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Simplifying and Targeting Norwegian Agricultural Policy

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About NILF

- Research and analyses on agricultural policy, food industry, commodity trade, economics, farm management and rural development.
- Documentation of economical results in the agricultural sector at national and farm level. This includes acting as secretariat for the Budget Committee for Agriculture and publication of annual Account Results in Agriculture and Forestry.
- Publication of research reports and analyses. Development of tools for farm management and accountancy.
- Funded by the Ministry of Agriculture, the Research Council of Norway and by assignments for public and private clients.
- Main office in Oslo; regional offices in Bergen, Trondheim and Bodø.

«The agricultural policy measures have gradually become extremely complicated and confusing. It is therewith difficult to concretely express their net effect. The administrative costs incurred by the policy measures have been relatively high. The same is true for the financial support measures, given either as direct support or as loans. The opinion of the Ministry (of Agriculture) is that the current subsidy and loan forms should be simplified.»

Report to the Storting no. 64 (1963–64) «On Agricultural Policy»
Ministry of Agriculture, 1964

«In the future, there will be a need for considerable simplification of policy instruments. A decisive test of the viability of the negotiating system is whether or not it is capable of implementing such a simplification»

Almar Sagelvmo, Director General
Ministry of Agriculture, 2000

Preface

In the summer of 2001, the Norwegian Agricultural Economics Research Institute (NILF) was commissioned to prepare a report with the intention of simplifying and targeting the economic agricultural policy instruments.

The project's mandate was formulated by the parties to the agricultural negotiations in 2001, and published in the final protocol of the negotiations (meeting held on 18.–19. May 2001 between the government, the Norwegian Farmers' Union and the Norwegian Farmers' and Smallholders' Union). The report is supposed, among other things, to be a contribution to the agricultural negotiations in 2002. This report is an English summary of the project's main report (NILF Report 1-2002).

The project coordinator was Viil Søyland, in cooperation with Leif Forsell and Nils Kristian Nersten. Additional contributions were made by Steffen Kallbekken, Berit Rogstad, Ola Flaten and Klaus Mittenzwei. Finally, Gisle Solvoll (Nordlandsforskning) and Knut Heie (NILF) also made contributions via subprojects on transport support and farm disaster relief programmes. This report was translated from Norwegian by Karl Kerner (Agro Lingua).

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1 Objectives

In the Report to the Storting¹ no. 19 (1999–2000) and in the Storting's treatment thereof (Innst. S. nr. 167, 1999–2000), the negotiating parties to the Norwegian agricultural agreement expressed the need for the *simplification* and *targeting* of agricultural policy instruments.

There are various, complex reasons for the desired simplification of policy instruments. The Report to the Storting no. 19 (1999–2000) underlines that the large number of support schemes causes a complex system, which is difficult to understand and relate to for its users and requires extensive administration. It is also difficult to assess the efficiency of the system. Another problem, that is pointed at in the Report to Stortinget nr. 19, is that farmers adapt to the subsidies in ways that conflict with market orientation.

The present report is specifically based on the agricultural negotiations in 2001, in which the negotiating parties agreed to initiate an analysis of the potential for simplifying agricultural policy design. The project's mandate can be found in the Proposition to the Storting no. 92 (2000–2001) «*Om Jordbruksoppgjøret 2001...*» (Arbeids- og administrasjonsdepartementet 2001), and in the final protocol of the negotiations (meeting held on 18.–19. May 2001 between the government, the Norwegian Farmers' Union and the Norwegian Farmers' and Smallholders' Union):

«The parties agree that the policy instruments under the agricultural agreement should be evaluated before the negotiations commence in 2002, with a view to making simplifications. The evaluation shall occur within the framework of the main farm policy objectives, as presented in the Report to the Storting no. 19 (1999–2000) and the Storting's treatment thereof. The negotiating parties agree to delegate the main responsibility for the evaluation to NILF, which may cooperate with other relevant research institutes. The negotiating parties shall actively participate in this work by appointing representatives to the reference committees for the various parts of the project.»

¹ *Storting* = the Norwegian parliament

Simplification and targeting of Norwegian agricultural policy are thus the project's main objectives. Numerous other considerations are to be taken, such as the need for a more comprehensive policy instrument structure, WTO-compatibility, increased regional autonomy, reduced administrative costs, increased legitimacy of the policy instrument system, less undesired adaptation to the subsidies, more flexibility and predictability.

Several of these considerations may, however, be incompatible, e.g., simplification and targeting. Simplification, i.e., fewer and simpler support schemes, might result in a more *general* policy design, which in turn would reduce its targeting and precision.

Project organization

NILF found it appropriate to split the project into a *main project*² and three *subprojects*. The three subprojects dealt with environmental policy instruments, transport support and farm disaster relief programmes. The main project, in addition to covering the subprojects, focused on the entire policy instrument structure, including those instruments not dealt with in the subprojects.

The entire project was coordinated via the main project, which integrated the three subprojects in different ways. The environmental project was largely carried out in close cooperation with the main project, whereas the two other subprojects were to a greater extent carried out as separate projects.

NILF was responsible for coordinating the project in its entirety, as well as the environmental and farm relief subprojects. Nordlandsforskning was responsible for coordinating the subproject on transport support.

Level of ambition

In a project with such a general mandate, it is important to determine the level of ambition at an early stage. Should we propose changes in the form of moderations of today's policy design, or should we start from scratch and propose a completely new policy instrument structure, independent of the current design? The proposals presented in this report include a new main policy structure as well as changes of certain areas, based on the current policy instrument structure.

² This report is a summary of the report from the *main project*..

2 Background

In this chapter we will give a brief introduction to central background material. First we will elaborate on what simplification may be, before the various policy objectives of Norwegian agricultural policy are examined. Other themes that are discussed in this chapter, are challenges in Norwegian agriculture, institutional conditions and farm and community-level objectives.

2.1 What is 'Simplification'?

The complexity of today's agricultural policy can be explained by a number of reasons, including such factors as:

- The policy instruments have been developed over a long period of time.
- Frequent changes in the farm agreements, with annual and extraordinary negotiations.
- High level of ambition related to income parity in agriculture, taking geographical region, farm structure and farm type into consideration.
- Numerous subsidies aimed at promoting specific adaptations.

Agricultural policies can thus be simplified by (1) «tidying up» the present support schemes, (2) changing the system for the development of policy instruments, or (3 and 4) lowering the level of ambition with regard to income parity and the ability to influence specific areas.

Based on the project's mandate and other background material, we believe that a simplification of policies can be achieved by such measures as a reduction of the number of support schemes, the schemes themselves becoming simpler and/or more transparent and having greater legitimacy. Other important aspects related to the potential for simplification of policy instruments include the institutional framework in which the policy instruments are designed, the degree of agreement between the farmers' and society's goals, and last but not least, the complexity of the envisaged structure.

However, it is not obvious which measures would be interpreted as simplifications. What is considered a simplification varies between the different groups of people who are involved, e.g., farmers, public administration, politicians or the general public.

