

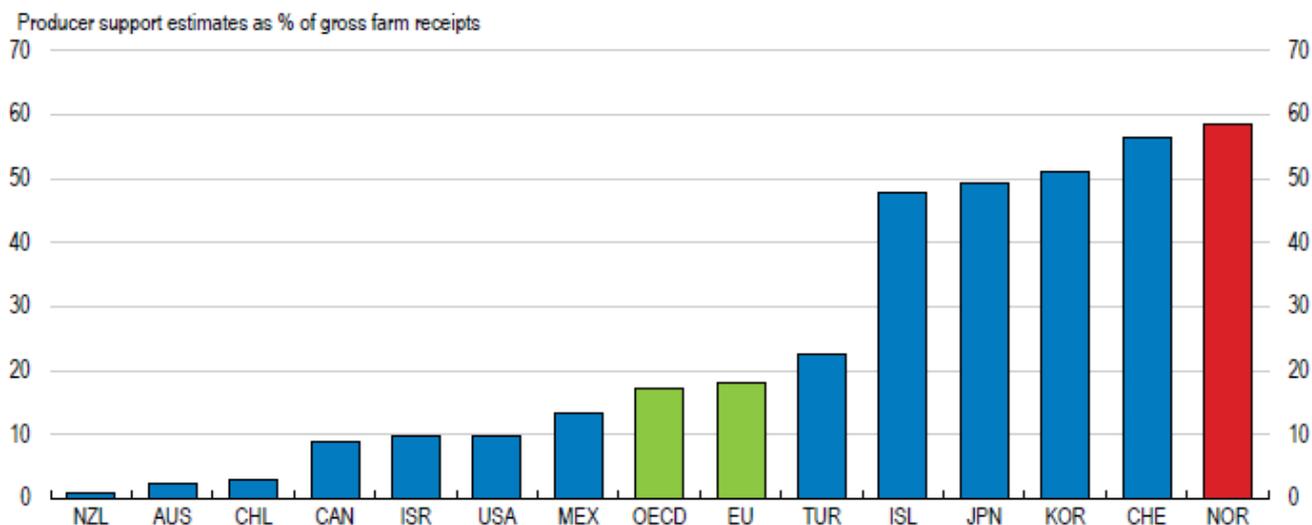
Norway... time to prune farm subsidies?

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Norway puts a high priority on maintaining high levels of well-being in rural communities, many of which are in remote and challenging environments. While it is broadly successful in achieving this goal, it comes at a high price, most notably in the form of substantial support to farmers. Is there a better way?

Each agricultural holding in Norway receives, on average, support worth nearly € 62 000 each year, according to OECD calculations, making the country's agricultural sector among the most heavily subsidised in the OECD area. Overall, subsidies to farms represent around 60% of gross farm income (see chart). Farmers are not only supported by government-funded subsidies but also benefit from special tax breaks and from custom's tariffs on food imports, the latter contributing to Norway's comparatively high retail food prices. Furthermore, the status quo in farming is supported by concessions and special rules in legislation, which for instance limit corporate ownership of farms and provide advantageous inheritance laws for farming families.

Norway's support to agricultural producers is high



Note: Calculations based on policy settings as of 2014. The OECD's approach to estimating support for the agricultural sector takes into account not only direct payments to farmers from support schemes, but also forms of indirect support, such as customs tariffs and general support (e.g. publically funded agricultural research). This figure shows the producer support estimates, which measures the ratio of transfers from consumers and taxpayers to individual agricultural producers to gross farm receipts (including support, which means, for instance that a 50% PSE means that support equals that of net farm receipts, valued at world market prices).

Source: OECD (2015), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database).

Reform of Norway's traditional fishing industry and the country's hugely successful aquaculture industry demonstrates that the country's rural communities have capacity for change and an ability to seize opportunity. Subsidies to fishing communities have fallen substantially, thanks to measures encouraging more economically competitive fleets. In aquaculture the lifting of price-setting and investment regulations in the early 1990s were key to the industry's expansion. Furthermore, there remains considerable potential for Norway to develop rural tourism given its many dramatic and unusual landscapes (such as the fjords and arctic landscapes).

Norwegian agricultural support also now needs substantial reform. Though the current government has taken some welcome steps, a lot more should be done. Import-tariffs should be reduced, which would pare back the implicit subsidy that households pay through food prices. Also direct payments for producing should be lowered and linkages between subsidies and cultural and environmental goals strengthened. The agricultural reform should be central to a wider rural paradigm that is less focused on preservation of the status quo through subsidy and more channeled towards encouraging change that helps rural communities thrive in the long run.

References:

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