Royal Agricultural Society of England

Differentiation

A sustainable future for UK agriculture

An independent report commissioned by:

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Foreword

FOREWORD

The sustainability of farming today will shape the face of Britain for our grandchildren.

The last century has seen enormous change to the face of British industry. Our former might in ship-building is long lost, our car manufacturing sector slimmed down, coal-mining overtaken by more efficient fuels. In all these examples there's been a sensible recognition that artificially protected markets are unsustainable, and we've had to adjust to the consequences for employment and for local economic vitality. Farming too is having to face up to the dismantling of the protection of the former Common Agricultural Policy, but as citizens we cannot view its decline with equanimity.

Three-quarters of the land in our country is occupied by agriculture. Farmers don't only produce food - they bear the responsibility for our national landscape, for conservation and biodiversity. These benefits cannot be directly supported by any 'consumer' price mechanism nor can they be left to 'hobby farmers' or charged to public expenditure without an enormous bureaucracy and tax burden. Historically care of our countryside has been an uncosted but valued by-product of the farming sector. For this to continue we must have a thriving agriculture sector.

Broadening customer tastes mean that an increasing amount of food will be imported from areas where costs of production are lower or where a particular product is part of the identifiable national diet. Concern about 'food miles' needs to be balanced by a recognition of consumer expectations as well as of the climate consequences of extending the production capability of British agriculture. But self-sufficiency in indigenous-type produce has declined over the last fifteen years from more than 80% to close to 70%. To take two examples:

- Consumer demand for pork has increased over that period, but self-sufficiency in pig-meat has declined dramatically.
- The planted area for fruit and vegetables has declined by more than 20%, while the value of imports has increased by 50%.

These trends can be traced to a multiplicity of causes - government regulation, relative prices for imported products, supermarket buying practices and customer preferences. Whatever the causes, the effects are real and measurable and the consequences are visible and disturbing.

In commissioning this report as President of the Royal Agricultural Society of England I have had two aims:

- to encourage people to enjoy their food and to feel confident in its provenance, and
- to help sustain a viable UK farming sector confident to differentiate its output on the basis of quality in a competitive globalised market.

Consumers shouldn't be asked to overpay for good quality food, and I see no future in any call for a return to the artificiality of protected markets. The strength of British agriculture lies in its ability to offer a differentiated product which shoppers associate with good taste, high animal welfare standards and environmental responsibility. Food produced in Britain offers good value and is worth paying for.

The research commissioned for this report and already published from other sources underlines the growing significance of the 'ethical consumer' but, alongside that, the disconnect between shoppers' individual purchasing habits and their concern about the national landscape and the farming sector. (While 86% of consumers believe that Britain should be a farming nation and that British food should be widely available, only 18% actively 'buy British').

This report usefully highlights three important facts about customers' shopping decisions. First, that even ethically sensitive consumers need to see a personal motivation of quality, taste or health benefit if their purchasing habits are to change. Secondly, they want to be sure that supermarkets are passing a price differential back to farmers. Thirdly, there were doubts that their individual shopping decisions were significant enough to make a difference.

There is no quick fix to improve the economic viability of UK farming, but once lost a viable farming sector cannot be rebuilt. This report points to the need for the sustainability of farming to be placed firmly on the public agenda so that all parties can share responsibility for the future:

- Government - providing the framework for a successful farming sector through balanced regulation and consumer education;
- Supermarkets - accepting their crucial role in conveying information about farming and the provenance of the products they sell, and crucially demonstrating that 'Fairtrade' applies to UK farmers just as much as it does to third-world countries;
- Customers - understanding that they ultimately make the choice on the quality of food they eat and on the long-term viability of the farming sector which supports it.

At the start of my Presidency I undertook to help to build links between the farming and retail sectors. As Chairman of Waitrose I've been able to initiate some practical steps to help farmers to understand better the markets they are selling into and to have the confidence to highlight the quality difference which entitles them to a fair price. These workshops build on the long-term relationships with British farmers which are an established part of how Waitrose sources quality food which customers can trust. We've also seen positive results from our work to provide more immediate links between shoppers and farmers.

The actions of each one of us today - as shoppers, as supermarket operators, as citizens - will determine whether future generations are able to appreciate 'England's green and pleasant land' as we do. Farming is not a minority interest. It's a national issue. We all have a part to play in putting it at the front of the public agenda.

Stuart Hampson,
President, Royal Agricultural Society of England 2005/06

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The trend towards differentiation

1. Farming is experiencing the pull of two competing trends - **commoditisation** and **differentiation**. With commoditisation, food is produced where greatest efficiency and cost savings are realised, implying mass production. Differentiation instead involves food with a distinct identity, whereby produce is distinguished according to production or distribution e.g. on grounds of environmental/ animal welfare standards, seasonality, country or place of origin. Differentiation is part of the 'fourth wave of consumerism' or ethical consumerism, a market worth £4.047bn pa. It facilitates reconnection between consumers and food, a key aim of the Policy Commission on the Future of Farming & Food. See section II.1 on page 7

2. There is currently a **critical disconnect** between consumers' interest and passion for excellence in food, and the state of the farming industry. Differentiation capitalises on this interest in food and enables UK agriculture to **safeguard its viability in a globalised, competitive market**, where even the most efficient domestic producers may be undercut by low cost food imports. This disjunction between consumers' attitudes, which support differentiation, and behaviour, which does not, has been exposed by previous IGD research on British foods and is highlighted by new YouGov data. See section II.2 on page 8

Understanding the consumer: An attitude-behaviour disconnt

3. A survey commissioned from YouGov for this report revealed the existence of a disconnect between consumer attitudes and behaviour for **food miles**. While 81% of the population believe it is important to reduce food miles, only a quarter consider country of origin when making food purchases. Please refer to section III.2 on page 17

4. Specially commissioned focus group research from Ipsos MORI has exposed the presence of such a disconnect even among ethically conscious consumers. It highlighted how such consumers need to see a personal motivation if their shopping habits are to change. Differentiated produce must therefore appeal to consumers' central concerns of price, taste and health. This suggests that local foods and seasonality offer an excellent starting point for differentiation, as their messages are clear, compelling and address key concerns. Other barriers to resolving this disconnect include consumers' perceptions of responsibilities, limits to consumer altruism, mistrust and lack of information. Please refer to III.6 on page 19

5. These findings were supported by YouGov data which suggests that the majority of consumers do not think their purchasing decisions can help safeguard UK farming. Instead 52% thought this was a job for Government and 17% for supermarkets. Only 25% thought individuals could play a role. Furthermore 66% wanted the Government to introduce measures increasing retailer and manufacturer incentives to offer more differentiated produce. See section III.6.a on page 21

6. The attitude-behaviour disconnect and Ipsos research suggest a case of **market failure** - namely an information imbalance, known as information asymmetry. YouGov results suggest that consumers demand considerable information - with two-thirds requiring information on country of origin, 55% health benefits, 45% food miles and a third seasonality. Please refer to section III.6.d and III.9 on pages 23 and 27

7. Retailers have an important opportunity to provide information to consumers in the form of clearer labelling. This will facilitate informed consumer decision-making, and deepen the trend to differentiation. There is also a need for an **alternative basis for competition**, one focussing on value. See section III.13 on page 30

Farming: An industry in crisis and a myriad of market failures

8. UK Agriculture is in the midst of a serious recession - output has fallen from an average of £17bn to £14bn in the last decade. Total farm income has almost halved over this period. The decline in the farming sector is evident in the **loss of self-sufficiency**, with a 15.5% fall in indigenous-type self-sufficiency from 1995 to 2005. Farming has failed to capture a significant share of the £77bn spend on food and drink, with share of the food basket falling 23% since 1988 The current situation represents a **turning point for UK farming**. Please refer to section IV.1 and IV.3 on page 35 and 37

9. Differentiation offers a means to halt this decline - UK producers could set their goods apart from imported alternatives by implementing higher environmental/ welfare standards, or appealing to consumers on local/ seasonal grounds - avoiding a situation where "farm incomes are on the floor". Please see IV.5 on page 40

10. Central to the notion of differentiation is that of agriculture as a **fundamentally multi-functional activity** - with a contribution to society far in excess of that measured by the value of food produced. Covering three-quarters of the land surface in the UK, farming produces important public goods such as conservation of the countryside and biodiversity. **The future of farming has important ramifications, not just for farmers, but the shape of the countryside and also consumers. It must be a subject of public debate.** Please refer to section IV.6 on page 41

Parallels with fuel consumption

11. There are many parallels that can be drawn between fuel and food consumption. Both suffer from significant market failures. In both cases, consumers need to recognise how individual behaviour can make a difference to final outcomes. To this end, they must be provided with enough information so they can realise the implications of their purchasing decisions. Please refer to Chapter V on page 47

For sources of research, please refer to Appendix I

Chapter II

THE TREND TOWARDS DIFFERENTIATION

II. THE TREND TOWARDS DIFFERENTIATION

II.1 Differentiation as an alternative to 'commodity production'

Farming today is facing the pull of two competing trends - those of commoditisation and differentiation. Commoditisation is the outcome of the move away from protected European markets (epitomised by CAP) to allow food to be produced where greatest efficiency and lowest costs are achieved, often to the benefit of developing countries with low manufacturing expert capability. It exhibits the logic of mass-production, yielding an abundance of anonymous food at historically low prices. Producers typically act as suppliers of raw materials for the food manufacturing and retailing industries. Differentiation, however, is a subtler concept whereby food is differentiated not according to its physical characteristics (though this may be the case) but on the processes that surround its production [1] or even distribution. A range of goods fall under the umbrella of 'differentiation', including food produced to high environmental/ animal welfare standards, local & regional, British, seasonal, organic and Fairtrade produce. Differentiation therefore implies a movement to food with a distinct identity and which is produced with integrity. This trend is not unique- similar movements are evident in non-food industries e.g. furniture and the Forest Stewardship Council certification mark, ethical holidays, etc. In all cases, individuals have opted for alternatives to conventional systems and methods of production.

Differentiation is fundamentally linked to the 'fourth wave of consumerism' [2] or so-called 'ethical consumerism' - whereby consumption "becomes a means by which people's non-material views about the nature of society and the future of the environment can be manifest in a tangible and measurable way" [3] . The two are closely associated in the mind of the consumer - the IGD's recent report into ethical consumerism demonstrated how individuals defined ethical shopping as thinking about the origins of your purchases. In 2004, the market for such ethical or differentiated food was valued at £4.047bn pa. This represents just 3% of the total grocery market but is becoming increasingly important, growing at 7.5% or 50% above the rate for the conventional grocery market. Of course, the movement towards differentiation does not arise solely out of altruistic concerns - with 11% of consumers being motivated by health issues, and 14% quality [4]. However, there is also a rise in consumption of 'pure' ethical goods - e.g. free-range eggs (up 14.4% from 2003-2004) and Fairtrade (52.2% from 2003-2004) [5].

[1] Deaton, B.J., Busch, L., Samuels, W.J., Thompson, P.B. (2004): 'An Economy of Qualities: Attributing Production Practices to Agricultural Products', Choices

[2] Yiannis Gabriel and Tim Lang (1995): 'The unmanageable consumer: Contemporary consumption and its fragmentation'

[3] Melanie Howard, The Future Foundation (2005) in 'The Ethical Consumerism Report 2005'

[4] IGD (2006) 'Ethical consumerism'

[5] The Cooperative Bank (2005): 'Ethical Consumerism Report 2005'

II.2 The need for differentiation

This report argues that the trend towards differentiation must be both deepened and extended - this is vital if a "sustainable, competitive and diverse" [6] agricultural industry is to be supported and sustained. However, it recognises that commoditisation is an essential part of agriculture and is important in that it offers consumers, especially those on low incomes, an affordable source of food. What it argues for is instead a recognition of a British market favouring higher environmental/ welfare outcomes.

At present there is a critical disjunction between the growing passion for food excellence in the UK, and the state of the national agricultural industry. While the number of 'foodies' has grown to 58% of the population [7] , and British food is now internationally recognised for its high quality, farming is in turmoil. For example, farmer income has been reduced by 23% over just two years (from 2003- 2005), and the farmer share of a basket of food staples has fallen by approximately a quarter between 1988 and 2004 [8] .

Differentiation capitalises on this consumer interest in good food, and represents an important means whereby farming can respond to wider consumer concerns, and safeguard its viability in a globalised and competitive market. While the British farming sector, or at least significant parts of it, may not be able to compete with low cost imports on grounds of price alone, differentiation offers a means for a viable farming sector in the UK. At present, globalisation and commoditisation, coupled with increasing pressures due to strong pound and the CAP (itself favouring commoditisation), have encouraged a 'hollowing out' of the farming industry. Agriculture is becoming increasingly polarised between agri-business and so-called 'hobby' or 'diversified farmers'. Sir John Marsh CBE, Fellow of the Royal Agricultural Society of England, has outlined the three emerging types of farmers [9] .

