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GATT AND DIRECT INCOME PAYMENTS: PROGRESS IN DECOUPLING?

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The Uruguay Round of GATT negotiations has concluded and agreement has been reached between major signatories to reform their agricultural sectors. One key issue is the choice of economic instruments that are decoupled from agricultural production at the margin. The MacSharry proposals adopted at Blair House are a move in this direction. Further progress could follow from a grater shift to social assistance measures. This paper examines the agreement reached at GATT and explores possible welfare measures that could aid further decoupling from the New Zealand point of view.

1 Introduction

Government intervention in agriculture in most industrialised countries has led to substantial increases in the output of agricultural products over the last twenty years. As a result, most agricultural producers and exporters have made aggressive use of border measures and subsidies in order to cope with surplus agricultural products. By the early 1980s government expenditures on agricultural support programmes had reached unprecedented levels in most western countries. Increasing pressure on the treasuries of these countries, as well as pressure from exporters such as the Cairns Group, has led to a commitment for reforming agricultural production and trade. This commitment was formalised when agriculture was explicitly included in the GATT Uruguay Round of Multilateral Trade Negotiations (MTN) launched in 1986.

Reform involves individual countries examining their assistance programmes as they are essentially domestic policies. Multilateral negotiation is a way of countries agreeing on an international and coordinated way of removing the excesses of such assistance. In such discussions it has been proposed that countries consider direct income payments to farmers (decoupling) as a substitute for price support and border measures that provide incentives to increase production. What is needed is a reduction in the level of assistance, and direct income support measures not linked to production or factors of production, aimed at facilitating the process of reform by reducing distortions in production, consumption and in trade (OECD 1990, p43).

A lowering of domestic levels of price support would result in a reduction in farm incomes and an increase in their variability (ibid p 44). Temporary direct income support is seen as facilitating structural and positive adjustment. Other justifiable direct income support could provide the means to aid:

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- specific groups of farmers who have suffered cyclical income losses due to unforeseen and uninsurable circumstances, such as natural disasters;

- groups of farmers who are in disadvantaged areas or circumstances; and to groups who wish to pursue environmental goals. Disadvantaged groups involve considerations of social welfare, but environmental aims should be considered to be more in the realm of public goods that would not otherwise be supported. Other justifiable forms of assistance include R&D, infrastructure improvements, crop insurance, and farm extension.

These principles have already been partially put into effect by the US and the EC (Hillman 1994, p15). In the US, the 'triple base' idea, target-price base acreage yields frozen or historically fixed, and deficiency payments only on 85 percent of base acreage are the first stage of decoupling. In the EC, the MacSharry proposal subsidises farmers on a hectarage or headage basis and thus frees up farmer decision making at the margin. These reforms must be seen as half-way houses introduced to cause minimum inconvenience to the beneficiaries but nevertheless, as Hillman establishes, they represent significant changes in the way agricultural support has been treated in the past.

In the GATT the draft final act (Dunkel text) specified the proposed content of the policy measures which would be exempted from agreed domestic support commitments (GATT 1991). In November 1992, the US and the EC struck a deal on reducing agricultural subsidies over a six year period (*Agra Europe* 27 Nov 1992, E/1). Part of the deal was the inclusion of EC Farm Commissioner MacSharry's proposals for introducing direct aids to farmers on a fixed hectarage or headage basis, consistent with commitments made earlier in 1992 by EC ministers (ibid).

On 15 December 1993, agreement was finally reached on the Uruguay Round. Article 6 of the GATT Text on Agriculture (GATT 1993, p7) sets out the domestic support commitments that participating countries will supply to the GATT for annexing to the Uruguay Round Protocol. Domestic support measures that are exempted from the commitments and which are not subject to reduction are set out in Annex 2 to Part A of the Agreement (the 'green box'). Protocol Article 6 now includes the MacSharry amendments agreed to at Blair House in November 1992.

What are the implications of these agreements? What direction should further discussions and negotiations take? Can further progress be made? In the following pages, we discuss a little more of the detail of the agreement with respect to the exemptions from domestic support commitments, examine the case for more emphasis on a welfare criterion for giving assistance exemption, and make suggestions for further steps in the reform process.

2 The GATT Agreement and Domestic Support

Article 6 of Part A of the Uruguay Round Agreement on Agriculture sets out the provisions for exceptions to the agreed domestic support commitments (GATT 1993, pp6-7). Domestic support commitments are Schedules of Commitments that countries will have to supply to GATT. The exceptions are policies that have minimum distorting effects on trade and production. These policies must conform to two criteria: support shall be provided through a publicly-funded government programme, and shall not have the effect of providing price support to producers (Annex 2, GATT 1991, p14).

