

CAP SPECIFIC OBJECTIVES

...explained

– Brief No 3



FARMER POSITION IN VALUE CHAINS

This is part of a series of Briefs summarising the facts and addressing the policy relevance around the 9 proposed specific objectives of the future CAP.

KEY MESSAGES

- ✓ *Food value chains stretch from the producers of necessary inputs (e.g. seeds, fertilisers) to the EU's 500 million consumers. Farming and related sectors provide large numbers of jobs, yet agriculture is characterised by a stagnant and low share of value added in the value chain, due to high input costs, variation in production and incorporation of new services.*
- ✓ *New innovative dynamics emerge in the supply chain, not only restricted to product and process but also organisational innovation along the chain, triggered by new emerging technologies and evolving consumer demands.*
- ✓ *The higher concentration of retailers and processors potentially places farmers at a weaker bargaining power within the value chain. Farmers need to respond to changing demand of consumers, which are channelled to them through the other actors of the chain.*
- ✓ *The future CAP aims at strengthening farmers' position in value chains by strengthening cooperation among farmers, enhancing synergies within value chains, supporting the development of market driven production models, fostering research and innovation, increasing market transparency and ensuring effective mechanisms against Unfair Trading Practices (UTPs).*

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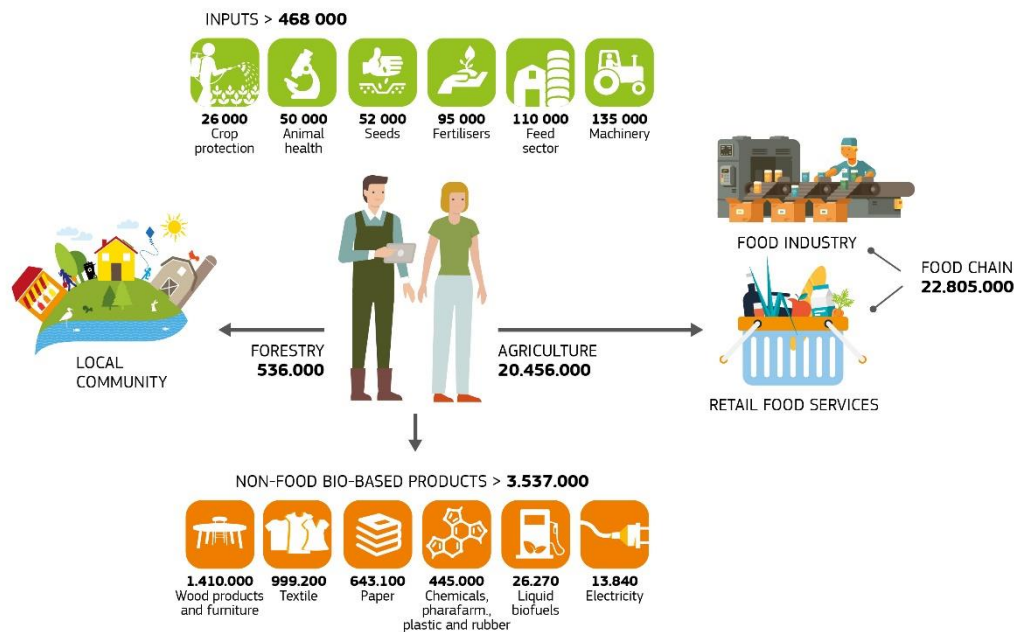
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1. Food value chain trends and challenges

EU value chains are diverse and dynamic, enabling them to meet the various consumers’ expectations, potentially helping producers increase value added. The EU agri-food sector now competes at world market prices for most products, leads the field in terms of product diversity and quality and achieves the globe's highest agri-food export levels (worth over EUR 137 billion in 2018).¹

CAP reforms played an important role in this development, leading to better market orientation of agricultural production and increased competitiveness of EU producers. Large numbers of jobs depend on farming, either within the sector itself (which provides regular work for 22 million persons) or within the wider food sector (farming, food processing and related retail and services together provide around 43 million jobs).² Compared to other manufacturing sectors, the EU food and drink industry is a key job provider and a relatively stable employer.³

