

Opinion of the European Committee of the Regions — Regulating price volatility of agricultural products

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POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS,

1. notes that the action plan to counter this volatility adopted at the June 2011 G20 Summit has made little progress so far, and therefore calls for resumption of the negotiations on this subject under the German G20 presidency in 2017;
2. notes that, despite the reforms of the Common Agricultural Policy (CAP) conducted over recent years, risk management tools that enable farmers to protect themselves against the negative effects of variations in yield and price and against health- or environment-related damages are still the poor relation of the CAP, representing less than 2 % of funds from the second pillar of the CAP and 0,4 % of the total agricultural budget. The Member States are free to decide to what extent they want to make use of the instruments in the EAFRD Regulation;
3. believes that mechanisms to safeguard farmers' incomes need to be strengthened significantly to reduce the negative impact of the high volatility of prices of agricultural products and inputs, in order to make European agri-food sectors more competitive, maintain agriculture throughout the EU, encourage modernisation and innovation, and preserve vibrant rural communities;
4. considers this objective to be achievable, provided that a package of measures is jointly implemented with a view to: (i) boosting the role of private agri-food operators in regulating agricultural markets, in order to compensate in part for the deregulation of the CAP; (ii) expanding and simplifying access to the range of risk management tools available to farmers, as the instruments existing under the EAFRD cannot be brought to bear owing to the lack of resources available under the second pillar, which should be increased without jeopardising the funds available under the first pillar; (iii) as part of the next CAP reform and at local and regional level, promoting an increase in the added value of European farms to reduce their vulnerability to fluctuations in world agricultural prices;
5. points out that contracts ensure that farmers can dispose of their produce and processors can purchase their inputs at prices that are known in advance. They therefore help to balance supply and demand and enable better product quality control, which may result in higher prices for producers and a more equitable distribution throughout the supply chain;
6. suggests that in Member States where there are no advanced forms of vertical cooperation contractualisation be strengthened throughout the food chain (not just between farmers and processors of agricultural products), and enabling Member States to make it mandatory, and encouraging the signing of multi-party contracts between, for example, producer organisations (POs), processors and distributors;
7. as part of a more flexible interpretation of the competition rules that is consistent throughout the Union, suggests empowering agricultural businesses, producer organisations and recognised inter-branch organisations, as well as the operators of agri-food markets and centres which are recognised as structures designed to safeguard the public interest, in order to avoid crises. To this end, inter-branch organisations, which bring together the various links in value chains, and these operators of agri-food markets and centres, need to be able to provide businesses with market forecasts in order to help them make appropriate decisions, but without setting reference prices. This practice already exists in some Member States and it is therefore also appropriate to reflect on it in the exchange of best practices;
8. suggests that, in the event of a market imbalance or a confirmed risk of such an imbalance assessed on the basis of certain indicators, agricultural enterprises (including POs and their associations) should be able to make use of their scope for action and to reduce their production in a coordinated manner, even before being authorised to do so by the European Commission under Article 222 of Regulation (EU) No 1308/2013 establishing a common organisation of the markets (CMO). The CMO should therefore explicitly allow agricultural enterprises, including producer organisations and their associations, to take preventive action to rebalance the market, in order to avoid abuse of dominant positions, communicating this in advance to the competent authorities;

9. notes that there is a close link between regulating the price volatility of agricultural products and combating unfair trading practices (UTPs) in the food supply chain, because market fluctuations exacerbate power imbalances with regard to the sharing of added value within sectors, and the resulting trade-offs are usually unfavourable to producers, who have limited bargaining power due to the increasing concentration of agri-food industries and, in particular, of large-scale retail and to the fragmentation of producers and the lack of organisation thereof;

10. recommends adopting specific European rules against UTPs in the food supply chain, as proposed in the European Parliament's resolution of 7 June 2016 [2015/2065 (INI)], on the grounds that: while contracts do lead to a degree of risk sharing, they do not fundamentally correct the inequality between the parties; anti-monopoly provisions are not sufficient to address UTPs and the asymmetries of power that characterise the agri-food industry; the industry's self-regulation mechanisms are not effective, not least because farmers and processors are often afraid to complain lest they be excluded from the market; EU-level framework legislation is needed to harmonise conditions for competition and ensure that European farmers and consumers enjoy fair buying and selling conditions;

11. recommends that the right to negotiate contracts collectively should be extended to all agricultural products, in order to strengthen farmers' bargaining power within the food industry;

12. recognises that bringing together the supply side can prevent small producers suffering the heavier contractual weight of large industry in particular, while guaranteeing greater transparency for consumers with regard to prices and product traceability;

13. notes that strengthening the role of private operators in the regulation of agricultural markets requires greater market transparency;

