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# **Global Trade versus Local Markets**

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## **SIDEA2016 Congress announcement:**

**"Agriculture is in the middle of a global debate on the benefits of open markets and free trade on the one hand**

**and the ongoing trend to localize food production at the point of consumption on the other."**

1. What is the meaning of "local markets"?
2. Which categories of concerns play a role in the debate?
3. Public versus private responsibilities
4. A quick reality check
5. Conclusions

# 1. What is the meaning of "local markets"?

# "Local" markets in an era of change



definition of "local" (or "regional"?)  
involves several dimensions

- distance
- subjective assessment
- access to supplies and  
absence of trade barriers

**transportation costs  
are declining**

**international travel  
expands**

**economic integration  
is progressing  
(e.g. EU, RTAs)**

# An official definition of "local" (??)



- U.S. 2008 Food, Conservation, and Energy Act (2008 Farm Act):

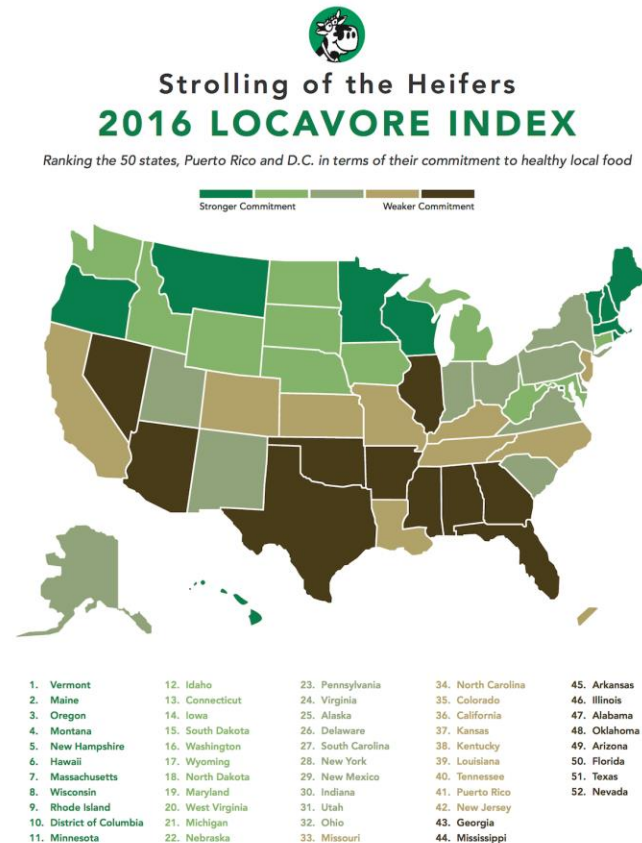
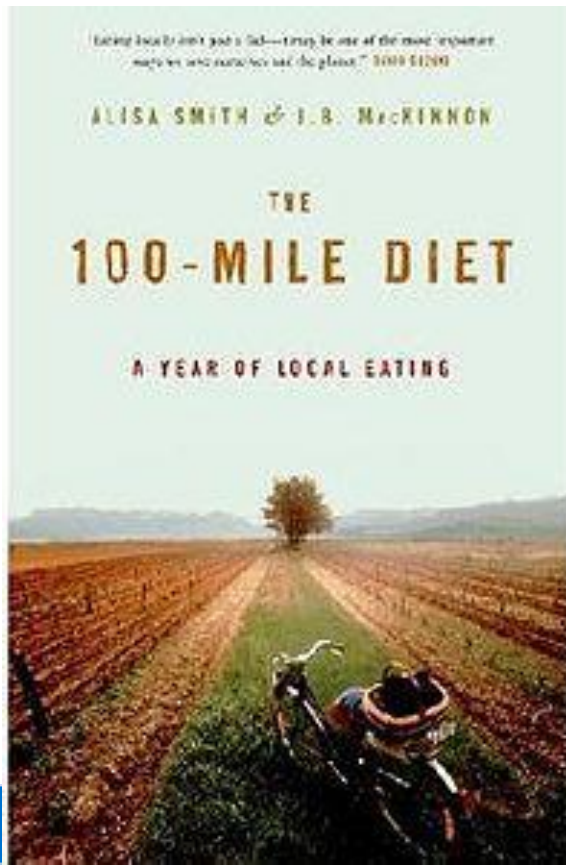
a product is considered a locally or regionally produced agricultural food product if transported