43 MILLION JOBS IN THE AGRI-FOOD SECTOR



Figures provided indicate the number of jobs in the corresponding sector
Source: DG AGRI elaboration based on Eurostat data – Bioeconomics, European Commission / Joint Research Centre IPTS and nova Institut

However, at the same time the sector faces adaptation challenges stemming from the EU's higher environmental and sanitary production standards, their consequent higher costs of production, as well as costs linked to land, labour and the fragmented structure of the primary sector. Moreover, pressure on natural resources and climate change threats make all of the above-mentioned problems weigh more heavily.

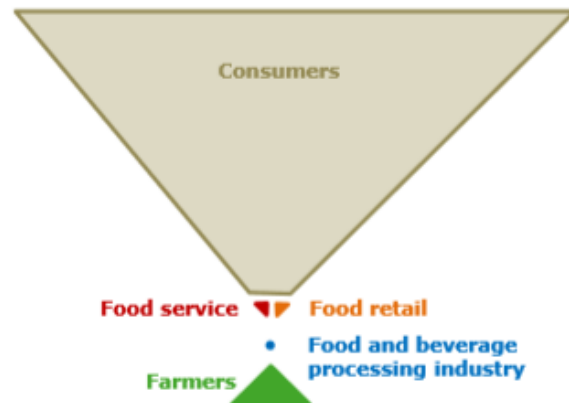
a. Power imbalance in agro-food value chains

There are clear bargaining power asymmetries with limited power for individual farmers. Primary producers are expanding downstream in the chain only to a limited extent (i.e. into processing or direct sales) - and are under-using opportunities to increase their market power. There is a lack of vertical integration under the control of the primary sector. In parallel, there is also asymmetric price transmission along the chain, due inter alia but not only to imbalances of power.

Concentration in the farming sector

Structural changes for agricultural producers have taken place since the mid-20th century, but the concentration rate remains much lower compared to downstream sectors. This is explained by reduced mobility of production factors, such as land and to a lesser extent labour as well as limited access to capital. Although structural changes are taking place at a rapid pace, concentration in the farming sector remains very low. Upstream, the development of input markets is also an important issue for the agricultural sector. Various stakeholders have expressed for example their concern over the increasing consolidation and the impact it may have on prices, innovation and product choice, for example in the seed market.⁴

The EU food system is characterised by high concentration in processing, distribution and retail, with food mostly distributed through supermarkets, hypermarkets and discounters, which account for 54% of total edible grocery sales in the EU.⁵ In food processing, the top three processing firms have a market share above 50% in several sub-sectors.⁶ The concentration ratio is even higher at retail stage, reaching 80% in some Member States.



Even if this could help them protect their interests better, in some sectors and Member States, there are barriers to more cooperation among farmers. The reasons are, for instance, a lack of trust, insufficient knowledge of the potential benefits of Producer Organisations (POs); perceiving each other as competitors, wish to keep the control of their individual production and investment decisions or for historical and cultural reasons.