- **Hobby farmers:** Income from other activities is transferred to maintain lifestyle on the farm.
- **Diversified farmers:** Farming business is central to operations but it forms part of a wide range of activities on offer. Farms may expand their business to include tourism accommodation, recreation activities (nature walks, riding schools), farm shops etc.
- **Agribusiness:** Responsible for the bulk of production, such farmers respond to market signals, using technology to maximise the difference between costs incurred and price received. However, the viability of even efficient producers is threatened by current pressures - cases in point being pig and milk production.

[6] Policy Commission on Sustaining Farming and Food (2002): 'Farming and Food: A sustainable future'

[7] IGD, based on research from McKinsey's. 'Foodies' are defined as those consumers that fall into the following categories: 'Demanding', 'Quick quality' and 'Pure premium'.

[8] DEFRA: 'Agriculture in the UK 2005'

[9] Sir John Marsh CBE (2001): 'Agriculture in the UK - its Role and Challenge'. Paper was prepared for the Food Chain and Crops for Industry Panel, September 2001

Therefore differentiation, supported by retailers and current Government agri-environmental schemes, offers an important opportunity to set British produce apart from that of other producers.

This analysis is supported by the following statistics:

- **Decline in the numbers of medium sized 'family farms'**: The number of such farms has declined by 23% from 1990 - 2003. This is contrasted with the growth in 'industrial' sized farms (17%) and agricultural contracting, especially in the high growth of one-year farm business tenancies. The latter can provide distorting incentives for land management.

- **Increasing concentration of production:** Just 10% of our farmers produce 50% of total agricultural output, and a quarter of all farmers produce 80% of total output.

- **Rise of hobby farming**: 50% of all farms are part-time. [10]

Differentiation also facilitates increased reconnection between "the consumer, the food they eat and how it is produced", a central theme of the Policy Commission on the Future of Farming and Food. This is, according to Sir Don Curry, the element of the Government's Strategy on Sustainable Farming and Food that has been least addressed:

"... Much has been done to reconnect farmers with the marketplace and the rest of the food chain and to reconnect the food chain with the countryside. The missing ingredient remains the development of a strategy to help reconnect the public with food, farming and the countryside. There is an urgent need to target the public both as taxpayers providing support to English agriculture and as consumers purchasing food." [11]

Such reconnection could potentially facilitate Government goals of improving individuals' diet and nutrition - moving away from a situation of 'mass-production, mass-consumption', to one whereby "farming, the food industry and society can work together to ensure that ethically produced, fresh health promoting food is available to and appreciated by... consumers." [12]. A focus on fresh, high-quality produce, whether it is seasonal, local, organic could potentially encourage achievement of the Government's five-a-day target. At present, only 30% of individuals consume the recommended five-a-day [13] .

The IGD's report on ethical consumerism further highlights how food is an area where the opportunities for ethical consumption are high -products are shopped for frequently and are close to raw material form.

10 All data from English Nature (2004): 'General Council of English Nature: Agriculture Sector Analysis'
11 IGD (2005) 'Connecting consumers with Farming and Farm Produce'
12 Policy Commission on the Future of Farming and Food (2002): 'Farming and Food: A Sustainable Future'
13 Food Standards Agency: 'Consumer attitudes to Food Standards 2006'

II.3 Evidence for a movement towards differentiation

The trend towards differentiation is evident in the increasing popularity of alternative food production systems. The last decade has witnessed the rise of many such initiatives, including organic, Fairtrade, local, and seasonal food. Concern about ethical/ differentiation issues has increased during this period. The Co-op, in its 'Shopping with Attitude' Report[14], highlighted how the 64% of the population were more concerned about ethical issues than in the past (12% higher than response to similar questions in 1994). In addition, 80% of shoppers were revealed as being prepared to pay a little extra for their ethics, a figure up 35% on 1994 levels. However, it is likely that the effective percentage of people prepared to pay more for their ethics smaller that this figure suggests, as surveys can over-state such willingness to pay. According to Duffy et al (2005)[15] some 80% of consumers are 'quite or extremely' interested in where their food comes from. Focus group research undertaken as part of this report also highlighted the significant consumer interest in broader 'foodie' issues e.g. provenance, organic, seasonality - with some respondents purchasing a food box, visiting butchers, and others trying to cook according to seasonality. [16]

As Lobb and Tiffin outline in their paper commissioned for this project[17]:

"At present, there is... increasing public awareness on a wide range of competing issues, from low prices and measures of high quality, such as heightened awareness of environmental and ethical issues (animal welfare, organic production, fair trade etc), related to food production. These, often contradictory, views held by consumers, coupled with increasing information, education and disposable incomes as well as heightened media attention, suggest a continued shift towards consumer preferences (at least in the higher socio-economic groups) for a more differentiated view of agriculture and food retailing, including a focus on the organic market, traceability, locally produced foods, seasonality and corporate social responsibility."

Case-studies outlining successes have been prepared to highlight the movement towards differentiation, and its extension from niche market to mainstream.

II.3.a Animal Welfare

Animal welfare represents a popular area for differentiation. There is strong public concern over intensive animal rearing practices following farming crises such as E-coli, Salmonella, BSE and FMD. Animal welfare is furthermore an issue with significant emotive appeal.

14 The Co-op (2004): 'Shopping with Attitude'
15 Rachel Duffy, Andrew Fearne and Victoria Healing (2005): 'Reconnection In the UK Food Chain: Bridging the Communication Gap between Food Producers and Consumers', British Food Journal Volume 107 Number 1 pages: 17-33
16 Ipsos MORI (2006): 'Study of disjunction between consumer opinions and their purchasing decisions'
17 Dr Alexandra E Lobb and Dr Richard Tiffin (2006): 'Evaluating the UK Agri-food Chain: A Multi-dimensional assessment'

A key example of food differentiated on grounds of animal welfare is free range eggs. While other initiatives abound, including labels such as the RSPCA's 'Freedom Food' - the movement to free-range eggs has a long history. In 1994, less than 15% of all eggs laid in Britain were free range, today, the figure is closer to 34%[18] - representing an increase of 125%. The value of free range egg sales has now overtaken that for cage produced eggs: free range and organic eggs accounted for more than 47% of the value of the egg market, with cage eggs at 46%. A recent MORI poll for the RSPCA revealed that 55% of consumers are prepared to pay more for products produced to high standards of animal welfare[19].

A significant barrier to increasing take-up is confusion over labels, and the use of eggs in ready-made products. The importance of clear and complete information is something we will be expanding upon in this report.

II.3.b. Seasonality

Recently, there has been a growing interest in seasonality, with two-thirds of consumers trying to buy foods when in season[20]. A quick glance at the 'Top 20' TV chefs, as rated in a poll for BBC Food[21], reveals that a number of them are championing seasonal and local produce.

	Seasonal	Local	Source:
1. Jamie Oliver	✓	✓	A2mediagroup.com
2. James Martin	-	✓	bbc.co.uk/food
3. Rick Stein	✓	✓	Goodfoodwebguide.com
4. Ainsley Harriott	✓	-	Uktv.tv
5. Nigella Lawson	✓	✓	Phillyburbs.com
6. Antony Worrall Thompson	✓	✓	timesonline.co.uk - release of seasonal cook book
7. Gary Rhodes	✓	✓	bbc.co.uk - release of seasonal cook book
8. Hugh Fearnley-Whittingstall	✓	✓	'The River Cottage Year'
9. James Reeson	✓	✓	Abc.net.au
10. Alan Coxon	✓	✓	Alancoxon.com
11. Justin Drake	-	-	
12. Giorgio Locatelli	✓	✓	Lifeandhealth.com squaremeal.co.uk
13. Keith Floyd	✓	✓	Onebodyspiritmind.com
14. Delia Smith	✓	✓	Summer collection:140 summer recipes (book) bbc.co.uk/food
15. Sophie Grigson	✓	✓	Country kitchen:120 seasonal recipes (book) www.seattle.org.uk
16. Nick Nairn	✓	✓	http://rampantscotland.com/stay/bldev_cookery2.htm
17. Anthony Bourdain	✓	✓	
18. Lesley Waters	✓	✓	Used from the school's land
19. Ken Hom	✓	-	
20. Silvano Franco	✓	✓	Uktvfood.co.uk

[18] British Egg Information Service 2005: 'Facts and Figures' and 'Eggs: Battery or Free range' and The Independent, 31st October 2005
[19] MORI poll for the RSPCA in April and May 2005, and February 2006
[20] IGD 'Connecting Consumers with Farming and Farm Produce' 2005
[21] Poll BBC World Service: November 2005

In addition, there has been a rise in the number of explicitly seasonal cook books on offer, with popular titles being Nigel Slater's 'The Kitchen Diaries' and Hugh Fearnley-Whittingstall's 'The River Cottage Year'. The latter has a high profile following, and in his book 'The River Cottage Year', Hugh Fearnley-Whittingstall justifies his focus on seasonality, arguing that "an engagement with the global should be secondary to an engagement with the local".

II.3.c Summary

The trend to differentiation will inevitably be deepened - it has moved beyond its original following in older, largely white suburban areas. Research by the IGD has revealed that awareness of ethical issues is now high among all household types, and significant percentages of all households consider ethical issues such as environment, animal welfare, Fairtrade, organic, to be very or quite important.

II.4 The challenges

While consumers' wider opinions may support differentiated production, such preferences tend not to be reflected in day-to-day purchasing decisions. For example, the IGD has identified such an attitude-behaviour disconnect with regards to British food. While 89% of those polled believed that Britain should remain a strong farming nation, and 86% agreed that buying British supports British farmers, research revealed that only 18% of individuals would buy British in the event of a price premium[22]. It is therefore evident that a significant challenge lies in narrowing the gap between attitudes and behaviour.

The issue of how to overcome this disconnect has been explored in the following Chapter. It is critical that this disjuncture between preferences and behaviour is overcome if differentiation is to be deepened. There is no gain to be had from producers opting for alternative non-commodity production systems, if this is not to be supported by consumers and the market. A case in point is the decline of the pig industry as a result of higher enforced standards, which placed it at a competitive disadvantage. As Lobb and Tiffin highlight[23]:

"Although there have been significant increases in pork consumption in the UK, 61% of pork and pork products consumed is imported and up to 70% of this meat does not conform to UK animal welfare standards. The 'stall and tether' legislation (1999) has meant that the pig industry is forced to monitor quality and comply with assurance schemes marketed under the 'British Meat Quality Standard Mark'. However, the lack of labelling regulations means that consumers are unable to make an informed decision as they cannot make the distinction between products from different origins." [24]

[22] IGD (2005): 'Connecting Consumers with Farming and Farm Produce'
[23] Dr Alexandra E Lobb and Dr Richard Tiffin (2006): 'Evaluating the UK Agri-food Chain: A Multi-dimensional assessment'
[24] Data drawn from British Pork Executive (2006): 'An Analysis of Pork and Pork Products Imported into the United Kingdom'

II.5 Retailer responsibility

While the issue of differentiation, and the consumer attitude-behaviour disconnect must be resolved through partnership on all fronts - between Government, the food industry and consumers, there is a significant role that can be played by retailers alone, most notably through responsible sourcing polices and clearly displayed information. However, it is important that a consensus on a viable way forward is achieved- so as to overcome the classic impediment of the 'Prisoner's Dilemma' - whereby lack of agreement and understanding of another's actions leads to a sub-optimal outcome.

It can be argued that retailers have a vital and necessary role to play in this area. Their responsibilities are significant - at present, 92%[25] of consumers do most of their shopping in supermarkets. The recent Food Industry Sustainability Strategy (FISS)[26] has already identified the food industry as being a key player in the provision of healthy food choices and information to enable consumers to achieve a more generally healthy balanced diet. There is also a strong argument that retailers are similarly responsible for provision of information about food provenance and production systems. Furthermore IGD research[27] highlights that consumers expect such behaviour of retailers: 85% of shoppers felt that the food industry had a responsibility to respond to social, ethical and environmental issues.

Such policies would be in accordance with the requirements of Corporate Social Responsibility (CSR), as outlined in the FISS, whereby a 'socially responsible business' would:

- **Recognise that activities have a wider impact on the society in which it operates**
- **Take account of economic, environmental and social impact of its activities across the world**
- **Seek to achieve benefits by working in partnership with other groups and organisations**

Consumers' food purchases are influenced by the presence and positioning of goods within supermarkets; these decisions 'act as votes' for systems of production - be they differentiated or commoditised. It is therefore the case that retailers should seek to encourage consumers to be aware of the consequences of their actions, through complete and easy to understand labelling, thereby enabling consumers to make well-informed and considered decisions. In the example of the pig industry cited above, clear retailer support and labelling is vital. As Lobb and Tiffin[28] outline the need for responsible retailing:

[25] Food Standards Agency: 'Consumer Attitudes to Food Standards 2005'

[26] DEFRA (2006): Food Industry Sustainability Strategy

[27] IGD Consumer Unit (2004): Consumer Watch 'CSR'

[28] Dr. Alexandra E Lobb and Dr. Richard Tiffin (2006): 'Evaluating the UK Agri-food chain: A Multi-dimensional Assessment'

"As with the majority of food products, supermarkets are responsible for 76% of all pork sales and 82% of all bacon sales, hence the industry requires differentiation to be promoted at the retail level (again an example of retailer market power)... Hence, the pig industry places the onus on the retailer and legislators as they have the ability to ensure that the product is adequately placed and traceability exists: "The retailer brand is trusted by the customer to deliver and therefore, with their dominant position, measures need to be taken by Government to ensure they take this responsibility"".

