

Speech by Commissioner Phil Hogan at Political Forum on "Rethinking the Food Supply Chain"

31st March 2016, Vilnius, Lithuania

– Check Against Delivery –

[Introduction]

- Esteemed Heads of Delegation, I'm very glad to be here with you today. Thank you and Ačiū (AH-tchu) for the invitation.
- Agriculture is important for Lithuania, accounting for approximately 8% of economic activity. And as I told the Agrobalt exhibition today, with new technologies and research, more opportunities will arise.
- The EU agri-food sector brings safe and high value-added food to the EU's 500 million consumers and to a growing numbers of consumers worldwide.

- The agri-food chain's output is substantial, representing 6% of EU GDP. The value of EU agri-food exports has doubled in the last 10 years and now features a net trade surplus of around €18 billion.
- I want Lithuania to benefit from these opportunities. And I want to assure you that the European Commission will support you every step of the way.
- The Common Agricultural Policy investment in Lithuanian agriculture will offer security and stability to rural communities right across the country. And it also represents a long-term investment in future growth and development.
- **Today I want to talk to you about one aspect of the EU agri-food sector which is vital for the future of our farmers and agri-businesses: the role of the food chain**

[Role of the Agri-food Sector]

- This is a difficult time for many farmers, in particular those specialized in dairy or pigmeat production. Prices are currently very low and it is difficult to produce under these circumstances.

- However, the support which the CAP provides every year helps farmers in difficult times and makes them more resilient to price shocks.
- We must also remember that the long term outlook for dairy production is positive: there is a growing global demand for high quality EU products, in particular from Asia.
- European farmers and agri-businesses must be well positioned in the food supply chain to benefit from these market opportunities.
- **And a well-functioning food supply chain is absolutely essential.** Farming, food processing, retail and food service represent over 44 million jobs in 14 million businesses across the EU. **This is one of our biggest employment sectors.**
- But we also have to be honest enough to acknowledge that many links in our food chain are currently broken.

[Boosting Competitiveness in the Food Supply Chain]

- The EU food chain faces many opportunities but also many challenges. Globalisation, which can benefit us from a trade point of view, can also have the negative effect of concentrating bargaining power in the hands of the food processing and retail sectors.
- For this reason, we need to work together to improve the functioning of the food chain. This is a responsibility we must take seriously.
- At the same time we need to take advantages of the opportunities a stronger world demand gives us. The world population is growing and living standards are increasing. This gives farmers a chance to get a "bigger slice of a bigger pie" from the added value in the food chain.
- The participation of the agri-food sector in global markets has created many important trading opportunities but it has also exposed the food chain to greater market instability and volatility.

- We have lately seen this effect, in particular in the dairy and pigmeat sectors. **The role and position of farmers in the supply chain continues to be of great concern to me.**
- As a response to this and as a part of last autumn's €500 million package to address market imbalances, I decided to set up an **Agricultural Markets Task Force.**
- This group, which is chaired by former Dutch Agriculture Minister Cees Veerman, became operational in January this year and consists of 12 senior experts with relevant expertise from relevant parts of the food chain.
- The task force will provide the Commission with advice on how to address these challenges in areas like transparency, collective self-help tools, access to financing and futures, contractualisation and contractual relations. **It's overarching mandate is to strengthen the farmer's position in the food chain.**
- A report with conclusions and legislative recommendations to improve the balance in the chain will be presented this autumn. I'm looking forward to taking advantage of the wisdom in this group.

- **In order to further strengthen the work of the Task Force it was recently decided that the Task Force will have a joint meeting with high level experts from the Member States to specifically look at the situation in the dairy sector.**
- The Task Force will benefit from a broad range of senior expertise and experience from all Member States and I'm sure that this will be a valuable contribution to the final report.
- **When analysing how to boost the competitiveness of our farmers we cannot limit the discussion to how farmers should be better paid for their products.** Of course, this is a crucially important factor, but we must also have the courage to plan for the future.
- How can we produce our high quality food and drink products in a more efficient way? How can we limit the farmers' costs for financing agricultural inputs such as fertilizers, energy and plant protection products?
- Let me just mention one example; fertilizers. The price of many important agricultural inputs is linked to the price of energy. Last year the price of natural gas fell quite considerably.