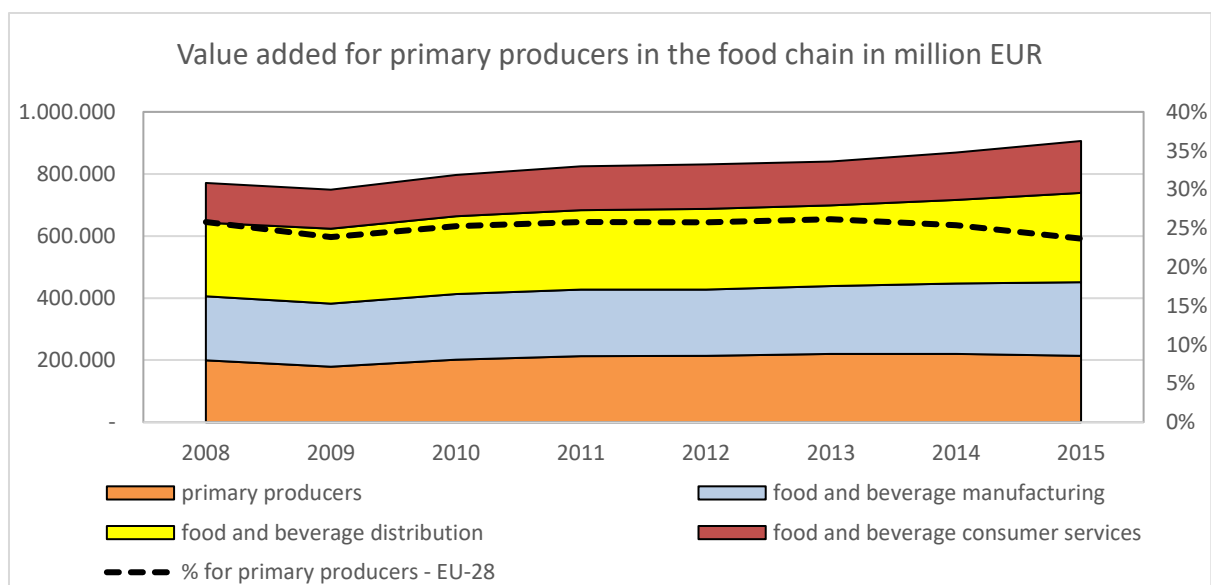
While many producers join forces in producer organisations (POs) and other collective organisations such as cooperatives, important differences remain across Europe regarding farmers’ membership in such undertakings. Even in the fruit and vegetables sector, with a relatively high organisation rate, only half of the value of all marketable produce was marketed via POs in 2015.

EU cooperatives maintain a strong market presence in the EU food supply chain. Cooperatives hold substantial shares in markets for agricultural products in the Netherlands (83%), Finland (79%), Italy (55%), and France (50%). Cooperatives account for a large share of the market for agricultural products in some sectors but not in others. For example, the dairy sector is predominantly organised in cooperatives (55%), while sugar and meat sectors have fewer cooperatives (25% for sugar or pig meat).

The differences between sectors are mainly due to the characteristics of the product and the production process. In the dairy as well as in the fruit and vegetables sectors, cooperatives have an important market share, partly due to the perishability of the product and thus the high transaction costs in trading this product.

While the largest number of businesses is involved in agriculture, the share of value added belonging to agriculture in the whole food chain in the EU is slightly declining at about 25% (Figure 1).

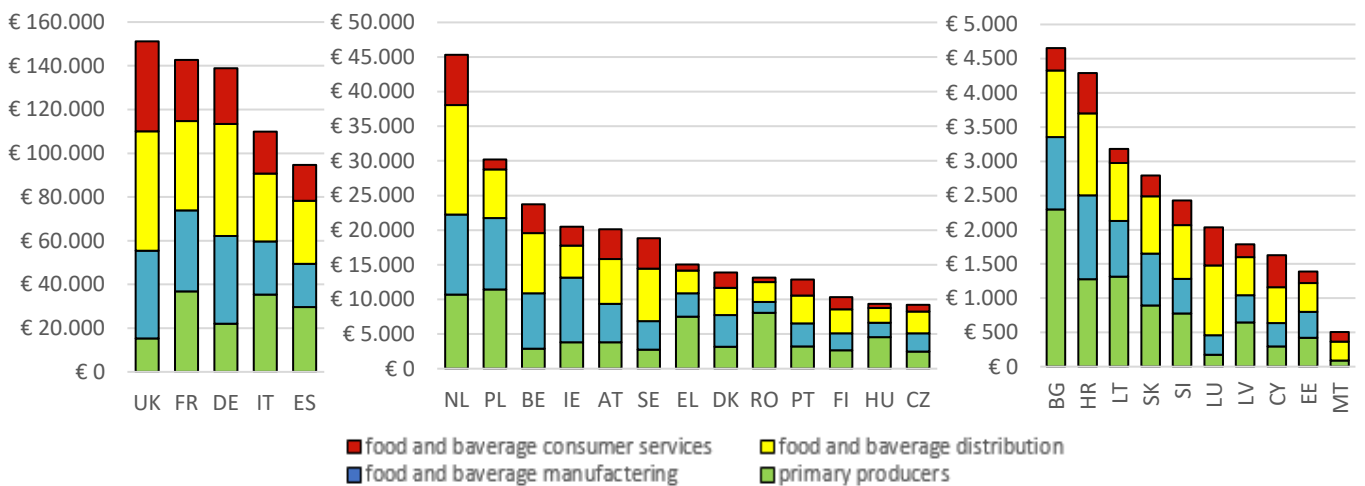
Figure 1. Value added in the food chain in million EUR – EU-28



