

# On the analysis of public support in agri and food

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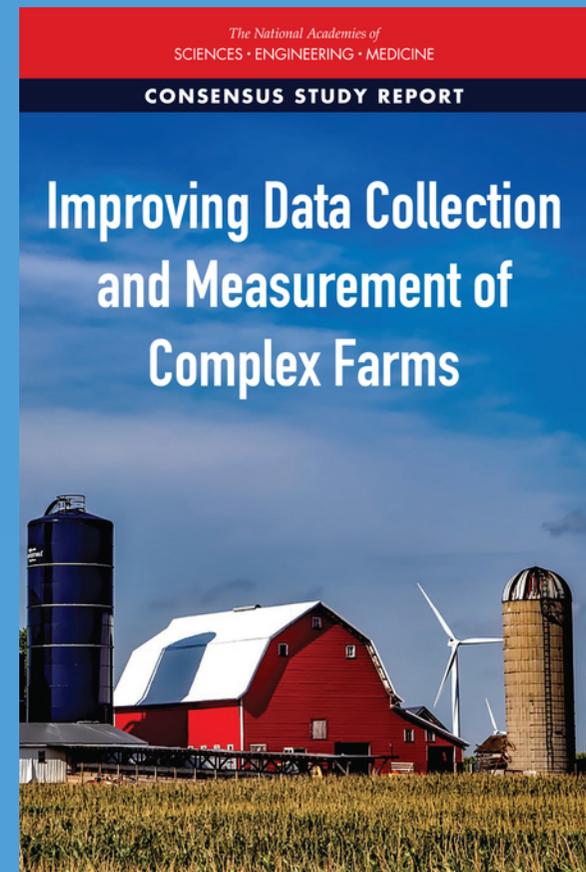
EU Projects; SCAR-AKIS 1-3 and Chair Experts Food2030

# *Family farming in a market economy with relevant institutions - a winning formula ?*



# Family farms can be quite large.....

- 1 farm has 1 location, 1 farmer and supports 1 household: this is an out of date concept
- Farms are organised much more complex, including contracts with industry
- This goes unnoticed in current statistics (that are based on an *establishment* concept and include hobby farms)



## ... but remain relatively small in the food chain

An enabling environment is needed:

- Many activities are sourced out to suppliers and food processing companies (cooperatives) to create economies of scale
  - processing and sales, contract work, accounting, etc.
- And others to semi-public organisations like commodity boards / levy organisations and sometimes to the government
  - export promotion, research and development, extension, quality control, infrastructure including land reallocation
- Also linked to public objectives as food security and social support of farmers (as labour is not fast enough relocated to other industries).

## .. and markets do not always work:

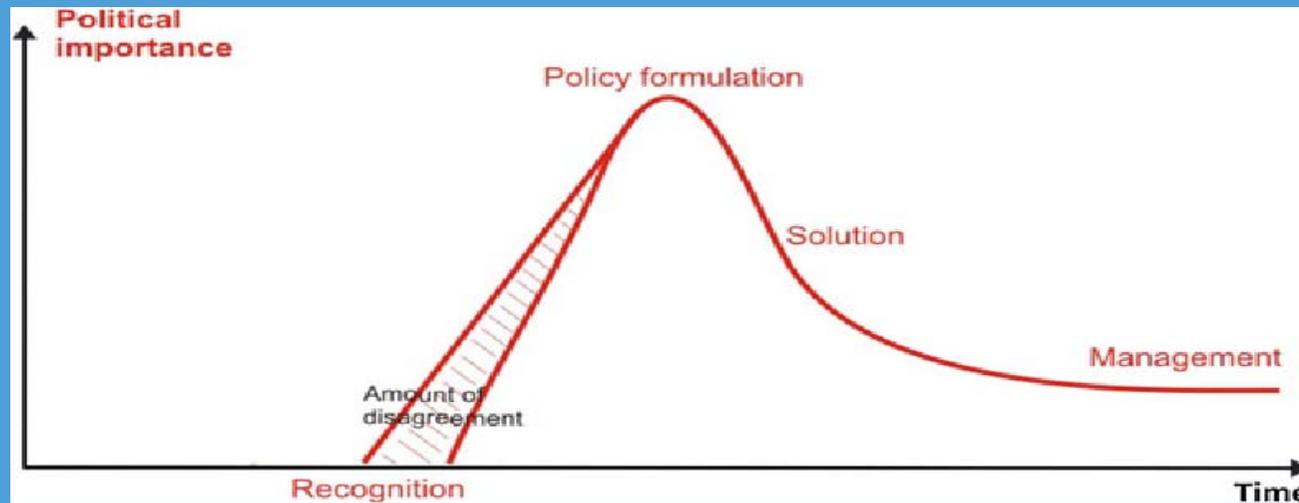
- Markets are not always perfect (monopolies, etc.; high volatility)
- Some goods / services are non-rival / non-exclusive
- Negative and positive external effects
- Information in markets is not perfect (information asymmetry)
- Missing markets (means missing prices as guide for action)
- Institutions are shaped for current organisations (infant industry argument)