- Natural gas represents a substantial part of the cost of production of nitrogen fertilizer.
- **Now, the price of nitrogen fertilizer has also fallen in the last year, but less than the price of natural gas.**
- I can assure you that the Commission will continue to closely monitor the fertilizer markets and will not hesitate to take further measures if deemed necessary.
- If the price of energy drops then this must be reflected throughout the whole chain all the way to its end point: the pocket of the consumer!
- Investments in the agri-food chain are key for future competitiveness.
- The last years' credit crunch has had a negative impact on the agricultural sector. Farmers and other operators have had difficulties in finding financing for necessary investments. If financing was found it usually came at a high price, with a high interest rate.

- I'm very concerned about this fact. The Commission will therefore prioritise its engagement with the European Investment Bank. Our goal is to develop appropriate financial instruments to assist farmers and processors to invest in their enterprises. This will improve competitiveness and facilitate necessary structural adjustments.

[Balancing the Food Supply Chain]

- A fair distribution of the added value in the food chain is of utmost importance for the long term competitiveness of sector.
- Farmers must receive a fair price for their work. **Without the producers, there will be no product for processors and no food for retailers to sell.** Our farmers are the key link of the chain and their place is not currently strong enough.
- Farmers often tell me that the value added in the food chain tends to stay at the end of the chain, with processors and retailers.

- President Juncker stated last autumn that something must be wrong in the chain when a litre of water costs more than a litre of milk. I fully agree with this assessment and I value the President's support in this work.
- The Commission has spent considerable efforts over the last years to investigate the functioning of the chain and I can assure you that I will continue to keep my eye on this.
- Many studies and reports published have stated that Unfair Trading Practises do exist throughout the chain and in many cases the farmer is the victim ending up with very low margins.
- The balance of power between different actors throughout the chain must continue to be carefully examined and action needs to be taken where shortcomings are identified.
- The Commission adopted in January a report on Unfair Business to Business Trading Practises in the food supply chain. The report recognizes that Unfair Trading Practises do exist. **This is often to the detriment of the farmer and let me underline that I regret that.**

- However, things have evolved rapidly in this domain. Many Member States, including Lithuania, have adopted regulatory measures and public enforcement systems in order to tackle Unfair Trading Practises.
- This has been an efficient way to strike a better balance between different types of operators in the chain. In many cases the measures have been in force for a relatively short time period so we have to see how things develop.
- **The voluntary EU-wide Supply Chain Initiative between operators in the food chain gained significant participation.** However, I regret that the farmers' organisations have opted out from participating in this platform. I would like to encourage the farmers' representatives to reconsider their decision so that their needs can be better addressed.
- The Supply Chain Initiative, together with national platforms, has stimulated a valuable discussion on how best to tackle Unfair Trading Practises. In time, this should lead to a cultural change throughout the chain.

- The Supply Chain Initiative has a relatively recent history and I'm sure that there are still details that need to be improved.
- The High Level Forum for a Better Functioning Food Supply Chain will continue a dialogue between all Member States and stakeholders on how to ensure the promotion of good practices and to further improve the balance between operators in the food chain.
- I will participate in the meetings together with Commissioners Bienkowska and Andriukaitis.
- If the balance between operators in the chain doesn't continue to improve I can promise that the Commission, before the end of its mandate, will re-assess the potential added value of EU action to address Unfair Trading Practices in the light of new developments, or lack thereof.
- In conclusion, ladies and gentlemen, let me repeat my strong commitment to a well-functioning food supply chain. Farmers must not continue to be the weakest link in the chain and I'm looking forward to the recommendations from the Task Force on how to strengthen their bargaining power.

- Farmers are key for our food supply. And farmers and the whole food supply chain are key for jobs and growth in the EU!
- Thank you.