14. to this end, suggests setting up a European Agricultural Markets Observatory, drawing on a network of national observatories for each product sector, taking advantage of the experience of the Milk Market Observatory and the agricultural markets dashboard published regularly by the European Commission. This new observatory would provide in a clear and timely manner the data necessary to understand the markets, both in cyclical terms (in particular anticipating crises) and in structural terms (allowing for an analysis of changes in the prices and margins of the players within the industry);

15. stresses that the implementation of the Markets in Financial Instruments Directive (MiFID 2), scheduled for 2018, should encourage greater knowledge and regular monitoring of the positions held by the various categories of operators in agricultural financial markets, in order to reduce the risk of excessive speculation and allow commercial stakeholders in the industry to manage price risks effectively;

16. notes that efforts to implement and strengthen existing risk and crisis management tools within the CAP face many obstacles, including competition between second-pillar funds, which cover most of these tools, the inadequate resources of the crisis reserve which, since it is necessary, should not be established on the basis of annual reductions in direct payments, the lack of current and forecast data on the economic performance of agricultural holdings, etc., and highlights the need to reduce these obstacles in order to implement an ambitious and effective agricultural risk management strategy;

17. feels that the next reform of the CAP should encourage Member States to develop and implement a wide range of complementary risk management tools that are affordable for farmers, based on a segmented approach to risks, classified in terms of their severity ⁽¹⁾: (i) 'normal' risks that can largely be absorbed by farmers by putting in place precautionary savings and through tax measures; (ii) 'medium' risks that farmers can transfer to the financial markets (futures, options and over-the-counter (OTC) contracts), insurers (to manage risks relating to yield, turnover and gross margin) and mutual funds (to manage health and environmental risks and stabilise farm incomes); and (iii) 'catastrophic' risks, which are largely borne by the public authorities via price safety nets and exceptional crisis measures; However, care should be taken to ensure that greater segmentation of risk does not lead to higher administrative costs;

⁽¹⁾ Using the typology set out by J. Cordier and J.-C. Debar in *Gestion des risques agricoles: la voie nord-américaine. Quels enseignements pour l'Union européenne?* [Agricultural risk management: the North American way. The lessons for the European Union], Cahiers No 12, Club Déméter, 2004. Comparable typologies can be found in other literature, including a report recently produced for the European Parliament (see footnote 2).

18. emphasises that the development of risk management tools must not significantly affect the stability of the CAP budget, which is currently achieved by decoupling aid from production and prices. A budget in which spending closely tracks fluctuations in the price of agricultural products and falls cyclically when the markets perform well would risk being reduced substantially during the debates on the European Union's multi-annual financial perspectives. This would lead to a reduction in the protection offered by the CAP, which would be detrimental to farmers in the event of a market downturn;

19. suggests that, in order to create precautionary savings to withstand market hiccups, one possibility could be that farmers could set aside a certain percentage of first-pillar payments in a special account. Setting aside this percentage of the basic payments would be mandatory when certain market indicators — such as the prices of agricultural products or the ratio of agricultural product prices to input prices — were rising. The money thus saved could be released and used by farmers when the indicators were falling. At all events, the creation of additional administrative costs should be prevented;

20. recognises that, as well as improving farmers' self-insurance capacity, this instrument would have a number of advantages: it would be a partial replacement for the crisis reserve currently in force, which is evidently failing; it would be cheap to administer; it would not affect the stability of the CAP budget; and finally, it would increase the legitimacy of decoupled aid in the eyes of the public in times of high agricultural prices;

21. notes that other mechanisms to encourage farmers to develop precautionary savings could also be envisaged, based for example on the scheme in force in Canada, in which sums deposited by farmers in a savings account are matched by the public authorities;

22. stresses the importance of encouraging the creation and adoption of new, more diverse and possibly cheaper products insuring against the economic risks incurred by agricultural holdings, inspired for example by insurance schemes available in the United States. These new products could, for example, comprise: (i) turnover insurance, guaranteeing the crop receipts forecast at the time of sowing based on the holding's historic yield and the prices seen on the futures markets, but where only the yield component would be subsidised to comply with the World Trade Organisation's green box rules; (ii) index insurance, based on the average yield, turnover or gross margin in the region where the holding is located (but where only the yield component would be subsidised), bearing in mind that such insurance is significantly cheaper to administer than insurance based on the individual farmer's yield; (iii) insurance covering a holding's overall revenue, which could be reserved for small and medium-sized diversified or mixed crops/livestock holdings, or those that produce fruit, vegetables or specialist crops for which there are few or no subsidies and no harvest insurance; and (iv) specific insurance for organic farmers, which would take account of the generally lower yields, higher production costs and higher market prices for organic products. These measures should be subject to a feasibility study assessing, in particular, their potential costs in terms of state reinsurance;

