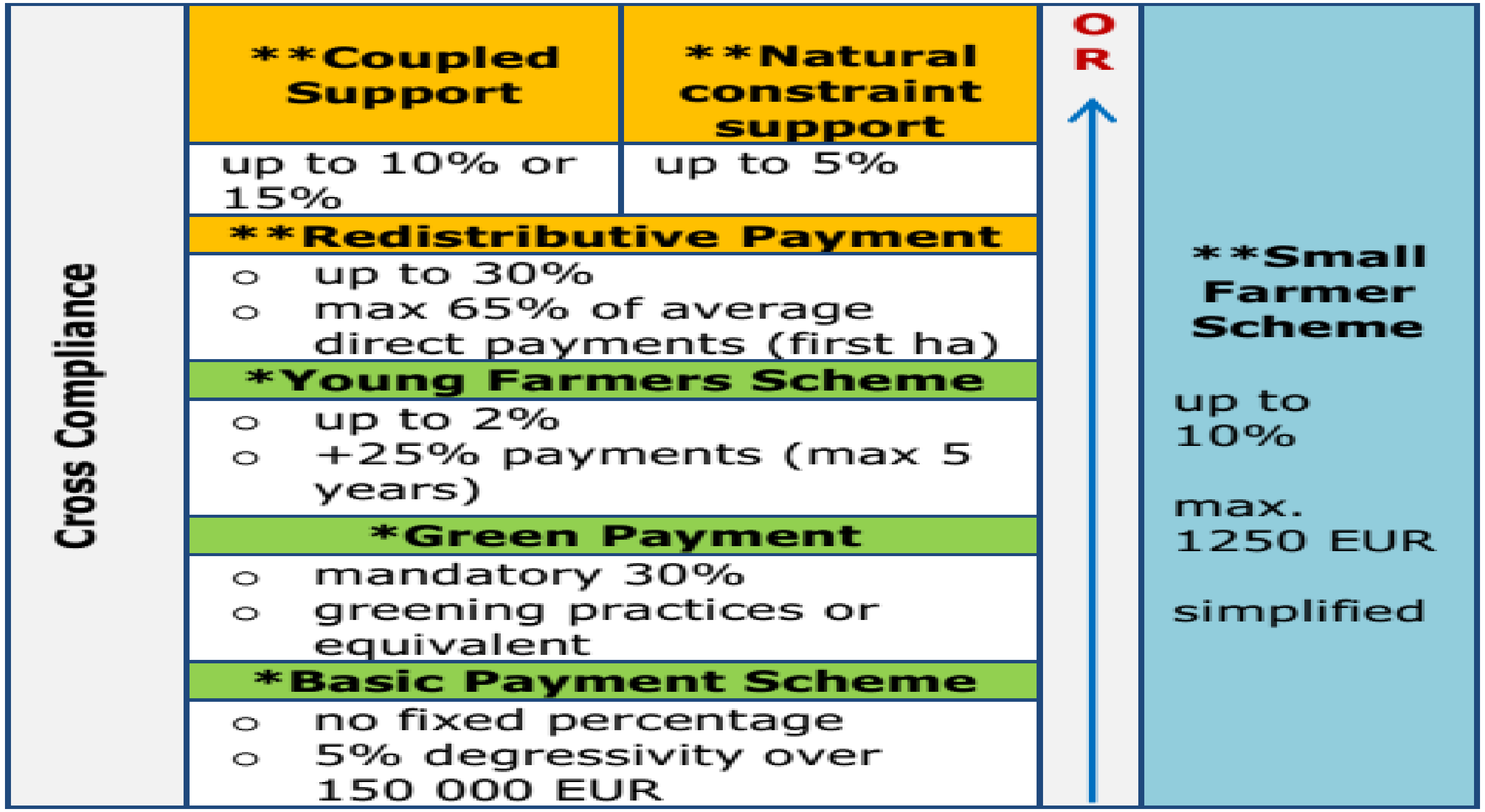
Chart 3 The new greening architecture of the CAP



Source: DG Agriculture and Rural Development.

