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By email

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## **Strengthening farmers' position in the food supply chain**

Dear President of the Agriculture Council,

The Slovak Presidency has made the present circumstances of the farming sector a priority for discussion the informal Agriculture Council on 11-13 September. Retailers and wholesalers recognise the difficult situation facing farmers. We believe that this essentially arises from both cyclical and structural problems in the market, and ask the Slovak Presidency to encourage discussion of solutions which address these problems. In our view, EU legislation on alleged unfair trading practices will not represent an effective remedy.

### **Retailers and agriculture**

Agriculture is an essential part of the food supply chain, alongside manufacturers and retailers. Consumers are at the heart of retail and, as a result, also of the whole supply chain. To serve consumers' wide-ranging demands, retailers need competitive suppliers able to deliver the right volumes of products of the right quality, as well as innovative, regional or organic products. Retailers are at the forefront of promoting agricultural products. Their investment in marketing helps increase sales and grow new markets, including across borders, for agricultural products.

Throughout the crisis, retailers have sought to show solidarity with farmers; they have participated in supply chain dialogues and helped farmers with concrete actions. However, retailers have only limited influence on markets, and on the prices paid to farmers, as they have very few direct relationships with farmers:

- the majority of products sold on retailers' shelves have undergone some degree of processing; raw materials make up only a small proportion of the end-price of a product and retailers only make a small net margin (typically 1-3%);
- only a limited proportion of milk production ends up on retail shelves as liquid milk (less than 20%); the rest goes to processing, exports and catering, meaning that retailers have no influence on the price that farmers get overall.
- where direct relationships exist, these have proved valuable to both parties, and have been fair, stable and long-lasting.

### **What EU policy can and cannot achieve**

Retailers need, and actively support, a market-oriented Common Agriculture Policy which maintains competition in an open single market and keeps to the minimum administrative and financial burdens, as these unnecessarily add to farmers' production costs.



EU policy needs to encourage structural reform in the farming sector, to allow it to be better organised and more responsive to consumer demand and market signals. It should support structured supply chain dialogue among all sectors, e.g. through interbranch organisations, to allow retailers to share with farmers and processors direct intelligence on what consumers are buying and how to meet current and future demand.

We encourage governments to further promote –and farmers to join- self-regulatory tools, which act to make fair trading practice the norm, and encourage operators to resolve their disputes in a way that facilitates, rather than breaks, continued business relationships.

The principles of good practice underpinning the Supply Chain Initiative (SCI), developed and agreed by representatives of all sectors making up the food supply chain, establish a common understanding of fair dealing across Europe. Over 1200 companies, including a critical mass of retailers, have joined the SCI and implemented its principles. National dialogue platforms have been established in five countries, with participation of farmers' organisations in some of them. It is therefore particularly disappointing that the European farmers' organisation, COPA-COGECA, who agreed to the principles of the SCI, declined in the end to sign up to its implementing framework.

Policy gestures which do not address the real problems facing farming will simply be a disservice to those it seeks to help, and penalise consumers through higher prices, reduced choice and innovation. EU legislation will do nothing to help, as:

- most countries have regulation and enforcement mechanisms to address alleged unfair trading practices; these mechanisms differ, but all seek to achieve the same outcome;
- it could undermine freedom of contract and freedom of negotiation which need to remain a key principle in business-to-business relations;
- the Supply Chain Initiative and other related initiatives act as a complement to the wide regulatory environment already in place. An additional EU-level layer of regulation would only add to the administrative burdens facing operators, without benefit to farmers or consumers.

Other elements have entered the debate which also have little to do with solving farmers' problems:

- prices depend on conditions in the market in which individual farmers operate and the degree to which intermediaries add value or costs. Proposals for requiring full price transparency, and other forms of intervention in the distribution of added value will have limited impact on the position of farmers in the supply chain;
- mandatory origin labelling schemes – these pose a serious risk to the internal market, impose costs and logistical burdens on operators without having an impact on food safety or fraud. Voluntary origin labelling is the best approach and is already widely used to respond to consumer demand and goes beyond existing legal requirements. It is used on foods where consumers value origin as a point of difference and assurance of quality;
- retailer brands - these are proper brands; with these, retailers support very large networks of SMEs and farmers and offer them access to markets which they could not access on their own; action against retailer brands will deprive consumers of choice and innovation and will not help farmers or SMEs.

We have set out these points in more detail in our contribution to the Agriculture Markets Task force, which is enclosed. The document also points to the wide range of good practice adopted by individual retailers and their associations. We hope that the ideas in it and above will be helpful to, and taken account of, in your discussions in Bratislava.

Yours sincerely,



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Director-General