Domestic subsidies in the agriculture sector are to be reduced by 20 percent over six years. Calculations are to be based on the Aggregate Method of Support (AMS) method, which takes all products globally. There is no requirement to take specific commitments policy by policy. As negotiated by MacSharry, the basic AMS calculation is to be assessed on the base period 1986-88, and expressed in monetary terms for each product, and credit is given for reduction in support achieved since 1986. The AMS figure represents the average difference in the base period between the internal administered price and a world reference price, multiplied by the volume of production in the reference period (*Agra Europe* 1993, p12).

Para 5 of Article 6, establishes that direct payments under production-limiting programmes will not be subject to the commitment to reduce domestic support. This was not in the draft final act. The commitment is conditional on a) such payments being based on a fixed area and yields, b) payments being made on 85 percent or less of the base level of production, and c) livestock payments being made on a fixed number of head. The exemption from the reduction commitment for such direct payments is to be reflected in the exclusion of the value of those payments in a Member's calculation of its Total AMS (GATT 1993, p7).

Thus the MacSharry concessions are enshrined in the main text and not the annex to the agreement. Annex 2 (the green box) sets out the details of the programmes that are to be exempted. Under government service programmes, the provisions include research expenditure, pest and disease control, training services, extension and advisory services, inspection services, marketing and promotion services, infrastructural services, public stockholding for food security purposes, and domestic food aid. These services are characterised by public good properties and are generally for the benefit of the rural community as a whole. They should not include any direct payments to producers. Food security and food aid purchases should be made at current market prices and made completely transparent.

Special criteria are developed for direct payments to producers. Decoupled income support should have clear rules of eligibility and payments should not be related to, or based on, the type or volume of production (or livestock units), or to prices, domestic or international, applying to any product, or to factors of production employed. This is the main welfare criterion.

For income insurance and income safety-net programmes, eligibility must be determined by an income loss of only income derived from agriculture which exceeds 30 per cent of average gross income as defined. Compensation will be for 70 per cent of the producer's income loss. Income will be the sole criterion. Combined with disaster relief, total compensation shall be less than 100 per cent of the total producer loss.

For relief from natural disasters, eligibility shall be determined by a formal recognition by government authorities that a disaster has occurred, and shall be determined by a production loss exceeding 30 per cent of the agreed average for the affected area. Payments will only be made on losses due to the disaster, and will not compensate for more than the total cost of such losses.

For structural adjustment assistance, eligibility shall be determined by clearly defined criteria in programmes to facilitate the retirement of persons engaged in marketable agricultural production, and shall be conditional upon the total and permanent retirement of the recipients.

For structural assistance through resource retirement programmes, eligibility will be determined by reference to clearly defined criteria in programmes designed to remove land or other resources, including livestock, from marketable production, retirement of land shall be for a minimum of three years, no alternative production will be allowed, and payments will not be related to any production or price criteria.

For structural adjustment through investment aids, eligibility payments shall be designed by reference to clearly-defined criteria in government programmes designed to assist the financial or physical restructuring of a producer's operations in response to objectively demonstrated structural disadvantages. The amount of payments shall not be based on production or price levels(other than the base period), shall be for a fixed period, and will not in any way designate the agricultural products to be produced.

For payments under regional assistance programmes, eligibility shall be limited to producers in disadvantaged regions of a defined administrative identity. The amount of payments shall not be related to production or price levels, but shall generally be available to all producers in the defined region. Payments to production factors shall be paid at a degressive rate above a threshold level of each factor, and the payments shall be limited to the extra costs or loss of income involved in undertaking agricultural production in the prescribed area (GATT 1991, pp14-19).

3 The Implications of the Agreement

The GATT process provides for participating countries to make market access commitments to the GATT for attachment to the protocol. The Articles specify that domestic support policies for which exemption from the reduction commitments is claimed must meet the fundamental requirement that they have minimal trade distortion effects or effects on production. The above discussion shows that many government services to agriculture have been put in the 'green box' (no environmental implications intended apparently), including R&D. Some of these are production enhancing especially research and pest and disease control. Others like infrastuctural services of electricity reticulation, transport, and water supply are to be restricted to capital works on an off-farm basis. Some direct payments survive, especially in the area of income support, safety net programmes and disaster relief. Here the rules specify complete disassociation of payments from production and price except for establishing income in any base period.

