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Authors: Pierre-Marie Aubert, Baptiste Gardin, William Loveluck (IDDRI)

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

The SUFISA project – Sustainable Finance for Sustainable Agriculture and Fisheries – aims to identify practices and policies that support the sustainability of primary producers, looking at 22 case studies in contrasted settings all over Europe. Since the last 10 years, these producers are indeed facing growing sustainability issues such as high pressure exerted on prices by downstream actors, an incapacity to paying off debts, a decrease in incomes, a high exposure to price volatility with little resilience, but also from a more environmental point of view, a decrease in the biodiversity of the European countryside, water pollution, nitrogen leakages, etc.

In order to identify policy options to address such difficulties, the project adopted a producer-centric approach. The objective was first to characterize the range of strategies (at the individual or collective level) producers can develop to address changes in their business environment (considering both internal and external conditions). Second, the aim was to identify the kind of public policies that could foster or enhance the adoption of such strategies and contribute to their fruitful implementation.

Besides a thorough analysis of current conditions and corresponding strategies in a variety of settings (reported in deliverables 2.3 and 2.4), the project developed a scenario exercise to explore future/potential changes in producers' conditions, strategic options and policy needs to address such changes. In this perspective, four contrasted food system narratives were developed, focusing on the European context, with the ultimate aim of engaging stakeholders and experts in future-oriented debates at several levels. 15 stakeholder workshops were organized at territorial, national and European levels, gathering more than 150 participants, in parallel with an online consultation through which 27 experts provided insights.

Key points:

1. Food system narratives were developed using a forecasting approach, reflecting upon potential changes in five structuring variables for European food system dynamics: agricultural trade policies, global demand for food/feed/fibre/fuel, European diets, food chain organization & governance, available technology for producers. Four contrasted narratives were put to the debate: International competition, Europeanization, Ecologization, High market segmentation.
2. All four food system narratives were considered as almost equally credible / plausible by experts and stakeholders, despite the important contrasts they present. This well illustrates two points:
    a. That the growing instability which characterizes current producers' conditions leads most stakeholders to open up the range of options they consider when thinking about potential futures and designing their strategies;
    b. That future evolutions in producers' conditions are most likely to be highly heterogeneous across Europe depending on, for instance, their geographical settings and the sort of value chains they are involved in.
3. As a sort of corollary, the most cited strategic option to face future conditions–whatever the narrative considered–was to increase producers' capacity to differentiate products to supply segmented markets. This was indeed considered as both something that cannot be avoided–due to evolving consumer preferences–and something producers need to contribute to in order to

maximize their markup. For such a strategy to be successful from a producer sustainability point of view, public support is needed at different levels to, inter alia, limit the complexity of differentiation strategies based on labelling, ensure their credibility vis-à-vis the public, and favour the uptake of such quality / differentiated products by public actors.

4. Strengthening producer organisations and enhancing vertical cooperation along food chains was also considered as a no-regret option which positively affects producers' economic sustainability under all four narratives. This echoes a shared vision among almost all consulted actors on the fact that the level of concentration in food chains is most likely to continue to increase, and at best to stabilize as it is. In such a context, reinforcing producers' capacity through improved horizontal and vertical coordination was considered an absolute priority, although the range of policy options to do so still appear limited especially when considering the highly heterogeneous situations that co-exist today in Europe.
5. The extent to which such strategies (product differentiation, increased coordination), if supported by policy measures, could also deliver on the environmental side, remains to be explored.

1 A scenario exercise to trigger policy debates and gather stakeholders' views on policy needs

The key starting point of the approach developed here is the idea that by 2030, European societies will experience changes that will not be directly linked to agricultural / fishery policies or producers' strategies. Yet, these changes will in turn affect the organization of food systems and hence producers' conditions. Thinking about strategic options and policy solutions to address those changes led us to develop a scenario exercise based on two main steps:

1. A first step was to develop "food system narratives", through a literature review and high-level stakeholder discussions. A preliminary analysis of past long term evolutions of European agriculture also helped to (i) identify the main drivers of food system changes and (ii) draw hypotheses on their possible evolution by 2030. Four such narratives have been developed using a classical morphological approach to scenario building.[1]
2. The second step was to put these scenarios in discussion with experts and stakeholders through (i) an online consultation and (ii) scenario workshops. The overall aim was to discuss on (i) the potential consequences of each narrative on producers' conditions; (ii) the type of strategies (both individual and collective) producers would be keen on adopting to face the expected changes and (iii) the policy measures that would support the full deployment of such strategies in order to deliver on their objectives.

