

Agricultural Markets Task Force Report - Executive summary

1. This report examines the position of farmers in the supply chain and makes recommendations as to how to improve that position. It is the result of the deliberations of the Agricultural Markets Task Force (Task Force), which was set up in January 2016 as a European Commission expert group at the instigation of Phil Hogan, the Commissioner for Agriculture and Rural Development.

2. The Common Agricultural Policy (CAP) has become more market-oriented and less reliant on the management of markets than before. Consequently, European agriculture is increasingly integrated in global markets. The shifts have been incremental. The phasing-out of milk and sugar quotas is the latest step in this process. Open markets imply opportunities but also challenges. There is concern that farmers, generally fragmented as a group and less supported now by the policy tools that operated to sustain producer prices in the past, are becoming the main shock absorber in the supply chain as regards market risks such as price volatility or prolonged periods of low prices.

3. The reduction of the scope of classical market measures has been accompanied by the introduction of direct payments that were designed to absorb these shocks, but also by a stronger emphasis in the CAP on a regulatory environment to strengthen farmers' organisational structures. The 2013 reform of the EU's Common Market Organisation regulation enhanced governance of cooperation among producers - in particular through an emphasis on producer organisations, their associations and interbranch organisations.

4. The shift away from daily market management towards rules that allow reliance on instruments managed by the sector is, in the view of the Task Force, work in progress: the policy framework can and should be further improved. The report contains a list of recommendations to this end.

5. The Commission should take further steps to increase market transparency so as to foster effective conditions of competition along the supply chain. Bigger and better-equipped up- and downstream operators usually have a clear view of the market while farmers - often fragmented and small -

frequently do not. This information asymmetry creates mistrust, in particular in relation to price transmission and the distribution of value added along the chain. Among other things, this report recommends mandatory price reporting to cover existing information gaps in the chain - and dissemination of the collected data in duly aggregated form to increase transparency.

6. The Commission market observatories and dashboards are commendable steps in the right direction but there is room for improvement, in particular as regards the timeliness and the standardisation of data collected from Member States. It should be examined whether consumption data and producers' input prices could be integrated into existing market information systems. The Commission should create a platform for better communication and exchange of information between Member States concerning how market data is collected and how national food chain observatories work. 'Food euro' calculations at EU level and Member State level for all major food products could provide useful information for the public at large, including consumers, about the distribution of the value added along the chain. The Commission should step up the adoption of modern and easy-to-use communication formats (such as web-based applications). Member States should be encouraged to seize the opportunities which 'big data' offers for the benefit of farmers, and facilitate initiatives that help farmers make sense of the wealth of data generated, on and off farm.

7. The uptake of EU risk management tools by farmers has been modest. The Commission should make the EU's risk management toolkit more attractive and coherent with instruments set up by Member States so as to enable farmers to manage risk ex ante. Ideas include the mandatory inclusion of measures in Member States' rural development programmes. This step could be accompanied by monitoring and evaluation systems that map all relevant data linked to the occurrence of risks. Minimum thresholds applying to crop losses for insurance purposes could be revised to make the tool more attractive to users. The added value of EU co-financing of reinsurance schemes should be assessed.

8. This could imply a resource shift towards a genuine integrated risk management policy at EU level. In order to keep control regimes cost-effective, the possibility of using simplified loss calculation and reimbursement options should be taken into account. The Commission should set up an EU platform -

including Member States and stakeholders - allowing the exchange of best practices concerning agricultural risk management. Certain tools and systems which are already effective in Member States may thus become more widely known and used. Member States could also use this platform to exchange information about existing practices of tax averaging, to assess the potential usefulness of these practices for agricultural producers across the EU.

9. Futures markets can be an important risk management tool for farmers in times of increased price volatility. In this area in particular, awareness-raising and training measures in the farming community and farmers' organisations should be prioritised. Price data collection and dissemination by the Commission under the heading of market transparency can stimulate futures markets by providing reliable and credible price references which are instrumental for settling futures contracts. The report also invites the Commission to volunteer expertise to the legislator in matters - such as EU-level financial regulation - which might have unintended negative consequences for the liquidity of futures markets.

10. As regards unfair trading practices, voluntary initiatives have been useful to a degree. They have, however, not been able fully to address the 'fear factor' which often arises when an operator is considering making a complaint, and they have fallen short of introducing effective and independent enforcement. The report recommends that framework legislation be introduced at EU level - to cover certain baseline unfair trading practices (for instance maximum payment periods) as well as to mandate effective enforcement regimes in Member States - such as an Adjudicator. Such enforcement regimes should include the power to conduct own-initiative investigations, as well as the possibility for victims of unfair trading practices to lodge anonymous complaints. A mixed approach of statutory and voluntary rules including at EU level, as far as agricultural products are concerned, would be appropriate and timely. It can accommodate well-functioning enforcement systems existing in Member States. By the same token, the voluntary Supply Chain Initiative facilitated by the High-Level Forum on the Better Functioning of the Food Supply Chain has had positive effects; it should be continued and improved.

11. Cooperation in the supply chain via 'contractualisation' can allow non-antagonistic commercial relationships to develop which could meet consumer

demand for innovative products, while also responding to public expectations concerning sustainability. Successful arrangements such as dedicated supply chains, tripartite agreements and similar initiatives exist and should be publicised better as examples for best practices. The Commission should facilitate this, allowing operators to come together and learn from each other.