2.2 Agricultural Policy Objectives

Before starting to work on the simplification and targeting of the agricultural policy instruments, it is important to have a clear understanding of the objectives of Norwegian agricultural policy. The current agricultural policy, on which this report is based, was presented in the Report to the Storting no. 19 «On Norwegian Agriculture and Food Production» and in the Storting's treatment hereof, Innst. S. no. 167 (1999–2000) (Stortinget, 2000).

In general, it is difficult to find the words «goals» and «objectives» in the chapter on objectives (Chapter 4) of the Report to the Storting no. 19. However, some goals are described in connection with certain issues, such as *consumer orientation*, *market* and *environment*. In addition, specific objectives are outlined in relation to agriculture as a *culture bearer*, *food security* and *settlement*.

The Report to the Storting no. 19 strongly emphasizes a consumer-oriented approach in agriculture. According to the report, Norwegian agriculture shall, in order to aid in the fulfilment of the goals stated in the Report to the Storting no. 40 (1998–99) «On Consumer Policy and Consumer Organization», «... contribute to securing a stable and satisfactory food supply, with regard to food quantity, quality and safety, as well as issues related to ethics and an ecologically sustainable production.» The Report to the Storting no. 19 considers increased consumer orientation as both a *business strategy* and a *goal in itself*, in the form of increased consumer influence in the food chain.

In the report, several specific goals are associated with environmental issues. These include reducing negative environmental effects of agricultural production, maintaining biodiversity and the cultural landscape. Other goals have been formulated to secure animal and plant health.

Food security is another important issue discussed in the Report to the Storting no. 19. This is associated with maintaining a robust and active farming sector in Norway, a stable and predictable trade system, as well as a reliable system for ensuring food safety. According to the government, national food production must play a vital role in long-term food security.

In accordance with the Proposition to the Storting no. 8 (1992–93), a definite income goal for Norwegian agriculture is no longer formulated. Both documents (St.meld. nr. 19 and St.prp. nr. 8) state that it now is important to promote the *possibilities* for increasing farm income³. In regard to this, the Report to the Storting no. 19 repeatedly emphasizes that farmers are self-employed. However, it is also underlined that professional farmers should have access to welfare schemes that are comparable to those enjoyed by employees in other sectors. Furthermore, it is stated that farm income must be seen in connection with other major farm policy aspects and objectives. This is explained by the fact that farmers are not only self-employed tradesmen, but are also responsible for the stewardship of natural resources and public goods.

This development implies that income has to a *large degree changed from being a goal (in itself) to becoming a policy instrument for the achievement of other public objectives*, such as the production of environmental goods, food security and settlement.

³ In our opinion, the majority of the Standing Committee on Business and Industry emphasized the focus on «securing the income development» (Innst. S. nr. 167, 1999–2000) somewhat stronger than in the Report to the Storting no. 19.

This aspect of income must be seen in connection with the government's view that there is a «need for a moderate development towards larger farm units», as it is expressed in the Report to the Storting no. 19⁴. Among other things, this moderate structural development is desirable so that production income can keep up with the rising costs.

Production, like income, is no longer a goal in itself, but can be associated with other farm policy goals in different ways. Nevertheless, the Report to the Storting no. 19 does emphasize that agriculture's main responsibility is to produce food and fibre.

In Innst. S. nr. 167 (1999–2000), agriculture is described as contributing to the goal of maintaining the major characteristics of present settlement patterns. The committee points out that there is broad political agreement regarding the maintenance of the present settlement patterns, and that active farming communities throughout the entire country are an important part of achieving this goal. The Report to the Storting no. 19 states furthermore that the «geographical distribution of (agricultural) production contributes to securing a viable agriculture throughout the entire country and shall be continued». According to the report, farming is a locally-based business, and thus plays a vital role in the maintenance of settlement patterns, since regional policy is based on the utilization and management of natural resources.

According to the Report to the Storting no. 19, the government will continue to give preference to regional agriculture when developing the agricultural policy instruments. The report states that the geographical distribution of (agricultural) production will continue to «form the basis for developing and determining the size of economic policy instruments.» This is seen in connection with the importance of active, geographically distributed farming communities for securing settlement, employment and biodiversity and for maintaining valuable cultural landscapes.

2.3 National and International Challenges

The Norwegian agricultural and food sector has been, and still is, to a large extent, protected against foreign competition. However, this does not necessarily mean that the sector should be evaluated and analysed as a «sheltered industry».

For many decades, agriculture and the food sector have been undergoing substantial changes. For example, let us take a look at the development in agriculture from 1960 to the present. During this period, the sector has increased its output (volume) by about 70 per cent, but reduced its labour input (as man-years) by about 75 per cent. During the same 40-year period, the number of farms has been reduced by 66 per cent. Expressed in such very simple terms, productivity has thus increased more than sevenfold in this period.⁵

At the same time, returns to labour in agriculture were about 60 per cent of the hourly wage in industry, both in 1960 and in 2001 (after the Storting's decision on income parity in 1975, returns to labour in farming were about 80–85 per cent of industrial wages for a few years).

⁴ According to our interpretation of the text, the term «moderate development» implies a somewhat more rapid development than in previous years. This is mentioned specifically in relation to structural changes in the dairy sector, but also to the structure of agriculture in general (St. meld. nr. 19, s. 67 og 79).

⁵ Naturally, this development is balanced by the use of capital. A simple analysis, in which the book value of agricultural capital in 1960 and 2001 is CPI adjusted, indicates that the total farm capital volume actually was reduced by 12 % in the course of the period. However, calculated on a per-farm basis, book values increased by about 160 %, and by more than 280 % per invested labour hour.

These trends are generally not considered to be typical for sheltered industries. On the contrary, such development trends are rather typical for raw material oriented industries exposed to competition, in which the degree of adaptation problems generally increase with increasing economic growth and welfare. The *development trends* in Norwegian agriculture resemble those in most other industrial nations.

In spite of being protected from foreign competition, Norwegian agriculture shows signs of having been exposed to competition. This can mainly be explained by the following conditions:

- The distinctive feature of demand for food, which generally is not very elastic (cf. Maslow's demand hierarchy).
- Rapid technological development, and to a large degree perfect competition between many small enterprises.⁶
- Capital reserves (sunk cost) and strong cultural ties.

The challenges for Norwegian agriculture and the food sector are extensive, and somewhat different from earlier years. This can be explained by:

- Relatively new, and eventually considerable external challenges (WTO, EEA/Protocol 3 and substantial cross-border trade). These are factors that promote increasing imports and/or decreasing exports. The total effect of this development on the various sectors depends in addition on the development of domestic demand. In general, the production of milk and dairy products seems to be the sector which will meet the greatest transition and adaptation challenges.
- Developments in the retail sector, where the chain stores have strengthened their position by rationalization, cooperation of purchasing and distribution, taking over wholesale functions and vertical integration *backwards* throughout the value chain. At the same time, the traditional *forward* vertical integration of the agricultural cooperatives has generally been weakened through changes in state policy. These changes can be summarized as liberalization, a more competitive market and creating equal opportunities for private market players. Due to the increasing pressure on prices throughout the entire food value chain, resulting from external and internal changes and challenges, the producers could easily end up with the final responsibility for price developments because of «system constraints».
- Furthermore, our analysis indicates that the increasing focus on quality and consumer demand for «safe food» generally imposes (significantly) higher costs on agriculture and the processing industry. This development thus also represents a trend in agricultural policy which increases the need for transition and rationalization. Those sectors that do not succeed in meeting the consumers' demands, run the risk of losing much more than what it would cost them to comply with these demands. Under such conditions, securing food safety becomes a basic prerequisite, which needs to be fulfilled before the industry can attempt to tackle the other challenges mentioned above.
- Production of organic foods and production based on a «diversity» strategy is somewhat different from the general development trends discussed above. However, such niche products will presumably not account for a large portion of the Norwegian food market, but should this nevertheless occur, the challenges would resemble those discussed above.
- Agriculture is about land use. Our analysis indicates that during the past decade or so, grassland use has been significantly extensified. If allowed to develop/continue,