15 scenario workshops were organized between November 2017 and December 2018 at multiple levels, from specific territories to the European level. More than 130 stakeholders participated in these workshops. While all categories of actors were represented, downstream actors (processors and retailers) were harder to enrol in the exercise, partly because being currently in a dominant position, they had few incentives to share information or to participate in such workshops.

Besides gathering stakeholders' views, these workshops also fostered public and policy debates at different levels[2] on the role of public policies in ensuring a sustainable future for European producers. By taking place all over European territories, they notably offered opportunities for stakeholders usually not convened or not able to contribute to such debates to express their voices / concerns / propositions.

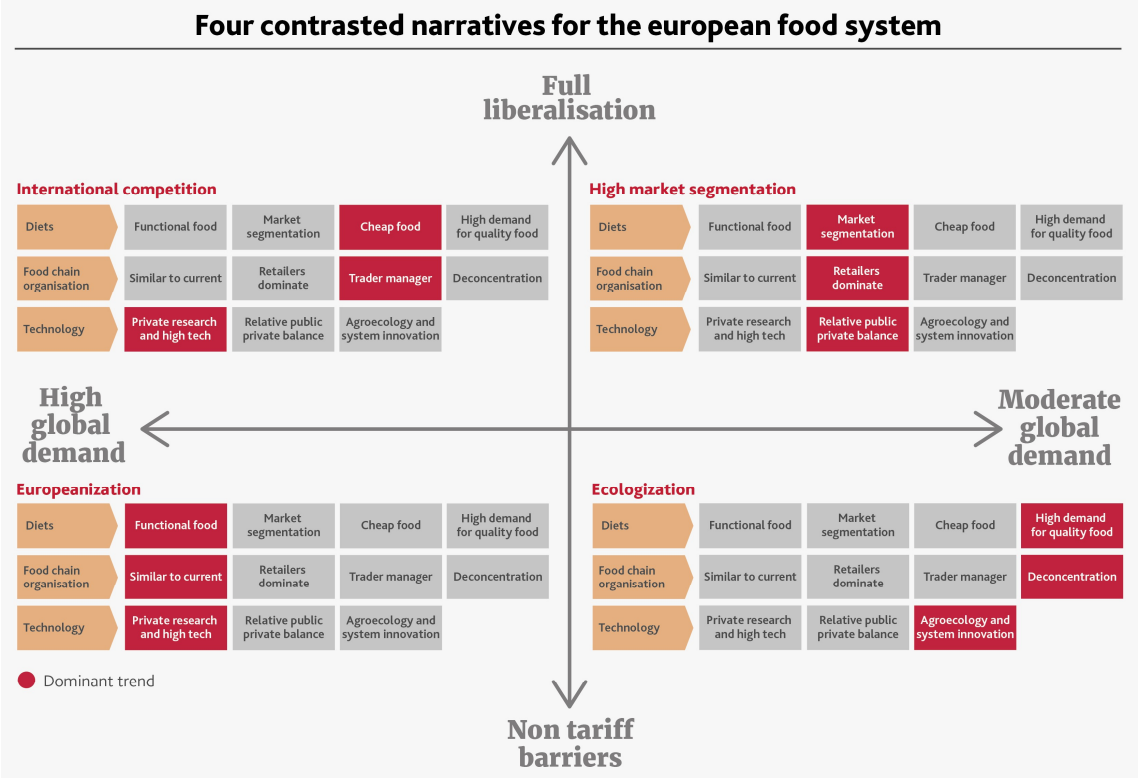
[1] De Jouvenel H. (2000). A brief methodological guide to scenario building. *Technological Forecasting and Social Change*, 65 (1), 37-48.