Retailer decisions have the potential to make a fundamental impact on the movement towards differentiation - for example B&Q's retail leadership over Forest Stewardship Council (FSC) timber lent a boost to the FSC's presence in the UK, a market which now accounts for a third of all FSC sales worldwide[29]. However, in the food industry, such unilateral action is fraught with problems.

II.6 Caveats

The movement towards increased differentiation and its various implications is exceedingly complex. It would be beyond the scope of this report to offer an exhaustive examination of all issues associated with deepening differentiation. However, there are two potential implications that could have negative impacts.

1. **Differentiation and production:** Should differentiation entail a large-scale shift towards less intensive forms of production, this could compromise the UK's self-sufficiency, and total production might be adversely affected. However, such a change is unlikely to occur, not least because differentiation does not simply imply organic but includes seasonal, local food etc. Advances in technology will also enhance yield of differentiated systems.

2. **Differentiation and imports:** Were differentiation to entail a raft of social and environmental requirements, then this could act as "disproportionately restrictive barriers to trade"[30]. However, many aspects to differentiation, including seasonal and local foods, inevitably require a movement away from imported produce. This represents just one of the inevitable complexities associated with food production.

[29] Sustainable Development Commission (2006): 'I will if you will - Towards sustainable consumption'

[30] DEFRA (2006) 'Food Industry Sustainability Strategy'

Chapter III

UNDERSTANDING THE CONSUMER

III. UNDERSTANDING THE CONSUMER: AN ATTITUDE-BEHAVIOUR DISCONNECT

III.1 Exploring the disconnect

A key obstacle to deepening the trend towards differentiation is the presence of a fundamental disjuncture between consumers' wider preferences, which tend to support differentiation, and their purchasing decisions, which do not. This has been revealed by IGD research on British foods, as discussed in the previous chapter. Positive attitudes towards farming tend not to foster similar support for British food, with only 18% of the population being 'active' supporters, despite 89% believing that British food should be widely available[31]. A similar disconnect is also present in the case of climate change, whereby consumer attitudes towards emissions reductions and energy conservation are positive, while behaviour tends to have negative implications for emissions. The Sustainable Development Commission has highlighted the need to overcome this barrier, and create a "supportive framework for collective progress[32]". Parallels between the situation in food and climate change are addressed in Chapter V.

III.2 Miles apart: A food-mile disconnect

A set of questions run on the YouGov Omnibus for this report uncovered the existence of a similar disconnect with regards to food miles - an issue that has gained significant press lately[33]. It revealed that while some 81% of those surveyed believe it is very or somewhat important that consumers should try to reduce the food miles content of their shopping baskets, only a quarter of those polled even consider country of origin when making food purchases.

III.3 Disconnect as a barrier to differentiation

As highlighted, if the agricultural sector is to move towards a more differentiated offering, no real progress can be made until this gap between attitudes and behaviour is narrowed, and farmers are confident of receiving support from the market. In many cases, this movement towards such forms of differentiation is already occurring with the Single Farm Payment (SFP), which requires farmers to maintain "the land in suitable agricultural and environmental conditions and [fulfil] cross compliance requirements[34]". Consumers must be made aware of the differences in production standards between the UK and the rest of the world, and how such UK production standards address their wider concerns. Were consumers' actions to mirror their wider preferences, this would represent an important advantage for the UK farming sector.

31 IGD (2005): 'Connecting Consumers with Farming and Farming Produce'

32 Sustainable Consumption Roundtable (2006): 'I will if you will Towards sustainable consumption'

33 For example, Tim Hardford: 'The flight of the humble pea' in The FT Weekend 10th June 2006 or the 'Local Food is Miles Better' campaign in Farmers Weekly

34 Sutherland W.J. (2004): 'A blueprint for the countryside', Ibis, 146(2)

III.4 Reasons for the disconnect

Given that consumers' wider attitudes tend to favour differentiation, a number of factors could potentially lie behind this disconnect:

- **Lack of consumer awareness as to the wider repercussions of purchasing decisions**: In this case, consumers do not link the food they buy with the broader systems of farming/ processing/ distribution that its production and in-store availability entail. This implies that large-scale information campaigns would be the relevant way to address the problem.
  - Research conducted by the IGD for the Countryside Agency highlighted that approximately 50% of consumers made the link between the food they ate and the rest of the food chain[35]. However, few were able to conceive of their consumption implications all the way through the food chain, with most focusing on specific issues. Most individuals believed that other factors such as roads and housing had a more significant impact on the countryside.
  - While awareness of the connections between purchases and production systems is weak, consumers are sensitive to the link between farming and the countryside. According to IGD report 'Connecting Consumers with Farming and Farm Produce' individuals made strong connections between farming and the countryside. 72% agreed that without farming the countryside would deteriorate and a further 78% of those surveyed believed that farmers look after the countryside.

- **Strong assumptions**: Consumers may simply assume that all food is produced to a standard that conforms to their wider preferences. For example, consumers may not examine country of origin, simply because they assume that most food is produced in the UK. Consumers hence seem to display unrealistic optimism about food stocked in supermarkets.

- **Poor labelling**: On pack labelling does not clearly distinguish between different systems of production and the implications these have for animal welfare and environmental outcomes. For example, factors that impede take-up of free-range eggs include misleading pack labels on eggs cartons and lack of information about egg production systems in ready-meals or composite products[36]. A further problem is poor literacy of labels: it is estimated that 27% of the population find labels hard to read[37].

- **Opacity of the food chain:** The complexity of the food chain could be yet another factor that obfuscates individuals' ability to connect their wider beliefs with the purchases they make. This point is emphasised by research by the IGD for the Countryside Agency[38].

35 Countryside Agency (2005): 'Environmental Marketing: A Collaborative Approach'

36 RSPCA (2005): 'The Case Against Cages'

37 IGD (2002): Business Publications 'Food consumption'

38 Countryside Agency (2003): 'Consumer Attitudes to 'Eat the View' Part II'

III.5 The holy trinity: Price, Availability, Information - IGD research

The IGD has identified three key barriers to increasing take-up of ethical foods - price, information and availability[39]. Quantitative research suggested that 51% of shoppers believed ethical or differentiated products were too expensive, while 36% believed availability to be poor. An additional 15% found information to be an issue, with some individuals lacking the information to make informed decisions and others doubting the credentials of ethical products. IGD has suggested that all three barriers could be addressed through a single solution: Education. This would include:

- ❖ Education to highlight the true value-added of ethical/ differentiated produce
- ❖ Education to raise awareness of availability, as it is likely that shoppers cannot find ethical products because they do not know where to look

Clear and consistent labelling is part of this, and misleading labels impede differentiation. A recent study by the RSPCA[40] revealed that only 36% of people could correctly identify the production system employed for boxes of eggs, due to deceptive on the pack labelling- with consumers being mislead by terms such as 'farm fresh'. This result was also supported by a MORI poll[41]. There is also a need to translate consumer opinion into proactive purchasing decisions - according to the Co-op Ethical Consumerism Report[42], some 48% of the total ethical market for food is composed of boycotts - with a good example being consumer boycott of Nestle products, or consumer boycott of fruit due to poor labour standards at large-scale plantations.

III.6 Ipsos MORI Research

In order to better understand the reasons behind the existence of an attitude-behaviour disconnect for differentiated produce, two focus groups were commissioned from Ipsos MORI. The aim was to move beyond the platitudes of price and availability and, to this end, the focus groups exclusively questioned 'ethical consumers'. Participants in the focus groups were selected according to their response to short questions on ethical and environmental issues. For complete methodology, please refer to Appendix I.

Despite interest in issues of food production and differentiation, consumers appeared to be 'constrained', subject to limitations of price, quality and time.

"I am as conscientious as I can be..."

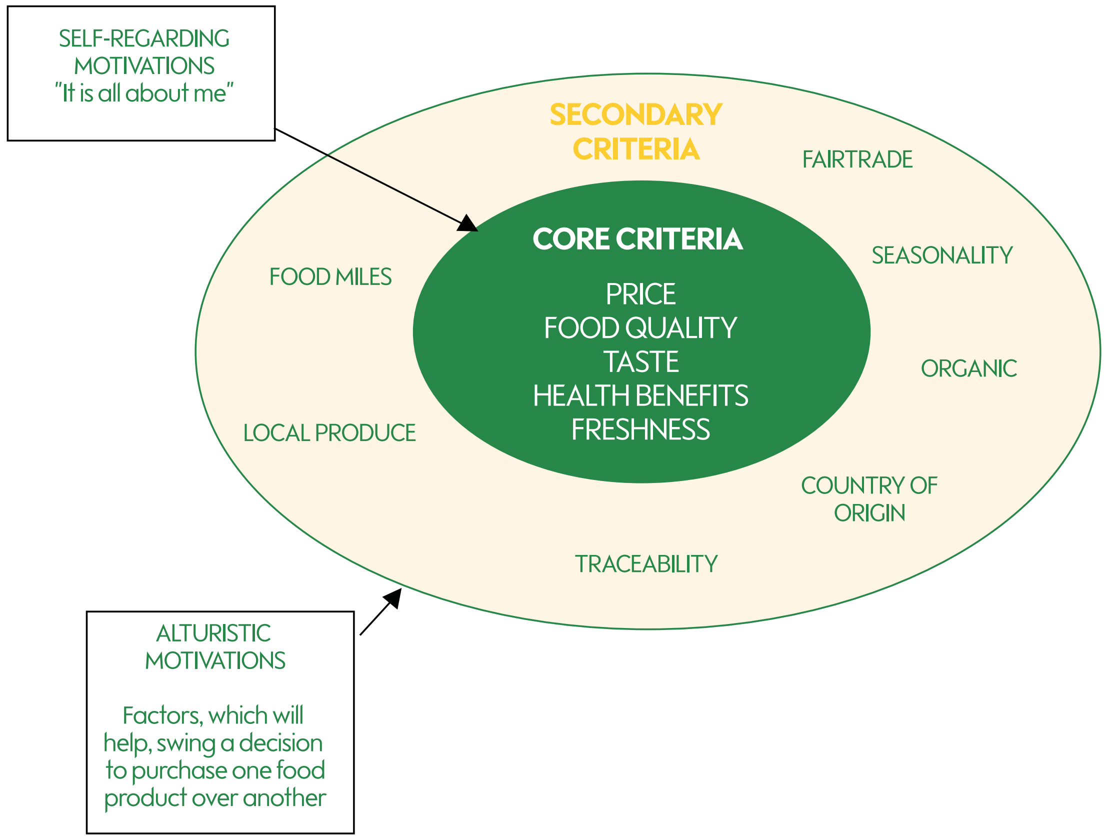
[39] IGD (2006): 'Ethical Consumerism'
[40] RSPCA (2005): 'The Case against Cages'
[41] MORI January 2005 - poll based on interviews with 2,048 adults across Great Britain and 6-11 dace-to-face interviews.
[42] The Co-operative Bank (2005): 'Ethical Consumerism Report 2005'

Participants questioned whether they faced a 'real' choice in terms of purchasing products, given price and quality requirements.

"In my heart, I want to buy English, fresh, local produce... but I cannot afford it."

Despite the selection of 'ethically conscious individuals', there was strong evidence for an attitude-behaviour disconnect: while individuals had positive associations with countryside, and opinions favouring differentiation, such impressions tend not to be reflected in purchasing decisions.

Several barriers to deepening the trend towards differentiation and facilitating the reflection of wider attitudes in individual purchasing decisions were highlighted by the focus groups. Ethical or environmental issues did not figure in the central bulls-eye of consumer-oriented concerns. For products to be included on a weekly shop, at least one of the central concerns must be satisfied. See **Figure 1**



Analysis of focus group results suggested a variety of additional reasons for this disconnect. The problem was not a lack of awareness of the links between purchasing decisions and the preservation of the countryside and farming. Instead, the following themes emerged from focus group discussions.

- **Assignment of responsibilities**: Typically, consumers felt that individuals' actions had little potential to make a difference. Instead, consumers projected responsibilities onto Government and supermarkets. Supermarkets were especially held responsible, being the key interface between consumers and producers.