In conclusion: Many reasons for government intervention – with the creation of vested interests as a risk (political economy)

# The challenge for the policy analyst - 1

- Domestic policies have international consequences. Exporters in other countries can be harmed. Need protection from wrong policies (and should not complain about good policies).
- Are measures taken by governments providing an optimal (coherent) policy mix to create the best enabling environment ?
- Should deviations from this optimal policy mix be classified as state aid?
- Because they are not Pareto-optimal for the global consumers
  - and the small self-sufficiency producer/consumer
  - and the exporter (if importing countries start exporting too) ?

# A typical policy cycle in regulating an industry



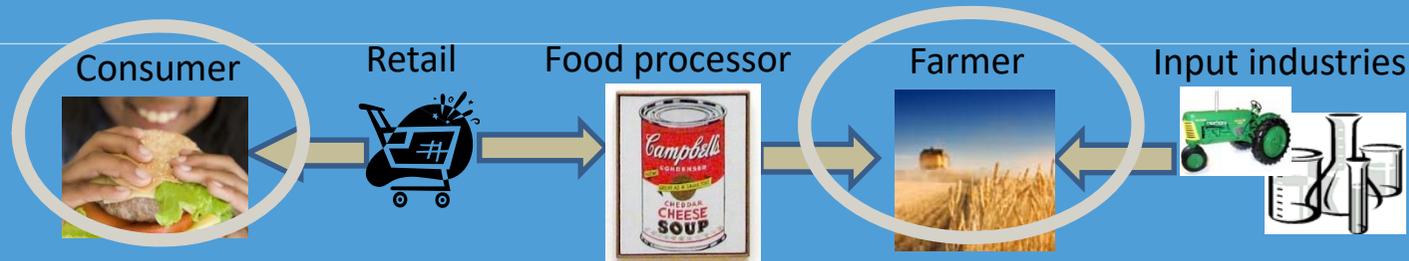
(c) Winsemius

Soft start	Voluntary	Obligations	Regulation
Information	Subsidies on desired behaviour Fiscal incentives	Tax undesired behaviour	Process / target
Innovation			Change markets
Self-regulation Procurement		Compensation?	Ban activity

