ORIGINAL: ENGLISH
DATE: MAY 21, 2012

A FAIR AND BALANCED FUNCTIONING FOOD CHAIN

prepared by the International Secretariat of WFO

1. Introduction

Farmers are confronted with substantial concentration of the industry upstream and downstream of the farming sector. A few large firms dominate both the distribution side and the input side of the agri-food chain. There is a genuine concern in the farming community that world markets are not functioning in a fair and balanced way, and that world market prices are not reflecting true economic conditions.

The World Farmers' Organisation (WFO) is very concerned that globalization is reducing the role of farmers to that of producers of raw materials by changing them into subcontractors for food companies and retail chains. There is less and less space left for independent farmers.

For WFO it is critical for the sustainability of the family farm system of agriculture that farmers receive a fair share of the value added generated by the global food and agricultural system.

In the interests of both efficiency and equity, the agri-food system must operate in an open, fair, and balanced manner, with a maximum of confidence between the various partners in the chain. Governments have a key role in regulating the agri-food system in order to ensure that this transparency exists, and to ensure that the system functions in a way that is consistent with the aspirations of their consumers and citizens.

2. Growing concentration in the agri-food chain

The last decades we have seen an increasing concentration along the entire value chain. Multinational companies increasingly dominate the agribusiness sector from inputs (e.g. seeds, plant protection products), through marketing, food processing and retailing. According to the World Bank (World Development Report 2008) supermarkets control 60-70% of food sales in Argentina and Brazil, and are expanding rapidly in China, India and urban Africa. In 2004 the four largest agrochemical and seed companies reached 60% for agrochemicals and 33% for seeds. In 2004 one company had 91% of the worldwide transgenic soybean area. Generally it is considered that at a market concentration of the top 4 companies of more than 40%, the competitiveness begins to decline, leading to higher spreads between what consumers pay and what producers receive for their produce. As an example, coffee is produced by around 25 million farmers and farm workers and consumed by around 500 million consumers, yet the four biggest international traders have 40% of the market and the four biggest roasters have 45% of the markets (World Bank 2008).

In Europe the concentration of the retailers is strong. For instance, in Great Britain the 7 biggest retailers control more than 90% of the market, with Tesco controlling more than 30%. In France the five biggest retailers control 70% of the market. In Germany the four biggest retailers have 85% of the market.

In many parts of the developing world, one or a few moneyed businessmen/landowners control the basic economic resources and services needed by farmers by for instance extending credit at a high interest rate, offer trading, milling and processing and fertilizers, controlling transport, owning local convenience stores and political power in the community.

As industrial concentration at global level intensifies, many small farmers in developing countries will invariably become victims again if precautionary measures are not taken and put in place. Because these farmers are disorganized and scattered, their weak market power will make them easily vulnerably to attempts by the large firms to control seed supply, price products at high rates, corner markets, etc. In most cases, small farmers end up absorbing most of the cost of market inefficiencies and distortions, whether these are caused by local or foreign monopolists' cartels.

3. Negative effects of concentration

Less choice for farmers
With a stronger concentration upstream and downstream, the farmer is left with fewer choices of suppliers and customers.

In cases of vertical integration, or strategic alliances where input-, processing- and handling firms form powerful clusters, farmers have even less choice from which firms to buy their inputs and sell their produce.

In many cases the multinational firm that processes or handles the farmer's product also owns, is in a joint venture with, or is strategically aligned with, the firm selling the farm inputs. These clusters of firms can therefore dictate the terms of purchase for the farmer's product while ensuring that the farmer's inputs come from their seed and chemicals division. Sometimes, a farmer's only source of operating credit is from seed and chemical or livestock processing firms, which in turn lessens his or her independence.

Market distortions

Farmers need a fair return for their products in order to ensure the sustainability of production, and a healthy rural community.

Big firms may use pricing practises to capture markets, restrict exports of certain commodities to certain areas so as to influence market behaviour, "subsidize" sales of goods to one country and offset these with high profit margins in other countries, etc.

We already see many examples of unfair and abusive commercial practises and contractual conditions, such as advance payment for accessing negotiations, listing fees, shelf space pricing, unilateral and retrospective changes to contractual conditions, retaliatory practices (like de-listing) to force suppliers to sign contracts, and over-riding discounts. Many of these practices also add costs to the consumer and limit their choices.

Excess concentration of power in a few companies may also jeopardize international and regional food security. This might happen for instance if a big firm that has accumulated sizeable control over global production and supply of a staple suddenly decides to drop the staple and shift to another commodity or business that is more profitable.

Economic dependency

Relations between the agri-food industry and the retail chains are strained. The duel of the giant multinationals, which produce consumer goods, with the retail distribution groups is taking place at the expense of the small and medium size firms in the agri-food sector. This leads to a situation of economic dependency.

Farmers might also get too economically dependent on one or a few firms. If a big multinational that has grown to be the major market suddenly decides not to buy from the farmer anymore the farmer oftentimes will not have an alternative buyer for the produce

4. Regulation

Many countries see the problems of concentrated market power, and seek to regulate the market. For instance in the USA, the Federal Trade Commission (FTC) has intervened to slow concentration at the food retail level. The EU has established a High level Forum for a Better Functioning of the Food Supply Chain (in short HLF) with the involvement of Member States government representatives as well as agri-food and retail companies and stakeholders representing the chain. This HLF will provide recommendations on how to improve the functioning of the value food chain. These could range from proposals for legislation to voluntary measures and/or systems agreed between stakeholders. Many EU-countries have already adopted legislation addressing some of the elements contributing to a better functioning of the value chain (e.g. legislation on delays of payments in commercial transactions with specific provisions for perishable and short shelf life food products).

5. Recommendations

WFO is concerned about the effects of the expansion of multinational input- and processing firms into international markets, especially on developing countries. WFO is also concerned about the consolidation in the distribution and retail food industry and its effects on farmers'

incomes. WFO supports initiatives to combat the abuse of dominant market positions and unfair trading practices.

WFO calls on governments to take determined action to ensure that markets in the agri-food sector function in an open, transparent, responsible, fair and competitive manner.

In order to address the problem of increasing industrial concentration in the agri-food sector, WFO supports national and regional initiatives, through appropriate legislation or professional frameworks to strengthen the position of the farmer and farmer owned cooperatives in the food value chain.

WFO recommends the following:

- Promote the voluntary and self economic organisation of farmers, to group their products for sale, to participate in marketing schemes and to consolidate their economic power, through means such as farmer cooperatives, producer groups or direct marketing
- Establish price and market monitoring observatories with a view to have a permanent accompanying of the food value chain and improve price transparency
- Combat unfair and abusive commercial practices
- Establish a mandatory use of written contracts between contracting parties.
- Promote the use of principles of fair dealing as basis for the contracts between farmers and their food chain partners based among others on freedom of contracting, a fair sharing of the risks, and clear conditions regarding prices quality and deliveries
- Facilitate inter-professional agreements among producers, manufacturers and distributors of food and agricultural products
- Enforce competitive behaviour among agricultural input and processing firms, as well as in the distribution sector