- **Limits to altruism:** There were significant limits to what consumers were be prepared to do out of altruism**,** with individuals being used to comforts of having what they wanted, when they wanted it, regardless of seasonality

- **Mistrust of products/information:** Consumers had a high level of cynicism, especially with regard to differentiated produce, seeing it as just another excuse for a retailer mark up.

- **Lack of credible information**: Consumers did not want to be put out of pocket and support causes without trustworthy information. Such information could serve to increase their purchases.

Research was informed by similar patterns of behaviour exhibited with regards to environmental issues. These themes are explored in detail the following sections.

III.6.a Assignment of responsibilities

Ipsos MORI research revealed that consumers felt there was little they could do about the consequences of their food purchases, instead perceiving supermarkets and Government as responsible. This view reflects the complexity and opacity of the modern food chain, and the emphasis on use of Government policy to address problems in the agricultural industry.

This finding was supported by YouGov data, which highlighted how many individuals perceived a limited role for their behaviour in safeguarding the future of farming in the UK. Of the 79% of individuals who agreed Britain should be a farming notion, only a **quarter** saw a role for individual agency, while **52%** believed the Government was primarily responsible and **17%** saw this as the task of supermarkets.

Further questions appeared to support consumer desire for greater intervention. Two-thirds of those surveyed said they would support Government measures to increase incentives for retailers and manufacturers to raise the proportion of organic, seasonal or local produce. Virtually 50% of the population wanted the Government to restrict the availability of products considered unhealthy (e.g. sweets and snacks), while another 50% would support Government measures to restrict availability of products with high food miles content. However, it is unlikely that these figures would have remained high, had individuals been told about the tax implications of their choices.

It is interesting to note that consumers in Ipsos MORI focus groups seemed to apportion a relatively greater share of blame to the supermarkets. Research highlighted how consumers feel that they are manipulated by retailers, who create 'wants' and influence purchasing priorities. The following represent a cross-section of opinion on this front:

"If supermarkets didn't stock strawberries in winter, I wouldn't feel that I needed them."

"I think many idiotic things happen in the food business... why should we have Peruvian asparagus in April, when British asparagus is available in May.... If supermarkets didn't stock the Peruvian asparagus, we wouldn't buy it..."

"I don't know why I am so concerned with price, as I could easily spend more on my grocery shop... but we've been sold on price by supermarkets."

Consumers also appear to rely on the activism of others:

"I subscribe to Greenpeace and I thank God that there are people who have more energy and balls than me."

However, there appeared to be some small recognition of the need for a role for consumers. In the case of local foods, participants saw a role for individuals to encourage take-up of differentiated food by signalling their interest through purchases.

"I think it is good, if we show interest in certain products, like local products, supermarkets might be more likely to stock them."

This response suggests there is potential for effective information campaigns, are least in limited areas.

III.6.b Limits to altruism

A further issue identified by Ipsos MORI was the limited extent to which consumers were prepared to change behaviour such that it reflected wider preferences, as opposed to self-regarding concerns. This conclusion is supported by other research. For example, IGD analysis for the Countryside Agency[43] has highlighted how consumers buy organic primarily for the perceived benefits to the individual, rather than the impact on environmental systems. In the study, 25% of organic consumers cited health as a key driver of purchase and a further 21% freedom from additives. Only 4% mentioned the benefits to the environment as a driver of purchase, and a mere 0.5% the benefits to the wildlife. The IGD/ CA study has showed the greatest areas of interest for 'environmentally friendly' products are in relation to red meat, poultry and fish production because these are associated with greater risk than fruit and vegetables (namely: BSE, battery farming and steroids)[44].

It is therefore evident that differentiated produce must be marketed to appeal to consumers' central concerns, if it is to be successful. This is explored in the Countryside Agency's report on environmental marketing discussed in section III.11

[43] IGD 'Consumer Attitudes to Eat the View' 2003
[44] Countryside Agency (2005): 'Environmental Marketing: A collaborative approach',

However, recent research conducted by the IGD into Ethical consumerism[45] is encouraging. While a quarter of ethical purchases are motivated by self-regarding issues such as quality and health, 32% of individuals make such purchases in order to make a difference, and 16% believe their actions will contribute towards a sustainable future. This highlights potential slants for any information campaigns, which should then stress the intrinsic satisfaction generated and sustainability impacts of such decisions. Of course, this is not enough in isolation, and for mass appeal the key drivers of purchase must be satisfied - e.g. price, sell-by date, taste, healthiness[46].

Insights can be gleaned from consumer behaviour on the environmental front. As the research by Ipsos MORI uncovered, consumers tend to focus on simple, easy to implement solutions to address environmental issues.

"I turn the lights off, I turn the tap off when I am cleaning my teeth. They don't cause a huge amount on our parts. But everyone can feel they are doing something!"

IV.6.c Mistrust of products and information

Focus group discussions revealed consumer distrust of certain differentiated products, in particular organic and Fairtrade. Participants wished to know the reason for a price premium for organic fruit and vegetables, especially when there appeared to be no apparent taste difference with the non-organic equivalents. Some examples of participant quotes on the subject include:

"Why are fair trade products more expensive? The whole point of fair trade is about the division of profit. It's not fair trade, I am just paying extra...it's playing on your guilt."

"Why should we buy British to support the farmer if we don't even know whether any money is going back to the farmer, or whether it is all going into supermarkets' pockets."

Much differentiated produce was viewed as simply a marketing exercise. Especially pertinent is the example of carrots left with dirt on them to give an authentic look.

"Farmers markets do organic vegetables, but they are very expensive. I buy meat that is organic. I don't believe that a lot of this fruit and veg are produced organically. These farms spray the carrots with water, but leave mud on; it's a marketing exercise, to make it look authentic. I asked them once, and that's what they told me."

III.6.d Lack of information

There appeared to be a lack of trusted information about food to enable consumers to make informed decisions about their food purchases.

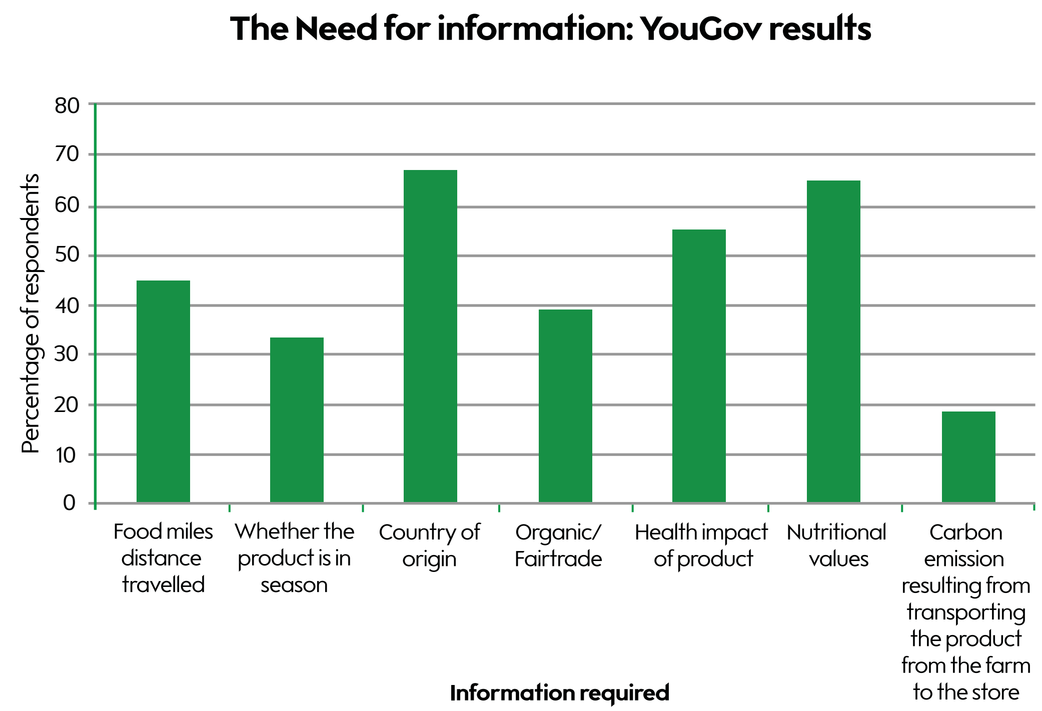
[45] IGD 'Ethical consumerism' 2006
[46] IGD 'Connecting consumers with Farming and Farm Produce' 2005

"We need information we can trust in order to be able to make choices."

"I think we need more information - for example, I don't even know what is seasonal now... a seasonal section in the supermarket would be very helpful."

The additional information could motivate individuals to increase purchases of particular products - especially in the case of seasonality. At present, seasonality remains an unexploited area, rife with consumer misconceptions. Research conducted by Waitrose revealed that 8% of UK adults think that oranges are home grown and potentially almost 2 million people (3%) do not know the origins of any fruit[47]. Awareness of seasonality is especially low among the young - only a quarter of 18-24 yr olds could correctly identify the seasons of classic British fruit and vegetables, as opposed to 70% of those who were 60+[48].

The desire for additional information was also exposed through a survey commissioned through YouGov. See **Figure 2** below:



However, it is unclear whether provision of such information would result in overload for consumers - YouGov research revealed that over a **third** of individuals find it difficult to decide between competing concerns.

[47] Waitrose Press Release
[48] Ipsos MORI Poll 2006, quoted in The Guardian 30th May 2006

III.7 Case study: British Produce

An examination of the barriers and motivations to purchase of British produce, as revealed by Ipsos research, is thought provoking and raises many of the conflicting issues at play.

The need for a vital and diverse countryside

Participants generally consider the countryside an important part of Britain's natural heritage, with many expressing a wish to maintain a diversified countryside, and the need for self-sufficiency:

"I don't want a countryside of wheat, cement and carrots."

"It would be terrifying if we were dependent on food from abroad."

British Farming – Lack of consumer connection and the need for new information to combat old stereotypes

There was a real disconnect between consumers and the source of their food. Many individuals were unsure how best to describe farmers, and while there was awareness that traditional stereotypes did not apply, consumers did not know what to replace them with.

"In the 80's, there was a stigma attached to farmers, they were Range Rover driving, heavily conservative and pro-hunting!"

In particular, there were several negative impressions about farmers, generated by the various crises in the last decade, most notably BSE.

"At the height of BSE, we heard that farmers were feeding animals with the wrong stuff… it led me to question their working methods, and I was initially very anti…"

Foodie Nation?

With regards to British food, participants lamented the lack of a food culture in Britain, and noted how consumers in countries such as France and Italy tended to support their national produce.

"We do not have a food culture. We are not a food nation"

The usual suspects

Participants expressed a need to communicate the wealth of good food that Britain has on offer. However, barriers to buying British included price or perceptions of quality. In addition, consumers liked exotic vegetables, which they would not give up.

Responsibilities

With regards to responsibility, consumers did act on their concerns to an extent - for example, purchasing organic food, visiting farmers' markets. However, underpinning all consumer purchases were factors such as price, taste, quality and freshness. Many felt that the main responsibility to support British Farming should lie with supermarkets, which are perceived to have ultimate powers of negotiation and control the food that is available to the British consumer. However, participants tended not to consider British farming as an important an issue as the environment, again highlighting why they might not take action on a particular issue.

Education

Participants felt that educating the consumer is very important – this would ensure expectations are realistic:

"It's also about educating people, you know, you've got these really delicious potatoes but people won't touch them as they've got a bump on them… the more people think fruit and vegetables are perfectly rounded, the more likely they are to reject them, when they don't fit the image."

Summary

The issue of British produce has served an as an excellent illustration of the myriad of issues associated with consumer behaviour with regards to differentiated produce. Once again the need for clear information and consumer education has emerged as paramount, with supermarkets being perceived as the key parties responsible for ensuring the survival and availability of differentiated produce.

III.8 Summary

It is clear from the research commissioned from Ipsos MORI that a need for information is required on all fronts. It is evident that consumers do not recognise the power inherent in their daily purchases - as Jules Pretty notes in his article for Sustain[49]:

"Food consumption is a daily activity – we shape nature on a daily basis. While voting is conducted once every two, three, four or five years, shopping is conducted every week, or everyday. By buying a particular type of food, we encourage the systems of production that brought it from land to larder."

