Fair revenues for farmers: a better functioning food supply chain in Europe

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The European Parliament adopted a resolution on the issue of fair revenues for farmers: A better functioning food supply chain in Europe, in response to the Commission Communication on the subject.

Members welcome the Communication since it recognises the existence of major power imbalances among operators, but believe that the measures suggested in that Communication are **not sufficient** to deal with the problems involved.

They note that although food prices have risen by 3.3% per year since 1996, the prices farmers receive have only risen by 2.1% whilst operational costs have increased by 3.6%, proving that the food supply chain is not functioning properly. The average farmer's income decreased by more than 12% in the EU-27 in 2009, meaning that farmers can no longer generate a fair income from their work, and despite this, farmers and the agri-food sector still have to produce food products that meet extremely demanding quality standards at prices that are affordable to consumers, in line with the objectives defined under the CAP. The resolution 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 adequate incomes for farmers. Members recall that the Commission communication identifies serious problems such as abuse of dominant buyer power, unfair practices in contracting (including late payments), unilateral contractual modifications, advance payments for access to negotiations, 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, and they address these issues in the resolution.

Price transparency: Parliament deplores the reluctance of the European Commission to carry out a study of the distribution of profit margins throughout the supply chains as agreed with regard to the 2009 budget procedure. It calls on the Commission to swiftly carry out the pilot project on the **creation of a European farm prices and margins observatory** (supplemented by data on prices, margins and volumes) for which Parliament and Council adopted a EUR 1.5 million appropriation under the 2010 budget.

Furthermore, the Commission is urged to:

- maintain the high-level group on the food distribution chain as a permanent forum for discussion, as it has proved a significant instrument for identifying problems, making recommendations and adopting strategies with a view to remedying the current situation of imbalance;
- propose mandatory annual reporting by the top European 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;
- ensure that the processing industry in particular is monitored and investigated in order to guarantee price transparency, since in some countries the food processing industry has the largest margin in the food chain;
- carry out an impact assessment on the benefits of an improved legal framework covering private quality and distributor labels, with a view to avoiding their multiplication, in order to provide consumers with greater transparency and market access for producers.

It should be noted that plenary rejected the proposal from the committee responsible aiming to make it obligatory to provide clear proof in the transaction document of the value of what the supplier is selling, as well as the net real price attaching to the transaction.

Competition: Members call on national and European competition authorities, and other regulating authorities involved in production and commerce, to robustly address the **dominant position** and significant market share of agribusiness traders, input companies, processors and retailers operating in the food supply chain; urges these authorities to take action against abusive buyer practices of all actors which put farmers in a very unequal bargaining position.

They call on the Commission to:

- establish a new relationship between competition rules and the CAP, with the aim of providing farmers and their interbranch organisations with tools that will make it possible to improve their negotiating position;
- examine the consequences of significant market penetration by a single retailer or a small number of retailers in a given Member State;
- consider the possibility of introducing corrective measures - for the benefit of producers and consumers - where retailer practice or market share is found to have an anti-competitive effect;
- 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 from the input sector through to the consumer, and proposing suitable responses;
- initiate a full sector inquiry along the food supply chain to determine the level of buyer power abuses in the sector; points to the success of the competition inquiry within the pharmaceutical sector in 2009;
- revise the criteria currently used to assess anticompetitive behaviour (Herfindahl Index); this index, which is useful for assessing the risks of monopoly, is unable to get the true measure of anticompetitive practices of a collusive or oligopolistic nature, as is apparently occurring, at least in part, in large-scale retailing;
- ensure a more targeted application of competition rules in the food chain and to consider legislative proposals to Parliament and Council in this regard, so as to effectively limit the development of dominant market positions within the input sectors, the food processing industry and the retail sector and to strengthen farmers' bargaining power, enabling them to take coordinated action against dominant actors through efficient producer organisations, sectoral organisations and SMEs.