The suggested rules place considerable onus on countries to re-examine their domestic support programmes for agriculture. The thrust is clearly away from general price support measures to more specific and targeted measures. Countries would have to examine their motives for giving such assistance. Priorities would need to be clarified for maintenance of the rural landscape, for the welfare of those who have to change and for those who will stay behind, food security and all the rest. It is plausible that income support will have to increase in some countries as previous policies may have disguised the problems of the disadvantaged, the hopelessly uneconomic, and the remote. New programmes may be needed.

For the EC the above arrangements were never an issue once it was established that the 'compensatory' payments set up under CAP reform would be exempted from the reduction commitment (*Agra Europe* 1993, p12). The various reforms in CAP market regimes since 1988 mean that the Community's Total AMS was already more than 20 percent below the reference figure for 1986-88. The impact of further CAP reform - notably the substantial cut in cereals support prices - will ensure that the AMS stays well below its target level throughout the six year period envisaged (ibid).

Article 6, para 5(a) specifies the fixed payment criteria adopted. These criteria are designed to ensure that the direct aids (per hectare and headage payments) adopted under CAP reform should not be subject to any commitment to reduce internal support. In concrete terms, this means that the value of these aids will be excluded, each year, from the calculation of the AMS, provided that such aids are granted within the framework of production-limiting programmes. In *Agra Europe's* view, this decision is essentially political as the payments do not, strictly speaking, meet the criteria for exempted subsidy programmes laid down in the main GATT agreement (Annex 2).

Other provisions provide for different conditions for developing countries. Article 6 para 2, specifies that investment and input subsidies for low income producers in developing country contracting parties will be exempt from domestic support reduction commitments. This provision would include domestic support to encourage diversion from illicit narcotic crops.

Finally there is provision for exemption from the AMS calculation for any Member where product or non-product related support is less than 5 percent of total value of production in each category (ie they may total 10 percent). For developing country Members, the *de minimus* percentage will be 10 percent in each category.

4 The OECD Approach

In a series of papers (OECD 1990, 1993), the OECD has taken an increasingly broad approach to the analysis of direct income payments (DIPs) as an alternative means of raising farm incomes in member countries. As well as measures to achieve structural adjustment, income stabilisation and minimum income guarantees, the OECD has added environmental public goods and externalities to its list of policy areas where DIPs might be relevant (OECD 1990, p52). DIPs cover all those payments to farmers made directly from public authorities' budgets to individual farmers that have the effect of increasing farmers' incomes. OECD exclude budget payments intended to improve the performance of the sector as a whole, such as payments for research and infrastructure, and farmer-based schemes that are entirely self-funding. They also take a wider view of compensation than in the recent GATT negotiations.

These payments provide transfers indirectly to producers through budget-financed framework measures or general services, and include research and development, extension and inspection services and rural infrastructure (OECD 1990, p45). Most of these measures provide assistance collectively to the agricultural sector, rather than to individual producers. In some cases there are direct benefits to consumers, such as R&D and inspection services. These measures may be broadly considered as lowering the costs of agricultural activity to the sector as a whole but not as providing farm income support.

This broad approach is justified in terms of the OECD's mandate to study how direct income support could replace price guarantees and other trade distorting measures in supporting farm incomes in member countries. The stress should be on possible measures that assist structural adjustment and encourage rural development including environmental aspects. The relevant policy areas are identified as:

- structural adjustment;
- (to facilitate factor mobility within agriculture and to other sectors);
- income stabilisation and disaster relief (to reduce large fluctuations in income;
- and to reduce asset loss due to natural disasters);
- minimum income guarantees (to relieve poverty).
- and environmental public goods and externalities (to increase the provision of environmental public goods and positive externalities) (OECD 1990, pp51-53).

The environmental goods and externalities are included because farmers are likely to be increasingly in receipt of government funded payments as remuneration for providing environmental goods and services that cannot be marketed to consumers in the usual way. The essence of such payments is to correct for the failure of markets to reward farmers for producing socially-valued outputs. Such payments should be designed and monitored to ensure that they do not contain any element of subsidy to agricultural production (ibid p52).

The key function of DIPs is to uncouple farm income assistance from production and factor inputs. OECD distinguishes between 'pure' DIPs and 'less economically distorting' DIPs. Pure DIPs are unrelated to past and future levels of output and factors of production as well as present levels and are free of any conditions or constraints on recipients. Less economically distorting DIPs include measures that impose conditions on recipients or may be linked to inputs, outputs or income levels, providing they are neutral with respect to current and future production levels (ibid p45). Since the latter may be more common than the former, it is important for member countries to aim at minimising distorting effects rather than concentrate on pure DIP measures.

