



**copa**\***cogeca**  
european farmers      european agri-cooperatives



# Promoting farmers and agri-cooperatives positioning in the food supply chain





## ■ Background

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### General Framework

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- Food supply chain has been in the centre of public scrutiny in the past years. The price peaks witnessed in early 2008 followed by price decreases up to 2009 have brought up farm-gate price volatility to the top of the EU political agenda.
- Consequently high level political attention has been paid to a number of issues at EU level. The Commission's Communication on "Food Prices in Europe", the EPs Written Declaration<sup>1</sup> on "investigating and remedying the abuse of power by large supermarkets operating in the EU", the recommendations of the High Level Group on Competitiveness of the Agro-Food Chain, the EP report of "Food Prices in Europe", the recent Commission Communication "A better functioning food supply chain in Europe", and, last but not least, the Spanish Presidency conclusions on the Commission's Communication "A better functioning food supply chain in Europe".

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### Copa – Cogeca activities

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- Copa–Cogeca adopted, in April 2007, an "Action Plan: Rebalancing the power in the food chain" as a result of the internal discussions on market developments. This document still provides the framework for the political positioning and action of the European farmers and European agri-cooperatives.
- The Copa–Cogeca thinking was highlighted in a seminar "Rebalancing the power in the food chain" already in May 2007. Participants to this seminar, farmers, cooperative leaders and representatives of the food and drinks industry and retailers pointed out that it was necessary to develop product diversification, reducing costs by increasing holding size, and investment in the food supply chain through marketing strategies.
- The Commission's Communication on food prices in Europe and especially the European Parliament's report by MEP Batzeli contributed to profile the recommendations of the High Level Group on the Competitiveness of the Agro-Food Industry. Copa–Cogeca representatives influenced the key recommendations that addressed the functioning of the food chain.
- In addition, certain sectors' developments, in 2009, (e.g. milk, cereals, olive oil) led to an intensification of the debate within the framework of the CAP post 2013.

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<sup>1</sup> Written Declaration initiated by MEPs Caroline Lucas, Gyula Hegyi, Januz Wojciechowski, Harlem Désir and Hélène Flautre.



## ■ Operation of the food chain: main issues to be addressed

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### The importance of the food chain

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- The food supply chain, agriculture, agri-food industry and distribution sectors, represents more than 5% of the European added value and 7% of the employment<sup>2</sup>. Furthermore agricultural and food industry represent 1400 billion euro per year. This is more than any other manufacturing sector in the EU.
- In the context of the discussions on the competitiveness of the sector any disturbances in the operation of the food supply chain can have serious economical and social impacts on farmers, their agri-cooperatives and in rural areas.
- Price developments in recent years both at farm gate and consumer prices have clearly demonstrated the imbalances of power in the chain. This seriously threatens the sustainability of the sector, in particular in agriculture.
- Since 1996, on average, food prices have increased by 3.3% each year, farm costs by 3.6% but prices received by farmers for their products only 2.1%. This widening gap clearly shows that food chain does not work properly.
- Consumers at EU level are now spending 13% of their household budget on food as compared to 30% in the beginning of the 1980s.
- Nevertheless the agri-food sector continues to deliver high-quality products that respect a high level of strict standards at affordable prices to consumers, in line with the objectives of the CAP.

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### Imbalances of power in the food chain

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- This is the single most relevant aspect that needs to be addressed in the food supply chain. The sheer difference in economic size between farmers and retailers makes it clear that the power is imbalanced towards the end links of the chain.
- The main causes of these imbalances can be put down to an increased globalisation and to a process of concentration, especially in the retail sector. This has led to the current reality where a handful of retailers are the trading partners of some 13.4 million farmers and 310 thousand food industry enterprises across the EU.
- The main consequences of these imbalances are a relentless downward pressure on farm-gate prices. Farmers are not able to cover their production costs let alone have available funds to invest in farming thus leading to the abandonment of their activity and major lack of investment in innovation. The latest agricultural income figures from Eurostat show, for 2009, a drop of 11.6% in farm income at EU level.




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## Unfair and abusive trading and contractual practices, the internal market and competition policy

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- It is ultimately the use of this market power in commercial transactions along the food chain that leads to the appearance of unfair practices. The imbalanced power between the different sectors in the chain may lead to practices that do not treat equally buyers and sellers.
- Imbalanced markets cause unfair practices and these may lead to abuse whenever distortion of competition occurs. Both are detrimental to the functioning of the internal market and cannot be tolerated.
- These practices have a huge economic impact and its costs, in late payments alone, representing 23.6 billion euro per year according to a Commission study.
- The intrinsic characteristics of the agricultural sector and, in particular, perishable products and those with a short shelf life are particularly prone to these actions. As an example fruit and vegetables are sold rapidly in supermarkets but producers only get paid several months later. This means that sales income remains within one operator for a considerable length of time making it a beneficiary of capital income.
- In order to alleviate this problem we consider that the existence of fair contractual arrangements between both parties are of paramount importance. Furthermore these should be put in writing and all its clauses and stipulations checked for fairness and legality.

- In this respect many common practices such as listing fees, over-riding discounts and below cost selling (amongst others) must be prohibited and its control strictly enforced.
- Late payments in commercial transactions, in particular those related to perishable products and those with a short shelf life should not be permitted.

## ■ Actions needed

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### Promoting economic organisation of farmers

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- The enormous difference in numbers and economic power between farmers and retailers is a clear indication of an imbalanced food supply chain. In order to balance out the numbers it is necessary to promote the development of economic organisations of farmers. Cooperatives play a central role by increasing their influence and negotiating power.
- Farmers need to look into the future and better assess demand and use their owned and controlled businesses, of which agri-cooperatives are the predominant form, to develop integrated supply chains. These chains exchange information on costs, demands and quality with different players in the chain improving efficiency, understanding of regulation demands and therefore improving price negotiations.



