FARMERS UNDER PRESSURE
Short food chains seen as answer to farmers’ pay and product quality

Weak cooperatives and high input costs hike Greek food prices

Germany’s cheap food prices come at a cost, study finds

Spanish farmers say new CAP should provide dignity

EU agricultural income since 2005

No quick and easy fix to food price issue, EU official admits
Local markets, where farmers and producers sell directly to the consumer, have prospered across the EU in both rural and urban areas in recent years.

The development of short food supply chains where intermediaries between farmers and consumers are removed should result in fairer remunerations for farmers and higher quality local food products, supporters say.

In 2015, 15% of farmers sold half of their products through these short food supply chains, according to a study carried out by the European Parliamentary Research Service (EPRS).

The Common Agricultural Policy for the first time focused on short food supply chains during the current funding period (2014-2020). Producers can now benefit from support by the European Agricultural Fund for Rural Development to set up such schemes.

Smallholders often find themselves in a weak negotiating position against food processors, traders, wholesalers, and large retailer chains. In some cases, the “big players” are the only access to the market for small-scale farmers, which results in unfair trade practices.

This was recognised in a European Parliament resolution and EU lawmakers urged the European Commission to take action.

Additionally, small farmers have consumers on their side: a recent Eurobarometer survey (2016) found that four out of five European citizens believed ‘strengthening the farmer’s role in the food chain’ is either fairly or very important.

**BENEFITS AND WEAKNESSES**

The survey stressed that the utilisation of short food supply chains leads to fairer prices for farmers, given fewer middlemen ensure farmers get a larger slice of the profits.

This can result in greater trust between producer and consumer. Local economies benefit from these exchanges by increasing the possibility of job creation. This is especially vital in rural, disadvantaged areas.

Local markets also give consumers...
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better access to fresh, seasonal produce and have less of an impact on the environment due to reduced production and transport associated with local foods.

However, the amount and range of products on offer in short food supply chains tends to be limited. There is often too little of it to satisfy demand, especially from the public sector.

Producers who operate within short supply chains also have limited ability to expand. This is because they often have fewer resources for production, processing, and transport than larger producers, as well as less marketing and advertising power.

A MATTER OF QUALITY

Paolo de Castro, an Italian MEP from the Partito Democratico (Socialists and Democrats group), told EURACTIV that short chains are more profitable for farmers, and seldom alter the end price for consumers.

But beyond price, he says short chains have the huge advantage of placing the emphasis on quality, defined as the most intimate interaction between the farmer and the consumer.

“Quality here is also intended as consumer’s health and, above all, food education: through this particular form of purchase it is possible to better understand the features and seasonality of the products,” the socialist MEP said.

According to De Castro, the short chain model tends to play to the advantage of smallholders but doesn’t hurt large industrial farms.

“They are not opposed,” he told EURACTIV. “Today, even a small farm, if properly organised, can be as productive as the big ones,” he explained.

De Castro also stressed that there were online platforms in every EU country directly connecting farmers and consumers.

“Smart short chains, supported by digital technologies, can be a resource for farmers. For instance, an Italian farmer opened a restaurant in Brussels where you can enjoy products from his farm. This is not zero-miles however it is a short supply chain,” he said.

AN OLD STORY

Geneviève Savigny, policy advisor at Via Campesina, says short food chains are nothing new, even though they are now quite fashionable.

In the past, it was used as a way of selling farm surpluses but it took new forms over the last decade, such as ‘community supported agriculture’ with farmers’ shops or short chains between farmers and public canteens.

Savigny comes from Provence, where 30% of farms sell part of their products in short supply chains. “We have everything; honey, goat cheese, bread, fruits, jam, preserves of all kinds. I, personally, sell 3,000 poultry annually on the local market,” she told EURACTIV.

The French farmer explained that it is a win-win game, as consumers find good and fresh products with good value for money, and producers get a much better price than in wholesale.

“Being directly in contact with consumers in a genuine market economy, producers are geared towards quality, meaning organic farming, freshness, and taste,” she explained.

