

Policy solutions for improving primary producers' economic sustainability in Europe: views from a scenario exercise

William Loveluck, Pierre-Marie Aubert (IDDRI)

For the last 10 years, European primary producers in agriculture and fisheries have faced growing sustainability issues from both an economic and environmental point of view: high pressure exerted on prices by downstream actors, decrease in incomes, high exposure to price volatility, and, from an environmental point of view, decrease in the biodiversity of the European countryside, water pollution and nitrogen leakages. The SUFISA project (Sustainable Finance for Sustainable Agriculture and Fisheries) aims at identifying practices and policies that support sustainability for primary producers. It relies on the analysis of 22 case studies carried out all over Europe in a wide variety of settings to characterise the range of strategies (at the individual or collective levels) producers could develop and the kind of public policies that could foster the adoption of such strategies.

This Issue Brief provides the main results of a scenario exercise carried out in the frame of the SUFISA project. Its overall aim is to explore the potential changes producers could meet by 2030, in order to define strategic options and policy changes that would help farmers to address such changes. Four contrasted food system narratives were developed for Europe, with the aim of engaging stakeholders and experts in future-oriented debates at several levels.¹

¹ 15 stakeholder workshops were organised at territorial, national and European levels, gathering more than 150 participants, in parallel with an online consultation through which 27 experts provided insights.

KEY MESSAGES

Four contrasted narratives were examined: (1) International competition, (2) Europeanisation, (3) Ecologisation, (4) High market segmentation. They reflect potential changes in five structuring variable: trade policies, global demand, European diets, food chain organisation, technology. All four narratives were considered as almost equally credible/plausible by experts and stakeholders. This illustrates the growing instability European primary producers are facing and the need to open up the range of options to be considered for sustainable transitions.

The most cited strategic option to face future conditions—whatever the narrative considered—is to increase the capacity of producers to differentiate products to supply segmented markets. This option requires public support at different levels in order to limit the complexity of differentiation strategies based on labelling and to ensure their credibility.

In a context of growing concentration in food chains, strengthening producer organisations and enhancing vertical cooperation along food value chains is also considered as a determining option to positively affect the economic sustainability of producers under all four narratives. The range of policy options to do so still appears limited, especially when considering the highly heterogeneous situations that co-exist today in Europe.

The extent to which such strategies (product differentiation, increased coordination) could also deliver benefits on the environmental side remains to be explored.

1. FUTURE POTENTIALS OF THE EUROPEAN AGRI-FOOD SYSTEM

1.1. Scenario building

The scenario building exercise relied on two main steps:

1. A preliminary analysis of past long-term evolutions of European agriculture, which helped to identify the main drivers of food system changes and to draw hypotheses on their possible evolution by 2030. Four narratives were developed using a classical morphological approach to scenario building.²

2. A second step was to put these scenarios in discussion with experts and stakeholders through an online consultation and scenario workshops in order to discuss: the potential consequences of each narrative on producers' conditions; the type of strategies (both individual and collective) producers would be keen on adopting to face the expected changes; and the policy measures that would support the full deployment of such strategies in order to deliver on their objectives.

The most important and interesting trends and drivers identified through a retrospective analysis are the following:

- Four **fixed components** identical in all narratives: climate change, level of European integration, cost of energy and demography; and human development (as they are not used to discriminate narratives, they are not represented in Figure 1).
- Two **determining variables**, corresponding to the components estimated as highly responsible for the shapes of the four different atmospheres: trade policies and global market dynamics.
- Three **descriptive components**: the governance of food chains; European diets; and the characteristics and availability of research and technology (evolving differently depending on the way the two determining variables change).

Two options were considered for the 2030 horizon for trade policies:

- A "complete" liberalisation, consisting in the reduction or abolition of tariff barriers, not accompanied by rules imposing non-tariff barriers.
- A "controlled" liberalisation, consisting in the reduction of tariff barriers, accompanied by the imposition of non-tariff barriers such as the conformity of imported products with food safety measures, public health measures, precautionary principles and, to a lesser extent, environmental and social production standards.

Regarding global market dynamics, the hypotheses made are that the dynamics of the global market by 2030 will follow one of the two following routes:

- The global demand will continue to follow past trends (strong demand from developing countries, high demand for biofuels) leading to high prices.

- The global demand will slow down with the evolution of diets, leading to a potential price decrease.

Using "trade policies" and "global demand" as vertical and horizontal axes, we established four different potential contexts (see Figure 1), each leading to different versions of the three descriptive components would take by 2030.

1.2. Four potential narratives

The four contrasted narratives can be represented as follows:

Narrative 1: International competition

This narrative focuses on an increased liberalisation of world food markets and strong internationalisation of value chains. Competition with new global players from emerging countries (often more competitive) increases, while food prices become more volatile. World demand for food products rises, leading to relatively high prices. At the same time, the majority of EU consumers favour low-priced foodstuff, taking health and environmental issues as second order issues (the market share of organic products remains marginal). Technological development is mainly driven by the private sector and geared towards productivity gains through yield increases (resilience or mitigation with respect to climate change impacts remain secondary). Alternative strategies for rural development or production differentiation are only partially maintained, except in very specific circumstances (e.g.: in mountainous or "high natural value" areas).

