

2nd ROUNDTABLE OF STAKEHOLDERS ON
THE REFORM OF THE CAP , 26 MAY 2010:

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

OUTCOME OF THE MEETING

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The 2nd Roundtable of Stakeholders on the CAP Reform took place on the 26th of May 2010 and OPERA had the pleasure of welcoming to the debate a wide and equilibrated range of stakeholders.

After the welcoming remarks made by Prof. Ettore Capri, Director of the OPERA Research Centre, the subject of the second CAP Roundtable was introduced by Mr. Russell Mildon, former Director of the European Commission responsible for the Economics of agricultural markets.

Prof. Capri has brought to attention that lately, many high-level speakers believe that price volatility and market transparency have to be addressed in European agricultural policies. The competitive advantage gained by the farmers through their farm investment is quickly eroded by the price variations and additional burdens exerted on the agricultural production.

From consumer perspective, the price fluctuations in agricultural commodities did not immediately translate into the same

price changes for food producers and eventually for consumers. One of the possible causes is that the trade flows to self-regulate supply and demand are affected by significant differences in the standards applied by the different authorities at national level. Or, as farmers have complained, unjustified requirements with no supplementary benefits to the consumer, are forced upon them disturbing the technology application with serious effects on productivity and costs.

During the debate, transparency along the supply chain was quickly established as vital. Mr. Mildon's intervention revealed that price monitoring is the major tool to understand the markets so that we can improve on their transparency. Then, transparency will contribute market stability and subsequently farmers could be able to stay competitive in a rapidly changing environment.

The liberal trading environment which has been building up for some decades already requires also from the future CAP an appropriate response. Old mechanisms, implemented in times of overproduction,

work today against the interest of the producers. The new policy has to provide sufficient flexibility in the mechanisms so that a rapid reaction is possible when exceptional situations arise in the markets.

From the food chain perspective, the structure of the costs of final products delivered to consumers, in average, includes only 20% as representing agricultural raw materials. Hence the variations of commodity prices are not translated entirely into the final product. Other factors like energy cost can have a huge impact on the final price on the shelf.

Other structural problems of the food chain related to the concentration of purchasing power and low bargaining capacity for the selling of agricultural products have been mentioned as generating difficulties.

Competition laws, of course play a central role in regulating these issues, legally as well as in the sense of discouragement of anti-competitive practices. It has become evident that usable guidelines over competition policy are needed to clarify these aspects and also to act as a catalyst for associates to enter into forms of cooperation that have been deemed unattractive in the past.

The debate

Cooperation on a variety of layers has shown to be an effective tool to boost the negotiation power of the agricultural sector with the rest of the food chain.

Cooperatives are one, though by far not the only, possibility for farmers to cooperate among one another (horizontally) or with the other segments along the supply chain through the integration of production (vertically). In whatever shape, cooperation remains at the core to improve their

bargaining position and simplify the supply chain.

Cooperation might be the solution to farmers' weak negotiating powers in comparison with big supermarket chains. Their weak position could be explained through the neglected understanding of an unrealized potential of operating at their own strength.

Cooperatives are not the sole key to a stronger position – there are many ways of cooperating to reap the benefits.

Participants have highlighted that the **CAP needs to develop pro-active mechanisms to promote cooperation and integration on the food chain**. This is one possible solution to empower farmers to be able to manage a rapidly changing market, rather than trying to manage directly the market with the aim of limiting its fluctuations.

There is still very **little dialogue between farmers and supermarkets**, many products on our shelves are processed already which makes it difficult to ensure that the agricultural producers are aware how to deal with their purchasers.

The high number of intermediaries along the chain varies typically between five and ten. How this number can be shortened to create a smooth and transparent flow of commodities is a difficult question. In any case it is felt that **guides of good commercial practices** would prevent that the margins of profits are unevenly distributed on the food chain.

Ideas mentioned during the debate repeated the necessity of **clearer guidelines and frameworks to increase fluidity along the chain** and to prevent those on top to make their own rules, as farmers are unable to communicate directly with the consumer.

The **consumer** who buys food at the supermarket often **finds it difficult to conceptualize the value added**

throughout the chain and the farming activity loses its value to the consumer.

Price transparency was mentioned as a prerequisite to ensure that consumers are aware what exactly are they paying for when buying a product. Transmitting such information to final consumers would generate also a positive impact on the society's image of the agricultural sector.

The next step in the evolution of the relation between producer and consumer is to create awareness that **markets have to pay for additional – public – goods** other than the tangible foods. Such payments generated by the market together with the public support needed to compensate for public goods of general interest, not attributable to the production of a certain product, are critical for farmers to withstand price volatility.

Momentarily, there is no system in place to manage prices along the chain which leads to the thought of establishing stronger supply control at the farm level. Strict supply control, however, is not the only way to stabilize the market.

Market stability can be the result of the combination of a number of factors.

Cooperation, long term contracts, insurance systems in place and the use of technologies stabilize the yields can have a positive impact on market stability and should be taken into account in the new CAP.

To convince farmers to keep their professions in order to guarantee a continuingly successful rural development, the issue of stabilizing the market is crucial. This way, not only the competitive farmers, but also all the others, can stay in business.

OPERA Conclusion

The transparency of the market and the proper functioning of its internal mechanisms are key to ensure appropriate stability. Transparency can be achieved if a number of elements are in place, like:

- real price formation mechanism;
- uniform production standards;
- guidelines for good commercial practices;
- guidelines for competition policy implementation;
- improved communication between producers and society or consumers.

The proper functioning of the market mechanisms require fluidity of trade flows, clearer competition rules, higher bargaining power for certain sectors in the food chain, support for cooperation initiatives, vertical integration, awareness on the compensation needed for delivery of public goods in the process of agricultural production.