Historical context of agricultural programs
European Union: Common agricultural policy (CAP)

Chart 4 ***The new design of direct payments*** *(and share of direct payments envelope)*

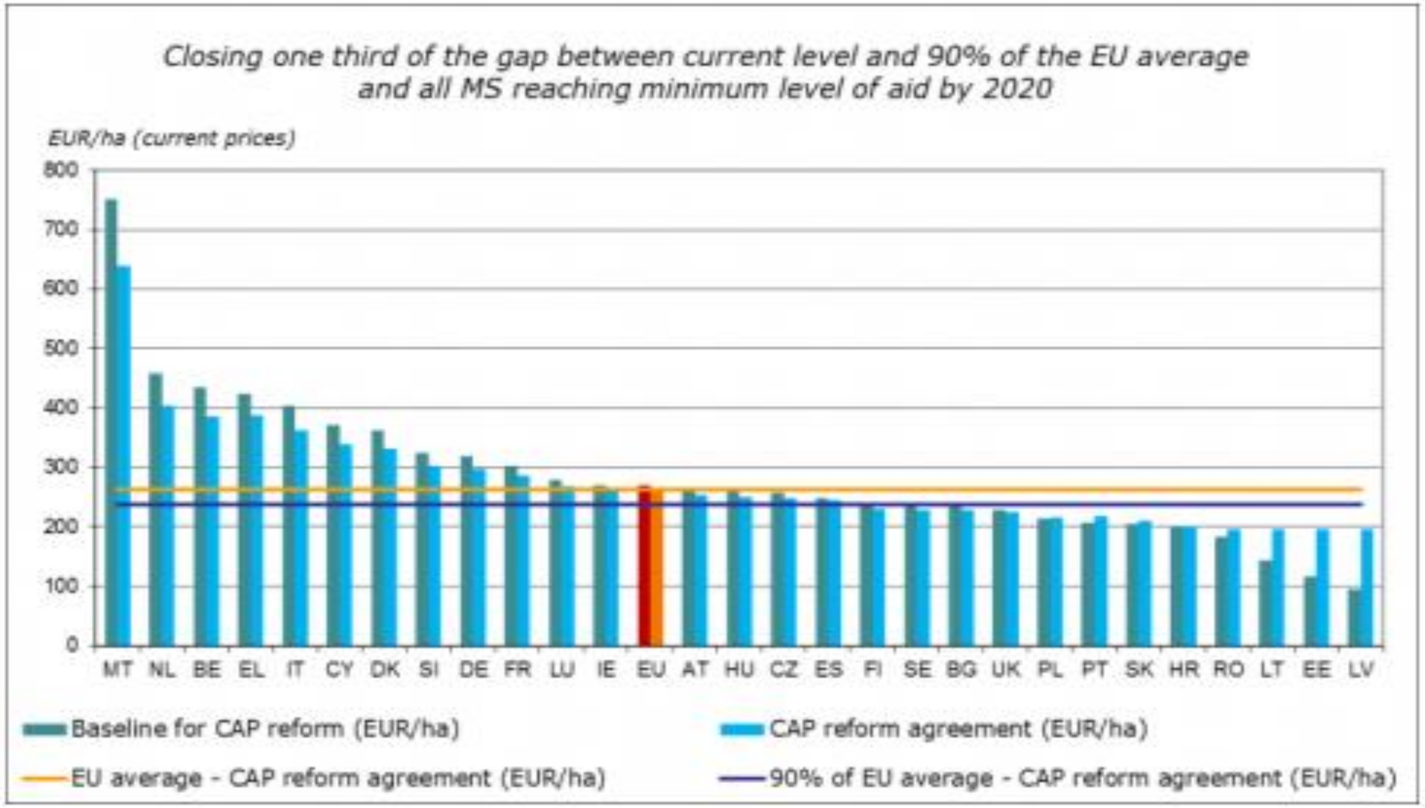


*** Compulsory** **** Voluntary**

Source: DG Agriculture and Rural Development.