Narrative 2: Europeanisation

Under this narrative, very high levels of food safety are demanded by consumers and, to a lesser extent, environmental sustainability criteria. Most of the public norms are introduced as non-tariff barriers in bilateral trade agreements under civil society pressures.³ These norms create new constraints for producers, mostly resulting in higher production costs, inducing a loss of competitiveness, not compensated by public subsidies. Consequently, European producers concentrate on the EU market and lose their role on global markets. EU products still have a good reputation in terms of sanitary quality and maintain exports for niche markets. The food market is shaped by the increasing demand for convenience food (highly transformed) by EU consumers while the market share for organic food is not very significant. The development of technology is dominated by private research, focusing on higher productivity and food safety.

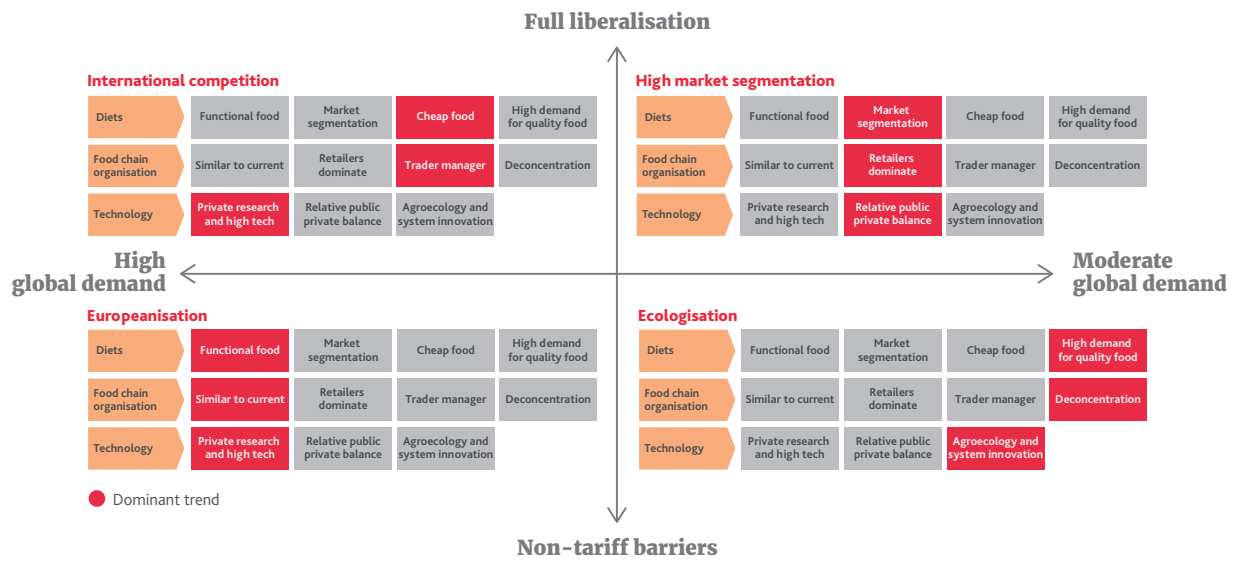
Narrative 3: Ecologisation

In 2030, trade is mostly ruled by bilateral agreements, with a decrease in global trade compared to the present time. EU consumers are aware of the safety and the environmental impact of food products. NGOs are very vocal on issues like animal welfare, healthy diets and the role of agriculture in environmental degradation. The market share for organic and other certified

² De Jouvenel H. (2000). A brief methodological guide to scenario building. *Technological Forecasting and Social Change*, 65 (1), 37-48.

³ Hübner K., Deman A.-S. & Balik T. (2017). EU and trade policy-making: the contentious case of CETA. *Journal of European Integration*, 39 (7), 843-857.

FIGURE 1. Four contrasted narratives in which producers might have to evolve



high-quality products reaches 20%. The fifth nutrition transition is well engaged,⁴ with a strong reduction in the demand for animal proteins in favour of a rise in the demand for plant-based proteins. Supply chains are shorter and less commodified, while in France for example, the market share of the five biggest national retail brands falls down to roughly 40%. An important part of the research and innovation system is oriented towards agroecology and system innovation and is well-funded, mostly by public money.

Narrative 4: High market segmentation

In 2030, global markets are liberalised and EU agri-food actors are competing with new global players from emerging countries (often more competitive). The EU market is highly segmented (within retail groups but also across retail groups). One of the five largest European retail brands has specialised in discount products, while another one has specialised in high-quality, certified products. The oligopolistic structure of the retail sector is consolidated, strengthening their bargaining power within the food chain. Consumption patterns are strongly fragmented but the overall demand for quality food is high and continues to grow, while demand for discount products is also high. NGOs recognise retailers as important market players and push the segmentation by continuously asking for higher standards while scrutinising certification processes. The research and innovation system is balanced between public and private investments.

