CAP tools to reduce price volatility in agricultural markets

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The European Parliament adopted by 445 votes to 148 with 89 abstentions, a resolution on CAP tools to reduce price volatility in agricultural markets.

Members recalled that instability and price volatility have always characterised agricultural markets. Price volatility is damaging to farming and the agri-food sectors, which is detrimental to investment, growth and employment.

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 and increased health risks.

Current situation and objectives: the European Union does not currently have a genuine safety net to curb market volatility. 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.

Given the increased exposure to price volatility, Members deemed it necessary to adopt a **more incisive and coherent policy**, with targeted instruments at EU and national in order to secure multifunctional, sustainable agricultural production throughout the Union along with fair and remunerative prices.

In this regard, they recommended:

- that **current second-pillar measures should be reinforced** in order to enhance the competitiveness of European agriculture and to involve producers' organisations closely in the implementation process;
- **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

The Commission is called upon 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;
- take urgent action to support the agricultural sector of the outermost, mountainous and less favoured regions.

Sectoral organisation and contractual systems: primary producers are the weakest link in the food supply chain and must be permitted to come together in bodies such as cooperatives, producers' organisations, or their own associations or inter-branch organisations.

Members called on the Commission to **facilitate the introduction of contractual systems** by adjusting EU competition policy to the specific needs of the agricultural sector, with uniform rules and implementation in all Member States.

The negotiating power of producers must be strengthened through collectively negotiated contracts, in order to place farmers in a position to counter unfair trading practices, improve their income stability, generate added value and invest in innovation. Those contracts should be of adequate duration and should lay down the prices, payment periods and other terms for the supply of agricultural products.

The Commission is called upon to:

- set up an **EU legislative framework** forbidding unfair trading practices in the food supply chain that can create price volatility on agricultural markets;
- encourage EU-level inter-branch organisations to jointly defend the interests of producers;
- foster the **exchange of best practices** between Member States and to develop new tools 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;
- set up sectorial managed mutual 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;
- adopt an **awareness-raising plan** on the risk management tools available within Pillar II of the CAP and in the single CMO.

Moreover, Members considered that price volatility can also be managed at national level, and invited 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.

Agricultural market and price observatories: Parliament stressed 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.

The resolution also recommended:

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- the creation of a European map with real-time information on the availability of agricultural products;
- the establishment of European agricultural price observatories, covering the entire chain, from the producer price to the final selling price;
- 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.

Crisis prevention and management tools: Parliament stated that the traditional CAP crisis management tools (public intervention and private storage) are not sufficiently effective in a globalised economy. Therefore, it called on the Commission 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;
- use all the tools already at its disposal in the single CMO to fight crises;
- 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 in order to take account of these aids.

Lastly, Parliament regretted the low use of the crisis reserve and to the discretion that the Commission enjoys when it comes to releasing funds from the reserve. Therefore, it called for the **crisis reserve to be constituted outside the EU budget** and for it to serve as source of funding for crisis management tools.