# Now agriculture is a small part of food systems

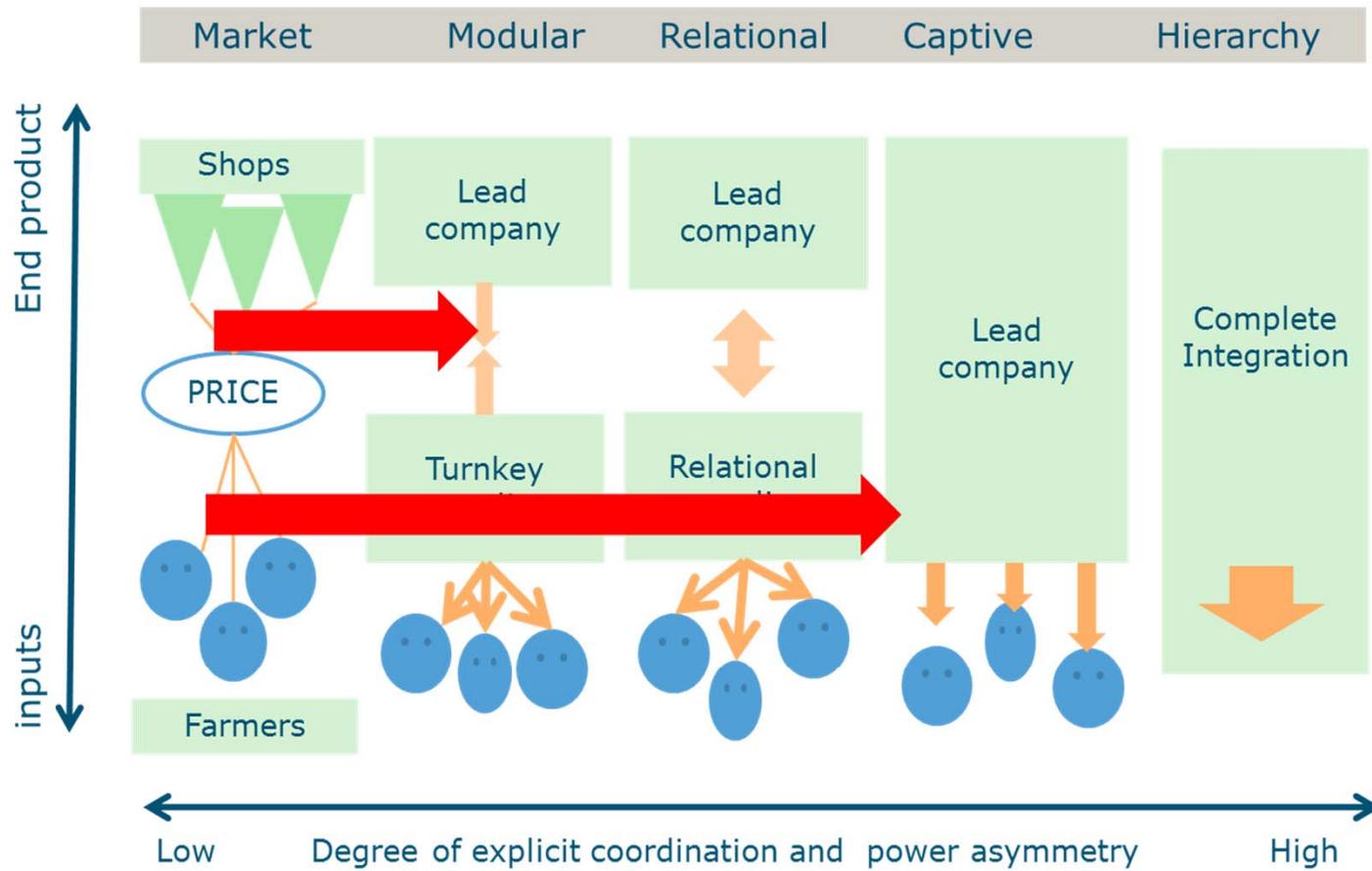
- (Western) Farms have become part of an industrialised food system
- The food system has successfully improved labour productivity at the farm and in the kitchen,
  - with big scale increases in the supply industry, food processing and retail
  - and geographic concentration: large agglomeration effects and marginalisation of far away rural areas (exit Von Thünen)
- But at the expense of the environment, climate and public health
- This calls for stronger government intervention, not only addressing farmers and consumers, but operation of the food system

# Food chain: 2 weak spots – opportunity?



- Public health issues – obesity, Diabetes-2 etc.
- Climate change asks for changes in diet
- Strong structural change
- Environmental costs need to be internalised
- Climate change (GHG) strengthens this

Is it coincidence that these 2 are the weakest groups?  
Are these issues business opportunities / market failure?  
Or system failure and lack of transformative capacity?



# From agriculture policy to food policy: an example with the EU Common Agricultural Policy

Four options to deal with climate change objectives:

- Regulate (e.g. emission trading scheme in farming on GHG)
- Direct payments with conditionality / cross-compliance (“greening”): payment per ha if grassland has enough clover and herbs (4 ‰)
- Longer term Conservation contracts for nature management
- Eco-schemes: voluntary direct payment on conditions [NL:] that farmer joins a sustainability scheme of a food processor (“equivalence”): works with the market, marketing of ‘green’ products to consumer >> food system approach

## The challenge for the policy analyst - 2

- Take the policy cycle into account in assessments of optimal policy mix?
- Should a too soft approach in environmental policy be seen as state aid that benefits foreign consumers but penalises foreign producers?
- Can our methods, models and data deal with food system approaches ?
- Increasingly the food system is blurred with other systems, e.g. energy:
  - Incentives for biomass / bio-energy production support (arable) farmers (see the German experiment)
  - Is this a suboptimal intervention in the energy market?
  - Does this hurt (global) food consumers?

# In conclusion

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- In a family farm system, public policy makes sense
- Policy analysts have a challenge to determine the optimal policy mix, which depends on national institutions and the policy cycle
- Agriculture is not an isolated activity. Farms have become more complex, the food system dominates, leads to concentration.
- Agricultural policy should give way to food policy (in the CAP Eco-schemes provide an opportunity)
- Other policies like the energy transition / climate change interact
- Methods, models and data in policy analysis should be upgraded

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# Thanks for your attention

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