***"less than 400 miles from its origin, or within the State in which it is produced"***

# What is a "locavore"?



*"a person who makes an effort to eat food that is grown, raised, or produced locally, usually within 100 miles of home"* (<http://www.dictionary.com/browse/locavore>; 27/07/2016)



# A definition by an NGO



*"The term "local food system" (or "regional food system") is used to describe a method of food production and distribution that is **geographically localized, rather than national and/or international.** ...*

*In general, local/regional food systems are associated with **sustainable agriculture**, while the global industrial food system is reliant upon **industrial agriculture.**"*

(<http://www.sustainabletable.org/254/local-regional-food-systems>; 27/07/2016)



## **2. Which categories of concerns play a role in the debate?**

# Category 1: Sustainability



- "food miles", "carbon footprint"
  - \ several life cycle studies show that carbon footprint  $\neq$  f(distance)
  - \ carbon footprint  $\neq$  overall resource use
- "virtual water"
  - \ disregards regional scarcity of water
- less monoculture in localized production systems
  - \ has no empirical base

## Category 2: Social stability



- Social embeddedness: *"Direct agricultural markets promise human connection at the place where production and consumption of food converge"* (Hinrichs, 2000)
  - \ but "power and privilege may sometimes rest more with educated, middle-class consumers than with farmers" (Hinrichs, 2000)
- Local welfare benefits: *"every £10 spent at a local food business is worth £25 for the local area, compared with just £14 when the same amount is spent in a supermarket"* (New Economics Foundation)
  - \ but what about welfare in (poor) exporting countries?

# Category 3: Food safety



- Imported food may appear less safe than domestically produced food
  - \ but on local farmers' markets food safety is often found to be deficient
- *"Food that has to be transported long distances is often preserved with waxes, irradiation, gases and synthetic chemicals, such as fungicides and sprout inhibitors."*  
(Capers Community Market)
  - \ but small (local) producers often lack expertise regarding food safety, are often exempted from food safety requirements