- Farmers and their owned and controlled business must differentiate their products, invest in the development of new and higher added value products and promote the demand of premium products. Higher added value could also be created with product of special characteristics in line with the EU food policy. In this context the evolution of retail owned private brands the economic impact needs to be assessed and followed.
- For this to happen it is necessary to promote the concentration both of the demand for inputs and of the supply of agricultural production. This will also contribute to balance the power between upstream and downstream sectors.
- But it is also necessary to facilitate, whenever necessary, mergers of economic organisations of farmers (of which cooperatives are the predominant form) so that they could improve their market positioning in a true European single market. This will contribute to increase the concentration of supply in the agricultural sector and its bargaining power. In this context it might be relevant to consider a possible exemption to the SME3 criteria to the economic organisation of farmers as they are a set of micro-enterprises – the holdings of their farmer members.
- Producers' access to markets will not only be facilitated but the move will also contribute to conquer and secure better positioning on the chain. A more transparent operation of the food supply chain would thus be the end result.

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## Competition law

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- It is necessary to continuously monitor the operation of the food supply chain and review, update or develop new legislation when appropriate. In this context legislation impacting on the functioning of the single Market and competition law are of relevance.
- Concerning Competition law, in particular, it is necessary to re-assess if and under which conditions, the agricultural sector may be exempted from competition law. This issue is being currently analysed by the Tax & legal questions Working Party.
- Specific support to producer organisations is necessary so they could, in particular:
  - a. Ensure the planning of production and its adaptation to demand namely in quantity and quality;
  - b. Concentrate supply and place the production of its members on the market;
  - c. optimising production costs and stabilising producer prices.

This must be matched with the necessary derogations to this policy.

- It will also be necessary to coordinate and harmonise at EU level the approach and actions of the national competition authorities, in particular when addressing abusive commercial practices and cooperative mergers.




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## Regulation versus self-regulation

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- Copa and Cogeca believe that resorting only to legislation is not the solution to the problems in the food chain. The route to follow should be based on a regulatory framework that would enable the operation of voluntary self-regulatory agreements.
- Copa and Cogeca must assume a pro-active and leading role in assisting in the development of best practice solutions to market issues based on Member States' experiences, taking into account the increasingly demanding requirements of consumers. This is in line with recommendation 15 of the HLG on the competitiveness of the agro-food sector that called for the adoption of a EU wide code of conduct.
- COPA and COGECAs should promote the development of best practices and/or codes of conduct in partnership with other (willing) European stakeholders, always integrating consumer representatives, making the best use of existing synergies.
- Self-regulation (voluntary agreements) should be underpinned by an agreed set of core principles or 'Bill of Rights', which must lie at the heart of all negotiations and transactions<sup>4</sup>.
- An European wide information campaign informing farmers of their contractual rights as well as of the most common illegal, unfair and abusive contractual and commercial practices should be put in place.

- This task will become more challenging in the future as the food chain becomes more complex with nutritional, environmental and other social factors becoming even more important.
- On the regulatory framework particular attention must be put in the revision of the Directive on combating late payments in commercial transactions. Associated with this a public list (register) for reporting late payments in commercial transactions should be established and would also contribute to the transparency of the operation of the food supply chain.

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## Creation of an "European Food Trading Agency"

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- As defended in the 2007 action plan "Rebalancing the Power in the Food Chain" Copa and Cogeca propose the creation of an independent "European Food Trading Agency" with the overarching mission of provide an independent source of advice on food chain issues and contributing to a more transparent and fair food supply chain.
- Amongst other tasks this Agency should follow:
  - a. price monitoring throughout the food chain;
  - b. monitor prices in some sensitive sectors (e.g. perishable products);
  - c. monitor retailing dynamics and respective market shares throughout the EU.
- This Agency would liaise with relevant trade and competition authorities operating at Member State level in the framework of the European Competition Network (ECN)..

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<sup>4</sup> For further details on this look into the "Action Plan: rebalancing the power in the food chain" [PR(07)75F1]



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## Establishing an European Ombudsman

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- A “Food Trading Ombudsman” at European level that adjudicates on disputes, similar to initiatives at Member State level, is a important part of the Agency’s structure.
- This key position is paramount to secure an efficient operation of self-regulatory measures such as Codes of Conduct, Codes of good practices, etc.
- The enforcement of contracts or any other voluntary agreements in case of disputes is of particular relevance and in this respect the European Ombudsman again is of paramount importance.



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## The High Level Group on Competitiveness of the Agro-Food Industry

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- In this overall context the work carried out by the High Level Group has been of remarkable relevance having not only adopted a set of recommendations but also put in place a roadmap to implement them involving not only public entities and European institutions but different stakeholders of the Chain.
- The maintenance of this HLG will contribute to secure a permanent forum of discussion of the relevant issues of the food supply chain across all EU institutions and stakeholders.
- The impact of private labels (retail owned) at EU level on the competitiveness of the agro-food sector needs to be clearly assessed. National studies (e.g. Italy) have shown a steady and continuous growth of the market share of private labels to the detriment of producer/agro-food industry labels.

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## COPA AND COGECA:

### THE VOICE OF EUROPEAN FARMERS AND EUROPEAN AGRI-COOPERATIVES

**Copa-Cogeca** is the united voice of farmers and agri-cooperatives in the EU. Together, they ensure that EU agriculture is sustainable, innovative and competitive, guaranteeing food security to half a billion people throughout Europe. Copa represents over 13 million farmers and their families whilst Cogeca represents the interests of 38,000 agricultural cooperatives. They have 77 member organisations from the EU member states.



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