NOT A GLOBAL ANSWER

For Pekka Pesonen, secretary-general of Copa-Cogeca, the association of European farmers and agri-cooperatives, short food chains are a valuable concept.

“In some cases, it could result in a better living and can offer partial certainty for farmers,” he said, adding that it could also help have local products adjusted to the local consumer needs.

However, it is not a “global answer,” he warned.

“The EU food system is complex and, therefore, other means should also be enhanced against unfair practices such as shortening the payment time,” she added.

*Hannah Black contributed reporting for this article.
In Greece, cooperatives play a limited role in the food supply chain. Combined with rising overhead costs, this has contributed to the erosion of local farmers’ incomes, while emptying the wallets of consumers.

Faced with an unprecedented economic crisis since 2008, Greek consumers have seen their purchasing power dramatically decreased.

At the beginning of the crisis in 2008, 11.2% of Greeks reported shortages in basic goods but, seven years later, this figure rose to 22.2%. According to the latest Eurostat data, Greece is the third poorest member of the EU followed by Bulgaria (34.2%) and Romania (22.7%).

However, food prices have not followed the same trend. Due to a number of factors, ranging from high input costs to a lack of response from cooperatives, final product prices have tended to rise.

**ENERGY AND ANIMAL FEED**

This is explained by a number of factors. Input costs for Greek farmers have increased more rapidly than production value. In total, farmers spend approximately €5.1 billion on input costs in order to be able to produce.

Giannis Tsiforos, an agri-food expert at Gaia Epixeirein, a consultancy which brings together farmers, the IT and banking sectors, told euractiv.com that energy and animal feed expenditure makes up 60% of input costs for Greek farmers.

"Unfortunately, in Greece, we have the most expensive diesel compared to other EU countries. In 2015, the return of the oil excise duty to farmers was abolished as part of the bailout programme," Tsiforos said, adding that energy costs will remain high despite the fall in oil prices.

Animal feed is another issue. Most of it comes from imported protein crops, especially soybeans, he remarked. “We have not been able to use our own protein crops to meet the need for imports and so the animal feed costs remain high," Tsiforos said.

Vassilis Parolas, the General Director of the Association of Agricultural Cooperatives in Thesprotia region, shares the same view. Referring to fertilisers, he said trade has been concentrated on a few companies that have almost full

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control of the market.

“One could claim that it works like a cartel on a production cost level. We are about 60-80% more expensive than Italy in terms of fertilisers,” Parolas said.

And the same applies to pesticides, he remarked. “Regarding pesticides, the same multinationals sell at a different price in Italy and in Greece, transferring a profit rate to countries that have a lower tax rate,” he said.

In addition, the cost of veterinary medicines is ten times higher compared to neighbouring Bulgaria or Turkey. “All farmers from northern Greece go to Turkey to buy veterinary medicines, exactly the same ones,” Parolas pointed out.

SUPPLY CHAIN

The structure of the food supply chain tends to exacerbate those issues. In Greece, wholesalers and intermediaries have a strong position in the supply chain. In the fruit and vegetable sector, wholesalers supply retail chains at a 45%-75% rate.

According to Tsiforos, producers do not exceed 8-10% of profit, while the rest is taken by intermediaries and retailers. Unfair commercial practices, like late payments, make farmers’ lives even more difficult. “Late payments are almost 90-120 days, which is more than twice compared to other EU member states,” he said.

In order for farmers to cover production expenses, they take out bank loans that, in the best case scenario, have a 6% interest rate. “Specific measures should be taken [...] the market cannot be completely uncontrolled,” Tsiforos warned.

COOPERATIVES ARE WEAKENED

Another reason for the high input costs, which result in high final food prices, is the limited role of cooperatives in the country.

Parolas says cooperative involvement in the food supply chain is extremely low. “There was a well-coordinated process of an old anachronistic framework of cooperatives that led them to depreciation,” Parolas noted, adding that large cooperatives were privatised and there was no way to allocate and coordinate the country’s production activity as a result.