[49] Jules Pretty (2001): 'Some benefits and drawbacks of Local food systems', Briefing note for TVU/ Sustain Agrifood Network

III.9 An instance of market failure - a lack of information

Both the attitude-behaviour disconnect and the market research conducted by Ipsos MORI point to the presence of market failure. In this instance, the problem is of information asymmetry - or an imbalance of information between parties. This asymmetry, arising between the consumer and retailer, occurs because of the increasing difficulties a consumer has in assessing food quality, using traditional methods such as smell, taste or other physical attributes. As Lobb and Tiffin highlight in their paper, food quality and safety are now 'credence attributes' i.e. ones which cannot be observed by consumers either before or after buying the good. As a result consumers are becoming increasingly reliant on policy makers and retailers to assist them with their purchasing decisions[50]. Such an information asymmetry tends to lead to insufficient differentiation. As Lobb and Tiffin state[51]:

"If this is a real demand it ought to lead to a greater degree of differentiation in food markets as the food chain responds by producing foods which account for this demand. Where quality is unobservable this requires a trusted means of signalling product quality to the consumer in order to avoid the emergence of a market which is of uniformly poor quality (a lemon market). Traditionally this has been by means of publicly imposed standards but in the case of the oligopolistic food chain it could be that the supermarkets themselves are sufficiently trusted to implement a self regulatory system - though it is doubtful whether such a system of differentiated produce, if not supported by independent third-party verification would entirely be trusted by the consumer"

III.10 Correction of market failure

As Lobb and Tiffin highlight in their paper, such instances of market failure can be addressed by the provision of information, with success in altering individuals' behaviour being contingent on a number of factors:

- Perceived importance of information[52]
- Perceived credibility of the information[53]: If the provider of information is perceived as having a vested interest or hidden agenda, the impact of information on attitudes is limited.

III.11 Insight into successful campaigns

Any education campaign must be carefully designed if it is to effect a meaningful alteration of consumers' decisions. A study by Rachel Duffy, Andrew Fearne and Victoria

[50] Roberts, T., and Roberts, J. (1996): 'Using benefit and cost information to evaluate food safety regulation: HACCP for meat and poultry', American Journal of Agricultural Economics, 78(5)

[51] Dr Alexandra E Lobb and Dr Richard Tiffin (2006): 'Evaluating the UK Agri-food chain: A Multi-dimensional Assessment'

[52] Eagly, A.H. and Chaiken, S. (1993): 'The Psychology of Attitudes', Harcourt Brace Jovanovich, NY

[53] Priester, J.R. and Petty, R.E. (1995): 'Source attributions and persuasion: perceived honesty as a determinant of message scrutiny', Personality and Social Psychology Bulletin, 21

Healing published in the British Food Journal (BFJ)[54] highlighted that information campaigns must be both streamlined and large-scale in order to be truly effective. The latter is particularly vital, for consumers tend to assume that if an issue is significant, they will have seen advertisements or already be aware of campaigns. Such high-profile raising of awareness would help foster a perception that the issue of differentiation deserves consideration. IGD research, in its 'Ethical Consumerism' report, further stressed the need for such information to be made available both at the store and wider level, as shoppers wish to minimise time spent in store - estimates suggest that the average time spent examining a product is three seconds.

The Countryside Agency, in its report, 'Environmental Marketing', analysed the requirements for compelling education campaigns by examining those adopted by 'ethical' success stories. It concluded that in order to influence consumer behaviour, a product must

- **Appeal to consumer self-interest**: The product must satisfy the more self-interested aspects to consumer motivations
- **Be tangible**: Any success story must offer an easy to comprehend outcome - for example, dolphin-friendly tuna
- **Have a message that is simple, robust and easily communicated**: This means that campaigns tend to be focussed on narrow issues which can be clearly explained. Larger umbrella campaigns are therefore lacking, and the market for environmental products is fragmented. However, this can be resolved by running several campaigns under a single theme or concept.

The Countryside Agency research also examined which aspects of the environment are valued. The 'hierarchy' of concerns as revealed by The Co-op NOP study revealed the most ethical issues as being:

Environmental Attribute in order of preference	% of respondents who strongly agree with the statement (2003)	% of respondents who agree with the statement (1994)
Farm animal welfare - very important that retailers buy humanely reared meat	71%	66%
Wildlife welfare - very important to support products not harmful to wildlife	70%	59%
Pollution of environment - very important that business minimise pollution	67%	52%
Conservation of natural non-sustainable resources and specific environment e.g. tropical rainforest)	64%	55%

[54] Rachel Duffy, Andrew Fearne and Victoria Healing (2005): 'Reconnection in the UK food chain: Bridging the communication gap between food producers and consumers'

The IGD's research into ethical consumerism has revealed the following ethical issues are considered important:

Ethical issue in order of preference	% of respondents who think that the statement is very or quite important (2006)
Environmental issues	74%
Recycling	74%
Animal welfare	67%
Fair trade	66%
Free range eggs	61%
Organic	45%

While 'environmental' issues top the poll for the IGD, this is a vague area, which is difficult to capitalise on. Animal issues, however, are far more concrete and receive significant public support. Concern for animal welfare in its various forms represents a highly charged and emotive issue, as witnessed by the large membership of organisations such as the RSPCA and RSPB (which is larger than some political parties). This is largely due to positive and anthropocentric conceptions of animals, generated through experience with pets, or nature TV programmes. Such issues typically receive a high profile in the press - for example the devastation of the habitat for orang-utans in Borneo, due to the palm oil industry. Elasticity of demand can change significantly for such issues. For example, a recent MORI poll for RSPCA revealed that some 55% of consumers would be prepared to pay extra for products with a good animal welfare record. A further 76% felt that leather items such as belts and bags should be labelled to show where the leather has been sourced[55].

III.11.a Local and Seasonal produce

Local and seasonal produce offer an excellent starting point to deepen the connection between the public and farming. There is already significant consumer interest in both areas. For example, recent IGD research[56] revealed that two-thirds of consumers are trying to buy according to seasonality. Similarly, according to the latest IGD report on local foods, published in March 2006[57], three-quarters of the population is either purchasing local food or interested in doing so.

Both areas can appeal to consumer on grounds of self-interest. For example, eating food in season tends to offer taste and price benefits, while buying local deliver freshness, health & safety benefits and taste. Both also have a simple and appealing story. For example, there is an emotional dimension to buying seasonal. To quote Nigel Slater:

[55] MORI poll for RSPCA in April and May 2005, and February 2006
[56] IGD (2005): 'Connecting Consumers with Farming and Farm Produce'
[57] IGD (2006): 'Retail and Foodservice Opportunities for Local Food'

"There is something deeply, unshakeably right about eating food in season: fresh runner beans in July...a bowl of gently aromatic stew on a rainy day in February..." [58]

Additionally, local foods offer benefits to the local community and help reduce food miles.

We therefore see that both local and seasonal food conform to the requirements for successful campaigns outlined by the Countryside Agency - their message is simple, their story powerful, and most importantly, they address consumers' less altruistic concerns - namely price, quality and safety. They are also accessible to all farmers irrespective of the size of the holding.

III.12 Summary

While certain issues can be more successful than others in influencing consumer opinion and purchasing decisions, there is significant consumer interest in issues of differentiation. The environment in particular is one area that should be capitalised on, with growing consumer concern about the un-sustainability of current practices. Local foods and seasonality are other issues that could appeal to the consumer - both aesthetically, and by offering benefits of price and taste. There will always be limits to differentiation, but the issue is to make it a primary concern in consumers' minds, as opposed to a superfluous consideration. There will always be mangoes in winter, but hopefully not Californian strawberries in summer.

III.13 Retailer Responsibility

This section has illustrated one of the market failures that characterise consumers' purchases of food - that of information asymmetry. Consumers require complete and credible information in order to make informed decisions about their weekly shop - as highlighted by qualitative and quantitative research. Furthermore, focus group research has highlighted how consumers tend to lay much of the responsibility for sourcing and the state of UK agriculture at the door of supermarkets, suggesting that this is an issue that responsible retailers must address. While of course, there is a need for joint responsibility on all fronts, it is essential that retailers meet consumers half-way with the information they need in order to make decisions.

Once again, there is a strong need for consensus if retailers are to provide information on differentiation and its implications. Retailer action could range from simple seasonality sections in store, to labels for local and British produce. Of course, care must be taken to avoid information overload - YouGov survey results have highlighted how over a **third** of consumers find it difficult to balance competing concerns. Also, campaigns must not be overly self-righteous or aggressive, as there are clear limits to what consumers are prepared to be concerned about.

[58] Nigel Slater (2005): 'The Kitchen Diaries'

Given this form of market failure and the lack of mandatory labelling in the UK, food retailers must take great care to provide consumers with the necessary information. An example of a successful race to the top would be the example of sustainable fishing, whereby retailers, once shamed, are now all committed to responsible sourcing policies, and safeguarding the future of many fish species. However, all retailers must be proactive in this area, rather than waiting for exposés from consumer pressure groups.

Care must be taken to avoid a repeat of the situation that has just occurred in the case of nutritional signposting. The rise of obesity is an important issue in today's society: 22% of all men and 23% of all women are obese, a figure that has trebled since the 1980's. Such spiralling levels of obesity are estimated to cost the NHS an estimated £4bn pa[59]. While the Government's Public Health White Paper 'Choosing Health' stresses the need for informed choice by all, and the use of partnerships between all relevant parties to make health everyone's responsibility, the spirit of this White Paper was contravened when the FSA issued its front of pack nutritional guidelines. Only three top retailers implemented the recommended system of Multiple Traffic Lights (MTL) recommended by the FSA (either in part or to the letter), while Tesco and manufacturers such as Danone, Kellogg's, Kraft, Nestlé and PepsiCo opted for a system based on guideline daily allowances (GDAs).

In addition, there is a need to move to an alternative competitive model in retailing - one entailing a movement away from price towards value - whereby consumers embrace the holistic value of food, and are aware of broader issues surrounding consumption. Such a move would support the trend towards differentiation and help sustain British farming. There is some concern from focus groups that reinforced messages from retailers have fundamentally altered the criteria by which individuals make judgements regarding food purchases. The messages of 'value to shout about', 'everyday low prices', or 'every little helps' have evidently penetrated deeply into consumer consciousness to become the main yardstick in decision-making. When questioned why they were so deeply focussed on price, when they could potentially afford to spend more on food, focus group participants appeared to feel that this had been made the case by supermarkets.

III.14 Solutions

It is clear that consumers want to be educated on issues associated with food production and environmental impact. While there is a willingness to provide some level of support to British farming and preservation of the countryside, this must be translated from a dormant concern to one capable of motivating consumers through concerted information campaigns. Awareness needs to be raised on a variety of subjects:

- **Farming today**: Who farmers are, what challenges they face, and to what extent their actions are a product of Government policy
- **The benefits of farming**: Positive PR is required to combat negative associations engendered during the BSE and FMD crises. Farming's role in preservation of the countryside should be emphasised, as the latter has positive associations for consumers.

[59] DEFRA (2006): 'Food Industry Sustainability Strategy'

- **Distribution of profits**: This tends to be an issue for all differentiated produce, which command higher prices. Therefore, when buying organic, Fairtrade, British food etc., consumers need to know how the price/ premium is distributed.
- **Benefits of differentiated produce**: Again, consumers need to know the real 'value-add' provided by differentiated produce

Such messages would have to be communicated in store and on a wider front - as consumers have limited time when shopping.

Concrete measures that could be implemented on the retailer side include:

- **Clear indication of seasonality**: Seasonal produce could be highlighted in a section in store, much like organic is currently
- **Championing of local produce**: Suggestions include that of a local label or local section in store.

Both seasonal and local produce offer a simple and compelling story, and appeal to powerful motivators of self-interest.

Chapter IV

FARMING: AN INDUSTRY IN CRISIS AND A MYRIAD OF MARKET FAILURES

IV. FARMING: AN INDUSTRY IN CRISIS AND A MYRIAD OF MARKET FAILURES

IV.1 Farming today

Agriculture in the UK has been in the midst of a serious economic recession for the last decade. The industry has suffered from multiple blows, with key examples being a strong pound and food scares including BSE and FMD. However, it is evident that the malaise in the farming sector is far more deep-seated that these contingent factors would lead us to assume. For instance:

- Total farm income and contribution of agriculture to the economy have halved over the last decade. Many sectors of the industry are generating zero or negative return.
- Farmer incomes are well below the national average and research suggests that farmers and farm workers are being forced out of the industry. This is especially the case for small farm holdings in marginal areas that have previously been income-supported.
- The number of farms has decreased further over the 90's, with average farm size increasing.

As in other developed nations, the story of agriculture is one of relative decline in terms of its share of the economy, employment and consumer expenditure. This is an inevitable consequence of development - as Horseman (1996) states:

"The simple fact is that agriculture is the ultimate primary industry. Agriculture is basically about the production of food and food is the ultimate essential for human existence."

It is therefore the case that as nations become more technologically advanced, farming's relative contribution to the economy decreases. The extent of decline in the farming sector is illustrated below[60]:

- **Income:** Total income from farming has fallen by two-thirds in real terms during the three decades since 1973. This fall in Total Income From Farming (TIFF) has been particularly pronounced since 1995, with a real decline of 63% decline in a decade. In the last year alone, a decrease of 11% in TIFF occurred due to low wages and input price increases. At present some 25% of farms have a net income less than zero.

- **Salary:** At present the average salary of agricultural workers (full time equivalent) in the UK is just £12,500, almost £10,000 lower than the UK national average £22,411[61].