## Category 4: Food security



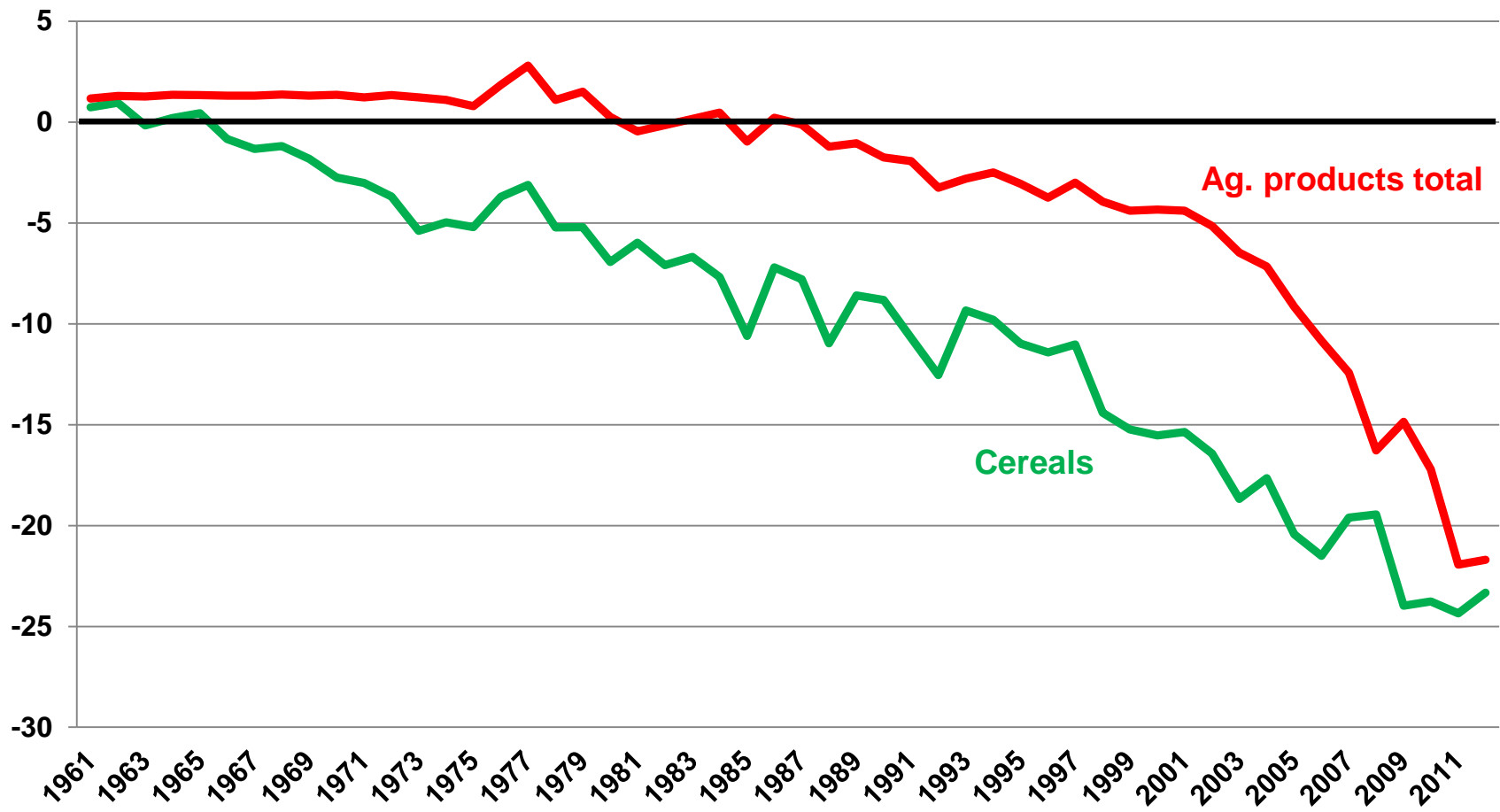
- International markets suffer from volatility  
  \ but the most effective way of stabilizing domestic markets is through trade
- Developing countries should focus on producing the food their people need  
  \ but rapid growth rates of population and incomes, combined with resource constraints, result in growing (net) food imports
- It is sometimes suggested that developing countries should strive for "food sovereignty"  
  \ but that would inflict harm on their poor consumers

# Least developed countries are net importers of agricultural products



Net export (export minus import)

Mill t (cereals, rice); bill USD (ag products total)



Source: FAOSTAT (2015)

# Category 5: Economic efficiency



- Food (and other goods) should be produced where the aggregate of all resources employed (incl. transport) are available at lowest costs
- Relevant are **social** (not private) costs
- International transport is often less taxed than domestic transport  
... providing an "unfair" advantage to international trade
- Consumers should be allowed to choose from the full variety of globally available goods

# Category 6: Consumer preferences



- There is a growing number of "locavores", and the *SLOW FOOD* movement (born in Italy!) is expanding
- Some consumers simply like the idea of consuming food from their neighbourhood  
... and possibly seeing where it comes from
- But others have a preference for specialities which may come from far away  
(e.g. Prosciutto di Parma, Parmigiano Reggiano)
- Important: consumers should not be misled  
(e.g. food miles)



