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DRAFT REPORT

on fair revenues for farmers: A better functioning food supply chain in Europe
(2009/2237(INI))

Committee on Agriculture and Rural Development

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on fair revenues for farmers: A better functioning food supply chain in Europe (2009/2237(INI))

The European Parliament,

- having regard to the Commission communication entitled ‘A better functioning food supply chain in Europe’ (COM(2009)0591) and the various working documents annexed to this communication,
 - having regard to the final recommendations of the High Level Group on the Competitiveness of the Agro-Food Industry of 17 March 2009¹,
 - having regard to its resolution of 26 March 2009 on ‘food prices in Europe’²,
 - having regard to its declaration of 19 February 2008 on ‘investigating and remedying abuse of power by large supermarkets operating in the European Union’³,
 - having regard to the conclusions adopted by the Council on 29 March 2010 on a better functioning food supply chain in Europe⁴,
 - having regard to the recommendations of the International Assessment of Agricultural Science and Technology (IAASTD) on global food supply, co-sponsored by UNDP, FAO and the World Bank,
 - having regard to the report ‘Agribusiness and the right to food’, by the United Nations Special Rapporteur on the Right to Food,
 - having regard to Rule 48 of its Rules of Procedure,
 - having regard to the report of the Committee on Agriculture and Rural Development and the opinions of the Committee on Internal Market and Consumer Protection and of the Committee on Environment, Public Health and Food Safety (A7-0000/2010),
- A. whereas recent food and commodity price volatility have raised great concerns about the functioning of the European and global food supply chains,

B. whereas the Commission communication acknowledges that ‘these changes have caused

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http://ec.europa.eu/enterprise/sectors/food/files/high_level_group_2008/documents_hlg/final_recommendations_hlg_17_03_09_en.pdf

² Texts adopted of that date, P6_TA(2009)0191

³ Texts adopted of that date, P6_TA(2008)0054

⁴ http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/agricult/113636.pdf

considerable hardship for agricultural producers and imply that consumers are not getting a fair deal',⁵

- C. whereas end-consumer prices on average remained constant or even increased despite the sharp decline in agricultural commodity prices in 2008,
 - D. whereas the share of agricultural value added from the food supply chain has dropped from 31% in 1995 to 24% in 2005 in the EU-25, and whereas preliminary figures for the following years show a further decrease of the share returning to farmers, against a constant increase of profits by processors and retailers,
 - E. whereas the average farmer's income decreased by more than 12% in the EU-27 in 2009,
 - F. whereas the food supply chain involves farmers, food processing industries, wholesalers, retailers, catering, restaurants, direct supply from subsistence and private production; whereas this complexity and high diversity must be taken into account in order to improve the sustainability of the whole chain,
 - G. whereas the Commission communication identifies serious problems such as abuse of dominant buyer power, unfair practices in contracting, restricted market access, lack of information on price building and the distribution of profit margins throughout the food chain, closely linked to increased concentration in the input, wholesale and retail sectors,
 - H. whereas excessive concentration leads to losses in product diversity, cultural heritage, retail outlets, jobs and livelihoods,
1. Calls on the Commission and Member states to urgently address the problem of unfair distribution of profits within the food chain, especially with regard to fair incomes for farmers;

Price transparency

2. Notes that the recently created European food price monitoring tool is very complex and is a long way from meeting consumers' and farmers' need for more transparency on food price building;
3. Calls on the Commission to swiftly carry out the pilot project on the creation of a European farm prices and margins observatory, for which Parliament and Council adopted a EUR 1.5 million appropriation under the 2010 budget, and to include a comparison of production costs and farm gate prices in key farming sectors of different territories and social-economic situations;
4. Calls on the Commission to submit a legislative proposal for introducing mandatory annual reporting by the top 20 traders, processors, wholesalers and retailers on their market shares (with data on private labels) for key food items and on their monthly sales volumes so as to allow all market partners to estimate trends in demand, supply and price developments in the food chain;

⁵ Introduction to COM (2009)591

Competition

5. Calls on national and European competition authorities to take action against abusive buyer practices of dominant wholesalers and retailers which systematically put farmers in an extremely unequal bargaining position;
6. Calls on the Commission to submit a report to Parliament by the end of 2010 providing data on buyer power abuse in the EU, anticompetitive behaviour and unfair contractual practices throughout the food chain and proposing suitable responses;
7. Calls on the Commission to submit a legislative proposal on better implementation of competition rules in the food chain so as to effectively limit the development of dominant market positions and strengthen farmers' bargaining power through efficient producer organisations and SMEs;

Abuse of buyer power and contracting

8. Calls on the Commission to amend European competition law so as to prevent damage caused by concentration and resultant buyer power abuse in the food chain, for example through late payments to farmers, forced discounts, resale at loss, high volume requirements and unjustified listing fees;
9. Calls on the Commission to take action against the misuse of private labels through the imposition of contracting standards which limit farmers' market access and the systematic reduction of producer prices, and against the practices of buying alliances by supermarket chains;
10. Takes the view that the Commission's recommendations to enhance vertical integration of the food industry do not reflect the need to rebalance bargaining power between farmers and the food industry;
11. Warns that contract farming, vertical integration and futures could weaken competition, especially between buyers, and can further weaken farmers' bargaining positions;
12. Calls on the Commission and Member states to promote fair contracting based on terms negotiated with farmers' and producers' organisations so as to ensure best product quality and fair prices, and to provide for an easily accessible system to guard against breach of contracts by buyers;

