



TEXTS ADOPTED

P8_TA(2016)0504

CAP tools to reduce price volatility in agricultural markets

European Parliament resolution of 14 December 2016 on CAP tools to reduce price volatility in agricultural markets (2016/2034(INI))

The European Parliament,

- having regard to Regulations (EU) No 1305/2013, (EU) No 1306/2013, (EU) No 1307/2013 and (EU) No 1308/2013 of the European Parliament and of the Council setting out the European Union’s common agricultural policy,
 - having regard to the March 2016 study carried out for its Committee on Agriculture and Rural Development entitled ‘State of Play of Risk Management Tools Implemented by Member States during the period 2014-2020: National and European Frameworks’,
 - having regard to Rule 52 of its Rules of Procedure,
 - having regard to the report of the Committee on Agriculture and Rural Development and the opinion of the Committee on Budgets (A8-0339/2016),
- A. whereas instability and price volatility have always characterised agricultural markets, and over the past few years have become, due to a rapid succession of shocks in demand, supply and price, a structural feature of agriculture at both European and world level;
- B. whereas agriculture must meet the major challenge of world population growth, while a large part of the planet’s population remains malnourished, and the volatility of agricultural markets to variations in production and imbalances between supply and demand will continue to increase;
- C. whereas climate change and agricultural pests adversely affect agricultural output levels, and manifestations of climate change such as drought and floods contribute to price volatility;
- D. whereas macro-economic conditions can play a key role in price volatility, including structural factors such as exchange rates, energy and fertiliser prices, interest rates and speculation on agricultural markets;
- E. whereas outside the EU the main global players in agricultural markets are introducing

policies that aim to curb volatility, and whereas the agricultural G20 has also undertaken to address the issue, in the context of sustainable development, by taking action to combat the negative impact on food security of the excessive volatility of agricultural raw material prices;

- F. whereas every region in the world has its own production models, as well as different measures in place with regard to environment and animal welfare, which can have serious implications for the cost-price of production, and whereas European farmers should be able to compete on the world market;
- G. whereas political choices, such as the imposition of trade embargoes, can increase the volatility of agricultural product prices;
- H. whereas the European Union does not currently have a genuine safety net to curb market volatility, which acts a powerful disincentive for farmers to continue working on EU territory;
- I. whereas in recent decades market opening and choices leading to economic globalisation, especially under the impulse of the WTO agreements or bilateral trade agreements, have enabled greater market fluidity but have also played a part in heightening the phenomenon of price volatility in agriculture;
- J. whereas farmers have been experiencing increasing production costs and an increase in farm debt, and whereas 2,4 million farms in the EU disappeared between 2005 and 2010, which resulted in the loss of a large number of jobs in rural areas;
- K. whereas agricultural markets, as the meeting-point of supply and demand, are inherently unstable, and whereas the presence of financial actors tends to reinforce this instability, and the limited elasticity of global food demand and agricultural product supply contributes to an increase in the effect of real or perceived imbalances on market participants, with a sometimes shocking impact on agricultural product prices;
- L. whereas the financialisation of the global economy and the accompanying speculation might have an impact on agricultural markets and may contribute to increasing their imbalance and the volatility of prices, with agricultural raw materials being used simply as financial assets; as was highlighted by the dreadful hunger riots in 2008, this excessive financialisation can be devastating and ethically reprehensible if it threatens the food security of the poorest, least well-nourished people on the planet;
- M. whereas the European Union has a responsibility to contribute to food security in Europe and to the competitive position of European farmers and market gardeners on the world market;
- N. whereas the agricultural and agri-food sector is important for the EU's economy and has the potential to contribute to sustainable growth;
- O. whereas price volatility creates a high degree of uncertainty among producers and consumers, with the former seeing their income and ability to invest, and therefore the long-term viability of their activities, as under threat when prices are low, whilst the ability of consumers to feed themselves and have access to basic goods might be compromised by high food prices, thereby giving rise to crisis situations;