Historical context of agricultural programs
European Union: Common agricultural policy (CAP)

Chart 5 Changes in the Distribution of Direct Payments



Source: DG Agriculture and Rural Development.

- Chart 5 provides an illustration of the changes in the distribution of average national payments per hectare by 2020, compared to the status quo ("baseline").

Historical context of agricultural programs
USA: **A Brief History of United States Agricultural Policy**

- The **US Department of Agriculture (USDA)**, established in **1862**, quickly became home to a growing array of scientific research bureaus that joined the agricultural research of the state land-grant university system to rapidly expand agronomic knowledge and innovation (Baker et al. 1963)
- Government intervention expanded to include **provision of credit to support expansion** and **adoption** of new technologies as fears of insufficient production to support growing urban populations followed rising commodity prices in the early 20th century.
- **World War I**, federal intervention to **encourage production** and **control critical food prices** established a tacit compact between agricultural producers and government.

Historical context of agricultural programs USA

- Industrial development throughout the **late 19th and early 20th centuries** had created some imbalances in market information and market power between numerous widespread independent farming operations and consolidated, urban-based, transportation, processing, and marketing interests. **Antitrust legislation** had begun **to regulate** railroads, meatpackers, and other businesses involved in agricultural markets.
- The collapse of the agricultural economy in the **1920s** brought renewed, and stronger, calls for government assistance to improve market conditions for producers after their cooperation with government in support of the war effort. New legislation and programs to regulate input suppliers, handlers, and processors and to provide agricultural market information and opportunities for farmer–business cooperation **expanded government support** to agriculture in hopes of reestablishing stability in agricultural markets. Efforts to gain direct government intervention to support prices through **a plan for government-subsidized exports** failed consistently throughout the 1920s (Benedict 1953

Historical context of agricultural programs USA

- **Emergency Price Supports, 1929–1948:** full-scale government price support appeared in 1933 with the Agricultural Adjustment Act
- **Institutionalization of Price Supports and Protectionism, 1945–1973**
- **From Price Supports to Direct Payments, Subsidies, and Risk Management, 1973–2015**

Historical context of agricultural programs
USA : A Typology of United States Agricultural Policies

Programs include:

- **import restrictions** that protect domestic production from foreign competition;
- **supply management policies** that raise market prices by restricting supplies;
- **demand enhancement policies** that raise market prices by increasing overall demand;
- **export enhancement policies** that raise domestic market prices by increasing exports;
- **direct market price supports** that typically raise market prices by taking production off the market;
- **direct payments to producers** that raise producer returns but through income transfers;
- **input subsidies** that reduce input costs to producers;
- **loss compensation programs**, such as crop insurance and disaster assistance, that assist producers during times of yield or revenue losses and livestock producers during times of forage and mortality losses from natural disasters.

Historical context of agricultural programs
USA : A Typology of United States Agricultural Policies

Import restrictions:

- US agricultural tariffs are among the lowest in the world
- The current trade-weighted average is 4.1 percent, and the simple (unweight) average is 7.8 percent (WTO 2016a).
- There are key **exceptions** such as sugar, peanuts, orange juice, dairy products, and certain tree nuts (almonds, hazelnuts, and walnuts) where tariffs remain high and insulate domestic prices from lower world prices (Table 3.1).

Table 3.1 Average and maximum US bound tariff levels for selected product groups (ad valorem)

Product group	Average tariff (%)	Maximum tariff (%)
Animal products	2.3	26
Dairy products	16.6	188
Fruit, vegetables, plants	4.9	132
Coffee, tea	3.3	44
Cereals and preparations	3.5	44
Oilseeds, fats, and oils	4.4	164
Sugars and confectionery	12.3	55
Beverages and tobacco	14.8	350
Other agricultural products	1.1	52
Fish and fish products	1.0	35

Source: World Trade Organization (2016a).