Cooperative production is currently about 11% of total agricultural output. This limited rate has widened the distance between the producer and the shelf, giving room for other “intermediaries” to take control the market and particular agricultural sectors.

“This harms both the producers and the price of a final product,” Parolas explained.

He cited as an example the association of agricultural cooperatives for cereals, pulses and for the animal feed sector (KYPE) which was shut down in 1992.

“All the Greek cooperatives that produced cereals were channelling them there and then the distribution was taking place,” he added.

In an effort to tackle high production costs, the creation of a nationwide company is underway, which will consist of “healthy” cooperative shareholders. “By increasing the volume of demand for raw materials, inputs, we strengthen our bargaining power in the food chain,” he said.

He added that high taxation rates are meagre in the face of what can be achieved in production costs.

“Fertilisers can be reduced by 10%, pesticides and seeds over 20%. With such costs, there is no competitiveness and all costs are going through to the consumer,” he said.
Germans love to do their food shopping at discount retailers. But the costs incurred in order to provide such cheap prices are enormous and society is paying through the nose for it.

The only place where food is cheaper than in the Bundesrepublik is in crisis-hit countries like Greece, according to the German statistics office.

This is the result of fierce competition in the retail sector and it is increasingly becoming a problem for German farmers.

**HEALTHY AND CHEAP**

The fact that the prices offered by discount supermarkets like Aldi or Lidl do not reflect their actual costs is nothing new.

Most Germans think that when the agricultural sector is doing well, then food quality will also be top notch. According to a recent Kantar Emnid study, small-scale rural food production is seen as an integral part of German culture.

That mindset is reflected in a trend towards ecologically-produced agricultural products, as well as sustainable and ethical practices. The study also found that nearly 80% of Germans think agriculture takes too high a toll on soil, water, and air quality.

But German consumers are often unable or unwilling to pay the higher costs of organic products. As a result, cheap supermarkets secured a share of the German food retail market totaling €159.8 billion in 2016. In other words, nearly half of all Germans shopped at the likes of Aldi and Lidl last year.

**CHEAP PRICES COME AT A COST**

The savings made by individuals come at a price for society though. Scientists from Augsburg found that the hidden secondary costs of conventional agriculture, which are not reflected in the prices advertised on the shelves, are enormous.

In order to provide chief beef

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and bacon for German breakfast tables, industrial agriculture has to use liberal amounts of antibiotics and nitrate-rich fertilisers. Nitrogen and phosphorus have a particularly damaging effect on soil and water quality, while ammonia and nitrous oxide emissions contribute to global warming.

These knock-on effects are quite often not immediately visible. The costs aren’t either. Water suppliers have to invest in expensive filtration systems in order to separate nitrates from drinking water. These costs aren’t paid at the check-out counter but in the monthly or annual utilities bill.

If the costs incurred on health, the ecosystem and the climate were added to regular food prices, then the study estimates there would be a 10% increase in the final bill. In comparison, organic meat would only incur a 4.1% increase in order to cover external factors and costs.

“The price that consumers pay for food often does not adequately reflect its true cost,” the authors of the study summarised.

For example, if the cost of higher nitrogen consumption, which is essential to higher crop yields, was offset, then the general public would be hit with €10 billion in addition costs, according to the report.

These prices and market distortion are not in line with the sustainability drive of the Common Agricultural Policy (CAP). Nevertheless, Germany’s direct payments and the organisation of the European market have kept prices at such a low level.

Many environmental and farmer organisations believe that agricultural policy is not going in the right direction. The groups insist that more EU direct payments should, in future, go to farmers that prioritise environmental and animal welfare issues. The 15% incentive provided by the CAP reform is still not used to its full extent.

Germany’s food and agriculture ministry is funding an initiative launched by, among others, the Green party, which hopes to further develop environmental land management practices. The BÖLN programme has been provided with €20 million for 2017.