- P. whereas price volatility is damaging to farming and the agri-food sectors, which is detrimental to investment, growth and employment and which can also seriously affect consumer supply, food security and the smooth operation of the CAP;
- Q. whereas price volatility affects farmers' capacity to invest and create employment, which discourages modernisation, innovation, young farmers and generational renewal;
- R. whereas sustainable farming as a source of high-quality food can only be ensured if farmers receive adequate farm-gate prices which cover all the costs of sustainable production;
- S. whereas in the context of the 'digital revolution', greater transparency in European markets and timely access to information may contribute, among other tools, to limiting the volatility of markets and prices through improved and more objective access for economic operators to the development of agricultural markets, helping to provide better protection for farmers' incomes and countering agricultural market speculation;
- T. whereas the CAP as reformed in 2013 includes tools for risk management within the framework of rural development policy, and whereas only 2 % of the second-pillar budget and 0,4 % of the CAP budget are currently spent on these tools;

Current situation and objectives

1. Considers that farmers will be increasingly exposed to price volatility, arising from various causes such as the instability and imperfection of agricultural markets, the globalisation and sophistication of agricultural markets, greater variability of supply due to climatic instability, increased health risks and the uncertain equilibrium of food supply;
2. Deems it necessary to adopt a more incisive and coherent policy, with targeted instruments at EU and national level, in order to secure multifunctional, sustainable agricultural production throughout the Union along with fair and remunerative prices, by lessening the negative effects for those operators most exposed to price volatility in particular;
3. Notes that the various agricultural sectors have different degrees of exposure to price volatility and that the calibration of public policy tools or mitigation strategies of the actors involved must be adapted to each sector and to the real, current and future risks faced by farmers;
4. Notes that, while the European Union is scaling back its strategic support for agriculture, its competitors on the world market, notably the United States, Brazil and China, make available very considerable, and increasing, sums of public money for developing new risk-policy models and providing instruments to protect their farmers from the effects of price volatility;
5. Points out that the European Union is the only agricultural actor to base its agricultural policy on support decoupled from production, while at the same time dismantling its strategic supports for agriculture over the years;
6. Notes that in its Farm Bill 2014 the United States has developed specific insurance policies for different agricultural sectors;

7. Points out that the CAP has consistently evolved over the past decades, while its main objectives of ensuring a decent standard of living for farmers and providing a stable and safe food supply at affordable prices for consumers remain valid;
8. Highlights in this regard the fact that a European common policy is vital for a sector that is responsible for ensuring food security and food safety and which plays a key role in the use of natural resources and the sustainable economic and environmental development of rural areas;
9. Underlines the importance of using synergies between the CAP and other EU policies;
10. Notes that the most recent reforms of the CAP have almost fully decoupled direct aid from production, have continued the process of convergence for direct payments and have taken on board societal and, in particular, environmental concerns to a greater extent;
11. Notes with concern a reduction in CAP resources throughout the years, in particular those devoted to common market organisation (CMO) measures, opening up the prospect of CAP renationalisation, and undermining fair conditions and a level playing field in the EU's single market;
12. Stresses that EU farmers' average annual incomes have stagnated or even declined over the past 10 years, while production costs have continuously increased, resulting in a substantial drop in the number of farms, with the threat of many job losses in rural areas;
13. Considers that the Commission should use the entire financial margin for manoeuvre at its disposal within the single CMO;
14. Regrets the very slow rate of implementation of the single CMO tools to reduce the harmful impact of price volatility and manage market disruption);
15. Points out that most of the risk management instruments, mutual funds, income stabilisation and insurance tools granted under rural development programmes are being implemented unevenly and with limited budget funding;
16. Recommends, therefore, that current second-pillar measures be reinforced in order to enhance the competitiveness of European agriculture and to involve producers' organisations closely in the implementation process;
17. Calls on the Commission to conduct an in-depth analysis of the reasons for both the weak uptake of the tools available under the second pillar of the CAP and the sub-optimal implementation of the single CMO, with the purpose of reviewing the relevant provisions accordingly;
18. Underlines the importance of maintaining decoupled direct aids under the current CAP together with the single area payment scheme, which constitute compensation for public services and a vital component in securing the income of farmers and providing them with a degree of financial stability;
19. Stresses, however, that the current CAP, lacking responsive and effective tools, has neither adequately addressed the greater volatility seen on agricultural markets nor

allowed farmers to respond to market signals or develop solutions to cope with price changes;