⁶ This applies primarily to non-regulated production.

extensification can lead to the gradual overgrowing of meadows and pastureland. At the same time, some of the most explicit goals of current Norwegian farm policy are related to protecting environmental values associated with farming and cultural landscapes, in addition to infield pastures and rough grazing lands. The achievement of these agricultural policy objectives thus represents a substantial challenge, and the goals can hardly be achieved without the continued extensive use of existing farmland and grazing areas.

The successful development of Norwegian agricultural policy implies that the policy objectives are achieved, in a situation of extensive, and in part, new challenges for the farm sector. Successful agricultural policy also requires that «someone is willing to do the job», in other words, produce necessary amounts of «safe food», protect environmental values (e.g., associated with farmland and cultural landscapes), while the regional distribution of agricultural production is generally maintained.

This requires that income and living conditions in general are considered satisfactory. Agricultural policy instruments are essentially still tied to producer prices, public support and possibly tax-related measures. The latter is not specifically evaluated in this report.

It does not seem probable that producer prices in general can be significantly increased. On the contrary, it is more likely that prices will continue to decline, as they have during the past decade.

The extent of public support is basically a national issue. However, the formulation of such support is already subject to extensive and detailed regulation by the WTO. These regulations may be changed in the upcoming WTO negotiations. Until a more final agreement is made, the *most probable scenario is one in which «reener» forms of support* will be required. According to present terminology and WTO rules, this includes such support that is rendered completely or at least largely *independent of production volume or the use of production inputs* (herd size, acreage, labour input). The proposals presented further on in this report (see Chapter 4), are based on the assumption that *future Norwegian agricultural policy will have to notify an increasing share of policy measures as «green» support*.

This analysis indicates that there are many challenges for the farming and food sectors in Norway, thus necessitating considerable transition and adaptation. Our analysis attempts to give a realistic presentation of what seems to be the most probable scenario. Nevertheless, this does not imply that this is the only possible scenario.

As mentioned before, the trends within the farming and food sectors in other industrialized countries resemble those observed in Norway. It can thus not be ruled out that the transition in general will be difficult, and that the increasing international competition within the sector will be moderated. This would also include that the world food market at some point may become more balanced, so that prices increase (although, not to the present Norwegian price level).

Of course, it is also impossible to predict future ecological or other man-made crises that could affect our food supply.

2.4 Institutional Conditions

For any policy area, the underlying institutional conditions are important. Institutions affect the outcome of political processes, and agricultural policy-making is no exception.

We have shown that Norwegian agricultural policy has undergone significant changes since the late 1980s. The Proposition to the Storting no. 8 (1992–93) was the

formal turning point of this development. The issue of farm income development changed from being the main focus of farm policy, to increasingly becoming an instrument in the achievement of other policy goals.

At the same time, the Basic Agreement and the agricultural negotiations remain the dominant part of the institutional framework for farm policy design. In spite of changing guidelines for Norwegian farm policy, the negotiating institution⁷ is still a significant arena for negotiations on income and income development. Naturally, this applies especially to the approach of the farmers' organizations. A similar evaluation was made by Sagelvmo (2000):

« Even if the Proposition to the Storting no. 8 and the discussion thereof led to a decreasing focus on income and income parity, this was, de facto, not the result. Nominal and relative income development have continued to have a major influence on the agreement's economic framework... (p. 70). Even if the Proposition has loosened the strong ties to income level and introduced a broader business approach, this did in reality not affect the negotiating system as such. Income effects have continued to be the scale by which the agreement's scope was measured.» (p. 77/78)

With this in mind, it is not surprising that the negotiating institution has been significantly marked by conflict, in addition to cooperation, during the past decade.

Norwegian agricultural policy, seen on a year-to-year basis, can hardly have been regarded as being stable and predictable by the farmers and other involved parties. During the past 10 years, the annual results have varied between extremes of minus NOK 1,650 million in 1994 and plus NOK 1,000 million in 1998. In sum, the farm negotiations between 1991 and 2001 resulted in a (nominal) decrease of the economic framework of nearly NOK 1.3 billion, divided between a NOK 945 million drop in target prices and a NOK 352 million reduction of budgetary support. *The absolute value of the results in certain years was thus about the same, or even higher, than the overall result for the period 1991–2001.*

These figures rather clearly show that institutions influence the results, in this case especially from year to year. However, looking back at the 10-year period as a whole, one could conclude that «politics have defeated the institutions».

Since a substantial part of the negotiating parties mandate for this report is related to the simplification of agricultural policy instruments, in which the negotiating institution itself is the major actor, we will also here present a statement by Sagelvmo (2000):

«It is hard to find any trends indicating the implementation of less-detailed farm agreements and their treatment by the Storting – rather quite the opposite. The number of schemes within the agreements has never been greater than during the past ten years.»

2.5 Farm and Community-level Objectives

Most farm families combine objectives related to both the farm enterprise and the household, in many complex and personal ways. We know little about producer behaviour and producer response to policy instruments aimed at promoting the production of

⁷ In this context, the 'negotiating institution' is used to describe the total interaction of farmers' organizations, government bodies, research institutes and other participants in the annual agricultural negotiations.

agricultural public goods. It seems that farm families are not only interested in achieving a satisfactory financial result, but also in how this is achieved. In this case, farm families will be able to demand a higher compensation for their labour input in a possible role as «producer of public goods» than for their role as «food-producing farmer» – which to a greater extent reflects their identity. Additional experience and more studies in this field are needed.

Foreign studies (conducted by economists) indicate that financial considerations are more important than environmental or social considerations for farmers thinking about converting to more environment-friendly farming methods. Economic incentives are therefore needed to influence farm-level behaviour. Institutional economists and other social scientists place more emphasis on social constructs, and prefer to recommend the use of information and dialogue-based policy instruments. More knowledge about the processes and instruments that encourage the spread of farming systems is needed.

The farmers' identity with regard to the production of public goods is an important factor when considering what goals can be achieved by an agricultural policy which redirects its focus from the production of agricultural commodities to the production of public goods. Merely designing accurate and specific policy instruments will presumably not be sufficient.

3 An Assessment of Policy Instruments

In Chapter 1150 of the state budget, which is the fund for the agricultural agreement, the policy instruments are divided into the following main categories: transfers to funds, market regulation, price support, direct support, development measures and welfare programmes. In 2001, direct support accounted for more than half of the funds allocated over Chapter 1150, while price support accounted for 14 %. Transfers to funds and welfare programmes accounted for 13 and 14 %, respectively, whereas only 3 % was allocated to development measures. The total framework available for the implementation of the agricultural agreement in 2001 was about NOK 12.5 billion.