### **3. Public versus private responsibilities**

# What is the role of governments?



- There is no reason why governments should persuade consumers to prefer local food  
... or interfere with international trade
- Where external effects are involved (e.g. emissions), targeted measures should be used (e.g. tax on emissions)
- Governments should ensure that consumer information is correct
- Geographical Indications should be protected

## 4. A quick reality check

# How large is local food consumption?

*"Many EU consumers prefer local or regional products where these are available. ... As a result, farmers are increasingly selling directly to consumers at farmers' markets and are processing their own products to add local value."*

*(European Commission, 2014)*

**USA:** (USDA, Trends in U.S. Local and Regional Food Systems; 2015)

direct-to-consumer sales    **0.3%** of all farm sales  
local food sales (estimate)    **1.4%** of all farm sales

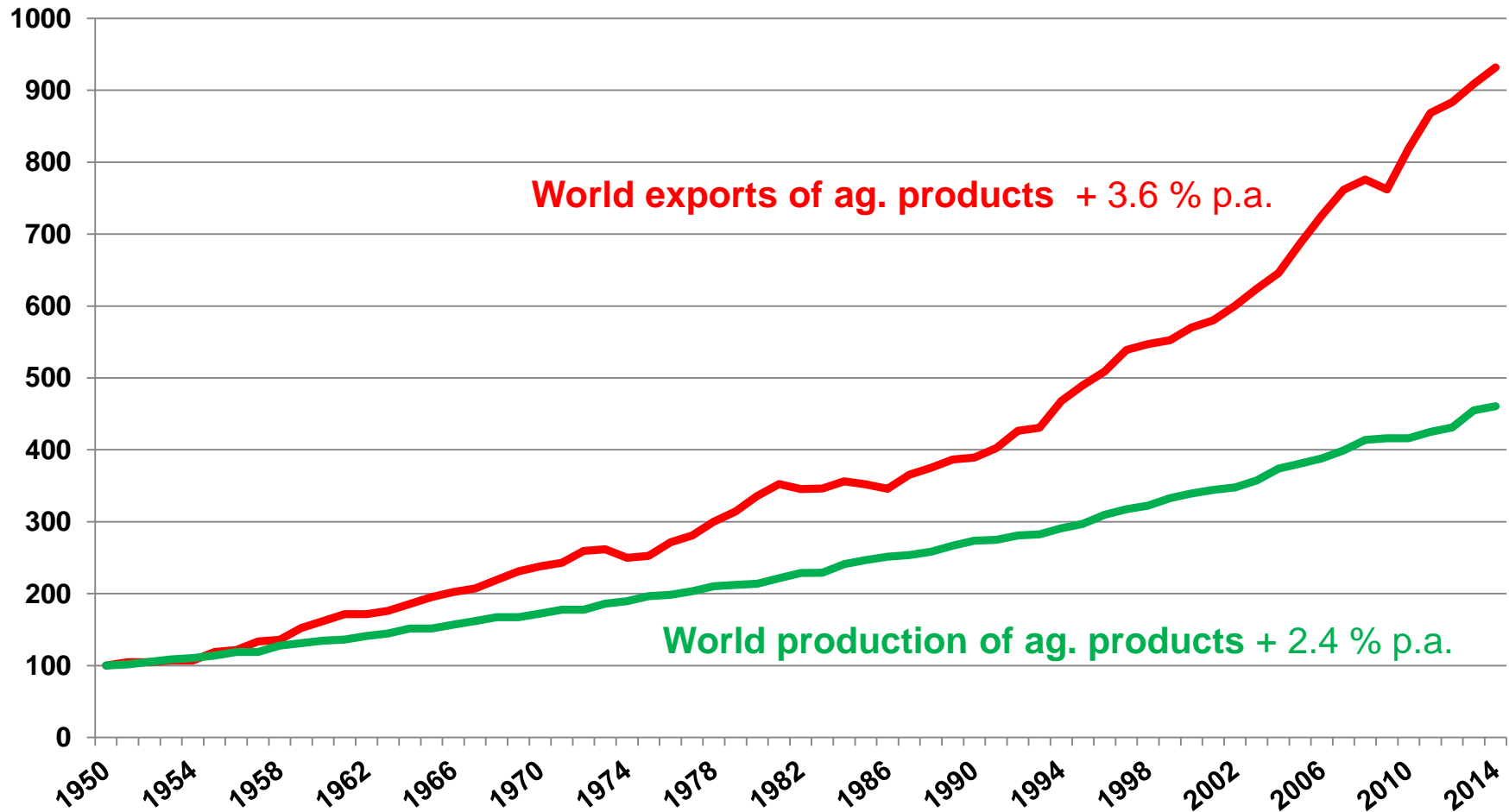
**Germany:** (Recke, Zenner, Wirthgen; 2004)