The aim of the scheme is to influence and guide German consumers away from the easy option of cheap food prices towards organics products, which have fewer hidden costs.
Agricultural producers recognise the need to become competitive and sustainable. But they also need to deal with market volatility, price imbalances in the value chain, uncertainty generated by free trade agreements and Russia’s ban on EU imports. EURACTIV’s partner EFEAgro reports.

The first effect of this precarious situation is a loss of profitability for farmers, who require support from regional, national and European administrations in order to keep alive rural enterprises, which are the main drivers of employment.

Agricultural cooperatives and organisations told EFEAgro what they want from the Common Agricultural Policy (CAP) and what should be prioritised during the next stage of reform.

Industria Agraria boss Fernando Burgaz said that “the CAP should keep in mind its role and what involvement it has. In particular when it comes to farms needing to be economically sustainable, so they can provide a decent livelihood and maintain rural life with an adequate level of employment.”

He added that the CAP “should contribute to efforts to equalise the profitability of farming with the European Union’s other productive sectors”.

Burgaz highlighted a number of objectives, including “strengthening the bargaining power of producers by encouraging supply integration; promoting sector coordination; giving inter-branch organisations more capabilities; guaranteeing the smooth functioning of commercial ties between chain operators; and controlling unfair practices”.

He added that efforts have to be made “towards a framework of fair competition, as well as implementing effective instruments that will allow the management of market volatility.”

Cooperativas Agro-alimentarias’ international relations head Gabriel Trenzado said, “the imbalance of power in the value chain is to the detriment of a fragmented agricultural sector that is facing concentrated clients”.

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and providers”. Market volatility is one of the most significant factors contributing to “lack of profitability and difficulty in securing future investments”.

As a solution, Trenzado advocates “encouraging cooperative integration” so that they can be more relevant on the market.

José Ramón Díaz, from the association of young farmers (ASAJA), acknowledged that the scenario outlined above “affects the volatility of products in a very noticeable way but we also have to consider other factors, like the effects of climate change”.

Díaz also highlighted that “successive CAP reforms have eliminated or reduced the minimum level of market regulation mechanisms” in order to address “fluctuations and product availability, as well as increased demand”. He added that “in this regard, there is still work to be done”.

COAG Secretary-General Miguel Blanco warned that “faced with policies aimed at generalised deregulation, it is necessary to strengthen the regulation of the food market’s backbone, as well as the agri-food chain, in order to be profitable and sustainable across the board”.

Blanco added that producers have to be granted “necessary exceptions regarding competition” and that mandatory EU-wide regulation is needed to prevent abusive practices. He suggested this could be a common element of all commercial operations but that member states should be given enough wiggle-room to adapt it to their own particularities.

The farmers’ association chief added that a balance must be struck “between competition rules, their application and sector regulation”.

For the union of small farmers (UPA), “The volatility of prices and loss of bargaining power on the part of farmers in a totally imbalanced chain are two of the main reasons behind the sector’s loss of profitability. That is why it is one of the main priorities that have to be solved in the next CAP reform.”

That is why the UPA backs the inclusion of collective bargaining in order to strengthen the position of the primary sector, as well as “establishing clear exceptions to competition law, by allowing those negotiations to be held by producer and inter-branch organisations” and introducing new management mechanisms.

“These mechanisms should take into account not just market price but also basic production costs,” the UPA added, so as to have a positive impact on agreements with third countries, which do not lead to loss of competitiveness for domestic producers.

Supermarket group Asedas said that, in terms of distribution, establishing “stable long-term relations” with the rest of the supply chain is “key to maintaining price balance. It’s a win-win.”

“Spain’s agri-food chain is one of the most efficient in the world and it allows the consumer to pay much lower than the European average. 6% lower according to Eurobarometer,” the group added.

Fellow group ACES, which represents, among others, Carrefour Express and Lidl, insisted that “market logic” is the best way to ensure that each link in the chain receives fair payment for work carried out.

But its president, Aurelio del Pino, said that political intervention is necessary when imbalances related to the inherent traits of agriculture occur. He added that the next CAP must bet on “better modernisation of facilities and professionalisation of the sector”.