The structure of the schemes applied in the implementation of the agricultural agreements have remained more or less unchanged since 1980. The budget items 70, 73 and 74 still exist under the same headings as in 1980; market regulation, price support and direct support. The schemes for transfers to funds from the 1970s were changed, and are now gathered under budget item 50 (transfers to funds) and item 78 (welfare programmes), or have been discontinued. The category marketing schemes (item 76) was introduced and discontinued during the period. The category development measures (item 77) was introduced during the period, and presently consists of a number of various (old and new) schemes.

The structure of the policy instruments over a period of time, distributed according to type of policy instrument, has thus been relatively stable. However, when considering the distribution of funds among the various policy instruments, there has been a significant trend towards less price support and an increasing share of direct support, especially during the past 10–15 years. From 1989 to 1993, direct support increased from NOK 3.9 billion to about NOK 7 billion, and have remained at about the same level since. From 1990 to 2000, price support was reduced from about NOK 6 billion to well below NOK 2 billion.

The Chapter 1150 schemes are to a large extent categorized according the *type of scheme* (e.g., direct support and price support). Another way to categorize support could be according to the schemes' primary objectives, which in turn should be linked to the agricultural policy goals. Welfare programmes and development measures are examples of categories formed on the basis of their objectives. Other objectives and main catego-

ries of support schemes within Norwegian agricultural policy include such issues as the environment and regional development.

Agricultural policy objectives have changed considerably during the past 20–30 years. Income-related issues are not as important as they used to be, while increased focus is being directed towards environmental and consumer considerations. In this report we wish to focus on to what extent the main goals of agricultural policy are reflected by the objectives of the various support schemes. In other words, have the changes of major policy goals been accompanied by corresponding changes in the objectives of the policy instruments? There are considerable variations between the objectives of the various categories of schemes. Nevertheless, one can generally say that relatively many of the schemes are directly tied to income and/or production volume. This applies mainly to the schemes classified as direct support and price support, but also to other types of schemes.

The schemes' objectives thus largely *reflect a focus on income*, which in turn represents a *past agricultural policy in which income goals were more prominent than at present*. We find it would be appropriate if the objectives to a *greater extent* reflected the current farm policy goals. In many cases this implies that the objectives should rather be linked to the indirect effects (e.g., regional settlement and environment) than the direct effect (income) of the economic policy instrument. This would also be in line with with the Report to the Storting no. 19, which proposes that the economic policy instruments allocated via the farm agreements should enable agriculture to fulfil its community obligations «as efficiently as possible, while at the same time adapting the production of commodities to the market's demands». In this connection, NILF suggests to initiate a process aimed at adapting the objectives of existing regulations to the goals of current agricultural policy.

Numerous support schemes are presently differentiated by geographical region, farm structure and type of production. This differentiation is linked to farm acreage, livestock and other factors. The three forms of differentiation are based on the varying costs and income opportunities in different regions, farm size groups and types of productions. Current agricultural policy does not allow significant changes in the extent of regional differentiation, and proposals for changes are in this report motivated only by the need for simplification. With regard to structural differentiation, however, current policy aims at a moderate (i.e., at a somewhat faster pace) structural development. Proposals for changes within this area are thus motivated by the need for simplification as well as the desire for new priorities in agricultural policy.

Structural differentiation of policy instrument bring about certain problems related to undesired adaption to support schemes. One example hereof is entrepreneurial farm operation, in which a formal farm owner hires contractors to carry out all farm operations. Contractors can thus work several farm units, and the number of units receiving support can exceed the number of «operating units». *Reduced* structural differentiation would make it more lucrative to rent out land instead of hiring contractors, and would increase the interest for farm cooperation, and not only in the dairy sector.

An alternative to structural differentiation of many different support schemes, would be to gather the structural element in one direct subsidy per holding. This was discussed by a working group consisting of the parties involved before the agricultural negotiations in 1999, during which the decoupled agricultural policy instruments were evaluated (Landbruksdepartementet 1999b).

Regionalization

It is indicated in the mandate of the project that the analysis also should includes an evaluation of whether some support schemes can be targeted better through increased local and regional responsibility for achieving policy objectives. The focus on increased

local and regional responsibility must be seen in connection with the programme for the renewal of the public sector and the Report to the Storting no. 31 (2000–2001) «*Kommune, fylke, stat – en bedre oppgavefordeling*» («Improving the Division of Responsibilities between Municipalities, Counties and the State») (Kommunal- og regionaldepartementet 2001)⁸. One of the aims of increasing the degree of regionalization of policy instruments is to assure that the instruments are designed according to local and regional needs. This would improve the total effect of regional policy instruments and the specific focus on regional and local effects. Regionalization will enable the individual regions to increase their focus on their specific challenges, to a greater extent than under a national policy regime alone. This would increase regional flexibility and the degree of precision. However, such changes in the policy instruments, would largely be a means to achieve targeting and increased precision, and to a lesser extent simplification.

Administrative costs

The administrative costs associated with the implementation of policy instruments vary significantly between the different measures, depending on their objectives and design. Policy instruments linked to landscape management are a good example. Different cultural landscapes are valued differently, thus requiring different administrative measures. The conservation of cultural landscapes with specific values requires more specific management, and thus more precise policy instruments. However, general policy instruments are sufficient for the management of the general cultural landscape. Since agricultural policy has goals related to both general and specific values in the cultural landscape, both general and specific policy instruments are needed. Administrative costs are higher for the latter than for the former.

The choice of what values to conserve thus has consequences for the administrative costs involved. For that reason, one cannot apply general, less costly policy instruments, while at the same time promoting the conservation of specific values in the cultural landscape. With regard to developing a new policy framework, we have therefore focused on a division between general and specific policy instruments. In order to achieve the objectives of the agricultural policy, both types of instruments are necessary, depending on whether general or specific values are to be maintained.

⁸ In February 2002, the second Bondevik administration proposed to decentralize regional development support, which presently is managed by the Norwegian Industrial and Regional Development Fund (SND), and the environmental and forestry subsidies managed by the Agricultural Development Fund (Kommunal- og regionaldepartementet 2002). We have not taken this proposal into consideration in this project, and refer to the Report to the Storting no. 31 regarding issues related to increased regional flexibility. When considering agricultural policy's environmental goals on their own, it does not seem appropriate to transfer the management of such policy instruments to the municipality level. This would result in fragmentation and a loss of a broad, regional approach, which in turn counteracts the achievement of the desired goals.

4 Proposals for Changes

In this chapter proposals for changes in the agricultural policy instrument are presented. First institutional conditions are touched upon, before a proposal for a revised main structure of the support scheme is sketched. Then the proposals for changes within the five main categories; environment, regional settlement and development, development measures, welfare programs and market are presented.

4.1 Institutional Conditions

In order to achieve the objectives it has set, it is important that an agricultural policy is *clear, stable and predictable* with regard to its further development. For farmers and the food industry alike, these issues are important with regard to planning further operations and investments. It will also represent an advantage for public administration and other shareholders affected by the design of agricultural policy.