Source: DG AGRI based on Eurostat.

Yet while the above reflects an average EU rate, huge disparities between Member States shows their share of value added belonging to agriculture ranging from 61% in Romania to 9% in Luxembourg (Figure 2).

Figure 2. Value added in the food chain in million EUR – EU Member States



Source: DG AGRI based on Eurostat.

b. Responsiveness to changing consumer preferences

Agriculture is an important contributor to food security through the nutritional quality of food and its adequate supply. Europe’s market oriented agricultural sector responds to changing demand for agricultural products through signals from consumers, passed on through the food chain. Addressing health challenges such as over-nutrition and obesity requires new approaches and cooperation between all stakeholders along the food supply chain.

Europeans increasingly seek food that is not only tasty and affordable, but they clearly ask for products that are of high quality, healthy, climate and environmental-friendly, answering to ethical concerns such as animal welfare and/or contributing to the local economies. Trends in food demand and exports provide opportunities for further growth. High consumer expectations coupled with high EU standards offer opportunities for high value markets. On the internal market, many changes in consumption patterns are also opportunities to improve farm economics. These relate for instance to the development of the bio-economy, the green and the circular economy.

2. Addressing challenges

a. Strengthening of cooperation among farmers

The CAP has paid special attention to improving the functioning of the value chain by encouraging producer cooperation. The legal framework for producer organisations and their associations in all sectors complements financial support for setting up of such groups and mechanisms to support short supply chains. Specifically in some sectors like fruit and vegetables or olive oil, sectoral structural interventions are channelled through POs.

With these measures, the EU wants to strengthen the bargaining power of farmers and their possibilities to cooperate within the remits of Competition law in order to improve the distribution of the value added generated in the food supply chain. The post 2020 CAP legislative proposal largely maintains the sectoral programmes, but adapts them to the new programming context and new objectives. For example, increasing fruit and vegetable consumption is explicitly proposed as an additional objective for the sectoral scheme. Also, the proposals allows Member States to prepare specific interventions for all main EU agricultural sectors in their strategic CAP plans.

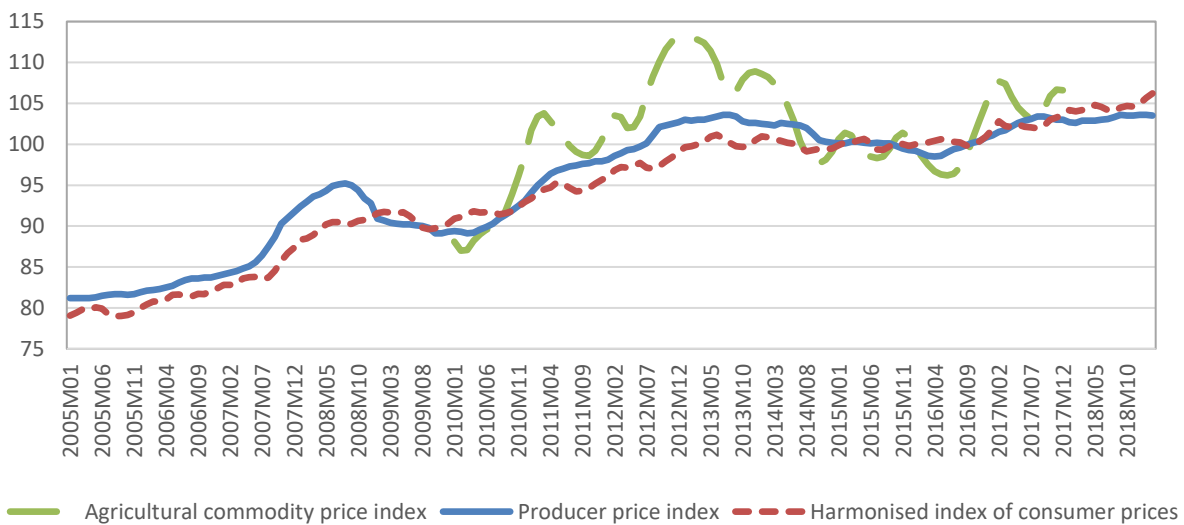
b. Enhancing synergies within value chains