It is quite a challenge for a sector that is all-important to the Spanish economy.
Challenges ranging from volatile markets, high input costs and the Russian ban on agricultural exports to sluggish Chinese demand, have put a great deal of pressure on the income of EU farmers.

According to Eurostat, the 2008-2009 crisis severely hurt EU agricultural income. But in 2010, it recovered and continued to grow in 2011.

In 2015, agricultural income was 33.6% higher compared to 2005. Earnings rose on average by 4% annually over the period 2005-2010, while between 2010-2015, the rate of change for agricultural income slowed, rising on average by 1.9% per annum.

“Without farmers, there is no food.”

“During that period, the growth of total productivity in the agricultural sector decreased by 50% and capital productivity became negative.”

Luc Vernet, senior advisor at Farm Europe
“(The) EU is a price taker and not price maker. The end of the super cycle of raw materials, including some agricultural commodities, and petroleum pricing, have put pressure on the world market price. We cannot expect high prices in agri commodities when the energy price is so low.”

Arnoud Petit, Copa-Cogeca’s Director of Commodities and Trade

DIFFERENCES BETWEEN MEMBER STATES

Agricultural income varies among EU countries. In 11 member states, it increased at a faster pace between 2010 and 2015 than it had between 2005 and 2010. The vast majority of these were eastern or southern member states, but Lithuania, Luxembourg and Ireland were also included. By contrast, there were nine member states where agricultural income fell during the 2010-2015 period.

Finland | -9.9% per annum

Denmark | -5.2% per annum

Germany | -4.7% per annum

Lithuania | 7.7% per annum

Hungary | 8.9% per annum

Bulgaria | 9.7% per annum

WHAT ARE THE REASONS FOR THESE REMARKABLE DIFFERENCES?

• The catching up effect: the increase of direct support from the CAP on the new member states and the positive impact on the sector in terms of investment and economic structuration.

• Connectivity to the world market: it had a major influence on internal market prices in the western and southern member states.

• Resistance to price adaptation within the food chain: Farmers also struggle to recover their margins because of their unreliable cash flow.

“Three consecutive years of negative income are putting farmers in the red, with some decisions from the banking sector which will impact the restructurating of the farming sector in the future.”

Arnoud Petit, Copa-Cogeca
There will be no easy solution to high food prices in Europe unless the supply chain is made transparent and farmers get organised to take a bigger slice of the market, a European Commission official has warned.

The way markets work on paper is different from reality, admitted Tasos Haniotis, a senior official at the European Commission’s agriculture directorate.

Speaking at EURACTIV earlier this week, Haniotis said that imperfections in the agri-food supply chain meant “price rises are always transferred to consumers” who end up bearing the cost.

“And when prices fall, producers suffer but the savings are not passed on to consumers,” said Haniotis, who is Director for Strategy and Policy Analysis at DG Agriculture.

Haniotis took part in a EURACTIV event on Tuesday (25 April), where agri-food stakeholders shared their views on how the post-2020 Common Agricultural Policy should look like in order to ensure farmers’ income as well as fair prices for consumers.

However, the official warned that no one should expect to see prices decrease until farmers get organised and greater transparency is instilled in the food supply chain.

“Unless farmers organise themselves better, they are not going to get a better share of the market,” he stressed, adding that consumers will also see a better price effect if they become more educated about the choices they make.

“The role of the CAP in addressing this issue is improving transparency and the better functioning of the

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market,” he stressed, adding that when it comes to quality, the CAP should make sure producers respect EU standards and allow consumers to make informed choices.

Regarding the next CAP, Haniotis said the core of the debate was to guarantee continued food security and turn current tensions into synergies. “There is a tension between the economy and the environment, subsidiarity and simplification, growth and jobs. They don’t always go together,” he remarked.

AN IMBALANCED FOOD SUPPLY CHAIN

Angélique Delahaye, a French Les Républicains MEP from the European People’s Party (EPP) suggested four proposals that should be part of the future CAP.