Historical context of agricultural programs
USA : A Typology of United States Agricultural Policies

Export Promotion Policies

- The United States has long used export enhancement tools to augment exports, including **direct export subsidies**, **subsidized export credit**, and **food aid**. By the early 1990s, most all **wheat exports** were exported either as food aid or with export subsidies or credits or both. Export subsidies for wheat totaled as much as $1.3 billion in 1993 (Gardner 1994).
- Under the **Uruguay Round AoA**, the United States agreed **to discipline its use of export subsidies**. By 1995, the US export subsidies were largely discontinued for most commodities other than dairy. **The Export Enhancement Program** was eliminated by the **2008 Farm Act**, and **the Dairy Export Incentives Program** was eliminated by the **2014 Farm Act**. The recently concluded Nairobi declaration under the WTO prohibits the use of export subsidies by developed countries by 2020 and limits the tenor on subsidized export credits to 18 months. The United States had already agreed to tenor limits of 24 months as part of the settlement with Brazil in the *United States—Upland Cotton* dispute (Schnepf 2014).
- Lastly, the United States provides about $200 million annually for promotion of US commodities overseas under the Market Access Program and several smaller related programs

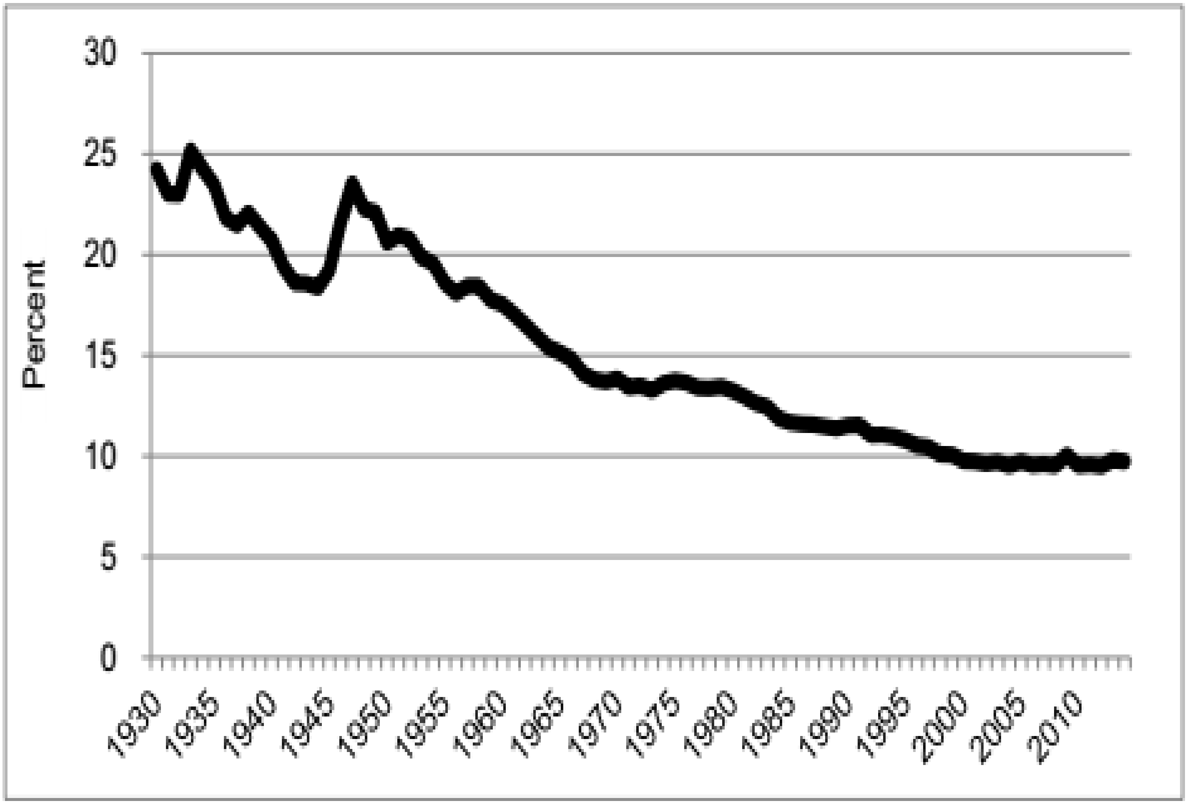
Historical context of agricultural programs
USA: Effects of United States Agricultural Policy

