



Leibniz Institute of Agricultural Development
in Central and Eastern Europe

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P R E S S R E L E A S E

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Are Eastern European agricultural markets working? Beware of state-prescribed market interventions!

IAMO Policy Brief 11 presents latest research findings on the subject

Halle (Saale), 21 August 2013 – Some Eastern European countries, specifically the large grain-producing nations of the Black Sea region (Russia, Ukraine and Kazakhstan), will be of major importance in solving the ‘global food problem’. To achieve this, they will need to further mobilise their market and export potential via properly functioning agricultural markets and trade structures. The current debate about global food security, however, is controversial when it comes to whether and with which measures the state should intervene into the economic system. Based on the findings of several joint research projects that examine how Eastern European grain, dairy and meat markets are functioning, agricultural economist of IAMO and Christian-Albrechts-Universität zu Kiel strongly advocate restraint in the introduction of measures to regulate agricultural markets.

Instability in financial markets and certain phenomena in international markets for agricultural raw materials have increased demands for state intervention in the market since the turn of the decade. This is particularly true of Eastern European transition countries where institutional regulations function only to a limited extent. It is indisputable, on the one hand, that poorly functioning or market failure can justify necessary economic interventions by the state. On the other hand, there is a risk that non-market-compliant state interventions in pricing and the exercise of market power may leave agricultural markets functioning worse rather than better.

Several academic studies demonstrated that politically prescribed interventions in the wheat markets of Russia, Ukraine and Serbia are inefficient and lead to high costs from a macroeconomic perspective. The goal of consumer price stabilisation failed in the agricultural markets of Serbia and Russia. In fact, the food industry was rather enabled to generate additional profits through a combination of skilful storage and misinformation policies at the expense of consumers. It was also found that the dairy industry in some regions of Ukraine exploits its favorable market position for price dumping against agricultural raw milk producers. Potential approaches to counter such

practices could be eliminating administrative trade barriers, developing the transportation infrastructure and seeking alternative sales channels. In contrast to the dairy sector, there are no findings of price dumping by Ukrainian meat-processing industry on meat producer markets.

Overall, the findings of the studies show that market intervention by the state intended to eliminate supposed misallocation actually ends up facilitating such structural problems. There is always the risk that market regulation by the state can lead to long-term disruptions in the functions of the market, with related consequences for the agricultural and food sectors as well as consumers and global food security. This is why IAMO director Thomas Glauben advises: ‘Particularly in countries in economic transition, agricultural market policy ought to focus on measures and parameters that promote competition as well as on direct measures of food security for poorer households.’

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Further information

IAMO Policy Brief 11 ‘Are Eastern European agricultural markets working?’

Beware of state-prescribed market interventions!‘: www.iamo.de/publikation/en/policybrief-11

IAMO Policy Briefs

The publication series IAMO Policy Brief is published at irregular intervals and provides a platform for research findings and outcomes of the Institute of Agricultural Development in Central and Eastern Europe (IAMO) with social relevance to be communicated accessibly and entertainingly to a broad audience. Key target groups include political decision-makers, mass media representatives and the general public.

About IAMO

The Leibniz Institute of Agricultural Development in Central and Eastern Europe (IAMO) analyses economic, social and political processes of change in the agricultural and food sector, and in rural areas. The geographic focus covers the enlarging EU, transition regions of Central, Eastern and South Eastern Europe, as well as Central and Eastern Asia. IAMO is making a contribution towards enhancing understanding of institutional, structural and technological changes. Moreover, IAMO is studying the resulting impacts on the agricultural and food sector as well as the living conditions of rural populations. The outcomes of our work are used to derive and analyse strategies and options for enterprises, agricultural markets and politics. Since its foundation in 1994, IAMO has been part of the Leibniz Association, a German community of independent research institutes.

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