

AgriFood
economics centre



Political economy – additional basis for risk management decisions

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Political economy perspective

- Why may it be politically optimal to make dissimilar risk assessments across countries?
- What kind of country characteristics could affect the decisions made?



Political economy perspective II

- Focus: Food safety standards in a broad sense
- Observation: Wide differences in food safety standards across countries

So ... why do some countries go for lower standards and some for higher?



Disguised protectionism?

- Standards with a bias against imports could be used to protect domestic production
 - A possible response to emerging constraints (WTO) to use traditional trade restrictions, like tariffs, to protect domestic production
- If protection: Consumers would always be against (as they lose from higher prices) and producers would always be pro
 - BUT standards are often driven by consumer concerns
- So, probably more to it than just protectionism



Developing vs. developed countries

- Generally lower standards in developing countries
- Reflects differences in economic development
 - Stronger consumer preferences for low food prices than for food safety
 - Lack of institutions to enforce standards
 - High compliance costs for producers
- But also differences between developed countries - why?
 - Example: EU has refused to change its imports rules despite US victories in WTO dispute settlement cases (beef hormones, biotech products like corn, soya and cotton)



Possible explanations for differences in EU and US food standards

- Consumers: Differences in consumer attitudes
- Institutions: Different visions for agricultural policy
- Producers: Differences in agricultural structures



Consumer attitudes

- Attitudes toward scientific discovery
 - Cost vs benefit
- Trust in government regulators
 - Food safety crises
- Media coverage and structure
 - Public vs commercial press
- Information flows
 - Rural vs urban dwellers



Differences in agricultural structure

- Farm structure
 - Average farm size in the EU (22 ha) and the US (169 ha)
- Farm land
 - Total production area in the US is two times the area in the EU
 - Total value of output in the US 70% of the EU value
- Standards can affect production costs
 - Rational for producers to support standards that increases costs for their competitors



Vision for agricultural policy

- Four different agricultural paradigms
 - **Dependent** (needs government support)
 - Low incomes in agriculture
 - Not competitive without assistance and protection
 - **Competitive** (able to compete for resources)
 - Average income in farming
 - Competitive with other sectors for resources
 - Competitive in world markets with level playing fields
 - **Multifunctional** (provide public goods)
 - Incomes from farming inadequate for support of rural areas
 - Production of public goods unrewarded
 - **Globalized** (part of a supply chain)
 - Farmers part of a supply chain
 - Consumer driven



Vision for agricultural policy II

- Policy priority
 - Dependent
 - Income support even in normal market conditions
 - Competitive
 - Move towards free markets
 - Multifunctional
 - Preserve countryside + rural development
 - Keep family business viable
 - Globalized
 - Establish quality and safety standards
 - Identity preservation and market differentiation



Vision for agricultural policy III

- The US
 - Competitive paradigm present
 - Dependent paradigm for some sectors (sugar, dairy)
 - Elements of multifunctional agriculture is evolving
- The EU
 - Dependent paradigm is loosing ground
 - Competitive paradigm is evolving (UK, Denmark, Sweden, the Netherlands)
 - Multifunctional paradigm is still dominant (Germany, France, Italy, Austria)



Conclusion

- Differences in consumer attitudes
 - Higher consumer acceptance of new technology in the US
 - Differences in media
- Different visions for agricultural policy in the EU (tendency to multifunctional) and the US (tendency to competitive)
- Different agricultural structures in the EU (smaller farms) and the US (larger farms)

... could help explain why standard setting differs between the US and the EU

