EUROPEAN PARLIAMENT 2009 - 2014

Committee on Agriculture and Rural Development

25.2.2010

WORKING DOCUMENT

on "Fair revenues for farmers : A better functioning food supply chain in Europe"

Committee on Agriculture and Rural Development

Rapporteur: José Bové

Introduction

The communication of the European Commission on a better functioning food supply chain in Europe has highlighted a number of problems which have become visible due to dramatic commodity price volatility in the agricultural and food sector. These problems seem to be closely linked to increased concentration in the sector of wholesalers, retailers, and supermarket chains, their growing market power and various practices of abuse of dominant buyer power in the food chain.

The Commission points at a number of unfair practices in contracting, restricted market access and undue fees imposed on producers for listing of food products in the retailing sector. Furthermore, the communication raises the question why farmers are suffering from decreasing farm gate prices in almost all sectors while consumers are facing constant or increasing prices for the end products they buy. Information on profit margins and their distribution throughout the food chain is according to the Commission difficult to obtain.
As a response to these problems, the Commission suggests better price transparency in order to increase competition and so to combat price volatility. A better flow of information between the market partners on supply and demand, on prices, and contracting is expected to improve competition. However, very few data on price building at the level of processing, of trade and marketing are currently available in the member states or at EU level.

This working paper is an invitation to gather ideas on policy reform and possible instruments which could improve the functioning of the food chain in order to offer fairer revenues for farmers while delivering affordable prices for consumers. It is an invitation to all interested parties to express their points of view on the following considerations and questions, to point at concrete case studies, but more importantly to offer possible solutions to the problems which various partners in the food chain face today. The rapporteur will take these contributions into account, before presenting his draft report to the Committee on Agriculture and Rural Development at the hearing of experts on the 4th of May 2010.

1. Transparency

The Commission suggests measures to increase price transparency in the food sector. These include mainly better transparency of agricultural commodity derivatives markets in order to be able to control excessive speculation and price volatility for agricultural commodities. Furthermore, the Commission suggests a European food prices monitoring tool and easily accessible food retail price comparison services.

<u>These proposals do not include</u>:

- Measures to increase transparency about the distribution of added value and profit margins between and inside the different sectors of the food chain;
- Information which discloses the real costs of production of farmers as opposed to prices offered by buyers and related consequences for production practices, food quality and restructuring of the sector, negative impacts on the environment and comparable externalities;
- Information about the influence of structural surplus production caused by certain policies on quantities of supply and related decrease of producer prices;

2. Competition

Based on recommendations of a High Level Group on Competitiveness of the agro-food industry, the Commission suggests measures to improve competition within the European food chain mainly by enhancing further vertical integration of the food industry within the internal market and to remove territorial supply constraints which contradict internal market principles. The Commission also reviews selected environmental standards and origin labelling schemes that may impede cross-border trade and suggests stopping the development of national and regional origin labelling schemes to be replaced by a new framework for geographical indications, marketing standards and certification schemes in its quality policy.

These proposals do not take into account:

- the high diversity in territorial structure, size, level of specialization, employment capacities, and access to public support of the various small, medium and large enterprises involved in the food chain;
- the extremely unequal bargaining power of farmers, as opposed to processors, wholesalers, and retailers which has led to abusive buyer practices and anti-competitive behaviour;
- the low ambition and performance of national and European competition authorities to address these asymmetries and to take adequate measures;
- the ongoing "price war" in almost all member states between supermarket chains and its impact on producer prices, food quality and further concentration of buyer power.

3. Restructuring of agriculture and the food chain

The Commission suggests measures for restructuring the agricultural sector and food chains and to encourage the creation of agricultural producer organisations. As an example the Commission suggests to focus on the milk sector. It also intends to bring forward proposals by a new High Level Group composed of Member states experts and industry representatives aiming to further enhance the competitiveness of the agro-food sector, notably of SMEs, and to foster innovation and exports in the sector.

These proposals do not take into account:

- the high diversity of agricultural structures and size of holdings and their respectively different roles and competitive capacities on local, regional, national or international markets;
- the high diversity of processing industries and the different levels of competitiveness in relation to the markets and supply chains they are embedded in;
- the diversity of independent local retailers, markets, local food chains and semi-subsistence food supply systems which do not depend on market development;
- the high dependence on external and often imported inputs of intensive agro-industrial producers in the food chain which are considered y the Commission as being the most competitive producers within the food chain;
- the rapid disappearance of small and medium sized enterprises, retailers and shops, especially in disadvantaged rural areas;
- the apparent strategic conflict between European competition rules and the intention expressed by the Commission to improve producers organisations' bargaining power so as to allow them to achieve a fair price for their production.

4. Abuse of buyer power and contracting

The Commission considers that action is needed to eliminate unfair contractual practices between business actors all along the food supply chain. It highlights practices like late and delayed payments, unilateral changes in contracts, upfront payments as entry fees to supermarkets and many more. However, proposals for measures against these practices are limited to exchange of good practices, awareness raising campaigns and preparation of voluntary standard contracts.