Effects on Domestic Consumers

It is often argued that the United States enjoys a **"cheap food policy."**

- Tweeten (1995) argues that the decline is due to increased agricultural productivity that has lowered food prices and the fact that food purchases are less responsive to changes in income and prices.

Figure 4.1 Food expenditures as percentage of disposable personal income



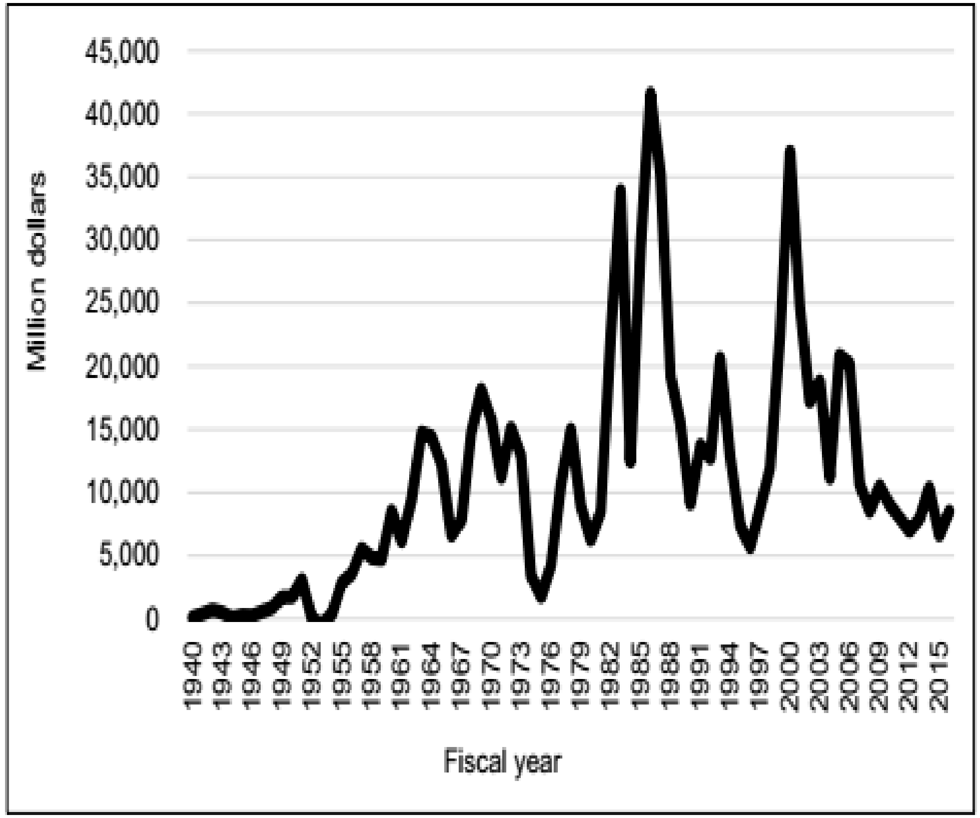
Source: USDA, Economic Research Service (2016c).

Historical context of agricultural programs
USA : Effects of United States Agricultural Policy

Fiscal Costs of Agricultural Programs

While those costs represent transfers from taxpayers to producers and farm landowners, the costs are **less than 0.4 percent** of total fiscal expenditures and account for about **0.1 percent** of total GDP.

Figure 4.2 Price and income support payments (2005 dollars)



Source: USDA, Farm Service Agency (2016).