Earlier in this publication the significant changes that have been made in Norwegian agricultural policy since the late 1980s have been presented. Farm income changed from being the major goal of farm policy to becoming an instrument used to achieve other objectives.

At the same time, the agricultural negotiations still dominates the institutional framework for agricultural policy design. In spite of the changes of the guidelines for agricultural policy, the negotiating institution still functions, and to a significant degree, as an arena for income-related negotiations.

In addition to acting as an arena for cooperation, the agricultural negotiations have also been characterized by extensive conflicts. Norwegian agricultural policy, on a year-to-year basis, can therewith *hardly have been regarded as being stable and predictable*.

One of the most important measures for developing a clear and predictable agricultural policy in Norway is linked to a reform of the agricultural negotiations as an institution. One possible change would be to give the agricultural negotiations a more *long-term perspective, making the agreement perennial*, also attending to the agricultural negotiations as an institution characterised by interaction and responsibility of the negotiating parties.

4.2 Revised Main Structure of the Support Scheme

In our opinion, it would be advisable to classify the support schemes according to objectives, i.e., to base the various main areas and policy instruments on the goals of Norwegian agricultural policy. The policy instruments would then reflect the goals of Norwegian agricultural policy to a greater extent, which in turn would increase the legitimacy of the various support schemes. A revision of the structure of the support scheme according to the general policy goals, would also increase the transparency of the system.

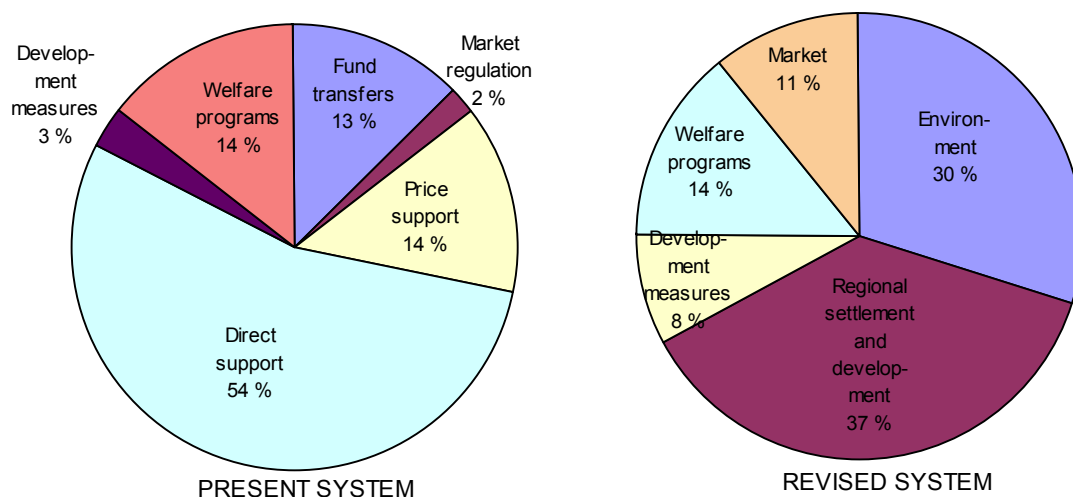
We thus propose to group a number of schemes in two new main categories, *environment* and *regional settlement and development*. In addition, we propose to continue the present main category *welfare schemes*, and to establish the new main categories *development* and *market*.

The proposed main categories for classification of the economic policy instruments allocated via the agricultural agreement are thus as follows:

- Environment
- Regional settlement and development
- Development measures
- Welfare programmes
- Market

We would like to point out that it is difficult to make a stringent division without running into problems. This proposal should thus be seen as an *outline* of a revised classification of the agricultural agreement's policy instruments. The goal is to improve the present classification of policy instruments, so that it to a greater extent reflects the goals of the agricultural policy.

Figure 4.1 illustrates the division of the main categories in the present system and our proposal for a revised system.



Figur 4.1 Division of main categories in the present system and in a revised system

The figure shows that *regional settlement and development* is the largest category in the proposed revised system, with a budget of more than NOK 4.5 billion, or 37 per cent of the total budget. Next in size is the category for *environment*, with 30 per cent of the total budget, followed by *welfare, market and development measures*.

4.3 Main Category I – Environment

Agriculture is about land use. During the past decade or so, grassland use has been significantly extensified. If allowed to continue, extensification can lead to the gradual overgrowing of meadows and pastureland.

At the same time, some of the most explicit goals of current Norwegian farm policy are related to protecting environmental values associated with farming and cultural landscapes, in addition to infield pastures and rough grazing lands. The achievement of these agricultural policy objectives represents a substantial challenge, and the goals can hardly be achieved without the continued extensive use of existing farmland and grazing areas.

Following a general evaluation, NILF concludes that the most appropriate area on which to base the revision of agricultural policy instruments is farmland and cultural landscape management. This conclusion is based on the following circumstances:

- The importance of protecting environmental values associated with farming and cultural landscapes, in addition to infield pastures and rough grazing lands. This is linked to the challenge of preventing the gradual overgrowing of meadows and pastureland.
- WTO regulations, which may require «greener» forms of support.
- The mandate of this project implies that agricultural policy instruments should be both simplified and targeted, at the same time as a successful policy design must be based on that «someone are willing to do the job».

NILF proposes to formulate policy instruments within the main category *environment*. The design is independent of the present policy instruments, and based on a systematic approach with regard to the above-mentioned factors. The proposals can be summarized as follows:

- Phase out the present «infield pasture» support. This part of the acreage and cultural landscape scheme has significantly encouraged undesirable adaption of the scheme, and its administration and control has often been very demanding. This proposal thus represents a *simplification*.
- Phase out the present slope compensation and the support for growing forage in the mountains. However, this schemes may, completely or partially, be continued at a regional level, but to a greater extent based on environmental considerations.
- Develop a «new acreage and cultural landscape scheme» as a *payment for public goods*, in the form of a flat-rate payment per hectare for all arable and surface-cultivated land. The main criteria include the maintenance of an open landscape and the conservation of valuable elements in the cultural landscape. Additional support is given for farmland representing certain additional values, such as meadows, pastures and horticultural areas, and for grain production in certain areas. The latter is based on regional considerations and only amounts to a relatively small sum.
- Reduce the number of different rates in the acreage and cultural landscape scheme from (in principle) 84 at present, to three in the proposed new scheme. This is achieved by re-

ducing the regional and production-type differentiation, and by removing the structural differentiation. This proposal represents both *targeting* and *simplification*.

- Extend the present support for utilization of rough grazing land to include the use of in-field pastures as well, possibly to apply to all grazing livestock, independent of what type of land they graze on. This proposal represents both *targeting* and *general simplification*. There is however not taken an attitude towards exact limitations of this scheme. Incidentally we refer to a working group, appointed by the parties to the agricultural negotiations, which was assigned with the assessment of all support schemes relating to grazing.
- Regional administration of the most specific, demanding and targeted policy instruments for landscape management⁹. These include instruments aimed at the maintenance of mountain dairy farming, specific values associated with steep farmlands and perhaps the cultivation of forage in the mountains. On the other hand, general policy instruments, with less specific goals such as maintaining an open landscape, should be managed nationally.

According to NILF's assessment, the proposed policy instruments within the main category *environment* should in their entirety be eligible for notification as «green» support according to WTO definitions.