The OECD is a western oriented forum where major issues can be discussed without political commitment. Nevertheless the same factors which held up the GATT negotiations are present in Paris too. For example, there was extensive discussion of compensation payments well before the MacSharry proposals were adopted. The most recent OECD approach is to examine each of the four policy areas of structural adjustment, income stabilisation, minimum income guarantees and environmental public goods, and identify suitable criteria and guidelines for the implementation of DIP measures (OECD 1993). During 1993, 'criteria' was replaced by 'characteristics' and 'guidelines' was replaced by 'recommendations'. Thus the general characteristics of DIPs were identified as:

1 they should be directly financed by taxpayers,

2 the size of direct income payments should either be fixed or, if related to an agricultural production variable, be outside the farmer's control, and

3 the size of the payment should not be determined by the volume of current or future production of specific agricultural commodities or the levels of specific inputs used.

General recommendations were identified as :

(i) participation in programmes should normally be voluntary, and

(ii) particular policy objectives should be implemented in such a way that negative effects on other policy aims are minimised and that duplication of targeting is avoided.

The OECD has worked out details of guidelines or recommendations for the four major policy areas as a guide to member countries. As they are somewhat repetitive we have included a summary of them in Annex 1 of this paper.

5 Minimum Income Support

The more price support is removed from the agricultural sector, the more governments are likely to be engaged in welfare schemes for the poor and disadvantaged in the sector. As discussed below, price support mechanisms tend to disguise the welfare problem by overadequate compensation to all producers with the result that income distributions within farming become more highly distorted. Some support systems favour small and remote farmers specifically. If the movement to decoupling continues, governments will have to pay greater attention to minimum income considerations as a result.

Minimum income support schemes need to be designed to provide people with a minimum level of family income (OECD 1990, p52). The ideal is to ensure equality of treatment to farmers in similar circumstances to those *in the rest of the community*. GATT-compatible characteristics of such schemes might be:

- payments are independent of agricultural production and inputs
- eligibility should be determined by the criteria established for such payments in the rest of the community
- payments should be made when the farm family income from all sources falls below the levels established
- participation should be voluntary but available to all eligible farmers.

The OECD observes that only in a few countries are there direct income measures which are generally unrelated to outputs or inputs in production (ibid, p67). These are the EC's programme of direct aids, the Swiss allowance for farm families and workers scheme, and the NZ adverse events family income support scheme. These include lump sum income payments, farm family income support schemes, and special social security arrangements for farmers. There is no a priori incentive to vary the level of production with the amount of assistance and there is no distortion on the consumption side. There are no effects on the marginal revenues and costs for specific commodities and any trade effects would be minimal. It may be, however, that such schemes back up resources in agriculture when they should be encouraged to move out.

6 Income Support in New Zealand

The approach behind New Zealand's submission to the OECD at the time of preparation of the referenced document was to review all the welfare schemes available to the general community and establish whether there were examples of coupling between production and support.[2] Table 1 summarises the information gathered and Annex 2 gives some descriptive information about the welfare schemes discussed.

[2] See Chadee, Horesh and Johnson 1990, Chadee and Johnson 1990)

Table 1
Welfare Schemes Currently Operational in Rural Areas in New Zealand

	Welfare Scheme	Full-time Employee	Unemployed/ unable to work	Individuals/self-employed		
				Non-farm	Farm	Disaster area
1	Family Support	*	*	*	*	*
2	Guaranteed Minimum Family Income	*				
3	Unemployment Benefit				*	
4	Domestic Purposes Benefit				*	
5	Special Needs Grant for Financial Hardship	*		*	*	*
6	Special Assistance Farming Sector					*
7	Adverse Events Family Income Support					*
8	Exit Grants				*	*
9	National Superannuation				*	*

The table shows that family support is the only benefit payable to families irrespective of occupational groups. All other schemes have criteria which target the particular group they are meant to serve. The guaranteed minimum family income is only available to employees as a tax credit. The self-employed are not eligible for the unemployment benefit which is confined to those capable and willing to undertake full-time work. The domestic purposes benefit is for persons caring for children without the support of a partner; these can be found in both urban and rural situations. Special needs grants for financial hardship (emergency one-off payments) apply across the board, and particularly apply in disaster situations. The special assistance programme was an emergency income guarantee plan introduced in 1986, and has since been phased out. Adverse events family income support and exit grants were introduced in 1989 as emergency measures (drought); short run family assistance for disasters can be re-introduced at any time under the emergency provisions of the Social Welfare Act 1964. Superannuation is available to all on reaching the qualifying age; it is, however, subject to a surtax on other income received above a certain level.