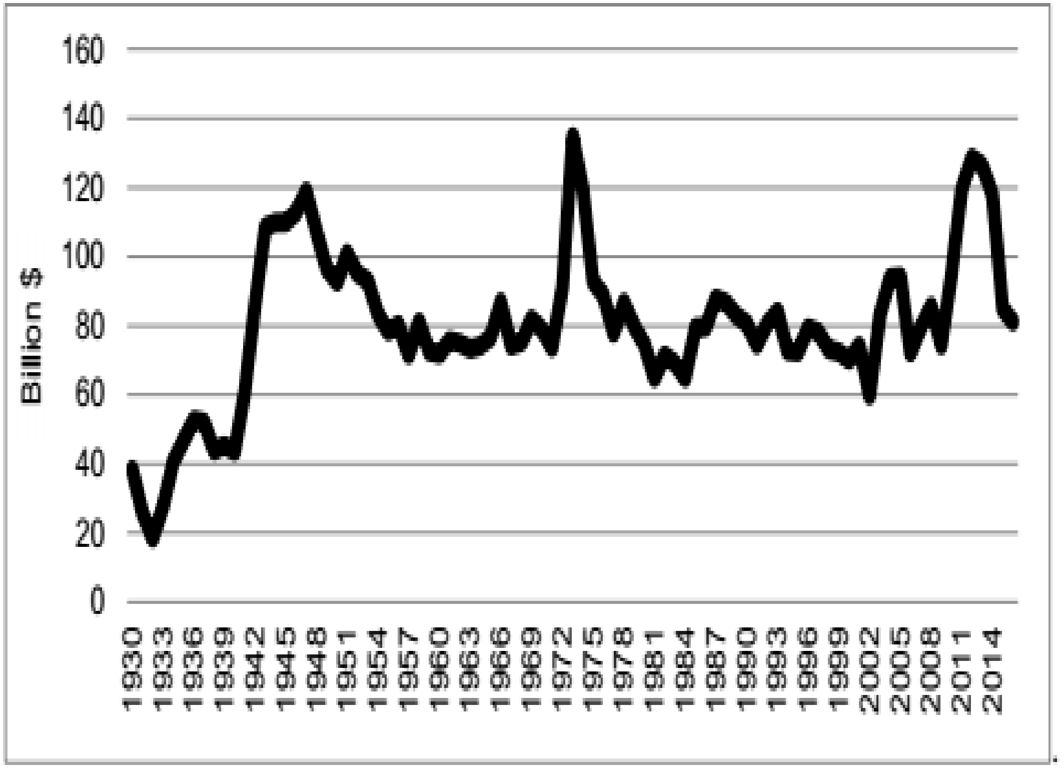
Historical context of agricultural programs
USA : Effects of United States Agricultural Policy

Role of Farm Programs in Farm Income

- Over the period 1933–2015, government payments averaged **4.2 percent of gross cash income**, and **13.3 percent of net cash income**

- More recently, higher world prices due to the **ethanol boom** and **strong global demand** have made for a sharp decline in payments, but nonetheless payments account for 10 to 15 percent of net cash income.

Figure 4.5 Net cash income (2009 dollars)



Source: USDA, Farm Service Agency (2016).

Historical context of agricultural programs
USA: Agricultural Act of 2014: Highlights and Implications

- The current farm law (2014 Farm Act), was signed on February 7, and will remain in force through 2018—and in the case of some provisions, beyond 2018.
- Makes major changes in commodity programs, adds new crop insurance options, streamlines conservation programs, modifies some provisions of the Supplemental Nutrition Assistance Program (SNAP), and expands programs for specialty crops, organic farmers, bioenergy, rural development, and beginning farmers and ranchers.
- The Congressional Budget Office (CBO) projects that **80% of outlays** will fund **nutrition programs**, **8%** will fund **crop insurance programs**, **6%** will fund **conservation programs**, **5%** will fund **commodity programs**, and the remaining **1%** will fund all other programs, including **trade**, credit, rural development, research and extension, forestry, energy, horticulture, and miscellaneous programs.