The preceding proposals for the revision of agricultural policy instruments aimed at farmland and cultural landscape management, is based on the goals of agricultural policy, on what seems to be major challenges for agriculture and the food sector and the presumed requirement of having to notify an increasing percentage of support as «green» support in the WTO¹⁰.

An issue we would like to mention in connection with the discussion of land-related support is the need for improved maps. The need for better maps, which increases with increasing use of land-based support schemes, has also been expressed by national agricultural authorities. Improved maps can lead to much more efficient control of applications for land-based support and the enforcement of the Land Act. At present, the costs of producing maps are partially to be covered by local authorities. This is neither rational, nor efficient, considering the national costs of agricultural surveillance, as well as the possibilities for efficient and effective control as such. In the long term, the relatively poor control of the land-based support could become a problem of legitimacy. We therefore suggest to significantly increase the funding of digital land-type mapping¹¹.

4.4 Main Category II – Regional Settlement & Development

The second main category, regional settlement and development, includes policy instruments that aim at maintaining settlement and employment in rural areas.

⁹ We suggest that the specific (environmental) policy instruments should be managed as regional funds by the County Departments of Agriculture. The County Departments should be relatively free to formulate the use of policy instruments (via an environmental programme), in order to secure the flexibility required to enable effective targeting and environmental efficiency. The measures are divided into two main areas: the *management of the cultural landscape, cultural heritage and biodiversity*, and *improved resource balance*.

¹⁰ An alternative/supplementary approach, focusing primarily on current and potential WTO regulations, would in our opinion be the establishment of present «headage support» schemes as «green» policy instruments. However, NILF has not further discussed these issues.

¹¹ Sweden has developed digital maps for the country's entire farmland area. This cost approximately SEK 100 million. Annual maintenance and updating costs are less than SEK 10 million.

Several support schemes under the present main areas of price support, direct support and transport support belong to this main category, which we have divided into five sub-categories:

- Regional support (product-specific support)
- Headage support
- Structural income support to dairy farmers
- Transport support
- Farm relief programmes

Most of the support schemes in the category for regional settlement and development are linked to livestock husbandry, with the exception of regional and quality support for fruit, berries, vegetables and potatoes, certain transport and farm relief schemes. The schemes are regionally differentiated to a varying degree. Whereas the transport and regional support mechanisms are regionally differentiated, the headage support schemes are so to a lesser degree. Headage and structural income support to dairy farmers are nonetheless classified as belonging to the category for regional settlement and development, since most livestock farms are located in areas that can be defined as rural areas.

The proposals within this main category can be summarized as follows:

- We propose to continue the regional deficiency payments for meat, milk and eggs. By strengthening the regional profile via increased differentiation and/or higher rates, the regional deficiency payments can be used to calibrate the impact of other proposals. The base and regional deficiency payments have to be seen as a whole. An increased regional profile can be achieved by reducing the base deficiency payments and increasing the regional deficiency payments.
- In addition to the acreage and cultural landscape scheme, regional and quality support for fruit, berries, greenhouse vegetables and potatoes are the main support measures in the fresh produce sector. A discontinuation of this scheme, coupled with a transfer of funds to the acreage scheme, would result in large variations in the per-hectare rates between different crops and regions. This would result in undesirable adjustment to the support scheme and therewith also in a loss of legitimacy. This support is furthermore the only support for the greenhouse industry. In our opinion, it is thus the most appropriate support scheme, if one wishes to continue supporting greenhouse production in certain areas, either by subsidizing the products or production inputs. We therefore propose to make no changes.
- In general, NILF propose to continue headage support. Since we have proposed to remove the structural differentiation of the acreage support scheme, the structural differentiation of the headage support should be maintained, in order to balance various agricultural policy goals and level out income between different livestock farm size groups.
- Horse keeping, with all its associated activities, has become a relatively significant industry. However, the current support for horse keeping, allocated via the agricultural agreements, can hardly be regarded as necessary or particularly targeted. One should thus consider the phasing out of the horse keeping support. At the same time, we suggest that the revised grazing support also should include horses.
- We propose that the structural income support to dairy farmers should be continued.
- As mentioned above, NILF proposes to continue the headage support scheme in its present form. However, in a more far-reaching proposal, we have discussed the possibility of reducing headage support for feed-intensive production of swine and poultry. This proposal is based on reduced grain prices, which in turn would lower

the price of feed concentrates and therewith enable reduced headage support rates. The present gross margin for fattening pigs could be maintained if concentrate prices fell by NOK 0.15, even if the headage support of NOK 34 per fattening pig was removed. For breeding pigs and laying hens, concentrate prices need to fall considerably more than this before the headage support can be removed¹².

4.5 Main Category III – Development Measures

The objective of the support schemes in this category is to strengthen and develop the economic basis of individual farms. Measures include support for development, planning, investments, extension, training, breeding and research. The measures are to be directed at traditional farming and other related activities.

Our proposals for revisions within this category mainly consist of simplifications of already existing development support measures. We propose to gather all relevant measures under one category, *development measures*, which can be divided into the following sub-categories:

- LUF (Agricultural Development Fund)
- Extension, training & further education
- Crop & livestock breeding
- Research

Our proposals within this category can be summarized as follows:

- Most of the LUF schemes are to be continued in their present form as a part of the Agricultural Development Fund¹³. We do not propose any changes in the rural development schemes or the Added Value Programme as such. However, we do propose to consider merging the Added Value Programme and the counties' regional development funds into one programme¹⁴.
- The support to the agricultural extension service should be evaluated with regard to the possible coordination of the extension service and regional centres of expertise. Other programmes and measures that should be seen in the same context include the counties' regional development funds and the knowledge development programme (KIL).
- A joint scheme for breeding measures should be established. This would result in fewer schemes, and thus more clarity concerning the use of funds. The sub-category breeding measures would consist of a livestock and a crop breeding section.

¹² In this scenario, cereal growers must receive higher acreage support (+500–600 NOK/ha). This implies that the acreage support we have presented in Chapter 4.4 needs to be raised accordingly, in which case the remaining policy instruments aimed at roughage-based livestock husbandry also need to be adjusted.

¹³ We propose to transfer the provision of funds for specific environmental measures from the Agricultural Development Fund to the main category environment.

¹⁴ However, the Government's proposal to transfer the regional development funds, which are presently managed centrally by the SND, to the municipal level will complicate this process.

4.6 Main Category IV – Welfare Programmes

We propose to continue the present structure of welfare programmes within a separate main category for welfare.

- Based on a general evaluation, and considering the need for simplification, NILF proposes to remove the requirement that farmers must document their need for vacation farm relief support. This support is extensively used, and the proposed change would thus not incur a significant additional cost. Abandoning the required documentation would make the scheme an outright support and enable each farmer to individually decide on her need for farm relief. Presently, the scheme also enables support for relief for other reasons than holiday and recreation. Our proposal would result in a somewhat poorer targeting of the scheme, but also in a simplification (especially for the public administration) and a greater extent of flexibility for the farmers.
- At present, administrative support for the vacation and replacement scheme is in principle paid to those applying for a relief worker, and is thereafter transferred to the farm-relief cooperative. NILF proposes to phase out this scheme and to transfer the funds directly to the replacement and/or the acreage support schemes (for crop production). The farm-relief cooperatives could then be funded through actual membership fees.