[2] Following in this respect the idea that foresight are ways of strategically intervening in future-oriented debates. See Treyer S. (2009). Changing perspectives on foresight and strategy: from foresight project management to the management of change in collective strategic elaboration processes. *Technology Analysis & Strategic Management*, 21 (3), 353-362.

2 Four contrasted food system narratives… judged equally probable / credible by experts and stakeholders

In order to build food system narratives by 2030, we selected the most important and interesting trends and drivers identified through a retrospective analysis. We considered three kinds of components determining the shape of the four narratives:

- Four fixed components: they are the same for all of the four narratives (as they are not used to discriminate narratives, they are not represented in the figure below): climate change, level of European integration, cost of energy and demography and human development;
- Two determining variables: the components which we estimated as highly responsible for the shapes of the four different atmospheres: the type of trade policy in place and global market dynamics;
- Three descriptional components: the governance of food chains, European diets and the characteristics and availability of research and technology.



Narrative 1: International competition

This narrative focuses on an increased liberalization of world food markets and strong internationalization of value chains. There is an increasing competition with new global players from emerging countries (often more competitive), while food prices become more and more volatile. World demand for food products is rising, 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 in the EU remains marginal under this narrative). Technological development in the agricultural and fisheries sector 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 (for example in mountainous or "high natural value" areas).

Narrative 2: Europeanization

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 in this respect are introduced as non-tariff barriers in bilateral trade agreements under civil society pressures.[3] These new norms create new constraints for producers and mostly result in higher production costs, inducing a loss of competitiveness which cannot be compensated by public subsidies. As a consequence, Europe loses its role on global markets for agricultural products and gives place to emerging global players like Brazil, Argentina or Russia, especially when it comes to conventional products. The majority of European agriculture thus comes to feed the domestic market. European 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 role of high-tech solutions in the food sector and by a high demand for convenience food by European consumers. Diets are mostly made up of transformed products, selected for their convenience. The market share for organic food is not very significant, at about 6 %. Consumers are ready to pay a higher price for the convenience of the food they consume, with the food budget share of overall household expenditure at about 15%. The development of technology is dominated by private research and by the search for higher productivity and higher competitiveness linked to the increased demand for safe products.

Narrative 3: Ecologization

In 2030, trade is mostly ruled by bilateral agreements, with a decrease in global trade compared to the present time. European consumers are extremely aware about the safety and the environmental impact of food products. NGOs are very vocal on social and traditional media on issues like animal welfare, healthy diets and the role of agriculture in environmental degradation. The market share for organic and other certified 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. Consumers' willingness to pay for quality food is high and the share of the food budget in the overall household budget is around 18%. Supply chains are shorter and less commodified. Added value is more fairly distributed along the supply chain. The market share of the big five 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 liberalized and European agri-food actors are competing with new global players from emerging countries, who are often more competitive. The European market for agricultural products is highly segmented. Segmentation is high within retail groups but also across retail groups. One of the 5 big European retail brands has specialized in discount products, whereas another one has sold its discount subsidiaries to specialize in high-quality, certified products. This is consolidating the oligopolistic structure of the European retail sector, strengthening their bargaining

[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.

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

power. High market segmentation corresponds to a highly fragmented consumer demand. Consumption patterns are strongly individualized but the overall demand for quality food is high and continues to grow; demand for discount products is also high. The share of the budget spent on food as a share of the overall household budget varies between 10 and 16 %. The market share of organic products is around 14%. Retail labels become very important as a way of addressing complex consumer demands. NGOs recognize retailers as important market players and push the segmentation even further by continuously asking for higher standards, as well as playing an important role in scrutinizing certification processes. The power balance within the food chain is clearly in favour of the downstream sector, and more particularly the retail sector, with the big five retail brands holding 70 % of the market share. The research and innovation system is balanced between public and private investments.

Quite interestingly, the Delphi survey showed that the contrasted trends considered for each variable to build the four narratives are considered as almost equiprobable. For instance, experts consider as equally likely a sharp increase in the global demand for food/fibre/fuel **and** a slowdown in that demand. This analysis was further reinforced by most scenario workshops, during which all scenarios were discussed with a similar degree of interest and often judged as being all credible. 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 / territories that are already globally integrated and intensively produced, such as arable crops), while for others, the Ecologization or Dualization scenario is more probably closer to how they will evolve (e.g. for locally integrated / extensive productions, such as extensive beef or Feta cheese).

