

Webinar: Pricing Strategies to close the Gap and the need to consider Supply Management

16 July 2020

Q & A

(The following are written questions arising from the webinar which were not able to be addressed on the day due to time limitation. Our panelists have provided responses below)

Q: Why should the ICCO not be used as it was in the past?

ICCO could have a role, but the challenge is that consuming countries are involved in ICCO just as producing countries. In the past, the importing countries / agribusiness companies have opposed supply management systems which is why the previous supply management systems in coffee and dairy collapsed. There are different stakes for different value chain actors, which would need to be managed in establishing a new supply management system.

Q: We find, in this paper, that farmer reaction to prices is different depending on the size of the farm. Small holders will continue full effort in coffee no matter what price (high or low) but large, commercially minded farmers shift investment to other crops when coffee price is low. <https://www.canr.msu.edu/fsp/publications/research-papers/fsp%20research%20paper%2032.pdf>

Thank you. This confirms that in sectors where the majority of smallholders does not have the opportunity to change land use (because they do not have the money to invest, or cannot survive a period without income), their only way to earn a higher income is to produce more.

Q: Regarding Ghana and the role of farm size, was the effect of share-cropping accounted for? We found that this can change findings immensely as large farms where income is split 50/50 are basically just half as large farms
Indeed they are! It was incorporated. If not, the incomes would have even be lower, with more farmers under the living income and WB poverty line.

Q: Could cost of inputs and their relevant returns contribute to lower farm incomes?

I am not sure about your question. Cost of production (input costs) hopefully lead to higher incomes and thus a return to investment, though it does not always work that way. Or it works only after some time, which is often a challenge for smallholder farmers to navigate as their incomes are so low already, so doing upfront investments without a guaranteed return is often not possible. So if farmers invest without having a return, this would lead to lower incomes. But often farmers are not easily investing without knowing whether there will be a return as they cannot simply do without the money

Q: A question for Yuca: Did you also look into supply management in the cotton sector in which China (2nd biggest producer, around 25% of global production) manage a large national stock.

No we did not yet, thank you, interesting to include in our analyses.

Q: My question to Yuca is: what about trade unions from cocoa plantations in countries like Indonesia Ecuador and Brazil, where they exist? Alongside farmers' organisations, of course.

I assume you mean with trade unions: "workers unions". All producers and their communities as well should be involved in the process to come to supply management, but plantations have different dynamics than farmers and their producer organisations. So as workers at plantations also have a big stake, they would indeed need to be involved and then unions seems a logical way as they are supposed to represent plantation staff.

Q: Hi Yuca - thank you for your report. This is indeed the heart of the matter. I look forward to digesting more of what you have researched. I hope, with regard to smallholder coffee producing countries, you'll look at the papers offered here: <https://www.canr.msu.edu/fsp/countries/aqlc-rwanda-and-burundi/index> I must disagree on several of your assumptions about price increases. 25-50% is not a large increase when the base price is nearly 0, or tiny. Farmers shifting to coffee from other crops has been shown to be a more sustainable option than other intensively grown crops, especially since tree roots are better than terracing and less expensive to maintain. Increased prices benefit those with the most trees, of course, but that does not mean it is a bad strategy for helping the smallest farmers. "A

rising tide raises all boats" for example, when washing stations can operate efficiently because there is adequate supply of high-quality cherry. Matching demand needs to be done at the firm-level before global. Another historical example of an industry self-managing itself successfully is the Maine lobster industry. In the 70s I think they self-corrected over-fishing of lobster.

Thank you very much for this feedback, I will look into the papers. True that at farmer level a price increase leading to 25-50% income increase is not much if prices are low, but at scale this amounts to huge overall cost increase if all farmers would be paid such an increased price. And I agree that every dollar counts, especially for the poorest producers. What we see is that price increases could work for niche segments, but due to market dynamics, such higher prices will not be paid to all farmers globally without including other measures such as supply management. The issue is that price increases have short term benefits but also can have longer term negative effects, e.g. by driving down prices because of increases in production, or a market where farmers in some areas cannot sell all their produce again if demand does not match supply increase. I am afraid that firms, even big companies with a large market share, cannot fully make the market really work for the poor (that is: ensure all farmers earn above living income level), there are simply too many influencing factors outside their direct sphere of influence (e.g. including governmental policy such as on land use/governance).

Q: Another historical example of an industry self-managing itself successfully is the Maine lobster industry. In the 70s I think they self-corrected over-fishing of lobster.

Thank you. We will look into this. One of the success factors of such an example could be that self-management works in a local environment. In correcting over-fishing, the farmers themselves had a stake: to ensure they could catch lobster in the future as well as they are dependent on this natural resources (I assume lobster is caught from the wild). This is different from cocoa where production increases can be relatively "easily" achieved by planting a new tree. A question is how self regulation would work in cocoa: in a certain locality / value chain it could work e.g. if there is an agreement between buyer and farmers (e.g. through a producer organisation) that farmers would not produce more, and they would receive a higher price for their cocoa (in order to earn minimally a living income). But at scale higher prices would not work if no other measures are put in place, as some companies can decide to source their cocoa from a lower cost country.

Q: Jason - love the 3 leg stool concept. The first leg is, in my experience, extremely difficult to achieve in coffee. Understanding COP requires investment in research that coffee producing countries rarely have.

In Canada each province board completes its own COP on a yearly basis. The cost is shared by each farmer within the province. The analysis randomly chooses farms and an analysis is done showing the actual costs throughout the previous year. This is easier to do, as citizens are required to pay taxes ect. and already track all costs. They have a system in place to track large changes as well (sudden increases in oil etc.)

Q: How well has the supply management program in Canada responded during the pandemic and economic downturn?

Because the system is efficient in the sense that there is constant communication between suppliers and processors and retailers, the system was able to respond quickly. Within a week, farmers knew they needed to react quickly and dry off cows to reduce production. Additionally, because the system is created to put everyone on an equal playing field, producers shared the loss of milk equally.

Q: If there is time for two questions, then I'd ask Jason how DFC deals with organic or 'agroecological' milk in the SM system?

Niche markets like organic are allowed in the system: they just need to prove that there is a market for the product. COP studies are done separately for these niche markets. Environmentally, the Canadian system has a producer wide system called [ProAction](#), which is a multi-level system that will put Canada milk at the top of the world market in regards to sustainability.

Q: When china had the milk contamination issue did the canadian system not threaten to collapse from inside as there were huge market opportunities opening up?

While there was an opportunity to increase production during the milk contamination in Canada, their system is setup so that producing for international markets are not profitable in the long term. While there is discussion

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among farmers, many still support the slower market increase versus the sometimes volatile market opportunities internationally.