direct sales of farms, including to grocery stores  
(estimate)    **~ 8 %** of all farm sales

# World agriculture is increasingly globalized



1950=100



World exports of ag. products + 3.6 % p.a.

World production of ag. products + 2.4 % p.a.

Source: WTO (2015), International Trade Statistics 2015. Geneva: WTO.

SITC sections 0, 1, 2 and 4 minus divisions 27 and 28

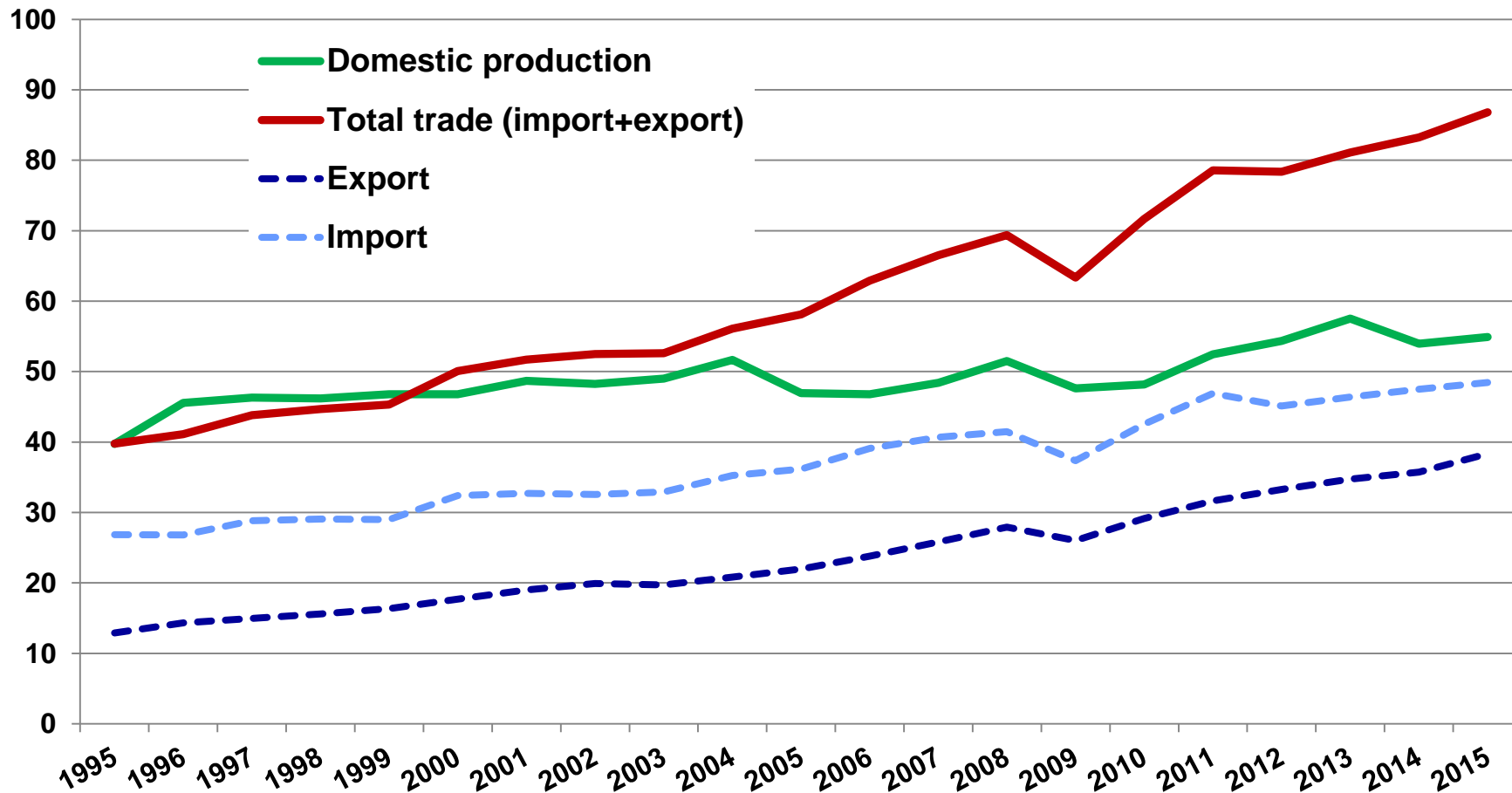
# Italy's agricultural trade grows faster than its domestic agricultural production