Comparisons of urban and rural recipients of welfare benefits do not show a bias one way or the other (Fairweather and Gilmour 1993). These comparisons show that superannuation is received by 18.7 percent of the rural population compared with 14.5 percent urban. The domestic purpose benefit is received by 3 percent of the rural population compared with 2.8 percent urban. The unemployment benefit is received by 5.2 percent of the rural population compared with 4.2 percent urban. The authors define rural as centres with lower than 1000 population plus non centre population.

These data can be interpreted to show, especially in the case of superannuation, that the residential location of the recipients is important. The survey indicates that superannuitants tend to be concentrated in small centres rather than being located in farm areas per se. For the remaining two benefits, the difference between urban and rural does not appear to be significant.

The aims or social objectives of these programmes can be set out as:

* prevention of financial hardship
* protection of the sick, disabled, etc
* protection of the aged
* assistance in emergencies, including climatic emergencies and recovery
* assistance for economic disasters and recovery.

In New Zealand, there do not appear to be explicit policies for rural people in terms of rural population goals or maintaining the countryside in its present form. There is no clearly identified welfare policy specifically for rural communities apart from disaster relief. The concept is essentially one of a welfare safety net for protection of *all people* at some minimum standard.

The welfare safety net is necessary, in part, because earlier social and economic goals of full employment and balance of payments surpluses have been replaced by market and efficiency goals. In a full employment society, the minimum standard of living can be delivered by minimum wages and job spreading, with less emphasis on delivery by welfare payments. Similarly, agricultural assistance directed towards increasing exports assisted marginal farmers to stay in farming, and also kept people in agriculture and rural communities at levels higher than were warranted by undistorted market prices and economic necessity. In turn, such assistance kept more schools open in rural areas, maintained small businesses in rural communities, and maintained levels of services such as health and roading at higher than otherwise levels. It is doubtful if these were the explicit goals of such programmes.

Welfare assistance in the form of direct income support to the rural sector in New Zealand has increased since 1984 following the dismantling of the investment incentives and minimum prices schemes of the previous period, and the general decline in the profitability of farming. The unemployment rate in rural areas has risen from 2.7 percent of the population in 1986 to 5.2 percent in 1991. Universal benefits were available before these changes and have continued since. Income smoothing and loss write-offs through the tax system have been preserved as well. However, as farming profitability declined in the mid 80s and support was removed it became apparent that the weak, the marginal and the non-viable farm units were not protected by the existing social welfare provisions. As a result, the special assistance scheme was devised to meet the situation.

This was the only mechanism whereby farm owners and their families could receive a full welfare benefit equivalent to the unemployment rate, apart from special disaster schemes. Family support is based on the number of children in a family and is not designed to maintain the whole family. Guaranteed family income is restricted to families on low wages and is not available to farmers as self-employed. However, for declared disaster situations it is now accepted that normal social welfare emergency provisions are available.

At present, government support to the rural sector in New Zealand is limited to these welfare measures and certain cross-subsidies that arise in the education, postal services, roading services and electricity areas (Harris and Scrimgeour 1992, Scrimgeour 1994). These infrastructural transfers are common to most countries, and are specifically exempt from the Aggregate Method of Support calculation agreed to in the GATT negotiation (Annex 2 of the Agreement).

7 Compensation Payments (OECD)

The OECD includes compensation payments in the range of measures that governments should consider in removing price support policies. Such payments might be made to compensate producers for the withdrawal of price support during the transition to lower total assistance levels or as a more permanent part of a restructuring package of support measures intended to produce less distorting consequences.

When assistance levels are permanently reduced expectations of lower future income streams are translated into a fall in market values of land and other fixed production assets. There is also a devaluation of farmers' human capital. Agriculture is characterised by self-employed and family businesses so that the same family bears both the capital and the income loss.

Such changes create pressures for government action to provide compensation for the losses incurred where the effect is directly linked to government action. Such payments might be justified if they made it easier for policy makers to implement effective reform programmes. There has also been a form of a social contract in the past to provide assistance to these groups. Nevertheless the OECD argues that payments of this sort, if used by member countries, should have the characteristics and meet the recommendations for other direct payments discussed above (OECD 1993, p.32).