20. Calls on the Commission to take urgent action to support the agricultural sector of the outermost, mountainous and less favoured regions, where costs linked to producing, harvesting and marketing products outside the areas where they were produced are much higher than in other areas, and to provide specific indicators for the activation of safety net measures for agricultural markets in these regions;
21. Considers that the EU's food autonomy and security, as well as the development of a competitive and sustainable farming sector throughout the Union that meets the needs of citizens, must remain strategic objectives for the future CAP, while a fair standard of living for farmers must be guaranteed as a matter of urgency;
22. Considers that viable food production cannot exist without European farmers, who are continuously exposed to price volatility and depend heavily on stable markets and prices, as well as adequate public funding and measures preserving the competitiveness of farms and family farms;
23. Highlights in this regard the important role of young farmers and newcomers in guaranteeing the future of European agriculture;

Proposals

Sectoral organisation and contractual systems

24. Considers that primary producers are the weakest link in the food supply chain, especially in view of an increasingly concentrated and large retail sector at European and national level, and must be permitted to come together in bodies such as cooperatives, producers' organisations, or their own associations or inter-branch organisations;
25. Calls on the Commission to facilitate the introduction of contractual systems by adjusting, in accordance with Article 42 of the Treaty on the Functioning of the European Union, EU competition policy to the specific needs of the agricultural sector, with uniform rules and implementation in all Member States; considers that the CAP objectives must continue to prevail over competition rules and that any initiatives to better adapt competition law to the specificities of the agricultural sector should be based on the single CMO regulation;
26. Stresses that the negotiating power of producers must be strengthened in the food chain, through standard, transparent, balanced and collectively negotiated contracts, in order to place farmers in a position to counter unfair trading practices, boost their competitiveness, improve their income stability, generate added value and invest in innovation;
27. Asks the Commission to set up an EU legislative framework forbidding unfair trading practices in the food supply chain that can create price volatility on agricultural markets;
28. Stresses that those contracts should be of adequate duration and should lay down the prices, payment periods and other terms for the supply of agricultural products;

29. Considers that farmers in the various farming sectors should be able to negotiate the terms of contracts collectively via producers' organisations whose size corresponds to that of the industrial or distribution groups they are negotiating with;
30. Notes that the potential offered by longer-term integrated supply chain contracts, forwards contracts, fixed-margin contracts and the opportunity to 'lock in' prices that reflect production costs for a set period of time could offer producers a tool with which to manage the impact of volatility on their margins;
31. Believes that the option of making use of new instruments in contractual relations should be available, and that contract mediation tools must also be made available);
32. Notes that inter-branch organisations encourage trust and dialogue among the various stakeholders (producers, processors and distributors) and facilitate the creation of added value through joint initiatives that help farmers to understand markets and production better, promote good practices and market transparency, forecast production potential, help improve supply management and draw up standard contracts that are compatible with EU rules and regulations;
33. Calls on the Commission to encourage EU-level inter-branch organisations to jointly defend the interests of producers in the sectors most oriented towards cross-border markets, such as the fruit and vegetable sector;
34. Recognises the efforts made by European cooperatives in uniting and helping producers to improve their position in the value chain, and believes it is necessary to encourage them to play a greater role in agricultural sectors, thus mitigating the effects of excessive market volatility;

Risk management tools

35. Recommends that the tools for climate, health and economic risk management, particularly the various types of risk insurance for agriculture production, income stabilisation tools, individual provision mechanisms and mutual funds, be further developed in a market-oriented CAP in order to limit the effects of price volatility and encourage forward-looking farm management;
36. Calls on the Commission to foster the exchange of best practices between Member States and to develop new tools, which should not only be fair, efficient and reactive, but also affordable and accessible for farmers, in order to prevent and manage the risks associated with price volatility and thus to lay the foundations for discussion of the future reforms of the CAP;
37. Underlines that such tools, coming alongside the direct payment system, must be equipped with sufficient resources to increase the resilience of farming while reducing the need for ex-post crisis management;
38. Considers that sectorial managed mutual funds, established on the initiative of farmers, can stabilise farmers' incomes to some extent as the profit margins on their produce fluctuate;
39. Considers further that those mutual funds should not replace the support provided by the Union and should be combined with national support;