In order to ensure a well-functioning and competitive food supply chain and to respond to requests made by other EU-institutions and civil society, the Commission proposed in April 2018 a **Directive on Unfair Trading Practices** (UTPs) in business-to-business relationships in the food supply chain. (Thus defined are practices that grossly deviate from good commercial conduct, are contrary to good faith and fair dealing and are unilaterally imposed by one trading partner on its counterparty). With the proposal adopted by the Council and the European Parliament in April 2019, Member States now have 24 months to transpose the Directive, and apply it six months thereafter.⁷

The Directive bans the most harmful business-to-business UTPs to protect small and medium-sized (SME) suppliers in the food supply chain insofar as they sell agricultural and food products to buyers that are not SMEs. Since some Member States already have legislation tackling UTPs, the harmonisation of regulating of UTPs across the EU still leaves Member States with the possibility to maintain their existing measures if these exceed the level of protection of the Directive.

Market transparency is relevant for the proper functioning of the supply chain. With a view to helping the EU agricultural sector to cope better with market volatility and to interpret price signals, the Commission has established market observatories covering the markets for milk, meat, sugar and arable crops.⁸ Market observatories for wine and fruit and vegetables are in preparation, while the Commission continues to provides market information on other important sectors and aspects of EU agriculture. The aim of the observatories is to provide the sectors with more transparency by disseminating market data and short-term analyses in a timely manner. An interactive data portal is currently also being developed on market information.⁹

As a result of more market oriented CAP (with the safety-nets when there is no other recourse) more farmers, producer organisations and cooperatives as well as other actors in the chain are progressively using **futures markets** for commodity type agricultural products to protect them-selves against volatility risks (grains, oilseeds, sugar, dairy products and recently liquid milk). The volumes traded are still low but a growing interest for these contracts is observed.¹⁰

Figure 3. Food supply chain index for EU-28 (index 2015 = 100)

Source: EUROSTAT, Food Prices Monitoring Tool (prc_fsc_idx)

Blockchain and the food chain

*Blockchain, connecting devices and enhancing the scope of the "Internet of Things" (IoT) economy, is a promising technology for many areas such as supply chains, recording land titles, insurance markets, or any other type of transaction or record that can be translated in a digital form. It thus has high potential to **improve market transparency and efficiency of food supply chains** due to the full and near instant **traceability** beyond prices.¹¹*

Blockchain can trace instantaneously any number of characteristics attributes of specific food products in their journey from farmers to consumers, allowing every stakeholder in the supply chain to have a better picture of the food's journey across the whole supply chain (e.g. where each food item was grown, handled, processed, stored, what inputs were used, etc). Blockchain technology can provide cheaper access to information; can improve communication and information flow (accuracy and speed) between players in the chain. Farmers can potentially benefit from instant access to information about demand conditions.