[60] Statistics are taken from DEFRA 'Agriculture in the UK 2005', unless otherwise stated.
[61] The Guardian 2005

- **Producer prices:** These experienced a dramatic decrease in 1990's, with the UK average producer price index being reduced by 33% in real terms from 1990-2002[62].

- **Workforce:** In the last decade alone, the total labour force for farming (including workers, farmers etc) has fallen from an average 656,100 people to 540,700, a decrease of 17.6%

- **Self-sufficiency:** Self-sufficiency in indigenous-type produce has declined from 85% in 1990 to 73.3% in 2005 - a fall of almost 14% over the past 15 years. In addition, self-sufficiency in all food has decreased over the same period by 18.6%. As is evident in **Figure 3**, this reduction in self-sufficiency has been particularly pronounced since the mid-90s. The broader trade gap in food, feed and drink has also widened over this period, increasing by 55% in real terms between 1995 and 2004 to £12bn

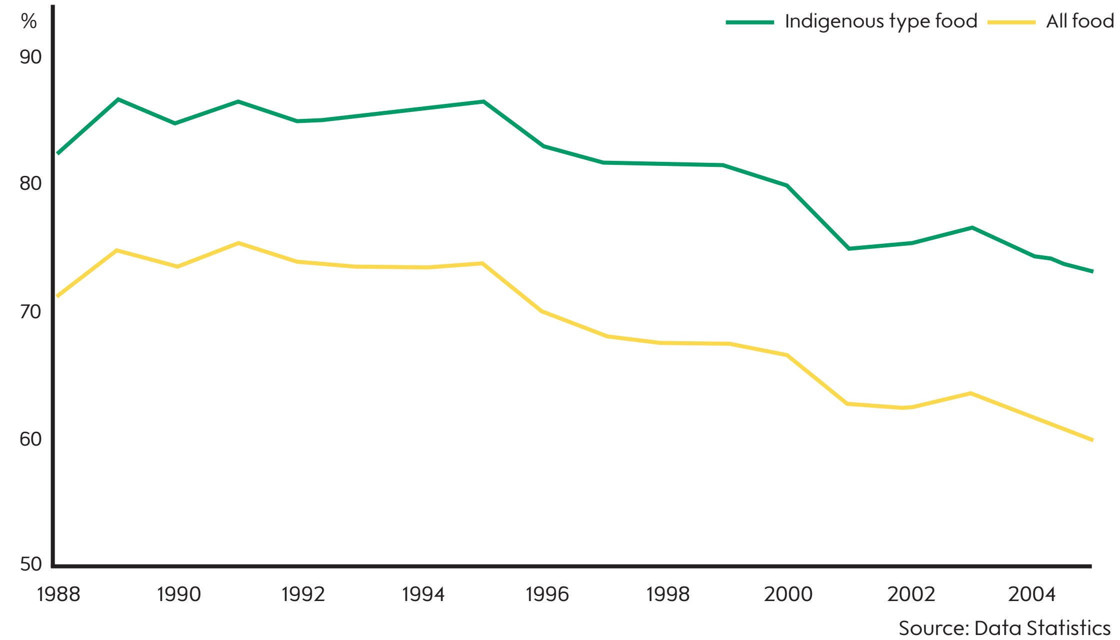


Figure 3: Decline in UK Self-sufficiency

As the above statistics have demonstrated, farming does not present a financially attractive option for most individuals, and harsh conditions have prompted the exit of many families. The upward trend in agricultural land prices, a consequence of the growth in value of non-agricultural land, has also made exit an attractive option for land-owners as well as land-rents overly burdensome for tenants.

[62] London Economics 2004

IV.2 Case studies

To illustrate the decline in the farming industry, two case studies have been prepared. In both cases, demand for the product has risen, while the farming sector has experienced declines in supply or land use.

Pig industry

Although consumer demand for pork has been increasing since 1998 there has been a decline in the number of breeding sows in the UK. This is evidenced by a fall in self-sufficiency in pig meat supply by 40 percentage points over the same time frame. This is due to two legislative changes in 1999 and 2000. The effects of unilateral welfare legislation coupled with increasing global price volatility and risks of changing input and output prices have meant detrimental impacts on pig farmers especially small or marginal producers. As a result, only strong businesses survived these adversities.

New challenges such as the Single Farm payment (SFP) scheme and increasing global price pressures require further structural assessment.

Fruit

Intense competition in the horticultural industry has meant that UK production has declined substantially. The planted area of all fruit & vegetables has declined by 25% since 1995 to stand at 148,431 hectares, while the value of imports has increased by 50% over this period.

IV.3 Farming: A turning point

Agriculture in the UK is at a crossroads. While this may appear to be 'yet another' crossroads, there are reasons to believe that the current change is more significant than what has preceded it. These are as follows:

1 **A fundamental shift in the means of delivering support to farmers:** For the first time support will not (at least not explicitly) be linked to the levels of production. This represents the most significant reform to agricultural policy since the Second World War. Farmers will now receive a standard payment regardless of their production practices whilst maintaining "the land in suitable agricultural and environmental conditions and fulfilling cross compliance requirements"[63]. Implications could include a shift towards less intensive agriculture, as farmers consider which mode of land management maximises profit/ minimises costs.

[63] Sutherland W.J. (2004): 'A blueprint for the countryside', Ibis, 146(2)

This will have profound implications for the future of British agriculture. As Sutherland summarises[64], there are several areas of potential change resulting from the introduction of the SFP. These include the removal of marginal land; decline in agriculture intensity; decline in upland grazing; lower levels of sugar beet production; increase in the size of dairy units; decline in suckler units (particularly in the South West of the UK). The effects of decreased production in these areas will likely mean a shift of such farmers out of farming as they will no longer have economically viable businesses.

2. **Increased consumer sensitivity to sources of food:** The food consumer is much more sensitive to the source of their food than in the recent past. This is likely to be a consequence of the number of 'food scares' ranging from salmonella, trough to BSE and Foot and Mouth. Restoring the erosion of consumer and public trust in the agri-food system is vital if competitive agriculture is to be sustained in the UK. Such consumer concerns are likely to favour differentiation, thereby offering a unique opportunity to deepen this trend.

3 **High prices/and rents for agricultural lands:** The decline in farm prices and profitability has not been accompanied by reductions in prices and rents of agricultural land. This means that the normal adjustment mechanism is not operating for this crisis, and farmers face a fundamentally different economic situation.

Analysis suggests that, given the current state of the farming industry today, a discussion about agriculture and its future viability in the UK must be put onto the public agenda, and given equal prominence to issues such as public service reform. This issue is particularly important, as a sustainable and diverse agricultural sector, if lost, will arguably be hard to cultivate again. Additionally many primary manufacturing and processing plants would have no incentive to be in the UK, were their inputs to be locate d abroad, so economic ramifications will be wider than they initially appear. Consumers will also lose out significantly, IGD research[65] has shown that 89% of the population believe that British food should remain widely available, while 75% agree that without farming, Britain would be a worse place. The decline of British farming is also likely to have significant price implications for consumers in the long-term.

[64] Ibid

[65] IGD (2005): 'Connecting Consumers with Farming and Farm Produce'

IV.4 Farming and the food industry

The food chain is driven by the 60 million consumers in the UK, who spent £78 billion on food and drink for household consumption. However, farming has captured little of this enormous spend (see **Figure 4**)[66].

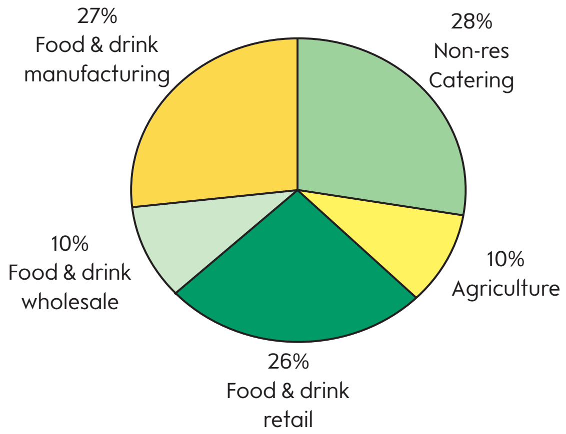


Figure 4: Proportion of gross value added by sector in the UK food chain (2004) (Adapted from Chart 6.1, DEFRA, 2005).

Additionally, there continues to be a relative decline in retail food prices. Since 1998 food prices have risen at 13.5 percentage points less than the prices of all items[67]. Producers in particular have been squeezed, with price received dropping dramatically since the mid-90's. This is illustrated in **Figure 5**

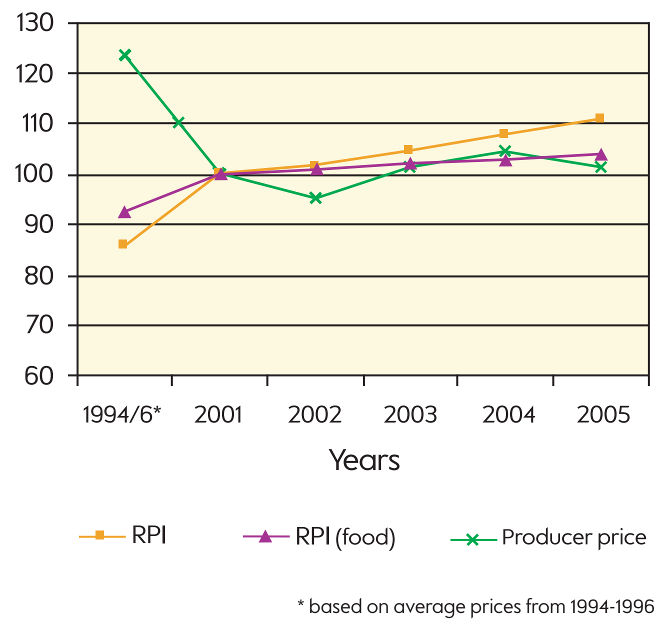


Figure 5: Comparing price indices: Retail Price Index (all items), Retail Price Index (food), and Producer price (base year 2001)
(Adapted from Table 6.2, DEFRA, 2005).

[66] DEFRA 2005 'Agriculture in the UK'
[67] Office of National Statistics 2006

Alongside these trends, farmers' share of consumer household food and drink spending has declined 23% since 1988[68]. There are two important factors which contribute to this decline, namely the trend towards increased processing and packaging, and the additional regulatory costs imposed by assessments of food safety and health impact[69]. **Table 2** presents the change in share (%) of farmer from the 'food basket' and the proportional weight of each food in the basket to the total basket.

Table 2: Farmers' share of the UK food basket

Farmgate product	Retail product	%Change in share (1988-2005)	Proportionate weight (of total)
Apples	Dessert apple (per kg)	-23	0.60
Beef	Untrimmed beef (per kg)	-34	18.02
Carrots	Carrots (per kg)	43	2.10
Cabbage	Cabbage heart (per kg)	10	0.80
Chicken	Whole oven ready roast (per kg)	-12	12.51
Eggs	Size 2 eggs (per dozen)	15	4.70
Lamb	Untrimmed lamb (per kg)	-30	8.21
Onions	Onions (per kg)	-7	0.40
Pork	Untrimmed pork (per kg)	35	8.81
Potatoes	Loose old white potatoes (per kg)	-11	6.81
Tomatoes	Tomatoes (per kg)	50	0.90
Wheat	Sliced loaf white bread (800g)	-35	1.80
Milk	Whole milk (2 pints)	-20	34.33
	Overall	***-23***	***100.00***

(Adapted from Table 6.1, DEFRA, 2005)

IV.5 The need for differentiation

There is a strong need for action. As Sir John Marsh CBE notes in his discussion paper 'Agriculture in the UK - its Role and Challenge', this relative decline means that farming is an industry under continuous economic pressure to restructure:

"Adjustment to a changing economy is inescapable"

Additionally, as Lobb and Tiffin highlight, the UK is in a relatively weak position within the global arena, and it is likely that domestic products will only retain their market if they are costly to transport or highly perishable. While the UK is likely to remain relatively competitive in cereal production in productive areas, it is likely that small-hold livestock farmers will be unable to compete effectively[70].

Differentiation allows UK producers to set their goods apart from imported alternatives by implementing higher environmental/ animal welfare standards, or by appealing to consumers on local/ seasonal grounds. This will enable them to address consumer concerns about food production more effectively, perhaps even enabling their goods to command a price premium in the market. It should give UK agriculture an advantage on the competitive globalised market for food - and help avoid a situation whereby "farm incomes are on the floor" and only the most efficient producers survive, if at all.

[68] DEFRA: 'Agriculture in the UK 2005'
[69] Ibid
[70] Sutherland W.J. (2004): 'A blueprint for the countryside', Ibis, 146(2)

IV.6 Multi-functionality of agriculture

Central to the notion of differentiation is the conception of agriculture as a multi-functional activity i.e. its contribution to society is beyond that measured by the value of food produced. This inherent multi-functionality is evident in a definition of the EU model of agriculture[71]:

"European agriculture as an economic sector must be versatile, sustainable, competitive and spread throughout Europe (including less farmed and mountainous regions). It must be capable of maintaining the countryside, conserving nature, and making a key contribution to the vitality of rural life, and must be able to respond to consumer concerns and demands regarding food safety and quality, environmental protection and safeguarding animal welfare."