<u>The proposals do not include:</u>

- measures against practices which impose low farm gate prices through high volume requirements, "minus-margins" (exclusive prices for one buyer);
- measures which fix maximum listing fees and measures against threats of delisting;
- measures against foreclosure of supplies, undue fees for packaging, marketing fees, after-sale rebates and retro-active payments;
- measures against undue delay in payments, as practiced in almost all retailer chains, and extra contributions to marketing costs fees demanded from producers to cover expenses for market failures;
- measures to improve know-how of producers and consumers on price building across the food chain and measures to control concentration of bundlers and buying desks at European level;

5. Resale at loss

Under anti-competitive practices, the Commission has not specifically mentioned resale at loss practices which are widely spread throughout Europe. The Commission points however at a significant number of cartels and resale price maintenance cases; joint commercialization and joint purchasing agreements (buying alliances); tying and bundling arrangements; and an increasing use of private labels.

<u>The communication does not include:</u>

- data or analysis on resale and loss practices which compile cases like the "pasta cartel" in Italy, or similar cases in France, Germany, Ireland and new member states;
- proposals which take account of experiences of various member states in applying national laws against resale at loss practices and which could make existing EU competition law more efficient in preventing and stopping these practices;

6. Improvement of food quality and sustainable food systems

Furthermore, the communication has not sufficiently taken into account price relevant relations between farm sizes, the grade of organization of producers and farm gate prices; the dependence of highly specialized farms on external inputs (energy, feed, etc) and their respective vulnerability to increasing price volatility ; the apparent strategic conflict between competition on prices and sustainability goals in view of the new challenges like climate, change, biodiversity loss etc. , as mentioned in the CAP health check ; the impact of EU-hygiene and industrial food safety standards on market access and farmers' income which do not sufficiently take into account whether food is produced and sold locally or at distance markets; and the need to define and implement new criteria for food quality going beyond food safety.

<u>Improvements of the functioning of food chains should include</u>

- a differentiation and revision of hygiene rules and shelf life of products;
- decentralizing and simplifying certification and control systems;
- promotion of direct producer-consumer-relations and short food supply chains, whose sustainability benefits have been documented by EC research projects;[1]
- involvement of producers and consumers in the elaboration of quality and fair trade criteria;

7. Self supply, public food chains, catering and food waste
The communication does not take into account the following practices:

- food chains which are not or only partially integrated into the market economy, e.g. - subsistence or semi-subsistence production, which still provides an important part of food supply in many member states, especially in the fruit and vegetable sector;

- public and private catering (including canteens and restaurants), which have their own specific demands, price structures and rules of competition;

- environmental sustainability criteria for food procurement practices [*restauration collective*] as a means to enhance food quality and local economic development, while also reducing 'food miles' and agrichemical dependence;

- extremely high losses of food throughout the food chain, which in most member states comprise up to 30% of produced and marketed food;

- the importance influence of the European Food Aid Program on the food supply chain which feeds 43 million poor people in Europe and which needs to be revised in terms of better linking of local producers and consumers of food.

Questions:

1. Price volatility
Price volatility is recognized as being harmful for the entire food chain. However some parts of the food chain have profited from it, having been able to realize a larger part of the overall added value due to more favourable legislation for larger enterprises, stronger bargaining power, more favourable position in contracting, anti-competitive practices etc.
Farmers and consumers seem to be the losers on both ends of the food chain, while the processing, trade, wholesalers and retailers sectors can more easily compensate price volatility.

Which legislative framework would be needed, in order to reduce price volatility and to achieve a fairer distribution of added value between the partners in the entire food chain?

2. Speculation
The impact of speculation on food commodities are recognized as harmful for the functioning

[1] www.cofami.org, www.faanweb.eu

of the food chain. Understanding of speculative positions and related risks for the functioning of markets is missing.

What kind of regulatory interventions on financial markets in relation with the functioning of the food chain are necessary and which political initiatives are to be taken accordingly?

3. Supply

Supplies of consumers with high quality food at reasonable prices, and remunerative income for farmers are the key objectives of the CAP. A major part of European agriculture is strongly dependant on oil-based external inputs and feed, which makes it vulnerable to price fluctuations of these inputs on the world market.

What kind of interventions in structural and trade policies are needed in order to guarantee a balanced and sufficient supply of food at prices which cover the costs of sustainable food production ?

4. Sustainable practices and public food procurement

The European food production is under constraints from various environmental and economic challenges.

Which restructuring measures within the food chain are necessary in order to respond to these challenges? How can public food procurement practices best apply the environmental criteria within EC regulations in order to improve food production and supply?

5. Science, technology and traditional knowledge in the food chain

In their global report on International Assessment of Agricultural Science and Technology (IAASTD), the FAO and the World Bank have pointed at the important link between traditional knowledge in food production and scientific and technological improvements.

How could future research, technology and training programmes take better into account existing good sustainable practices in the food chain and so achieve a better balance between local, regional, national and international food systems?