There is some debate on the relative merits of annual and one-off payments. An annual payment lends itself more readily to compensating the farmer for the loss on all owned assets including human capital for which there is no asset market. One-off capitalised payments however deal with all the effects at once and leave the farmer free to decide what to do. A flexible combination of the two options might be a transferable bond which entitled the farmer to an annual payment for a certain period. The bond could be sold at any time at its current capitalised value. Such a scheme would spread the cost to governments while providing recipients with significant lump sums

8 Discussion

There is no doubt that the GATT Agreement is a significant change in the conditions of world trade and domestic agricultural policy. The arrangements for reductions in subsidies and alternative methods of support have pointed world trade in a new direction. It seems reasonable to assume that there will be a momentum toward further direct income payments will play a significant role in the move away from production support. Individual countries will need to adjust their domestic agricultural policies to the new environment.

The GATT Agreement has now been put in place albeit with the domestic support exemptions considerably weakened. The MacSharry proposals were essential to obtain the cooperation of EC Ministers hence this was probably the price to be paid for international agreement. The levels of reduction in the AMS for the EC are disappointing, as it looks as though these have already been achieved in reforms introduced since 1986.

At the same time, the criteria adopted in Article 6, para 5(a) offer an opportunity to adjust the desired reduction on the base level of support in 1986-88. Payments calculated on 85 percent on the base level could be brought down to a lower figure and so on. Greater restrictions could also be placed on qualifying areas, yields and headages. It remains to be seen how other countries are going to react to the restrictions on direct income payments that were negotiated for the EC's benefit.

In contrast, the OECD discussions are positive in support of more targeted and specific assistance policies:

> 'Direct income payments have a useful role to play in the context of agricultural policy reform because of their lower distortionary potential and their capacity for targeting a wide range of policy variables and particular groups of farmers. Direct income payments that are designed to have the characteristics and satisfy the recommendations determined in this analysis would be more efficient instruments for transferring income in pursuit of given policy objectives than market price support, and hence their relative attractiveness in a context of greater market orientation and reduced overall support' (OECD 1993, p38).

The OECD documentation offers a broader definition of direct income payments especially with its emphasis on environmental public goods. There is some evidence of compromise in the wording and categories employed as might be expected in a forum of members with different attitudes to price support in the past. The alignment with GATT is fairly close with respect to government services, income support and income insurance (including relief from natural disasters). The GATT document does not spell out in any detail the environmental policies that would meet its exemption conditions. The OECD has drafted a series of recommendations in each of the four areas, structural adjustment, farm income stabilisation and disaster relief schemes, minimum income guarantees, and environmental goods, that do offer guidelines to member countries of what could be called 'GATT consistent' domestic assistance policies (see Annex 1).

The next step is for countries to examine their domestic agricultural policies and to move towards less production and factor distorting frameworks. With the Uruguay Round agreement, countries will also have to commence tarrification of their existing assistance measures. Countries will also need to assess their priorities in giving agricultural assistance and investigate whether declared objectives can be met in other ways. This will involve investigation of social welfare measures in particular as previous forms of agricultural assistance will be phased out.

It remains a problem to distinguish between temporary and permanent changes in economic conditions. The general rule seems to be that temporary assistance is warranted in cases of disaster and economic distress, but longer term assistance is unwarranted. The GATT rules do not seem to cover this situation but OECD does specify that programmes for agriculture should be transitional.

Welfare assistance (direct income support) is oriented to financial need and is normally targeted to defined groups. In the New Zealand case, only those programmes introduced for relief in the 1986 economic downturn could be said to be substitutes for earlier production support incentives in the sense that while guaranteed minimum product prices were in place, a special assistance scheme for farmers would not be needed. Previous to the introduction of government price support in 1978, farmers could only be compensated in economic downturns from buffer funds held in the Reserve Bank and managed by the marketing boards.

Under the current NZ policy framework, existing schemes provide only limited compensation to farmers who are adversely affected by natural disasters. Indeed the Social Welfare Department regards adverse events family support and special assistance as subsidies to farming as they believe the conditions are more generous than for other sectors and employers. At present (see Annex 2) the schemes available are expressly defined in terms of universal benefits and not sectoral ones.

The GATT Agreement clearly specifies how direct income payments will be treated (the green box). Many infrastructural measures are exempt and will clearly continue to be provided. Research and development expenditure, and pests and disease expenditure appear to be at the borderline of permissible exempt status as they clearly confer some sectoral benefits.

The OECD has attempted to specify how agricultural reform measures could be introduced in member countries. They offer guidelines or recommendations in the areas of structural adjustment programmes, farm income stabilisation schemes and disaster relief measures.

minimum income guarantees, and for environmental goods. While compromise is evident in their specifications, the broad thrust of their discussions is positive and likely to help countries meet the proposed tarrification rules for domestic agricultural assistance measures.