Trade: value (current prices) of imports plus exports, EU-intra plus EU-extra

Domestic production: output of the agricultural industry (current prices)

Billion EUR

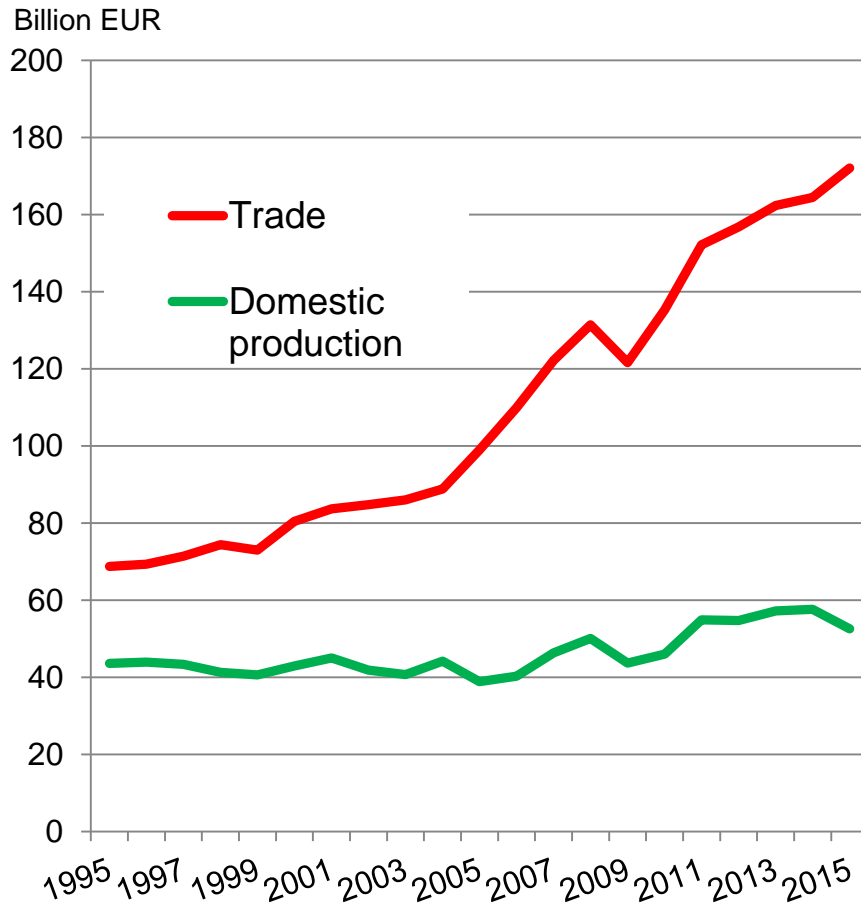


Data source: EUROSTAT (2016)