Members feel that there is a need to **prohibit selling below purchase price at Community level**.

Abuse of buyer power and contracting: the resolution calls on the Commission and Member States to promote fair contracting between all the actors of the food supply chain based on terms negotiated with farmers' and producers' organisations, including sectoral and interbranch organisations, so as to enhance sustainable farming practices and ensure best product quality, to reduce purchase prices for inputs and to guarantee fair prices, and to provide for an easily accessible system to guard against breach of contract by buyers. Standard contracts could be useful tools, the implementation of which should be made compulsory in some sectors.

Members also ask the Commission to:

- ensure that EU competition law is not by-passed by buyer power abuse (no distortion) in the food chain, which often occurs in the form of late payments to farmers or small processors, subsequent alterations to contract terms, forced discounts, resale at loss, excessively high volume requirements and unjustified listing fees, and to make adequate legislative proposals if necessary;

- payment periods along the food supply chain should be shortened to a maximum of 30 days for all foodstuffs and less for highly perishable agricultural products, as part of the ongoing revision of Directive 2000/35/EC on combating late payment in commercial transactions (exceptions should be considered in the case of producer organisations and cooperatives);
- examine whether requirements imposed by individual distribution chains, over and above statutory stipulations, in relation to vegetable-growing and fruit-growing practices and pesticide residues are liable to impede free trade and unfairly to strengthen the position of distributors in the food supply chain;
- examine whether the misuse of private labels (own brand products) and the practices of buying alliances by supermarket chains, lead to unfair competition and pressure on farmers and the systematic reduction of producer prices.

Members ask in particular that payment periods along the food supply chain should be shortened to a maximum of 30 days for all foodstuffs and less for highly perishable agricultural products, as part of the ongoing revision of Directive 2000/35/EC of the European Parliament and of the Council on combating late payment in commercial transactions (exceptions should be considered in the case of producer organisations and cooperatives).

Speculation: the resolution calls on the EU 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. It calls on the Commission:

- to strengthen the competences of European commodity exchange authorities so as to 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;
- to improve the oversight and the overall transparency of agricultural commodity derivatives markets and also to enhance the transparency for over-the-counter activity in the context of the upcoming review of MiFID and other relevant legislation.

Self-regulation: Parliament encourages Member States to **draft codes of good commercial practices** for the food chain, including complaint mechanisms and penalties for unfair practices. The Commission is called upon to propose a common code, to apply throughout the EU, in order to rebalance relations in the food supply chain.

Sustainable food systems, food quality: Members deplore the fact that the Commission does not place more emphasis on the importance of agriculture in the food-supply and food-industry economic value chain. They stress the correlations between low farm gate prices and structural surplus production and their consequences for sustainability, food quality, animal welfare, agricultural innovation and employment in disadvantaged regions. They call on the Commission to propose the adoption of **instruments to support and promote farmer-managed food supply chains**, short supply chains and farmers' markets, in order to establish a direct relationship with consumers and to enable farmers to obtain a fairer share of the value of the final sale price by reducing the number of middlemen and of stages in the process.

Plenary is against the idea of suggesting preferential treatment for producer organisations, farmers' cooperatives and SMEs when awarding public procurement contracts in the food supply chain.

Self supply, public catering, food waste: the Parliament calls on the Commission to:

- pay due attention, when reviewing EU standards, also to locally based food producers such as those involved in subsistence production;
- assess possible modifications to the rules on public procurement practices for catering services so as to enhance sustainable farming practices and animal welfare and develop seasonal and local food;
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- analyse, in a report to the European Parliament and the Council, the huge waste of food in the food chain, which in most Member States comprises up to 30% of produced food, and to take action via an awareness-raising campaign about the essential value of food.

Lastly, the resolution considers that measures should be taken to encourage agricultural markets directly administered by farmers, the creation of marketing outlets for producers to offer their products directly to consumers and the introduction of programmes to encourage the sale of products on local markets.