

## **Political risk in food production**

The PhD project is part of a larger research project, “Risk exposure and risk management in food production - Comparing aqua- and agriculture”. The project is organized by the Norwegian Agricultural Economics Research Institute (NILF), and funded by the Norwegian Research Council (NFR). The main research objective of the programme is to increase the knowledge about risk and risk management within agricultural and aquaculture production and marketing. Focus is on risk facing the producers as well as risk as an externality (e.g., environmental and food safety aspects). More information about the project is available at <http://www.nilf.no/Prosjekter/I031.shtml>

Within this framework, the main area for this PhD project is political risk within food production, in particular aquaculture. This includes exploring and modelling the importance of such risks, as well as studying methods for management of such risks which may improve the individual agent’s risk exposure as well as the use of resources in society at large.

Political risk is important for most businesses and industries. Everyone is affected by political decisions and the resulting changes to the business environment. In the literature, the term “political risk” has typically been used for describing risks related to international investments in developing countries such as risk of expropriation, weak property rights and legal systems etc. Nevertheless, one would assume that such risk factors were important also for firms and industries in industrialized countries, even for those with only domestic operations. Food production industries, and in particular traditional agriculture, are industries that traditionally have been heavily regulated, and where one hence would expect such risk to be particularly important relative to other risk sources.

Most studies treating political risk, both theoretically and empirically, are found within the political economy literature. Despite the assumed importance, little such research has been conducted neither within the standard finance framework nor aquacultural or agricultural economics, maybe because such risk is difficult to model and quantify.

Although political risk is the “core topic” of the PhD project, studies of for instance risk perception and external risk management strategies like futures markets are important building blocks. Improved knowledge about risk perception and risk sources are obviously important – if political risk were not considered to be important, it would be less relevant to

study it. Analyzing different market solutions is interesting because many of the key success factors for existing markets would also apply to market solutions dealing with political risk. (For instance, if the salmon market is not large enough to support a futures contract on salmon, it is unlikely to be large enough to support a prediction market contract hedging some industry-specific political risk either.)

The PhD project is divided into four separate papers:

- 1) Analysis of the prospects of a futures market for salmon
- 2) Risk perception and risk management among salmon farmers
- 3) Prediction markets as a tool for management of political risk
- 4) Regulations, risk and behaviour – a study of how political risk influences behaviour