Historical context of agricultural programs
Developing and Transition countries: **Kyrgyzstan**

- The breakup of the USSR brought a need for the creation of new institutional arrangements regarding land, livestock, capital and labor. Approximately 500 collective farms made up the rural sector during the early 1990s.

The **first phase** of agricultural reform (1991-1994) is characterized by inconsistent measures towards reorganizing farms.

- 1991, an attempt was made to make the transition from collective to private ownership and **2000 individual farmers received approximately 5 % of arable land**. New legislation tried to establish the principles of land distribution.
- 1992, collective farms were reorganized in the form of joint-stock companies, agricultural cooperatives, and peasant farm associations, but despite these changes most of the rural population continued to remain in organizations resembling the socialist collective farms. One-third of collective farms were reorganized and up to 20 thousand small farms The rest of the sector remained in the old mode of work and management.
- The **government continued to subsidize farms**, but every year the level of support decreased due to the budget collapse and eventually agricultural prices were also deregulated. By the end of 1994, only 12 % of land was cultivated by individual farmers, although land ownership was unclear at that moment.
- Agricultural output was falling, but slower than in other sectors. **In 1995 the agricultural sector accounted for half of the national GDP.**

Historical context of agricultural programs
Developing and Transition countries: **Kyrgyzstan**

- The **second phase** of land reform began in **1994** with the **new presidential decree**. It established the procedures and methods for the final phase of the reform and restructuring program for collective farms. The reorganization covered **262 state farms** and **190 collective farms** (AKRAMOV and OMURALIEV, 2009). A distribution of the majority of transferable land shares targeted full individualization of farming, especially after private ownership of land was recognized in 1998. **Three quarters of arable land** was allocated for distribution among individual farmers (BLOCH et al., 1996). The rest of the area **(25 %)** was shifted to the **Land Redistribution Fund (LRF)** and left in state ownership for future distribution (LERMAN and SEDIK, 2009). The management of the land belonging to the LRF was transferred to **local authorities** who were allowed to rent it out to farmers through auctions, tenders or by direct allocation. However, in many areas with limited arable land, such as southern Kyrgyzstan, LRF land was also transferred to private owners, leaving these areas without land reserves.

- **Livestock** distribution started earlier and by **1995** already **68 %** of livestock had been individualized.
- **16 % of tractors and buildings** were in private hands.
- the state tried to reform the **irrigation system**. It created a legal base for creating **(Water Users Associations WUAs)** and transferred on-farm irrigation infrastructure to WUA ownership (AKRAMOV and OMURALIEV, 2009). **Inter-farm irrigation infrastructure remained state property.**

Historical context of agricultural programs
Developing and Transition countries: Kyrgyzstan

- The rapid growth in the number of **peasant,** mostly one-household farms (from **20,000 in 1994** to **250,000 in 2001).**
- The average **farm size decreased**: from 15 ha in 1994-96 to 3 ha in 2002.
- The **total arable land** for individual use (peasant farms and household plots combined) stabilized at around **920,000 ha** of land (irrigated and non-irrigated) with the remaining large agricultural enterprises and other users **cultivating less than 400,000 ha.**

- The government continued its **water reform in 2002**. It implemented legislation providing the **WUAs** with the legal status of **non-commercial organizations** aimed at managing and maintaining irrigation systems in rural areas in the local farmers' interest. The WUAs were designated to collect water fees, allocate water equitably among their members and other water users within their service area, and operate and maintain on-farm irrigation infrastructures using fees collected from water users.
- The introduction of irrigation **water fees** seems to have created opportunities for "elite capture" in some areas by allowing "elites" to gain better access to irrigation water (AKRAMOV and OMURALIEV, 2009).

Historical context of agricultural programs
Developing and Transition countries: Kyrgyzstan

The **third phase** is beginning in 2004 emphasized the **development of agricultural extension services and infrastructure** (LERMAN and SEDIK, 2009).