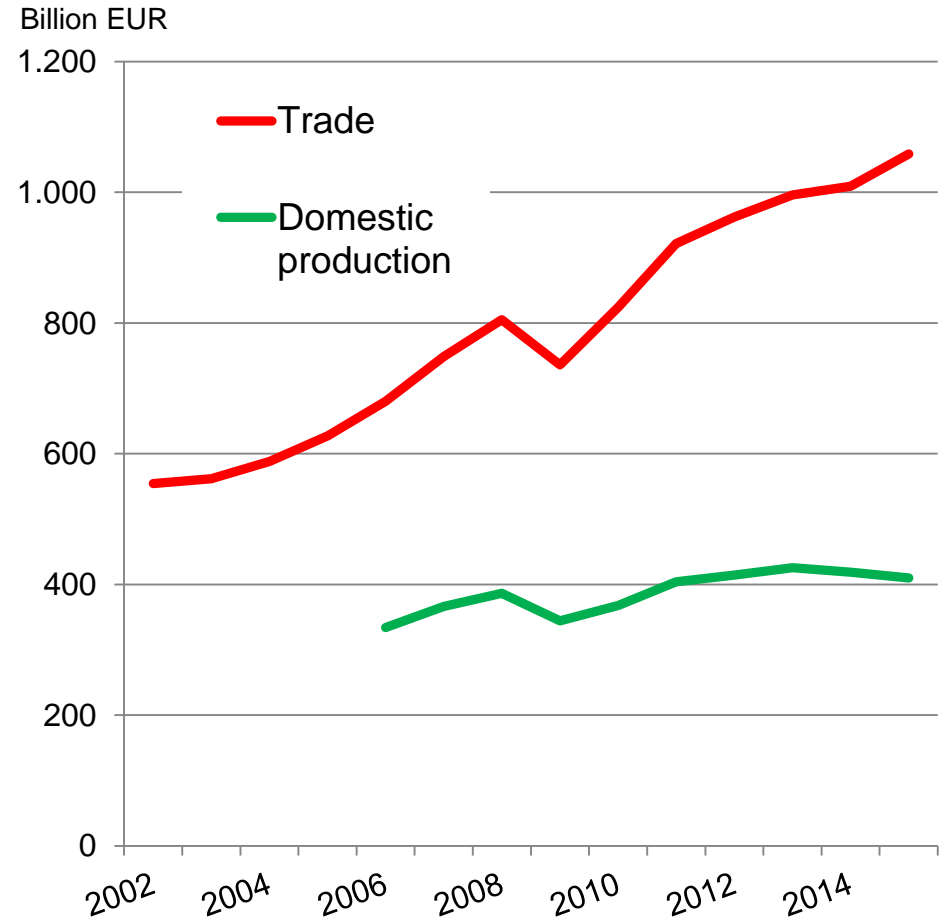
# ... the same holds true for Germany and the EU overall



## Germany



## EU28



Data source: EUROSTAT (2016)

## 5. Conclusions



# Markets are changing



- There is growing interest in, and talk about, local food markets
- Most consumers attach great importance to locally grown food
  - \ **but actual size of local markets is small**
- Share of global (and national) output traded internationally continues to grow
  - \ **non-local markets are larger and more dynamic than local markets**

# Consumer preferences count



- Some arguments advanced in favour of local markets are not fully convincing
  - ... which is not a reason to dissuade consumers from buying local produce
- Consumer preference, not government policy, should govern evolution of local markets
- Governments should ensure appropriate and correct information, preclude fraud