

Dublin, 31 October 2017

ICOS Response to the European Commission's "Initiative to Improve the Food Supply Chain"

The Irish Co-operative Organisation Society (ICOS) is a co-operative umbrella organisation that serves and promotes commercial co-operative businesses and enterprises, across multiple sections of the Irish economy. We represent 130 co-operatives, which include multipurpose dairy co-ops, livestock trading markets and food, fishing and beverage co-ops. Collectively, these businesses have over 150,000 individual members, employ over 12,000 people in Ireland (a further 24,000 abroad) and have a combined turnover of €15 billion.

ICOS welcomes this initiative by the European Commission to improve the functioning of the food supply chain. Farmer-owned co-operatives play an important part in this supply chain- they integrate the roles of the producer, processor, marketer to add value and increase the economic weight of farmers. ICOS therefore supports action being taken which will strengthen the position of farmers and their co-operatives and improve price transparency, while highlighting that this action must respect the functioning of co-operatives, which provide a hugely positive role in balancing the food supply chain.

Unfair Trading Practices

The vast majority of Irish co-operatives, across all sectors, are small or medium sized. This puts them at a disadvantage to downstream highly-concentrated businesses in the processing and retail sectors. As a result, co-operatives and their farmer members, are often exposed to unfair and sometimes abusive trading practices, as is the case across the entire EU.

A key example of such unfair trading practices is the penalty Irish farmers are subject to by meat processors, if they trade cattle at livestock markets 70 days before slaughter. This penalty is part of a private "quality scheme" introduced by meat processors, at the behest of retailers. It requires animals to:

- have resided 70 days or longer in the last herd
- go directly to slaughter from that farm to a meat plant
- have a maximum of four movements/herd owners in its lifetime

If an animal does not meet these criteria, the farmer will receive 12 cents/kilo less, representing an average of €40 to €60 per animal. There are also restrictions by meat processors in Northern Ireland on cattle from the Republic of Ireland, with Northern Irish farmers subject to price penalties of £150 per animal for cattle born in the south of Ireland.

These practices prevent the trade of factory fit animals, undermine free trade within the EU single market and minimise the overall throughput of cattle through livestock markets (which in Ireland include 60 co-operative, farmer-owner mart centres), to the detriment of competition, prices and therefore local farmer members. ICOS believes that these measures are a form of market manipulation which attempts to stifle transparent price competition and is ultimately an attempt to control prices.

Our livestock markets have fully embraced the EU animal traceability systems, which enable all involved in the food chain to verify where animals have come from. These systems ensure food chain transparency and high quality standards, and therefore there is no justified reason to penalise traded animals.

As a result of these practices and excessive pressure from retailers and processors, farmers receive less and less for the value of their stock. In 1983, the farmers received almost 40% of the final consumer price of a kilo of beef with the processors netting approximately 30% and retailers the remaining 30%, while today, the farmer's take has halved to 21% with the processors having fallen only slightly to 28% and the retailer's margin standing at 51% and growing all the time at the expense of the farmer.

ICOS therefore supports this EU initiative to combat unfair trading practices (UTPs) and ensure a fair and equitable food supply chain that provides co-operatives with a level playing field and will allow them to develop their business activities for the benefit of their members.

We believe that a purely voluntary approach, such as the Supply Chain Initiative, is not sufficiently effective. We need a system which combines this voluntary code with a robust independent enforcement system that can receive and act upon anonymous complaints on abuses in market power and can address these abuses through the use of sanctions.

Additionally, with many Irish co-operatives exporting to other EU countries and beyond, the current landscape of varied national legislation and mechanisms to address UPTs are cause for concern. The status quo provides adequate enforcement and is contributing to a fragmented internal market. We therefore believe that the third policy option outlined in the inception impact assessment is the most fitting and effective solution to protect the single market and counter the fragmentation risk. Such legislation, effectively the third policy option, should not however be overly bureaucratic nor administratively burdensome for businesses.

Market Transparency

ICOS very much supports the proposal to increase market transparency. Over the last two years, DG AGRI has made great strides in improving market transparency, with the establishment of Market Observatories and we support their continued work towards providing more representative and reliable data with the help of Member States.

ICOS believes that greater market transparency, through such reliable and "real-time" data, can provide many benefits for all operators in the supply chain, ensuring greater bargaining power for producers and helping to combat market volatility. Clear, precise and timely information on market signals is necessary for farmers and businesses to react to market imbalances, enable the functioning of a European Futures Market and therefore ensure a better and more stable price.

We therefore support extending the role of the current observatories to establish an EU Price, Margins and Markets Observatory covering the entire food chain, using clear criteria for data collection and harmonised methodologies in data processing and analysis.

In order to achieve this, however, it is perhaps necessary for increased standardisation across Member States with regard to the definition, collection, reporting and presentation of data. Information must be collected in all links of the food supply chain, namely at farm gate level, traders, at primary processors level, at other levels of processing (where applicable), at wholesale level, at retail level and consumer level. The focus must be on data which is appropriate to the needs of market players- for example data (volumes and prices) regarding production, imports, exports, intra-EU trade, stock levels, internal consumption (food, feed, fibre, biomass, ...) must be available.

Customer information and point of sale data recorded by retailers is also of particular importance for a food chain analysis.

The use of so-called “big-data” should be explored to aid and simplify this process of collecting data, helping to reduce any associated costs while also guaranteeing individual business confidentiality.

Producer Co-operation

ICOS welcomes the initiative to provide clarity on producer co-operation under EU competition law within the context of the future CAP policy reform. Currently there are different derogations from competition law across different agricultural commodity sectors, which creates confusion and minimises their effectiveness.

For many farmers, the co-operative model is the most effective way to increase their bargaining power and generate greater value from the supply chain; for others, it is the only way to sustain their livelihood. We therefore reaffirm the necessity for agri co-operatives, and other producer organisations with an economic activity, to receive a derogation from EU competition law. Simultaneously, we reiterate our call for the future CAP policy, following this review, to emphasise and actively promote the position of farmer owned co-operatives in Europe. Finally, we call for any new horizontal rules or proposals under this initiative to respect the role and functioning of farmer-owned co-operatives, whose primary purpose is to prioritise value for farmers and who contribute to the economically feasible supply of quality produce to the consumer.