12. The absence of written contracts is often a disadvantage for the weaker party in a commercial transaction. Farmers should be able, under EU rules, to request and obtain a written contract. This would complement the existing general possibility for Member States under the CMO regulation to make written contracts mandatory.

13. The feasibility and effectiveness of (possibly mandatory) ex ante value-sharing mechanisms through collective negotiations between operators should be examined, in particular in sectors where the distribution of added value in the food supply chain appears lopsided. The objective would be to establish a firmer and possibly fairer link between producer prices and the added value accruing in the chain.

14. As regards producer cooperation, the report brings to light a lack of clarity concerning the rules which apply to collective action by producers. Different concepts underlying classical competition law and agricultural derogations in the CMO regulation have given rise to regulatory confusion. The 2013 reform has introduced further approaches to dealing with collective action by farmers. While the intention was to strengthen the position of farmers in the chain, the new provisions may have exacerbated the legal complexity. Rules should be made clear and workable, so that farmers do not need to hire legal counsel when planning to cooperate. The Commission should unambiguously exempt joint planning and joint selling from competition law if carried out by a recognised producer organisation or association of producer organisations. Safeguards should ensure that competition is not eliminated and CAP objectives - such as reasonable consumer prices - are not jeopardised. Such clarification will further the CAP's policy orientation of encouraging producers to organise and help themselves. Pure 'bargaining associations' between producers should be allowed up to certain market thresholds, so that such joint selling will not affect competition. Moreover, the 'dormant' Article 209 of the CMO regulation

should be 'revived' and the possibility of obtaining legal security up-front (comfort letters) introduced. The scope of the 'crisis cartel' provision, which allows agreements between producers (including producer organisations and interbranch organisations), should be adjusted.

15. Measures to facilitate access to finance for farmers should be stepped up, in particular by the European Investment Bank Group (EIB Group). The current risk aversion of commercial banks is liable to lead to underinvestment and affect the competitiveness of the agricultural sector. The Commission should encourage the roll-out of pilot projects by the EIB for the agriculture sector as well as the development of targeted financial instruments (e.g. addressing young farmers or price volatility) that leverage CAP money on a guarantee basis and thus attract private-sector funding. Member States should be encouraged to liaise with the EIB Group to acquire the necessary expertise in managing financial instruments that provide better access for farmers to finance. Tools administered directly at the EU level may, at least partially, alleviate the administrative challenges for Member States. The Commission and the EIB should continue their current exploratory work concerning the setting-up of an export credit guarantee facility at the EIB for agricultural exports to new or risky markets.

16. The report contains in its third part some general considerations concerning the CAP after 2020. It places the policy in its historical context, which is one of constant adaptation and reform. It bears witness to the CAP's historical ability to successfully address the challenges with which diverse agricultural sectors and rural communities are confronted.

17. The Task Force posits that the policy direction which the reformed CAP has taken should not be reversed. A modern CAP should continue along the path taken. However, it should also play a role for those farmers who do not consider integration in international markets an opportunity to grow their business and thereby reap the rewards of economies of scale on export markets. A modern CAP should remunerate farmers who specialise in specific products and services, provided they offer measurable advantages for animals, nature and landscapes which are in the public interest.

18. Climate change is one of the most ominous of all global governance issues and presents adaptation and mitigation challenges for agriculture. The

demand for nature conservation and other activities which contribute to the vitality of rural areas constitutes business opportunities for farmers. Regulation, remuneration for public goods and services supplied, support measures for farming in transition between paradigms and new adequate technologies will have to be part of the policy mix of the future. In particular, they can provide sources of income for regions and farmers not oriented towards world markets. The Cork Declaration 2.0 lays out a roadmap in this regard and affords perspectives for rural economies and the social fabric of the countryside. Much of this assistance should be organised at Member State level.

19. 'Farming the future' of the EU also includes contributing to a healthier life style and healthy food - that is to say food that is healthy in its composition but also produced in a way that society values as appropriate and ethically sound. Sustainability (e.g. climate neutrality, good working conditions and animal welfare) is a key element that should be addressed.

20. The report acknowledges the need for constantly communicating and explaining the EU's agricultural policy and related policies such as trade policy, in particular where mistrust is on the rise concerning the benefits of market integration.

21. The report also suggests a rethink of the direct payments regime, which has shown limitations in its current form. A resource shift towards an integrated risk management policy at EU level that is complementary to existing strategies at Member States level is advocated, while sustainability considerations should continue to play a prominent role.

22. The emphasis on innovation should be stepped up: e.g. on research and development in agricultural production methods and on new ICT-based assisting technologies such as precision agriculture, but also organisational innovation along the chain in accordance with evolving consumer demand. Centres for education and training in Europe have to be revitalised and should integrate curricula focused on innovation, farm management and agricultural engineering. These steps are important for making the EU's agriculture sector more attractive to new entrants.

In the Task Force's view a modern CAP should have the broader scope set out in this report and, as such, would constitute an effective and efficient instrument to contribute to solutions for the future of agriculture and would embody a common interest in Europe's position in the world.