40. Calls also on the Commission to take initiatives by offering incentives to set up such funds, while guaranteeing that any future risk management scheme must comply with, and where necessary complete, insurance systems adopted at national level by Member States;
41. Considers that price volatility can also be managed at national level, and invites the Member States to take into account market volatility in their tax rules by allowing farmers to create individual provision mechanisms that could be tax-free;
42. Considers that farmers are economically among the most vulnerable actors on the markets, particularly those who have invested in developing their holdings;
43. Considers further that CAP tools, such as effective cash flow assistance or precautionary savings scheme should be put in place in order to prevent the impetus for investment from being lost;
44. Highlights the fact that farms can only afford to innovate if capital costs are low and there is a degree of liquidity available; emphasises in this regard that a stable income is one of the preconditions that enable farmers to gain access to loans;
45. Notes that the role and actions of the banking sector have an acute impact on producers and that the increasing levels of farm debt add additional burdens to the sector in times of volatility;
46. Underlines the importance of informing farmers better on the European Investment Bank's key role in supporting and developing the rural economy and how to benefit from innovative financial instruments;
47. Considers that better information on the modernisation, sustainability and competitiveness of holdings must be made available to farmers and farmers' organisations, while at the same time providing training courses on risk management, market data, margins and volatility;
48. Calls on the Commission to adopt, in close cooperation with national authorities and farming groups, an awareness-raising plan on the risk management tools available within Pillar II and in the single CMO;
49. Calls on the Member States and local authorities to strengthen the aforementioned aspects in their programmes of agricultural education and vocational training;
50. Believes that one of the ways of stabilising markets and reducing price volatility is to ensure a better balance between supply and demand;

Agricultural market and price observatories

51. Considers that agricultural markets must be transparent, which can principally be achieved by making the publication of existing information on prices and costs more timely, easily accessible and useful to all stakeholders in the supply chain, from production to distribution, thus limiting price speculation and price volatility;
52. Notes, however, that price transparency in itself will do nothing to improve the resilience of farmers against price volatility or to resolve structural faults in market

organisation such as the imbalances between supply and demand;

53. Encourages the creation of a European map with real-time information on the availability of agricultural products;
54. Welcomes the extension of additional market monitoring instruments to other sectors;
55. Emphasises the important advantage for farmers of being aware of price formation and movements, as well as trends in supply, when negotiating contracts with all other stakeholders;
56. Recommends the establishment of European agricultural price observatories, covering the entire chain, from the producer price to the final selling price, in order to provide ongoing, segment-by-segment analysis of agricultural markets;
57. Recommends the involvement of economic stakeholders when making up-to-date and relevant data on movements and short- and medium-term forecasts available at monthly or bi-monthly intervals corresponding to the specific needs of the relevant sector;
58. Urges the Commission to provide the necessary resources for observatories to enable them to make recommendations, rather than to purely monitor disruptions;

Crisis prevention and management tools

59. Takes the view that the traditional CAP crisis management tools (public intervention and private storage) are not sufficiently effective in a globalised economy;
60. Calls on the Commission, therefore, to develop combinable and/or complementary public- and private-sector tools, together with a tailored, binding early warning mechanism in order to ensure the proper functioning of markets and counteract market crises;
61. Considers that the Commission should use all the tools already at its disposal in the single CMO to fight crises;
62. Regrets the low use of the crisis reserve, which is mainly due to budgetary rules, in particular the annuality rule, and to the discretion that the Commission enjoys when it comes to releasing funds from the reserve;
63. Calls, therefore, for the crisis reserve to be constituted outside the CAP budget and for it to serve as source of funding for crisis management tools;
64. Looks upon countercyclical measures as crisis prevention and management tools, in combination with the risk management tools, through which the EU can intervene on agriculture markets in cases of “force majeure” crisis so as to avoid substantial price cuts;
65. Calls on the Commission to conduct a study on how to develop mechanisms to prevent and combat crises due to price volatility using countercyclical aids, and to provide for greater flexibility in the annual budgets, within the bounds of the multiannual financial envelope, in order to take account of the countercyclical aids;

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66. Instructs its President to forward this resolution to the Council and the Commission.