Referring to her own-initiative report adopted last year, she said these included improving the food chain structure by helping farmers put their business into context, tackling unfair trading practices, reforming EU competition law and promoting coordination within the farming industry.

“As a farmer myself, I know the reality on the ground and I am convinced that farmers often suffer from a too-weak position in the food chain and should be more protected and get more benefits from the added value of their products,” Delahaye said.

For Pekka Pesonen, Secretary-General of the European farmers and agricultural cooperatives association (COPA-COGECA), farmers face increasing risks, ranging from weather events, climate change, volatile markets to even geopolitics.

“As a consequence of these risks, farmers have been facing, on the one hand, increasing levels of price volatility and on the other, reduced incomes,” he noted.

To address market volatility, Pesonen said new tools should be made available to farmers through a strong CAP with the same rules across the EU.

However, the current structure of the CAP should not be changed, Pesonen conceded. He suggested keeping the first and second pillars of the current CAP, as well as direct payments to farmers, saying that these are the best tools to help farmers manage risks and stabilise their incomes.

But Pesonen did stress the need to simplify the CAP, saying “its complexity stifles innovation and efficiency and is burdensome for farmers”.

“There is a clear imbalance of power in the food supply chain (that) leads frequently to unfair trading practices being applied against the weakest link of the chain—the farmers,” the head of COPA-COGECA said. “As long as unethical and unfair behaviour continues to lead to economic gains one will not have a fair, transparent and efficient food supply chain.”

As a result, COPA-COGECA supports the introduction of legislation at EU level to help reduce unfair trading practices, he emphasised.

FOOD QUALITY: EUROPE’S STRENGTH

Christel Delberghe from EuroCommerce, an organisation representing retailers, said she understood the difficult situation farmers are faced with. However, she noted that the retail sector has taken measures to help them during the crisis, through direct financial support and promotional efforts.

“But the fact is that they buy little direct from farmers and retail prices have only a vague connection with what farmers get paid,” she said.

Citing milk as an example, she said less than 15% of production ends up on retailers’ shelves as drinking milk.

“Raising the price of drinking milk alone, therefore, has little impact on the price that milk producers actually get paid,” she pointed out.

Quality food is Europe’s strength, Delberge underlined, noting that the number of consumers willing to pay more for food that is organic, local or of a higher quality is growing.

“It’s Europe’s strength and is also retailers’ need to attract people to their stores,” she remarked.

EuroCommerce said it supports many of the recommendations for the future CAP, including a transparent, market-oriented agriculture policy as well as measures to strengthen Continued on Page 16
"Retailers want a farming sector able to survive in the long term and they are ready to help by entering a positive dialogue," Delberghe said. "Short-term populist remedies will not offer any sustainable solution."

**EDUCATED CONSUMERS**

For Geneviève Savigny, a campaigner with the European Coordination Via Campesina NGO, the notion that educated consumers can solve the food price issue is a falsehood.

"Regarding people who have low income, we tend to say that they have no education, which is not true. They know what is good for them and they just can’t afford it,” she said.

Savigny stressed that the CAP should not necessarily be export-driven and that there are now many new ways to reach consumers, such as community-supported agriculture.

“Does the CAP have to be driven by exports?” she asked. “Because in the Rome Treaty it says it is driven by the need for food security, and so we want to focus on the need of food security, stabilising markets, getting incomes for farmers while [keeping] rural areas and the countryside alive.”

Savigny said Via Campesina members are all small-scale farmers who have direct contracts with consumers and do short sales or food processing on the farm as a way to get better added value.

"As a result, we actually get a better income, a better life, a better standard of living, but it comes with a lot of work. Really, it’s a very positive thing to be able to process and to sell your products directly on different, local markets,” she stressed.

Savigny underlined that consumers are ready to pay a higher price for a better quality product that is fresh and tasty, particularly when they know the producer.

"So there is also a social value, so to say, because they know you and it is a relationship of trust.” Savigny also stressed that this process leads to local economic growth as well as job creation and helps communities get organised.

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