A similar logic is found in a definition of the key principles of sustainable farming and food - as defined in the Government Strategy on Sustainable Farming and Food:

- Produce safe, healthy products in response to market demands, and ensure that all consumers have access to nutritious food, and to accurate information about food products.
- Support the viability and diversity of rural and urban economies and communities.
- Enable viable livelihoods to be made from sustainable land management, both through the market and through payments for public benefits.
- Respect and operate within the biological limits of natural resources (especially soil, water and biodiversity).
- Achieve consistently high standards of environmental performance by reducing energy consumption, by minimising resource inputs, and use renewable energy wherever possible.
- Ensure a safe and hygienic working environment and high social welfare and training for all employees involved in the food chain.
- Achieve consistently high standards of animal health and welfare.
- Sustain the resource available for growing food and supplying other public benefits over time, except where alternative land uses are essential to meet other needs of society.

These non-market dimensions to agriculture are not readily measured but are real gains, often incidental to the business of food production.

[71] EU Agriculture Council Meeting (December 1997)

IV.7 Externalities

As highlighted above, agriculture creates several external non-market effects; these may have significant implications for the natural environment and human health. Such effects are termed as externalities and represent a form of market failure, whereby the costs/benefits resulting from production or consumption impact upon a third party, in a manner that is not reflected in the prices paid by consumers and producers.

Professor Jules Pretty from the University of Essex suggests that the types of negative externalities encountered in the agricultural sector have five features[72]:

- Their costs are often neglected
- They occur with a time lag
- They often damage groups whose interests are not represented
- The identity of the producer is not always known
- They result in sub-optimal economic and policy solutions

Examples of externalities arising from agricultural production include: inland and costal water pollution, eutrophication[73], increasing flood risk, soil and water acidification, increased costs of water treatment and erosion, increased health costs, climate change, biodiversity loss, and damage to cultural assets such as hedgerows, stone walls and archaeological remains[74].

This report will examine both negative and positive production externalities.

IV.8 Negative production externalities

The most recent and comprehensive assessment of the external production costs of the agri-food chain has been undertaken by Pretty et al (2005)[75]. Pretty et al examine the negative externalities associated with UK agriculture, and estimate such costs to be over £1.51bn pa. Their study also concludes that a switch to organic production could lead to avoided costs of £1.13bn pa.

An alternative study (Hartridge and Pearce (2001))[76] uses a different methodological approach to investigate the sustainability of agriculture in the UK. Their study adjusts for subsidies and includes environmental benefits, to determine a similar overall value for agricultural externalities at between £1 and £2 billion per year.

[72] J. Pretty et al (2001): 'Policy Challenges and Priorities for internalising the externalities of Modern Agriculture', Journal of Environmental Planning and Management 44(2)

[73] Eutrophication is a process whereby water bodies, such as lakes, estuaries, or slow-moving streams receive excess nutrients that stimulate excessive plant growth. This enhanced plant growth, often called an algal bloom, reduces dissolved oxygen in the water and can cause other organisms to die.

[74] Environment Agency (2002): 'Agriculture and natural resources: Benefits, costs and solutions'

[75] J Pretty, T Lang et al (2005): 'Farm costs and Food miles: An assessment of the full cost of the UK food basket', Food Policy 30 (1)

[76] Hartridge, O., Pearce, D. (2001): 'Is UK Agriculture Sustainable? Environmentally Adjusted Economic Accounts for UK Agriculture', CSERGE Economics Paper

IV.8.a Impact on the environment

Intensive farming practices have been criticised for their impact on environment. As the Policy Commission on the Future of Farming and Food has noted, "farming practice and the familiar English environment have diverged", and farming, where "once benign", has become responsible for deterioration of countryside - in terms of its quality, appearance and biodiversity. This outcome was arguably a result of the incentives presented to farmers by Government policies, which encouraged an exclusive focus on increased production and improved productivity, whilst ignoring issues of land use, biodiversity and animal welfare, which did not appear on farmer account books. Such neglect, though it is not to be condoned, is understandable. As Sir John Marsh CBE outlines, "the function of farming is to modify the natural environment in ways that increase the productivity of plants and animals of economic welfare". Priority is therefore naturally given to those species of commercial importance. However, modern methods of farming have exacerbated the problem, as they do not favour traditional patterns of land use, which can then impact upon wildlife habitat, as was the case with hedgerows. Furthermore, the use of pesticides and herbicides facilitates the swift removal of unwanted species, creating a severe loss of biodiversity, with even non-target species being affected.

For examples of farming's negative impact on the environment:

- **Degradation of soil structure and soil erosion**: Soil erosion from agricultural land constitutes 95% of all soil erosion in England and Wales[77]. Costs of such agriculture-induced erosion are estimated to be 264m per annum[78].
- **Water pollution**: In 2004, agriculture accounted for 16% of serious water pollution incidents in England and Wales - thereby being the second largest source of such pollution, only 3% below the sewage and water industry at 19%. [79].
- **Biodiversity Loss:** Almost all species of the bumblebee have been in decline since the 60's. Three species out of 25 are now extinct with a further nine species having declined to varying degrees[80]. Such a decline has been precipitated by loss of flowered grassland, chalk-down land, hedgerows etc.

Farmers must recognise the implications that their actions have on the wider environment around them. Steps are already being taken to address the problem. As Lobb and Tiffin highlight:

- **Stabilisation of biodiversity**: The index of farmland bird population has remained stable since 1993 (DEFRA 2005). This is a commonly used measure of biodiversity and "a good indicator of the state of wildlife in the countryside" (DEFRA, 2005).

77 WWF UK (2006): 'Soil erosion in England and Wales: Causes, consequences and policy options for dealing with the problem'
78 Environment Agency (2002): 'Agriculture and natural resources: Costs, benefits and solutions'
79 Environment Agency (2004): 'Pollution incidents 2004'
80 Bumblebee Conservation Trust

- **New policy measures:** The introduction of the Environmental stewardship scheme in August 2005 represents a key change in the direction of agricultural support. Under this scheme, payments are made to farmers for delivering specific environmental outcomes. Under the high level scheme farmers are required to prepare a farm environment plan. The Farm Environment Plan (FEP) is a structured survey of all environmental features on a farm. It involves identifying any features of historical, wildlife, resource protection, access and landscape interest; and making an assessment of their condition.

Furthermore, in many cases, differentiated, or higher than necessary standards may benefit farmers - for instance, better conditions affect the health and well-being of livestock, and represent a gain, not only in avoidance of long-term disease costs but also potentially higher prices paid for produce.

IV.9 Positive externalities

Agriculture exhibits a number of characteristics of a public good - i.e. it creates benefits that accrue to many individuals, and where no one person can be excluded from consumption of the good. Where the aggregate benefits of a public good exceed its costs, non-provision constitutes a market failure.

While farming produces private goods, such as various agricultural outputs, it also creates several public goods, for which no traded market exists. These include conservation services, ecological services, food security and benefits to local communities.

Biodiversity and conservation benefits are especially important, given that some **three-quarters** of the land surface is used for agriculture. Such benefits are extremely difficult to quantify but a study by the Environment Agency (2002)[81] estimates positive externalities from farming to be worth some £0.9bn pa.

It is important that a right policy framework is provided for farmers to provide such goods and services, as "it is unfair and unrealistic to expect farmers to shoulder all costs of provision[82]".

IV.10 Food miles: A further instance of market failure

The external costs of food miles are estimated to be worth £9bn pa. These include production of CO_2, deterioration of air quality, increased noise, congestion, accidents, and wear and tear to infrastructure. Of greatest significance are congestion costs. Food miles have become an issue on account of the following factors:

81 Environment Agency (2002): 'Agriculture and natural resources: Benefits, costs and potential solutions'
82 Sir John Marsh CBE (2001): 'Agriculture in the UK - its Role and Challenge': A Discussion Paper by John Marsh. Paper was prepared for the Food Chain and Crops for Industry Panel

- Globalisation of supply base
- Changes in national food distribution patterns with development of supermarket regional distribution centres and the trend towards increasing use of HGVs
- Reduction in frequency of shopping, necessitating increased trips by car

A study by Felicity Lawrence in The Guardian[83] estimated that a particular basket of 20 fresh fruit and vegetables had incurred 100,943 food miles on its way to the supermarket.

IV.11 Summary

It is clear that farming is a fundamentally multi-functional activity, generating costs and benefits not typically included in the market price of food. For instance, according to Pretty, Lang et al (2005) the real cost of a weekly shop is an extra £2.91, when taking into account externalities occurring at all stages from production to distribution[84]. Because such externalities have not been corrected, consumption decisions lead to market failure. However, as Lobb and Tiffin outline in their paper, 'Evaluating the UK Agri-food Chain: A Multi-dimensional assessment', where there are many competing and different externalities, "the complexities of effective policy design... are huge". In particular, it may no longer be welfare maximising to target a 'first-best' perfectly competitive outcome. Policy makers should instead focus on the achievement of 'second best' scenario, whereby markets are regulated in order to maximise welfare. In particular, a 'tool-box' of measures is required, with participation from all parties to problem - Government, retailers and consumers.

A good illustration of the complexities that beset policy-making is that of poly-tunnels. These tunnels have enabled British strawberry farmers to extend the growing season from its original six-week period from early June to mid-August. However, such poly-tunnels are considered by some as blights on the landscape, thereby compromising one of the public goods produced by agriculture. On the other hand, they decrease food miles incurred when compared to the previous alternative, a situation of 100% imports. A further example would be tomatoes, which can now be grown in the UK throughout the year. However, despite the increase in self-sufficiency, greenhouse grown tomatoes can use more energy in production than imported food e.g. tomatoes from Spain[85].

While the problems associated with policy-making in such an industry are multifaceted and complex, there is a clear need for retailers to support British farmers, moving beyond the short-term to agreements that safeguard the viability of the industry.

83 Robyn Lewis, Felicity Lawrence and Andy Jones, The Guardian May 10th 2003: 'Miles and miles and miles'
84 Of these, farming externalities account for an additional 81p per weekly shop
85 DEFRA & AEA Technology (2005): 'The validity of food miles as an indicator of sustainable development' AEA Technology

Chapter V

A PARALLEL WITH FUEL CONSUMPTION

V. A PARALLEL WITH FUEL CONSUMPTION: CAN LESSONS BE LEARNT FROM THE FIGHT AGAINST CLIMATE CHANGE?

It is instructive to consider the parallels between systems of food and fuel consumption and production. This highlights various issues discussed in preceding chapters, notably market failure in its many forms, and the consumer attitude-behaviour disconnect.

V.1 Market failure

In both cases, there are multiple sources of market failure, ranging from external costs of production to an imbalance of information between consumers and retailers or manufacturers. As a result of such market failure, an optimal allocation of goods is not achieved. With regards to climate change, the production of energy generates strong external costs, fuelling climate change through the creation of carbon dioxide. Consumers also suffer from insufficient information, which means they lack the knowledge to make informed decisions about their energy consumption.

In both cases, Government policy has paid relatively little attention to the role of the consumer in correcting market failures.

V.2 Externalities: Similarities between failure in fuel and food

There are three key similarities in the way food and fuel related externalities are produced. These are:

- **No single source of external costs**: Externalities arise from a diverse and diffuse set of drivers
- **A space-time lag:** Producers of externalities are separated from the effects generated by their actions both in terms of geography and time.
- **Attitude-behaviour disconnect and information asymmetry:** Although consumers are concerned about climate change and food production practices, their purchasing behaviour does not necessarily reflect this.

V.2.a No single source of external costs

Market failures associated with food and fuel both arise directly and indirectly from multiple human decisions, whether they are made at the level of Government, business or households. There is currently unclear delineation of responsibility between these players, and this leads to problems of accountability.

V.2.b A space-time lag

Consumers of food and energy services are displaced in both time and space from the negative external effects that these entail. For example, it is predicted that emissions of carbon dioxide today will be expressed as changes in the biophysical environment over hundreds of years[86]. Furthermore, it is likely that the people most affected by changes to the climate will be those in less developed low lying countries[87]. Similarly, the display of products on an urban supermarket shelf does not readily lead to an understanding of the real costs and benefits incurred by food production and distribution. This space-time lag complicates decision-making and often leads to more immediate variables being considered in the buying decision - such as price and brand.

V.2.c The attitude - behaviour disconnect

This lack of clarity about the consequences of purchasing decisions ensures that consumers are not aware that behaviour may be contrary to preferences held. It is clear that the provision of information on the relative merits of different purchasing options can help to close the preference-behaviour gap and link choices with effects elsewhere in time and space.

