



TRANSPARENCY OF THE FOOD CHAIN AND MARKET STABILITY IN THE FUTURE CAP

REFLECTION PAPER

THE FOOD CRISIS OF THE PAST YEARS HAS REVEALED THE SEVERE VOLATILITY OF PRICES THE AGRICULTURAL SECTOR IS SUBJECTED TO. THE PRICE SURGE IN COMMODITIES HIT FARMERS HARD CAUSING HIGHER CONSUMER FOOD PRICES AND OVERALL INFLATION.

More than ever, the interconnectedness of three economic sectors has stood out. From the farm, via the food processing industry, to the distribution sectors and by that filling the shelves of our supermarkets – many Europeans depend on the proper functioning of the food supply chain.

Sharp increases and successive drops in commodity prices on the European market have again highlighted the role of the Common Agricultural Policy (CAP) to support producers and consumers. However, it became evident quickly that the price fluctuations in agricultural commodities did not immediately translate into the same price changes for food producers and eventually for consumers.

How can we explain the asymmetric response to the food crisis throughout the supply chain? What has been revealed about the supply chain by the divergence of price changes from agriculture to food processors and distributors? Do we need to have a fairer distribution of profit margins on the food chain?

The food supply chain has mainly functioned very well, allowing every segment of the chain to contribute to high-quality products at affordable prices. Both innovative products and

traditional production methods are traceable, having ensured wide consumption even outside the EU. The processing industry in the EU is definitely contributing to adding value to the primary production and to provide consumer with a diverse range of products. Distribution structures make possible the delivery of the products close to consumer needs. In spite of this, the whole food chain has suffered in terms of competitiveness and economic growth, having difficulties to balance price shocks.

Is the EU food chain suffering from competition related problems? Are these problems affecting directly the ability of the European farms to compete with other producers? If yes, how can anti-competitive behavior be avoided?

Farmer's ability to compete on the markets to provide food for the final consumer depends also on his capacity to present the product for the final consumer. Retaining transparency in the food supply chain while upholding high safety and quality standards has become a crucial factor to remain competitive and fair. This, of course, is very difficult to achieve considering the large number of intermediaries along the food chain.

Increasingly, farmers complain on unfair practices in the food chain imposing unnecessary production conditions up and above those mandatory in the food safety legislation or environment protection legislation. Unjustified requirements interfere with the production technology, affect productivity

and increase costs while they do not provide supplementary benefits to the consumer or the society. Moreover these are not reflected in the price paid for their products.

Is transparency the key to an efficient and competitive market? Would it be necessary to create a clearer framework on the necessary and useful production conditions to ensure food safety?

Other voices became heard about the inequalities of bargaining power between the different parties which can be the cause of major inefficiencies of a market. The competitive advantages gained through investment at farm level are quickly eroded by the low farm gate prices. Increased costs generated by the introduction of new standards can not be shared by the whole industry which takes finally advantage of them by providing more appealing products to the end consumer. Price increases in the market rarely end up in the farmer's pocket and more often they increase the margins of profit on the rest of the food chain.

Agricultural sector in the EU still has structural problems in terms horizontal organization? Do we need to further support the development of farmers associations and producer groups? Is it more efficient to promote a vertically integrated production?

The CAP mechanisms to support market stability have given the desired results. The side effects of over production and stocks accumulated in the 80's have been dealt with by the subsequent measures taken to adjust the policy. Once again, as we have seen in 2008, we are confronted with price fluctuations.

Renowned economists warn us that price crisis are to be also expected in the future. The increased demand for food, feed and fiber generated by modification of consumption habits in the emerging countries and by the production of bio-fuels will only lead us towards peaks of high prices followed by sharp decreases.

What is the future CAP's role in stabilizing and correcting volatile markets?

Price fluctuations have a particular negative effect on agricultural production due to the impossibility to quickly adapt the production to the rapid modifications in the market. This is generated by the long production cycles and the

significant investment requested to change the production profile of a farm.

We have also to consider that the range of economic instruments available at farm level to ensure a certain price for the commodities produced, before their production cycle started, is very limited.

Do we need to provide farmers with advanced tools and knowledge to forecast the future evolutions of the market? Can we provide instruments to ensure protection at farm level against unfavorable market evolutions?

On the internal market, we can see very often that market instability has its roots in local, regional or national disequilibrium in the supply and demand. The situation is relevant especially in the land-locked member states or certain regions with insufficiently developed transport infrastructure.

In other cases, the proper functioning of the trade flows to regulate supply and demand is hindered by significant disparities in the commercialization and food safety standards applied by the different authorities.

Is the internal sufficiently fluid to allow a proper functioning of the market forces? Do we need to take steps in ensuring proper conditions to allow markets to self regulate? Would a regional management of the market be more appropriate?

The latest evolutions in the WTO talks have made it clear that the era of direct support for exports has gone. The global market has to function in a more liberal way. Seeing the situation from the point of view of a market which has been characterized by high prices, this means that it will more difficult to find the corresponding outlets for the surpluses in supply. Inevitably the pressure will drive the internal prices down, with negative consequences on farmer's income. Moreover, imported products with low production costs will also affect the position our farmers have on the internal market.

Is the market safety-net mechanism enough to counteract these influences? Do we need to find income compensation mechanisms for this type of situations?

We would invite you to express your opinion on these matters in our Second Roundtable of Stakeholders on the reform of the CAP taking place on the 26 of May 2010.

The policy solutions we have available depend very much on the emphasis we put on different influencing factors. It would be useful to understand what you would consider appropriate to address in order to reach food chain transparency:

- profit margins and economic burden distribution;
- competition related problems;
- reasonable and balanced production standards to ensure a level playing field;
- horizontal and vertical organization or integration

and to ensure market stability:

- a pro-active role of the CAP in reducing market volatility;
- better forecasting tools on the future evolution of the market;
- farm level instruments to protect against market fluctuation;
- fluidity of the market to allow proper functioning;
- safety-net mechanisms.