However, there are several challenges that must be addressed for adoption on a wider scale in the supply chain. The technology is not yet fully mature and regulatory framework might need to be adapted, to tackle issues of capacity, validation time, scalability, confidentiality, security of the systems and ownership of data/chains so that they reduce imbalances in the chain.

c. Support the development of market driven production models

The level of prices and increasingly volatile markets also call for further efforts on diversification of farm operations and sources of revenue. Rural development policy and sectoral interventions are used to help farmers and the food industry respond to consumer demands and develop new markets for organic products, high quality food, bioenergy production, waste management, short supply chain, local processing or any other specific segments as well as non-agricultural activities. Some important examples of how farmers can benefit from higher value added segments of production with the help of CAP policy tools are described below.

Geographical indications

The EU is renowned for its high quality food products having specific characteristics or farming attributes that distinguish them in the marketplace, and particularly those labelled under registered geographical indications (GIs). The quality and diversity of the Union's agricultural production is one of its important strengths giving a competitive advantage to its producers and making a major contribution to its living cultural and gastronomic heritage. Product sold under GIs are estimated to represent around 5.7 % of EU food and drink production, and 15 % of EU food and drink exports.¹²

Quality schemes can benefit the rural economy. This is particularly the case in disadvantaged areas, in mountain areas and in the most remote regions where the farming sector already takes a significant part of the economy and production costs are high. They can create value for local communities through products that are deeply rooted in tradition, culture and geography.