As well as these general similarities two common types of externalities arise, namely production externalities and that of information asymmetry. These are discussed in the following paragraphs.

V.3 Production externalities

As discussed in Chapter IV, significant production externalities arise from farming. Similar external costs emerge from fuel consumption - namely the emission of carbon dioxide and resultant contribution to climate change. Such costs are not included in the price of fossil fuels, and given the space-time disconnect, individuals use such fuels to maximise their own benefit, and not that of society.

A number of barriers exist that continue to uphold the divergence of private and social costs for both fossil fuel combustion and food provision, thereby perpetuating the externality. For example, the liberalisation of the UK energy markets have kept prices low[88], at least until recently. Energy usage in the home is continuing to rise - being over 6% higher in the third quarter of 2005 compared to the year before[89]. Along similar lines, food continues to remain inexpensive. In both cases, the lack of a pricing signal suggests to consumers that these resources are abundant and should be consumed as such. In reality, both carry significant costs related to their production and consumption. This is not to say that higher pricing is the solution. Food and fuel are also similar in that they are essential for life and so increasing prices has significant welfare implications.

86 Intergovernmental Panel on Climate Change (IPCC) (2001): Synthesis Report Cambridge University Press, Cambridge, Question 5
87 IPCC (2001), question 3
88 DTI (2005) UK Energy Sector Indicators DTI, London
89 DTI (2005) Energy Trends: December 2005 DTI, London

V.4 Information imbalance

Chapter III has explored the issue of information imbalances, or asymmetric information, in the case of the food industry. A similar situation prevails with regards to fuel. Until recently individuals were not given data on the fuel mix used to produce their electricity. This meant ethical and environmental variables such as content of nuclear or renewable energy could not be considered when deciding which electricity supplier to choose. Disclosure of this information with bills now allows consumers to consider social as well as private costs when buying electricity. However, the system is still far from ideal - disclosure is only required once a year and so still the onus is put on consumers to do the ‘leg work’.

V.5 Current approaches to climate change mitigation

As we have already explored policy approaches to resolving the externalities inherent in food production, we shall now examine current policy on emissions reduction.

The UK Government has taken a multi-scale approach to mitigating carbon dioxide emissions - energy utilities as well as industry, households and related transport have been targeted. The most significant policy measures have targeted business, namely the Climate Change Agreement (CCA) and Climate Change Levy (CCL). These encourage increased energy efficiency by adding a levy per kWh electricity or cubic foot gas consumed within all businesses (except those that consume domestic quantities of energy).

Such schemes operate within the realm of Government, business and industry. This is much like the large-scale interventions by the Government to deal with production externalities on farms via the Common Agricultural Policy and agri-environment schemes. In both cases the consumer tends to be by-passed.

Although individuals or households have been encouraged to ‘do their bit’ through subsidised insulation, white goods labelling and subsidised microgeneration, the effect has been relatively small. Since 1990 domestic energy use has increased by 18%[90]. This over-riding growth in energy consumption is for a range of reasons, but some directly related to these policy approaches are the growing number of single person households and increasing internal temperatures offsetting better insulation[91].

V.6 Lessons to be learned...

Considerable effort on the Government’s behalf has not been translated into significant decreases in our national carbon dioxide emissions. There are a number of reasons for this but four key lessons are discussed below:

[90] DTI (2005) Energy - its impact on the environment and society Annex 3A, DTI, London
[91] Ibid

- ❖ The emphasis on the role of the individual or consumer has been relatively weak
- ❖ The signals to consumers as to socially optimal choices are not clear enough
- ❖ Information and feedback can be further exploited
- ❖ Fuel and food literacy are the foundation

V.6.a Where are the ‘consumers’?

As discussed, policy to minimise fuel externalities has concentrated on industry, not the consumer, with the result that personal responsibility has not been encouraged to its greatest extent. This is partly because the diverse and diffuse drivers of carbon dioxide production make the consequences of individual decision-making difficult to communicate. However, individuals do play a significant role in production of carbon dioxide emissions, and need to recognise this.

Consequently an increased understanding and comprehension of climate change as a serious issue has not translated into significant reductions in fossil fuel consumption[92]. For example, less than 1% of the population has switched to an energy company supplying renewably-sourced electricity despite disclosure, and purchases of highly efficient cars represent less than 0.2% of new cars sold[93].

The current approach to dealing with food production externalities via subsidies also excludes individuals. If consumers are seen as having an important role to play this should be reflected in Government policy approaches. Any move to ameliorate externalities must communicate the importance of individual action, explaining the potential for individual agency and providing consumers with the tools to achieve change within the remit of daily needs.

V.6.b Signals aren’t clear enough

The lack of a number of strong, coherent signals to individuals regarding implications of fossil fuel use can help reinforce the preference-behaviour disconnect.

Often prices of goods do not reflect the negative external costs of production. For example, the UK Government’s approach to taxing cars does not significantly communicate the different external costs that arise from different car models. Food pricing shows a similar lack of signal. People who purchase organic food pay premium for a food good with arguably smaller negative externalities. In effect, consumers are encouraged to choose food products that widen the gap between private and social costs, rather than narrow it.

[92] Retallack, S. (2006): ‘Ankelohe and beyond: communicating climate change’ www.opendemocracy.net/content/articles/PDF/3550.pdf
[93] Ibid

V.6.c Lack of feedback and information asymmetry

The use of feedback can help deal with the issue of space-time lags between externality cause and effect. Feedback in the case of fossil fuel consumption is the provision of information to consumers as to how much energy they have used over a given period of time. In its current form, individuals receive feedback at the household level through energy bills. Such feedback is helpful because it can show the cumulative impact of consumer behaviour over time. However, effectiveness very much depends on the form feedback takes. For example, consumers currently get their energy bills quarterly and the amount used is estimated. This gives a very poor level of feedback due to its irregularity, potential inaccuracy and lack of comparison over time. Also, many pay by direct debit thereby not even needing to look at a bill. A recent survey found that 37% of respondents thought they knew how much energy they were using (LogicaCMG 2006).

Providing feedback relating to food choices is much more difficult than it is with forms of fossil fuel consumption. However, potential ways include the ability to regularly meeting with a local farmer.

V.6.d Fuel and food literacy

If the above lessons are to be acted upon successfully, consumers need to be ‘food and fuel literate’. People must be able to understand the implications of their decisions and the mechanisms by which such external effects are produced. While initiatives like feedback monitors and labelling in shops can enhance generate literacy, a good basic understanding such as that gained in school will lay the foundations for the optimal use of this information later in life.

V.7 Summary

It is therefore evident that there are many similarities between the types of market failure existing with regards to both food and fuel consumption. In both cases, significant production externalities exist, while consumers suffer from asymmetric information. If market failures are to dealt with successfully, all parts of the system must be involved - from farmers to consumers. In particular, if individuals are seen as part of the answer, this needs to be communicated through well-designed and diverse strategies that enable action on their part, both in the short and longer term.

Chapter VI

CONCLUSION

VI. CONCLUSION

This report highlights the existence of a deep-seated crisis facing the farming sector. This, coupled with current policy developments, such as the Single Farm Payment (SFP), fundamentally threatens the viability of certain sectors within UK agriculture. The situation today is not **just** another farming crisis but has profound implications that extend beyond farming to the countryside, primary food manufacturers, and finally the **consumer**. This is because a flourishing and diverse agricultural sector, once lost, tends to be lost forever. While consumer research points to strong support for UK produce, with some 90% of consumers believing it is important that British food is widely available, this is not matched by willingness to pay in the case of a price premium. It is essential that we do not wait for consumer actions to catch up with consciences, as it may be too late by then to maintain farming as we know it. Retailer responsibility is therefore vital in helping to bridge the gap between attitudes and behaviour. For this to be successful, a true partnership between retailers and farmers is necessary; this must be one that moves beyond short term arrangements to build constructive relationships based on trust and mutual support.

VI.1 Differentiation and its challenges

This report argues for a movement towards a more differentiated agriculture as a way to safeguard farming from the pressures of an increasingly globalised and highly competitive food system. However, there are many challenges which could potentially impede the deepening of differentiation. Key is the existence of a fundamental disconnect between preferences and behaviour, which ensures that consumers' purchases do not necessarily support their wider preferences. This is an important impediment as producers cannot incur higher costs of production, if the consumer is unwilling to support them.

A parallel with fuel consumption has further highlighted how all parties to the problem must be actively involved in striving for a solution - this includes consumers, who must be provided with the tools to achieve change within the remit of their daily needs. Such comparative research, together with qualitative and quantitative studies, specially commissioned for this research, has pointed to the importance of clear, credible and consistent information as a solution to this disconnect. To expand on the importance of partnership and the need for information:

- **Retailer Responsibility:** As YouGov research highlights, 52% of consumers look to the Government to maintain a viable farming sector. However, the Government cannot address these issues alone - all parties must play their role, given the multiple nature of market failures. Retailers, as the vital interface between the consumer and their food purchases, must become accountable for the considerable implications of their sourcing and labelling policies. The need for such action was stressed by participants in the Ipsos MORI focus groups - individuals believed that supermarkets were responsible for creating unnecessary 'wants' , and wanted them to facilitate clearer decision-making. Furthermore, supermarkets must not adopt transparent sourcing or information labels solely as reactions to exposés, but instead spearhead the movement to differentiation and informed decision-making. This is arguably an important aspect of corporate social responsibility polices, as outlined in the Food Industry Sustainability Strategy.

- **Additional information:** Consumers tend not be aware of the repercussions of their daily decisions, simply because the complexity and opacity of the supply chain. YouGov research has highlighted how the demand for more information is strong- with two-thirds wishing for information on country of origin of products, 55% on health implications and a full third on seasonality. It is also critical that information comes from credible sources, as there is significant mistrust about differentiated produce that must be dispelled. Information is therefore required on the following fronts:

    - Benefits of differentiated produce: Consumers need to be aware of the true value added by differentiated produce - appreciating them for their superior systems of production, and not just considering them as an excuse for a retailer mark-up
    - Distribution of profits: In many cases, consumers are unsure of the difference purchasing a type of produce makes to the farmer concerned - or whether the premium is simply added to supermarket profits.
    - Seasonality: As research has highlighted, 33% of individuals wish for information as to the seasonality of a product, with focus group participants suggesting a seasonal section in store, mirroring the status given to organics.
    - Farming today: An issue that prevents positive public engagement with the crisis in farming is the presence of significant negative stereotypes about farmers. Such stereotypes typically concern use of destructive farming practices - affecting hedgerows and wildlife - and were reinforced during the pro-hunting campaign. Instead, the focus needs to change to farmers' role as stewards of the countryside, and the positive impact farming can have in maintaining the environment.

- **Partnership:** In this critical time for farming, a 'them vs. us' attitude is not constructive - partnership must occur on all levels between industry and the farming community. The need for consensus in this area is vital - any measures introduced on the retailer side must not be perceived as tit-for-tat ways to trounce competitor policies, but instead reflect a concerted effort by the retail industry to move to a new paradigm.

VI.2 Way forward

The immediate areas which offer potential for deepening differentiation are local and seasonal foods. Both offer a simple and compelling message that appeals to consumer concerns of taste and health, and can be adopted by all producers- both large and small scale. They are also issues of great public interest - as highlighted by various IGD polls

VII. APPENDIX I

This report is based on independent research from the following sources:

Academic

'Evaluating the UK Agri-food Chain: A Multi-dimensional assessment' by Dr Alexandra Lobb and Dr Richard Tiffin from the University of Reading, June 2006

'Market failures from food and fuel consumption: can lessons be learned from the fight against climate change?' by Rebecca White PhD student with the Lower Carbon Futures Group of the Environmental Change Institute, Oxford University

Consumer

'Study of disjunction between consumer opinions and their purchasing decisions' by Ipsos MORI, May 2006

YouGov Omnibus 5th May 2006

Reports are available on request

VIII. APPENDIX II

Methodology for Qualitative Research

The methodology consisted of two focus groups: one pre-family group (25-35 years) and one family group (36-55 years). The groups took place in North West London on the 18th May 2006 . Each group was two hours in length.

Individuals recruited for each focus group were ethically/environmentally conscious consumers. This was determined by asking respondents to agree / disagree with the following statements:

- I am not concerned about the details of the food I buy. I don't want to get into the background of how and where things are made and grown
- I think there is too much fuss made about environmental issues such as global warming & recycling
- I like to be reassured that people who have made the products I buy have not been exploited
- It is important to me that Britain remains a farming nation
- I am very concerned about the loss of environment/natural habitat and wildlife around the world

Consumers had to answer positively to 4/5 of the above statements to qualify.

Other criteria used to recruit respondents per group:

- Mixed Gender (2-4 Male; 2-6 Female)
- Must be responsible for the majority of household grocery shopping
- Mix of those shopping in supermarkets & food retailers
- Mixture of single, married/partner, divorced/widowed
- Must not be vegetarian
- Mixture of employed full time, part time and homemaker

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