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- 1 farm has 1 location, 1 farmer and supports 1 household: this is an out of date concept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)
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

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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?
Chain organisation changes (©Gereffi et al., 2005)
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

- 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
Thanks for your attention

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