The government compiled a **priority list for agricultural development reforms:**

- development of cooperatives
- development of peasant farms and agri-businesses
- improvement of water and pasture management
- social development of rural areas.

The **Rural Advisory Service (RAS)** – the extension service provider – received substantial support from donor organizations during the first decade of its existence **(1998-2008).** However, the RAS does not appear to be sustainable. In 2010, **turnover** from the RAS **fell to its 2007** level with private sector and rural clients contributing just 3 % (WORLD BANK, 2011).

Pasture reform started in **2009** when pasture management was transferred to communities, creating **454 pasture** user unions, one per Aiyl Okmotu (rural municipality council). The reform is still under way: registration and demarcation of pastures is in process, fee collection from pasture users is gradually increasing, while the capacity of the pasture unions to provide advisory services requires further support (WORLD BANK, 2011).

Historical context of agricultural programs
Developing and Transition countries: **Kyrgyzstan**

- **National Strategy of Sustainable Development** of the Kyrgyz Republic for **2013-2017 (NSSD)** approved by the Decree of the President of the Kyrgyz Republic No. 11 from 21 January 2013. The NSSD sets the **main directions for the development of the country in the medium term.** Section 10.1 of the NSSD discusses the **agro-industrial sector** as one of **the strategic sectors of the economy.**

The NSSD sets **four goals** for the **agro-industrial sector**:

- growth of output and production quality, provision for food security of the country

- increase in efficiency and competitiveness of agriculture and the agro-processing industry

- improvement in efficiency of use of government budget resources in the sector

- resolution of peasants’ social issues.

Historical context of agricultural programs
Developing and Transition countries: Kyrgyzstan

The implementation of policies concentrated around the following **tasks**:

1. Improvements in governance in the sector through optimization of governance structures, strengthening property rights, support of farm consolidation and enlargement, improved pasture management, and re-establishing seed and animal breeding farms.

2. Provision of better services for agriculture including rehabilitation of irrigation networks, development of veterinary and plant protection, better access to agricultural machinery, finance, improved seeds and genetic materials through the use of public-private partnership (PPP) approaches, provision of human resource and extension services, and rural infrastructure (roads, clean water, electricity) development.

3. Encouraging cooperation and concentration of production by creating proper legal environments, providing economic incentives for farms to cooperate and consolidate etc.

Historical context of agricultural programs
Developing and Transition countries: **Kyrgyzstan**

4. Creation of modern market infrastructure for the sector through establishing wholesale markets, information support, and training.

5. Increase in production and exports of agro-industrial sector through formation and development of clusters.

6. Land reclamation to be achieved through development of irrigation systems and amelioration works.

7. Development of agro-processing industry especially animal feed production, dairy and meat industry and canned fruits and vegetables. This is to be achieved through the creation of new enterprises supported by government investments and subsidized loans.

8. Improved management of land use, through improved government accounting and monitoring of land and water use and increased role of local governments and civil society organizations in preservation of agricultural land fertility.

Historical context of agricultural programs
Developing and Transition countries: **Kyrgyzstan**

Key agricultural policies :

- Support in provision of critically important public goods for agriculture (veterinary services, seed breeding etc.)
- Rehabilitation of infrastructure (e.g. irrigation, roads), mostly with support of donors;
- Improving access to markets including accession to the Eurasian Economic Union (EAEU) with a view to facilitate Kyrgyz farmers' access to the markets of Russia, Kazakhstan and other EAEU member countries, and rehabilitation of quality infrastructure (modernization of testing labs, harmonization of technical regulations and standards with the EAEU ones);
- Provision of cheaper credit to farmers and agribusinesses; this is being achieved through the government subsidy programs for commercial bank loans to agricultural producers and processors;
- Favorable taxation regime for agricultural producers and some types of agribusinesses – these enterprises and individuals pay only land tax at very low rates and are exempt from any other taxes.

Agricultural Problems

- Terms of trade
- Agricultural price instability
- Dependence on commodities
- Food Security