4.7 Main Category V - Market

In accordance with the proposed revision of policy design, the main category V includes schemes dealing with prices, marketing systems, market regulation, etc. The proposal implies that schemes belonging to several of the existing budget items are transferred to this main category. We propose to sub-divide the market-related schemes into three groups:

- Price support (base deficiency payments)
- Market regulation
- Other market-related schemes (previously: development measures)

Our proposals within this category can be summarized as follows:

- Phase out the base deficiency payments for milk production¹⁵. The annual base deficiency support per cow amounts to a relatively small sum, and could be quite easily compensated by other schemes, e.g., structural income or acreage support for grassland farming.
- NILF proposes to reduce the base deficiency payments for meat, in order to balance increased acreage rates for grass. This would imply the transfer of funds from price support (“yellow” support in the WTO) to acreage support (which we assume can be notified as «green» support). As previously for milk, the base deficiency and regional deficiency payments for meat must be seen in connection with, and possibly as a counterbalance to, the proposed changes in the acreage and cultural landscape

¹⁵ The base deficiency payments for *goat milk* amount to relatively high annual sums per animal. If this support should be given as a subsidy per animal, in addition to the other headage payments, or as structural income support, the result would be rather complicated support rates. We therefore propose to keep the base deficiency payments for goat milk.

scheme. For example, the regional profile can be enhanced by reducing the base deficiency payments and increasing the differentiation or amount of the regional deficiency payments.

- We propose to continue the wool deficiency payments, since wool otherwise could become a waste problem.
- The grain price support and food grain support have not been further evaluated, and we thus do not propose any changes to these schemes.
- In its treatment of the Report to the Storting no. 1 (2001–2002), Amendment 4 in autumn 2001 (Finansdepartementet 2001), the Stortinget decided on a budget cut (Chapter 1150 Item 73) of NOK 300 million for the second half of 2002. The reduction was not specified among individual budget items. The effect hereof for the entire year will amount to about NOK 600 million. We have not considered this cut in the proposals for a revision of the price support schemes. Nevertheless, we have to emphasize that a budget cut of this dimension will have a significant effect on the level of price support.
- The report did not further evaluate marketing programmes. Most of these schemes are very specialized and have specifically defined goals.
- In order to ensure fair competition, one should consider the extension of the XRK/Catering schemes (export promotion) under the agricultural negotiations to include all dairy products, and to phase out TINE's scheme.

4.8 Transport Support

The transport support schemes were evaluated in a separate subproject. The results are presented in the report «Transport Support Schemes in Agriculture – Their Effects and Proposed Changes» (Solvoll, 2002). Detailed information (in Norwegian) can be found in the report.

The schemes that were evaluated in the subproject were transport support schemes for: grain and feed concentrates, meat, fur-bearing animal feeding cooperatives, eggs, processed cauliflower and seed potatoes.

The transport support schemes are one of the numerous policy instruments aimed at offsetting the disadvantages for producers in remote areas (compared to those located closer to urban areas). Relatively extensive transport of agricultural products are a direct consequence of the Norwegian agricultural policy. As long as this policy is maintained, it will be difficult to reduce the extent of transport significantly. Based on this assumption, transport support is a targeted policy instrument that, together with other farm support schemes, helps to maintain the current division of production within the country.

However, there is always the risk of supporting transport too heavily, thus reducing the need for more rational transport systems. The result could be more transport than what otherwise would take place under direct, regionally differentiated producer support. The transport support can also contribute to preserving the structure of the food-processing industry. This applies particularly to the grain and meat sectors, where extensive intermediate freight support and clearly defined surplus and deficiency areas help to establish an uneconomical flow of grain and meat.

A more detailed analysis of the grain and meat transport structure should be carried out, in order to determine its economic efficiency, given the restrictions of current Norwegian distribution policy.

We propose to discontinue the transport support for processed cauliflower and wholesale marketing under the meat transport scheme. We also propose a reduction of the support for intermediate transport. In order to secure equal conditions, a transport support for so-called national slaughterhouses should be paid.

NILF has not conducted a separate or supplementary evaluation of the discussion and conclusions presented in the report on transport support (Nordlandsforskning, Solvoll 2002).

We also refer to the Storting's decision on reducing allocations to price and transport support in agriculture (Chap. 1150, Item 73) by NOK 300 million for 2002. This was notified by the Ministry of Finance (Finansdepartementet 2001).

4.9 Farm Disaster Relief Programmes

This project's mandate also included assessing the possibility of transferring parts of the public administration's responsibilities to other agencies (insurance companies, etc.), including collective or private insurance schemes.

It is unlikely that insurance companies, on a commercial basis, are interested in getting involved in this field. The general risk is too high, possibilities for reinsurance are lacking and there is definitely a risk of a so-called unfortunate selection of clients. If private insurance schemes are to be implemented, it would presumably require public subsidization of insurance premiums, as is the case in Canada and the USA.

It does not seem appropriate to introduce tax-free transfers to funds/reserves, as a new policy instrument, as indicated in the mandate.

We would like to mention the following possibilities and alternatives for simplification of the present system:

- Regarding the crop failure insurance scheme:
 - The excess can be increased, e.g., by 10 percentage points, and ought to be harmonized with the other farm disaster relief programmes.
 - Cases should still be treated individually, but damages can be calculated per crop showing damage over a certain level. All damaged crops within the same farm unit are included in the quantification of damages.
 - Compensation for damage to roughage crops in southern Norway can perhaps be removed from the scheme.
 - Grain cultivated to maturity can perhaps also be removed from the scheme.
- One should consider to discontinue the support to grassland with winter damage in southern Norway, but continue the scheme in North Norway.
- One should consider to discontinue the support for honey production failure, or perhaps keep the scheme for producers with more than 60 beehives.

The compensation scheme for losses due to public decrees should be continued. Regarding damage from geese, grazing livestock and other damage that cannot be avoided, such schemes should ensure equal treatment in relation to other cases involving compensation.

All of the compensation schemes for livestock husbandry should be kept.

Based on a general evaluation, NILF concludes that there is a lot to be gained from gathering *all* compensation schemes for livestock and crop production in one separate fund, e.g., the «Agricultural Insurance Fund». The fund would be a single budget item in the agricultural agreements, and managed by the Norwegian Agricultural Authority. This implies that several current schemes would be phased out and transferred to the new fund, including the fund for crop failure compensation, the relief fund for small

livestock and poultry¹⁶, and culling of livestock ordered by veterinary authorities. Excesses and minimum rates for the various schemes transferred to the «Agricultural Insurance Fund» should be coordinated and harmonized. Furthermore, a joint database should be established for all cases and damages paid by the fund, including those cases presently dealt with at the county level.

4.10 Impact Assessment

Simplification and targeting are the main objectives of this project. The proposed changes presented in this report are thus mainly based on these two goals. In addition, a number of other considerations have been mentioned, both in the project's mandate and in other background material. These have therefore also affected the proposals presented in the report¹⁷.