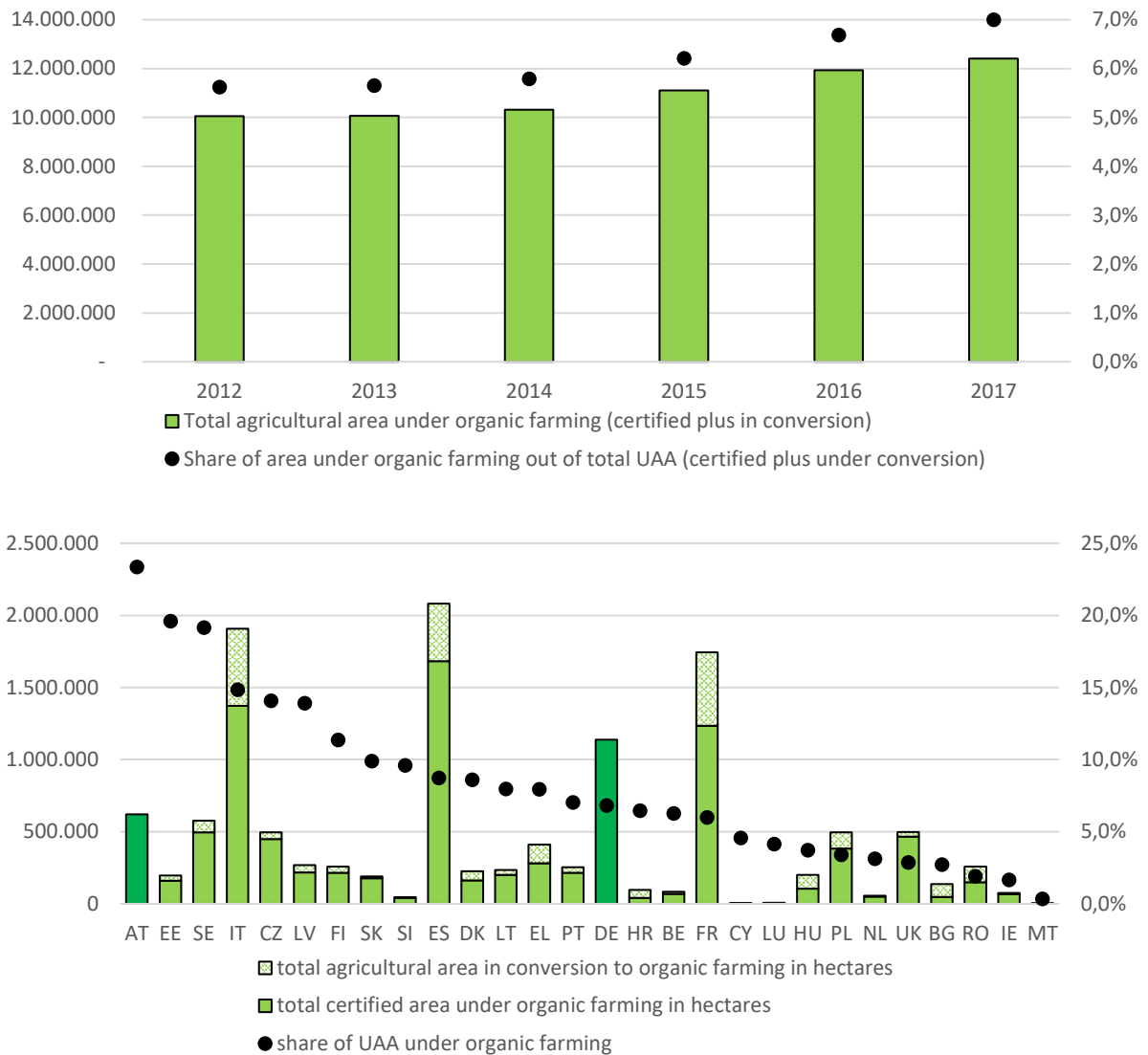
Organic production

The European organic farming sector is characterised by continuous growth. It also responds to the increasing demand for more “natural” food and environmental concerns. It was found that, in particular for the unprocessed products, the organic farmers’ share of the price formation represents a proportion of between 9 % and 62 % of the retail prices compared to between 6 % and 40 % in the conventional supply chains.

This would indicate that, in general, more value added is created in organic compared to conventional chains, but the price difference does not consider increased costs and therefore only represents an approximate indication of the value added.¹³

The Commission CAP post-2020 proposal strongly prioritises the commitment to increase the level of environment and climate ambition. Organic production plays a key role in this orientation, not just by responding to new consumer trends but also by generating knowledge that enhances the understanding of the benefits of more environmentally-friendly practises.

Figure 4. Total area under organic farming (in 2017) – EU-28



Source: EUROSTAT. The split between certified area and area in conversion is not available in AT and DE

Local food systems and short supply chains

New opportunities are developing related to the increased consumer interest in local food systems and short supply chains. On average, about 15% of EU farms sell more than half of their production directly to consumers. However, these are mainly small farms (between 1 and 8 Economic Size Units (ESU)).¹⁴

Partnership approaches for strengthening local food markets have been shown to be effective as rural development tools. Outcomes from such local food projects can help to underpin core elements of the rural economy in sustainable ways. For example, by working together, businesses participating in local food projects can find new ways of selling more of their products and attracting new types of customers. Stronger connections can be established between local agricultural, tourism and food supply sectors.

Direct sales in the EU

Direct sales (from original producer to final customer) are the shortest supply chains. There are significant differences between countries: while the share of farms involved in direct sales is nearly 25% in Greece, 19% in Slovakia and around 18% in Hungary, Romania and Estonia, it is less than 5% in Malta, Austria and Spain. In France, 21% of farmers sell their products within short supply chains, and half of those producing vegetables and honey are involved in Short Food Supply Chains.¹⁵

Rural businesses can also obtain a variety of economic, social and environmental benefits from 'short-supply chains'. For instance, reducing the number of businesses involved in a supply chain between the producer of a raw material and the final customer can increase the share of value added received by those involved and usually generates a higher employment multiplier than longer and /or less local chains.

Fewer links can also provide cost savings for customers and makes it easier for everyone to know where the raw materials come from. Short food supply chains also to deliver important social benefits, relinking farmers to the consumers and contributing to a revival of rural communities. They are often backed with organic methods of production, but these may be at the expense of increased transport-related carbon emissions if logistics are not well coordinated.