There is clearly a relationship between a high level of price support assistance for the rural sector and a low level of welfare payments. Evidence from countries with high levels of price assistance would be useful in this regard. Equally welfare assistance cannot replace the bonuses and incentives provided by price support. In the new scheme of things, the agricultural sector has to find its own level of output and factor employment consistent with food security and international trade trends. Positive adjustment measures will be needed to reach this objective.

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Annex 1: OECD Guidelines or Recommendations by Policy Areas

1 Structural adjustment programmes:

(i) they should be designed to enhance the mobility and adaptability of agricultural production factors

(ii) they should, where appropriate, be coordinated with relevant policies in other sectors of the economy

(iii) they should, where possible, target specific impediments to adjustment and not outcomes

(iv) eligibility should take into account the specific need and potential for adjustment of the individual

(v) the amount of payment should be based the costs of the adjustment activity undertaken by the farmer

(vi) payments should preferably be one-off and the duration of programmes should, as far as possible, be limited to the transition period of adjustment

(vii) financing arrangements should be consistent with those of other structural adjustment programmes in operation in other sectors of the economy.

2 Farm income stabilisation measures:

(i) programmes are triggered when the fall in sectoral farm income exceeds a given amount

(ii) baseline incomes for income reduction calculations should be based on short and recent periods

(iii) measures should target a clearly defined income variable, which would include agricultural incomes from as many sources as possible

(iv) payments to farmers should normally be triggered when their farm income falls below a defined threshold

(v) a ceiling should be place on maximum potential support , and the percentage of the maximum potential support paid could be related to the extent of farmer's financial participation in the scheme

(vi) payments to farmers would, as far as practicable, be made on an annual basis.

determined by their eligibility in that year, although the programmes may be of indefinite duration

(vii) where possible, farmers should contribute financially to the scheme.

3 Disaster relief schemes:

(i) a natural disaster should be clearly defined

(ii) payments should help farmers restore their productive base

(iii) payments would be paid to those farmers who can demonstrate damage or loss of productive assets in the event of a declared natural disaster

(iv) payments should be related to loss of assets and would not necessarily represent the full value of the loss

(v) programmes can be of indefinite duration, with payments being made in years when there is a natural disaster

4 Minimum income guarantees:

(i) programmes specific to agriculture should ensure that the standard of living of farming families should not fall below what is considered the acceptable minimum in the rest of the community

(ii) payments should normally be related to the total net income of the farm household

(iii) eligibility for payment should, as far as possible, be defined in conformity with the eligibility criteria for any general minimum income regime

(iv) payments should normally cover the gap between the net total income of the household and the relevant level of minimum guaranteed income

(v) programmes specific to agriculture should be transitional, while minimum income guarantees could be available indefinitely

(vi) financing arrangements should be consistent with those of any general minimum income regime in operation in the community.

5 Direct payments for environmental goods:

(i) programmes should be designed to remunerate farmers for the provision of clearly defined environmental goods for which markets do not exist

(ii) payments should not normally be used in situations where they conflict with the polluter pays principle

(iii) the policy target should be the provision of the environmental good itself, and not the production of an agricultural commodity or the use of an input to which the environmental good may be linked

(iv) any individual producing an environmental good that is targeted by a programme would be eligible to receive payment

(v) the size of the payment would, where possible, be related to the full cost incurred in producing the target environmental good

(vi) the environmental good should not be provided beyond the level where the full social cost of additional provision would exceed its value to society

(vii) environmental payments should normally be made on a recurrent basis determined by individuals' eligibility in each relevant period, although the programme may be of indefinite duration

(viii) wherever possible, the main beneficiaries should be identified and would pay for the provision of environmental goods

(ix) to the extent possible, the valuation placed on the benefits of supplying an environmental good should be determined by the main beneficiaries rather than the government.

Annex 2: Description of Welfare Programmes in New Zealand

1 Family Support

The family support tax credit and guaranteed minimum family income schemes are designed to assist low-income families by providing regular financial assistance throughout the year-rather than a lump sum payment at the end of each financial year as was the case before 1991. The family benefit or child allowance was abolished from 1 April 1991. Family support payments are made to the principal care-giver. Family support tax credits paid out during the year ended 31 march 1992 totalled $NZ588 million. The maximum support entitlement is $2184 for the first child and any children aged 16 and over and a further $1144 for every additional child under the age of 16. The maximum support abates above a family income of $17500 per year at a rate of 18 cents in the $ up to $27000 and at 30 cents in the $ above that.