The project's mandate cannot be implemented without any impact on individual farms. This agrees with the statement made by the Standing Committee on Business and Industry (Innst. S. nr. 167, 1999–2000):

«The majority [...] agrees that such a simplification cannot be implemented without affecting individual farms. However, such effects need to be accepted if the necessary simplification is to be conducted.»

It is the *total impact* of all proposed changes that is important when evaluating the economic impact of the revised policy design for the individual farmer. It would thus make sense to treat all suggestions as one joint package. However, the proposed changes of the acreage and cultural landscape scheme have the greatest effect. Many of this scheme's isolated effects can be counterbalanced by other policy instruments. We have suggested a number of specific «counter measures» as well as general policy instruments that can be used to reduce undesired consequences of the proposed acreage-based changes.

It is not possible to simplify the design of the agricultural policy instruments if the overall allocation of funds to all farms is to be maintained at its present level. The proposals in this report can only be completely evaluated and calibrated within the fixed framework of the agricultural agreement, including the distribution between prices and budget allocations, and as long as it is possible to implement price and subsidy changes throughout the entire policy structure of the agricultural agreement. Such a task is the responsibility of the negotiating parties, and cannot be carried out within the scope of this report.

All in all, we are convinced that the impact of the revised general policy design proposed by NILF are moderate enough so that they can be counterbalanced by the agricultural negotiations, with the help of the general design of prices, support rates and possibly also new tax rules.

¹⁶ In accordance to our proposal, subsidies to grazing cooperation are transferred to the counties via the county environmental funds, and the support to professional organizations is transferred to the category *development measures*.

¹⁷ These considerations include the need for a more comprehensive policy instrument structure, WTO compatibility, increased regional autonomy, reduced administrative costs, increased legitimacy of the policy instrument system, less unwanted adaption to the subsidy system, increased flexibility and predictability.

5 Summary of Proposed Changes

In Tables 5.1 to 5.3, NILF's proposals for simplification and targeting of Norwegian agricultural policy instruments are presented. General proposals are presented in Table 5.1, the proposed new policy structure is shown in Table 5.2, whereas Table 5.3 presents specific changes to individual schemes within each category.

5.1 General Proposals

An overview of the various revisions proposed throughout this report is presented in Table 5.1. The right-hand column indicates the main objective(s) (simplification, targeting, WTO compatibility, predictability, or other considerations) for each proposal.

Table 5.1 General proposals for a new farm policy design

Issue	Proposal	Objective
Institutional conditions	Reform of the agricultural negotiations as an institution. Introduce a long-term perspective, i.e., perennial agricultural agreements.	Predictability Stability Simplification of policy instrument design
Policy instrument objectives	To reflect the current farm policy goals to a <i>greater extent</i> , i.e., take agriculture's production of public goods more into consideration.	Targeting
Naming schemes	The names of the schemes should agree more with the farmers' role as producers of public goods (e.g., Payments for maintaining an open landscape).	Targeting Legitimacy
Classification of policy instruments	Distinguish between general and specific policy instruments, depending on their goals and whether they should be centralized or decentralized (applies especially to environmental policy instruments)	Simplification
Maps	Increase the funding for digital land-type mapping significantly.	Simplification for public administration Increased effectivity
Interaction between farmer and community	Promote better agreement between the goals of farmers and those of the community.	Long-term simplification

5.2 Main Structure

In this report, NILF proposes a new main structure for the agricultural agreement's economic policy instruments. The proposal is based on its potential for simplification and targeting of agricultural policy as a result of, among other things, improved legitimacy.

The proposed changes are presented in Table 5.2. Each main category is divided into three major schemes, except for *regional settlement and development*, which is divided into five schemes. Most of the major schemes are again subdivided into several sub-schemes.

Table 5.2 Main categories of policy instruments and major schemes within each category

Main category	Schemes
Environment	Payment for maintaining an open landscape Payment for use of grazing land Regional environmental funds
Regional settlement and development	Regional support (price) Headage support/ Structural income support to dairy farmers Transport support schemes Farm disaster relief programmes
Development measures	LUF (Agricultural Development Fund) Extension and training Crop & livestock breeding Research
Welfare programmes	Recreation and vacation schemes Farm relief schemes (illness) Other welfare programmes
Market	Price support Market regulation Other market-related measures

The purpose of this structure is to improve the present classification of policy instruments under the farm negotiations, so that it to a greater extent reflects the goals of the current agricultural policy. However, we would like to point out that it is difficult to make such a stringent division without running into problems, since many agricultural policy instruments have several different goals and effects. Our proposal is based on what we consider to be the *main objectives* of the various schemes. Thus, this classification does not give a complete picture of the different schemes and programmes.

Such a revision and the transfer of policy instruments/items also leads to technical problems related to posting items in the government's budget. The various types of support, such as transfers to reserves, estimated allocations and transferrable support are to be entered in fixed budget items. NILF considers it possible to approximately accommodate the division of Chapter 1150 (in the budget) to our proposals.

5.3 Proposals for Specific Changes

The proposals for changes in specific areas and schemes are shown in Table 5.3. The proposed changes affect schemes from all five main categories. The right-hand column indicates the main objective(s) (simplification, targeting, WTO compatibility, predictability, or other considerations) for each proposal.

Table 5.3 Proposals for specific changes of farm policy instruments

Scheme	Proposed changes	Objective
Acreage/infield pasture support	Revise the acreage support schemes Phase out infield pasture support	Targeting Simplification WTO-compatibility
Grazing support	Replace the infield/rough grazing support with a head-age-based grazing support	Simplification
Regional environmental funds	Establish regional environmental programmes. Phase out slope compensation and mountain fodder-production support as separate schemes	Targeting
Regional deficiency payments for milk & meat	Evaluate in connection with base deficiency payments and other general support (e.g., acreage support), consider increasing differentiation or the total scope	Targeting Compensation
Grain prices	Extended proposal: reduce grain prices in order to enable the termination or reduction of headage support for feed-intensive production (swine, poultry)	Simplification WTO-compatibility
Farm disaster relief programmes	Phase out several smaller schemes Gather all relevant schemes in one fund, e.g., an «Agricultural Insurance Fund»	Simplification
Transport support schemes	Analyse if present transport of grain and meat is economically efficient. Phase out transport support for processed cauliflower. Phase out wholesale marketing support (meat transport) Reduce intermediate transport support Introduce transport support (incoming) for so-called «national slaughterhouses»	
Small animal fund	Phase out and transfer the schemes to other areas/categories: grazing support to the county environmental funds, the compensation scheme to a general farm relief fund and support for professional activities to the category development measures	Clarity Simplification
Regional development funds and Added Value Programme	Consider merging into one programme	Simplification
Farm extension support	Consider closer cooperation with other extension services	Simplification Targeting
Welfare programmes	Support for vacation/recreation relief can be received without documentation Phase out administrative support to relief cooperatives	Simplification Flexibility

Table 5.4 continuation Proposals for specific changes of farm policy instruments

Scheme	Proposed changes	Objective
Base deficiency payment for cow milk	Phase out payments	Simplification WTO-compatibility
Base deficiency payment for meat	Reduce payments Use to compensate other changes	WTO-compatibility Compensation
XRK/Catering	Should include all dairy products (Phase out TINE's scheme)	Equal opportunity

*Translated by:
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