A key point of discussion is also that for some contexts/commodities, the future is more likely to resemble the one described under the International Competition scenario (e.g. for most products that are already globally integrated and intensively produced, such as arable crops), while for others, the Ecologisation or High market segmentation scenario are probably closer to how they will evolve (e.g. for locally integrated/extensive productions, such as extensive beef or Feta cheese).

⁴ Drewnowski A. & Popkin B.M. (1997). The nutrition transition: new trends in the global diet. *Nutrition reviews*, 55 (2), 31-43.

2. TWO KEY STRATEGIES: SEGMENTATION AND VERTICAL/HORIZONTAL COORDINATION

The level of liberalisation will affect the pressure exerted on producers to supply the domestic and EU markets while the evolution of global demand will affect the opportunity for producers to supply new markets or not (depending on the ability of other countries' producers to supply these markets as well). In any narrative, product differentiation and the strengthening of producer organisations are likely to represent strategies to be favoured to foster the resilience of producers and, to a lesser extent if it does not represent an intentional goal by itself, to reach some environmental objectives. The different narratives set different conditions in which such strategies will be deployed. Product differentiation can both help to meet the evolution of demand and to protect the domestic market—through the construction of new norms—while the strengthening of producer organisations, consisting in fostering the capacity for producers of a same sector to join together to strengthen their bargaining power with downstream actors, can help rebalancing negotiations on value distribution along the chains and can also favour product differentiation.

2.1. Managing (growing) market uncertainties: segmentation and product differentiation

Product differentiation combined with *market segmentation* is the most widely cited strategy producers should deploy to address growing market uncertainties. Product differentiation consists in changing the methods of production (especially at the primary producers level, but keeping these changes visible at the processors level) to differentiate them from more commodified production while meeting certain societal expectations of consumers. The segmentation of the market corresponds

to the corollary dynamic, consisting in accompanying, at the level of consumption, the differentiation operated within the production. By demonstrating the specificity of their production through different types of labelling, producers could better valorise them and, as such, counter the current tendency whereby product differentiation is based on food processing or packaging with benefits accruing essentially to downstream players. For such a strategy to unfold: flows of products along food chains need to be segregated and greater traceability must be ensured, implying improvement in vertical coordination (see below).

At the EU (or national) level, public policies are crucial to sanction the credibility of emerging standards of quality & differentiation. At a more territorial level, part of the transaction/information costs can be borne by local governments to foster the development of local products which quality would be better recognised and valorised by the market.

2.2. Strengthening producer organisations and vertical coordination

Strengthening horizontal and vertical cooperation were also widely cited strategies. A reinforced horizontal cooperation among producers through producer organisations allows farmers to join together to sell their production collectively. A reinforced vertical cooperation, at the branch level, allows to ensure coordination among all tiers of the food chains. Concrete interpretations of such policies, however, need to be clarified today. For most experts and stakeholders, the fact that food chains are likely to be more and more concentrated, and their governance increasingly driven by retailers (with a growing centralisation of their sourcing) legitimise such reinforcement of coordination.⁵ It is also strongly coherent with market segmentation, resting on an important coordination all along the chain, specifically at the producer levels if the specificity of their practices is to be

⁵ Palpacuer F. & Tozanli S. (2008). Changing governance patterns in European food chains: the rise of a new divide between global players and regional producers. *Transnational Corporations*, 17 (1), 69-100.

valorised. Issues pertaining to vertical coordination would be different depending on the scenarios considered: while in the Ecologisation and the High market segmentation scenarios, vertical coordination would mostly be associated with product differentiation, in the International competition and Europeanisation scenarios, it would rather consist in supporting the emergence of integrated national or European champions, capable of facing increasingly tough competitors on the EU or global markets.

2.3. Supporting economic and environmental sustainability of the agri-food system?

The fact that the development of product differentiation would lead to better environmental performance is far from being automatic. The case of "pasture milk" for example, launched by French dairy farmers wanting to differentiate their products from competing products on the international market, did not increase the environmental ambition of existing production methods, but just allowed existing methods to be recognised. Furthermore, faced with too many labels, consumers are likely to consider all new labels as greenwashing. The importance of a close coordination among public and private actors therefore represents a key aspect of the success of such initiatives (the case of the organic label and geographical indications, which are both managed by policy measures and benefit from a broad recognition among consumers are illustrative examples of the importance of such a support).

The same question arises concerning the strengthening of horizontal and vertical coordination or of legislations on unfair trading practices. Fair distribution of value along the chain does not automatically imply changes in production practices and the negotiations for better valorisation from differentiated products might be partly successful if production does not effectively correspond to real changes in practices (understandable on the market) and efforts put on their traceability.

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CONTACT

William.loveluck@iddri.org
Pierremarie.aubert@iddri.org

Institut du développement durable
et des relations internationales
41, rue du Four - 75006 Paris - France

WWW.IDDRI.ORG
[@IDDRI_THINKTANK](https://twitter.com/IDDRI_THINKTANK)