2 Guaranteed Minimum Family Income

This support is a tax credit which is paid in addition to family support. It ensures that families with dependent children receive a set minimum weekly income. Families with a gross family income of less than $18363 per year qualify. The guaranteed minimum family income level for a one-child family is $278 a week after tax.

3 Unemployment Benefit

This is payable to people unemployed, are capable and willing to undertake full time work, and have taken reasonable steps to obtain suitable employment. There were 170367 benefits in the June 1992 year costing $1445 m.

4 Domestic Purposes Benefit

This benefit is payable to a parent caring for children without the support of a partner, to a person caring for a person at home who would otherwise be hospitalised, and in some circumstances to an older woman alone. The number of benefits at June 1992 was 96722 and the cost was $1161 m.

5 Special Needs Grants for Financial Hardship

Emergency grants may be granted on grounds of financial hardship to those who do not qualify for the ordinary unemployment benefit. This payment is available to the self-employed and others who have sudden loss of income or whose venture may have failed. Since farmers cannot qualify for unemployment benefit , a special assistance programme was introduced in 1986 (see 6 below).

6 Special Assistance to the Farming Sector

A package for assisting the farm sector due to the downturn in the economic climate was introduced in July 1986. Part of the package was a special needs grant to farmers to provide for ordinary day-to-day living expenses. Grants were made available to bona fide farmers who were in a critical financial position with no funds or access to funds to cover living expenses. The criteria for payment were:

(i) the farming operation was in financial difficulty and was not producing sufficient income to meet essential living expenses;

(ii) there was no significant off-farm income;

(iii) there were no assets unconnected with the farm operation which could be readily converted to cash;

(iv) a decision had been made to sell the farm and the asking price was realistic; or the family was in the active process of evaluating the ongoing viability of the farm.

The Department of Social Welfare sets a limit of 6 months on such grants, and applicants must re-apply every 6 weeks. This scheme was phased out by 1989 but it provides an outline of the necessary rules that any such scheme should possess if needed in the future.

7 Emergency Relief Measures Following Extreme Climatic Events and Natural Disasters

After a natural disaster, procedures for the provision of recovery assistance for the community at large are contained in the Recovery Plan for Natural Disasters and Emergencies administered by the Department of the Prime Minister and Cabinet. They are normally triggered by a declaration of a civil defence emergency. Adverse events relief programmes are administered by the Ministry of Agriculture and Fisheries and provide assistance specifically targeted to the agricultural and horticultural sectors. This assistance may be provided as part of a wider disaster recovery package or triggered independently.

Welfare assistance will be provided on a short-run basis through emergency family assistance under the emergency benefit provisions of section 61 of the Social Welfare Act 1964. This benefit provides assistance to meet the immediate needs of people who normally derive their principal income from land, or marine based, industries and who are suffering serious financial hardship as a result of adverse events (see 5 above for one-off financial assistance which also qualifies).

Adverse Events Family Income Support: This programme was introduced in November 1988 when the east coast of the South Island was declared an adverse event area due to a prolonged drought. The programme was funded by the Ministry of Agriculture but was administered by the Department of Social Welfare. Applicants must be resident in the declared adverse event area. The basis of the application for assistance is a statutory declaration that the applicant is in financial difficulty because of the drought. In May 1989, a similar declaration was made for a large area on the east coast of the North Island, with similar welfare provisions.

8 Exit Grants

At the time of the introduction of the Adverse Events Family Income Support Scheme, additional government support was provided for non-viable farmers to encourage them to leave farming. Providing a sale took place , the government undertook to ensure that the departing farmer's assets were made up to the value of $45000.

The Rural Bank had a small scheme for exit grants in 1987-88 but this was discontinued from November 1988 when the drought programme commenced.

These adverse events programmes are essentially one-off programmes designed to meet particular events. They could be reintroduced if the need was great enough. The effectiveness of the family support programmes has been acknowledged but there is some doubt if governments would entertain exit grants next time.

9 National Superannuation

This is the universal old age benefit paid by the government to all those who qualify. The qualifying age was 60 years for men and women but from 1991 this was to be raise in steps so that it reached 65 years by the year 2001. A surcharge tax is charged on all income earned over a certain level, $80 per week for a single person, and $120 for a married couple, at 25 cents in the dollar. For those people with private superannuation, the first half of all such income is exempt from the surcharge. In the June year to 1992, there were 504561 benefits being paid at a cost of $5514 m.