3 Managing (growing) market uncertainties: segmentation and product differentiation

To address growing market uncertainties, the most widely cited strategy producers should adopt / deploy rest on *product differentiation* and *market segmentation*. The strategy was cited 44 times in 15 workshops, and was considered relevant irrespective of broader evolutions of the food system (only slightly less relevant under an *International competition* scenario). Broadly put, the idea behind such a strategy is for producers to take advantage of the evolving consumer demand for greater transparency / traceability and "responsibility". By shedding light on the specificity of their production through different types of labelling, producers could better valorize 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, several constraints have to be overcome and were critically considered by stakeholders. They pertain most notably to the need to segregate flows of goods and products along food chains, ensure a greater traceability, and hence rest on an improvement in vertical coordination (see below).

Besides those issues, public policies have also a determining role to play to ensure the success of such strategies. At a general / European (or national level), public policies are first key to sanction the legitimacy and the credibility of emerging standards / signs of quality & differentiation. Faced with too many labels, consumers are indeed keen on throwing the baby with the bathwater and considering all new labels / standards as greenwashing (the case of the organic label and Geographical indications, which are both managed / controlled by policy measures and benefit from a broad recognition amongst consumers are good examples of the importance of such a support).

At a more territorial level, part of the transaction / information / communication costs can be borne by local governments to foster the development of place-based products which quality would be better recognized and valorized by the market.

Last but not least, while it is often assumed that the development of labelling / product differentiation would lead to better environmental performance, the relationship between both is far from being automatic / mechanistic. The objective is indeed not always to increase the environmental ambition of existing production methods, but rather to make them better recognized, even though they are not always optimal from a strict environmental point of view. The case of "pasture milk" launched by French dairy farmers on the basis of current practices is a case in point: the aim is to differentiate their products vis-à-vis competing production on the international market, with no specific environmental ambition.

4 Strengthening producer organisations and vertical coordination as "no regret options"

The strengthening of both horizontal and vertical cooperation are two other broad strategies that were widely mentioned (32 times each, total 64 occurrences), leading us to consider it as a no-regret option. It remains however to be clarified what exactly it means for policy making. Let us first mention that this broad consensus on the need to foster producers' coordination (both horizontally and vertically) echoes the view of most experts and stakeholders on the fact that food chains are likely to be more and more concentrated, and their governance more and more buyer driven.[5] It is also strongly coherent with the idea of increasing market segmentation at the producer level: as mentioned above such segmentation rests on an important coordination all along the chain and specifically at the producer levels, if the specificity of their practices is to be valorized. One can notice on that specific point that issues pertaining to vertical coordination would be different depending on the scenarios considered: while in the Ecologization and Dualization scenario, vertical coordination would mostly be associated with segmentation / product differentiation, in the International competition and Europeanization scenarios, it is rather (or in addition) a matter of supporting the emergence of integrated national or European champions, capable of facing increasingly tough competitors on the European or global markets.

Regarding policy measures to foster such increase in producer cooperation, the question is by no means new and has been a matter of reflection from the part of decision makers for a long time. The fact that stakeholders re-asserted quite unanimously the importance of this should comfort the recent measures adopted by the EU through the Omnibus regulation, which generalizes the right for producers to organize into formal producer organizations to sell their production.[6] However, taking measures to allow the development of producer organizations will not mechanically result in their further development, especially if one considers their unequal dynamics across member states. Yet, there is still no consensus on who (private or public actors) should support this development and what incentives should be provided to achieve this goal in the most efficient way. Such questions were not fully addressed during scenario workshops and will deserve further research and experimentation.[7]

[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.

[6] This despite the concerns expressed by the European Commission regarding potential negative impacts on "an effective level of competition" in the agricultural sector.

[7] Fałkowski J. & Pavel C. (2016). *Factors Supporting the Development of Producer Organizations and Their Impacts in the Light of Ongoing Changes in Food Supply Chains: A Literature Review*. Luxembourg, Joint Research Centre of the European Commission,, 57 p.