23. calls on the European Commission to work closely with national, regional and local authorities and farming organisations to increase awareness and understanding of the risk management tools available within Pillar II of the CAP; in addition, calls on the Commission to increase the budget for these tools to above the current 2 % of the Pillar II funds;

24. recommends developing mutual funds modelled on the income stabilisation tool (IST), which was introduced by the 2013 CAP reform to ensure a fair balance in redistribution between regions and sectors but has been incorporated into the 2014-2020 rural development plans of just two Member States (Hungary and Italy) and one region (Castile and Leon in Spain). These funds would provide protection against significant falls (more than 30 %) in a holding's gross margin, measured against the previous 3 or 5 years. It would be difficult to offset losses of this magnitude just with farmers' own precautionary savings. They also cannot be remedied by turnover insurance of the kind available in the United States, which provides a guarantee against falls in forecast revenue between sowing and harvest and does not, in itself, protect against low prices;

25. calls for income stabilisation funds to be implemented at sectoral level, in order to boost the integration of the various branches of agriculture, and at national or even trans-national level in order to expand the pooling of risks and reduce costs. Thus, each Member State would have an arable fund, a dairy fund, a fruit and vegetables fund, etc.;

26. recommends that the Member States undertake exploratory testing of income stabilisation funds before introducing them on a large scale, in view of the practical difficulties of implementing and operating such funds (gathering of accounting data on holdings, reinsurance needs, etc.);

27. stresses that the three types of risk management tool set out above — precautionary savings, insurance and income stabilisation funds — are complementary and should, where possible, be implemented jointly so as to form a robust and coherent safety net against price volatility and help reduce the frequency and severity of crises suffered by farmers;
28. believes that, to enable producers to cope with price volatility under comparable conditions, rates of direct payments should be harmonised among EU Member States;
29. is convinced that direct payments should remain a CAP instrument beyond 2020 to help support and stabilise farm income and offset costs stemming from complying with the high standards in the European Union;
30. suggests that, if it is decided, at the next CAP reform, to reduce direct first-pillar aid and to devote that money to risk management, farmers could be given 'vouchers' worth a certain percentage of their basic payments, which they could opt to use to subscribe to the tools of their choice: establishing precautionary savings, insurance or mutual funds. This system would increase funding for risk management tools without affecting the stability of the budget for the first pillar of the CAP⁽²⁾;
31. calls on the European Commission to undertake a detailed study into the various options currently available for expanding the range of risk management tools, including precautionary savings, insurance and mutual funds for the purpose of income stabilisation. This study would identify the consequences, advantages and limitations of each of these tools with respect to various criteria, and would also analyse various funding scenarios for a risk management development strategy, including the voucher system proposed in point 30;
32. feels that public policy should promote an increase in the added value of European farms, while also improving the environmental sustainability of farming practices, in order to reduce their vulnerability to fluctuations in global prices and to set agriculture on the path of ecological transition that will be required in order to mitigate climate change, adapt to its effects and reduce pressure on ecosystems;
33. underlines in this connection the need for special attention to be paid to the agricultural sector in the outermost regions, which needs particular, tailored and dedicated measures to cope with their unique, specific features as recognised in the TFEU;
34. acknowledges that European agriculture is very diverse: most farms sell their produce on the Community market, but others export some or all of their produce to third countries, either directly or indirectly;
35. considers it important to preserve this diversity, given that the outflow of a proportion of agricultural production to third countries helps to balance supply and demand on the Community market and that the European Union, as the world's leading exporter of agri-food products, must be able to benefit from the increase — in quality and quantity — in global food demand;
36. sees two main avenues for increasing the added value of agricultural holdings: (i) increasing agricultural productivity, which is showing worrying signs of slowing down in certain sectors, via the sustainable intensification of farming — this involves producing more with fewer inputs or reducing purchases of inputs to make farms more independent, which can be achieved by adopting more resilient, innovative production systems based on precision agriculture, simplification of tillage, crop rotation and diversification, improvement of grassland and other practices; or (ii) encouraging the development of regionalised food systems, which meet growing demand from European consumers and partially neutralise the volatility of global markets in agricultural raw materials — this involves developing local supply chains (school canteens, catering, direct sales), niche markets and high-quality products, focusing on more environmentally friendly production methods (organic farming and other approaches);

⁽²⁾ This proposal is included in the report by Isabel Bardaji et al., *Research for AGRI Committee — State of play of risk management tools implemented by Member States during the period 2014-2020: national and European frameworks*, Directorate-General for Internal Policies, European Parliament, 2016; we propose extending it to cover the establishment of precautionary savings.

37. recommends that the CAP and national policies encourage farmers to explore these two avenues, with the involvement of local and regional authorities.

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of the European Committee of the Regions*
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