In addition, LEADER¹⁶ is an instrument that often funds the development of short supply chains and local markets as part of their local development strategies.

d. Foster research and innovation

Food and non-food supply chains operate in an increasingly complexity and dynamic environment characterized by new consumer demands, new and sometimes, game-changing technologies, changing structures and cooperation modes. The use of new and innovative business models supporting eco-innovations or connecting producers to consumers can generate higher income for producers while improving the delivery of high quality and nutritious food at affordable prices for consumers along with manifold other environmental and social benefits.¹⁷

Therefore, the EU invests in research and innovation to improve competitiveness of the European agro-food sector and to support transition pathways towards sustainable, resilient, circular and efficient food supply chains.¹⁸

3. Conclusions

Different stages in the value chain are subject to different types of pressure. Agriculture is characterised by generating a fairly limited and slightly declining share of value added in the food supply chain, due to increased input costs, continuing market power imbalances and increasing layers of processing and services that add value at downstream stages of the supply chain (e.g. convenience foods).

The primary sector is fragmented. In the food supply chain, there are many more farmers than processors and retailers, and farm businesses are generally very small.

Concentration in the food processing industry and retail sectors is higher than in the agricultural sector, endowing downstream actors with higher bargaining power. Though this development is not problematic in itself and can lead to efficiency gains in the chain, abuse of bargaining power might result in unfair trading practices in the food chain and a lower efficiency of the chain than potentially achievable.

A new dynamism is observed as different types of innovation in the supply chain emerge, not restricted to product and processes but also organisational innovation along the chain, triggered by emerging technologies and evolving consumer demands. This implies that all actors, including regulators, will have to adapt to the new technological context to ensure potential breakthroughs benefit all actors in more efficient food chain.

The EU's Common Agricultural Policy will continue providing measures that aim to strengthen farmers' position in a continuously evolving value chain, increase market transparency, and ensure effective mechanisms against UTPs.



Endnotes

- 1 Factsheets on EU28 agri-food trade with the world, individual countries and selected regions https://ec.europa.eu/agriculture/trade-analysis/statistics_en
- 2 The Commission Communication the future of food and farming https://ec.europa.eu/agriculture/sites/agriculture/files/future-of-cap/future_of_food_and_farming_communication_en.pdf

- 3 FoodDrinkEurope’s Data & Trends report 2018
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- 4 OECD (2018) Concentration in Seed Markets: Potential effects and policy responses, Paris: OECD Publishing.
- 5 Impact assessment - Initiative to improve the food supply chain (unfair trading practices), Proposal for a directive – COM(2018) 173/970778
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- 6 Economic challenges facing EU agriculture (2017)
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- 7 Proposal for a Directive of the European Parliament and of the Council on unfair trading practices in business-to-business relationships in the food supply chain.
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018PC0173>
- 8 https://ec.europa.eu/agriculture/market-observatory_en
- 9 <http://agridata.ec.europa.eu/extensions/DataPortal/home.html>
- 10 https://ec.europa.eu/agriculture/sites/agriculture/files/markets-and-prices/market-briefs/pdf/11_en.pdf
- 11 Emerging Opportunities for the Application of Blockchain in the Agri-food Industry
https://www.ictsd.org/sites/default/files/research/emerging_opportunities_for_the_application_ofblockchain_in_the_agri-food_industry_final_0.pdf
- 12 Data & Trends, EU Food & Drink Industry (2018)
https://www.fooddrinkeurope.eu/uploads/publications_documents/FoodDrinkEurope_Data_and_Trends_2018_FINAL.pdf
- 13 Sanders, J *et al.* (2016) Distribution of the added value in the organic food chain. Study for the European Commission.
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- 14 STRENGTH2FOOD <https://www.strength2food.eu/>
- 15 Statistical Annex accompanying the IA of the future CAP proposal,
https://ec.europa.eu/agriculture/statistics/facts-and-figures_en
- 16 LEADER stands for the French acronym of Local Action Groups engaged through the Rural Development Programme of the CAP.
- 17 SMARTCHAIN. https://cordis.europa.eu/project/rcn/215956_fr.html
- 18 http://ec.europa.eu/information_society/newsroom/image/document/2018-18/agri_factsheets_10_value-chains_ok_1545CA43-91EF-2C1C-F18BDD2F658F9DB8_51897.pdf

For more information

https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en#objectives

https://ec.europa.eu/agriculture/statistics/factsheets_en

https://ec.europa.eu/agriculture/index_en