Speculation

13. Calls on the European Union to press for the creation of an independent global regulatory agency setting rules on commodity futures and options exchange and implementing strict regulatory measures against global speculation on food commodities;
14. Calls on the Commission to strengthen the competences of European commodity exchange authorities so as to limit and prevent speculation on food commodities and to work towards the implementation of adequate EU measures preventing speculation on non-agricultural commodities to influence agricultural futures;

Self-regulation

15. Urges the Council to further encourage self-regulation initiatives so as to strengthen farmers' bargaining positions, especially through support to producer organisations;
16. Suggests that Member States make codes of good commercial practices in the food chain compulsory;

Sustainable food systems, food quality

17. Deplores the fact that the Commission communication disregards correlations between low farm gate prices and structural surplus production and their consequences for food quality and employment in disadvantaged regions;
18. Urges the Commission to include in its future action programmes recommendations by the International Assessment of Agricultural Knowledge, Science and Technology (IAASTD) on global food supply and the United Nations report on 'agribusiness and the right to food';
19. Calls on the Commission to adapt EU hygiene standards in relation to local or distance marketing and the shelf life of products, to decentralise and simplify certification and control systems, and to promote direct producer-consumer relations and short food supply chains, the sustainability benefits of which have been documented by EC research projects;

Self supply, public catering, food waste

20. Deplores the fact that the Commission has ignored food chains which are not or only partially integrated into the market economy, such as subsistence or semi-subsistence production;
21. Calls on the Commission to modify rules on public procurement practices for catering services so as to enhance sustainable farming practices, develop seasonal food and reduce dependence on fossil agricultural inputs;
22. Urges the Commission to take action against the huge waste of food in the food chain, which in most Member States comprises up to 30% of produced food;
23. Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

One of the key goals of the Common Agriculture Policy was and is to guarantee fair revenues for farmers. But, compared to goals like increased productivity and global competitiveness of the European food industry, it seems that a fair income for farmers is not very high on the European Commission's agenda.

The Commission has informed Parliament and Council on serious problems which undermine a proper functioning of the food supply chain in Europe. They 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 sectors of processing industries, wholesalers, retailers, and supermarket chains, their growing market power and various practices of abuse of dominant buyer power in the food chain.

The Commission furthermore 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 of profit margins in the sector is however difficult to obtain.

As a response to these problems, the Commission suggests better price transparency throughout the food chain in order to increase competition and so to combat price volatility and a better flow of information between the market partners on supply and demand, prices, and contracting. However, very few data on price building at the level of processing, trade and marketing are currently available in the Member States and at EU level.

This report includes proposals which have been gathered based on a working document which your rapporteur prepared in order to invite all interested stakeholders to express their views on key questions for a better functioning of the food chain and fair incomes for farmers. The draft resolution has taken many of these proposals up in order to deepen the reflection on possible solutions and to call upon the Commission and the Council to take urgent action.

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.

However, these proposals do not include measures which could 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; or information about the influence of structural surplus production caused by

certain policies on quantities of supply and related decrease of producer prices.

See points 2, 3 and 4 for your rapporteur's position in this regard.

2. Competition

The Commission suggests measures to improve competition within the European food chain mainly by enhancing further 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.

However, your rapporteur deplores that 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; and the ongoing "price war" in almost all member states between supermarket chains.

See rapporteur's suggestions in points 5, 6 and 9.

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, ignoring a substantial number of highly processed food products which compose most of the households' consumption. It also envisages creating a new High Level Group aiming to improve the competitiveness of the agro-food sector, notably of SMEs, and to foster innovation and exports in the sector.

However, these proposals do not take into account the high diversity of agricultural structures and size of holdings and their respective links to 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 and the vulnerability of intensive agro-industrial producers in the food chain which are considered to be the most competitive on the world market; the rapid disappearance of small and medium sized enterprises, retailers and shops, especially in disadvantaged rural areas; and the 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.

These questions are addressed by your rapporteur in points 7, 10, 11, 15, 20.

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. The proposals furthermore do not include 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 against extra contribution to marketing costs fees to cover expenses for market failures; or 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.

Your rapporteur makes proposals in points 8 to 12 and 16.

5. Resale at loss

Under anti-competitive practices, the Commission has not specifically mentioned resale at loss practices which are widely spread in 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.

However, the communication does not include 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.

See proposals by your rapporteur in points 8 and 9.

Moreover, the work of the European Farm Prices and Margins Observatory could allow for the definition of a bottom price covering costs of production and guaranteeing a faire income to farmers. Such price would serve as a reference during negotiations between producers' organisations and food chain's downstream sectors in order to forbid sale at loss by farmers.

6. Improvement of food quality and sustainable food systems

Furthermore, the communication has not taken into account price relevant relations between farm sizes and farm gate prices; differences in dependence of farms on external inputs (energy, feed, etc) sustainability of farming practices in view of the new challenges like climate, change, biodiversity loss as mentioned in the CAP health check and the EU economic strategy 2020; the relevance of EU-hygiene standards in relation to local or distance marketing and shelf life of products; and the different criteria for food quality beyond food security.

Improvements of the functioning of food chains should include a differentiation and revision of hygiene rules; 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; and involvement of producers and consumers in the elaboration of quality and fair trade criteria;

Your rapporteur has mentioned these aspects in points 17, 18 and 19.

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 (catering services) 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 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.

These points are summarized in points 20, 21 and 22.

8. Speculation

Finally, your rapporteur calls for adequate measures against speculation on food commodities in points 13 and 14.