



PRESIDENCY WORKING DOCUMENT

(The Netherlands, 5 - 7 September 2004)

Agriculture under the public eye:

who is responsible for what?

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Introduction

Every Member State strives for sustainable, competitive and socially more acceptable agriculture. But, how can these goals be achieved? And who is responsible for doing so? What role should national government play, what should the European Commission do and what should be the responsibility of the private sector? These are important questions that the Netherlands presidency would like to discuss at the informal Council meeting. Why do we raise these questions? Well, because European agriculture and our European policies are being challenged by a number of important new developments.

First, we are facing globalisation of world trade, consumer-led quality requirements, environmental concerns and an enlarged Union. In recent years, the European Common agricultural policy has reacted to these developments by several reforms. Instead, policies have become more oriented towards satisfying the general public's growing demands regarding food safety, food quality, product differentiation, animal welfare, environmental quality and the conservation of nature and the countryside. A series of public crises accelerated this change.

Second, the structure of the food industry has changed fundamentally into well-managed integrated global supply chains and this integration process will continue in the near future. These global food supply chains have developed their own food safety and quality assurance schemes to meet the requirements of the general public.

Third, we all know from experience that the various dimensions of sustainable development are not easy to reconcile. Too many regulations, for example, could impede the competitive position of the European agro-food sector, especially now that liberalisation is forging ahead. This is addressed in the Lisbon Strategy. It is more or less common practice for national governments and European authorities to lay down public goals in legislation in order to promote more sustainable agriculture.

But:

- Is this the only way to ensure our public goals, or would it be possible to let the private sector take more responsibility for safeguarding public values on food safety, environment or animal welfare?
- Should government merely determine certain prior conditions, and where should we draw the line?
- Will the public accept greater responsibility of private players in safeguarding public goals? And do they have enough information to make a decision that takes account of all the relevant issues?
- What has to be regulated by the European Union and what should be left to the individual Member States?

The time may have come to reconsider the balance between private and public players: between market and government. The Netherlands Presidency would like to find out whether the Agriculture Council and the Commission share this view. Moreover, the Presidency would like to explore what role the Council and the Commission could play in the general discussion that takes place in this field.

Sustainable agriculture: what does it mean for our policies?

New desires and preferences of society, globalisation of world trade and the need to accommodate new Member States have meant that the EU could not continue to support production as in the past. The era of the concerted attempt to raise production is over and today's society has completely different expectations of agriculture:

- How safe is our food?
- Has it the right quality?
- Is the farmer sufficiently protecting the environment?
- What is being done to ensure the quality of the countryside?
- What about animal welfare?
- What services does the taxpayer get for his money spent in agriculture?

These are the burning questions, as again recently confirmed in a European public opinion poll:

- 91% of our citizens want our agricultural policy to provide safe food. After BSE and the dioxin scandal this is understandable.
- 89% of our citizens want our agricultural policy to ensure that our environment is protected.
- 83% want to see our small and medium sized agricultural holdings supported.
- 79% of European Union citizens want to provide a stable and fair income for farmers.

In other words, modern society expects a sustainable agriculture. Therefore, European policies are increasingly geared towards more sustainable agriculture ensuring that future generations can enjoy the benefits of Europe's unique environmental heritage and natural resources, as we do today. Achieving sustainability means meeting three challenges:

- People, or the social challenge to improve the living conditions and economic opportunities in rural areas. Sustainable agricultural production must also reflect the concerns of consumers as regards quality and safety.
- Planet, or the ecological challenge to promote good environmental practices as well as the provision of services linked to the maintenance of habitats, biodiversity and landscape.
- Profit, or the economic challenge to strengthen the viability and competitiveness of the agricultural sector.

In future, the vast majority of the CAP subsidies will be paid independently of the volume of production. Abolishing the link between subsidies and production will further increase the competitiveness and market orientation of EU farmers, while providing the necessary income stability. The EU has also developed a set of policies aiming to meet the ecological and social challenge. For example, the Nitrate Directive and the EU Water Framework Directive to take account of concerns in the area of environment, the Birds and Habitats Directives in the framework of nature management, regulations on hygiene and BSE in slaughterhouses to safeguard food safety, and directives on transport and housing of farm animals to improve animal welfare. With the introduction of compulsory cross compliance, the new "single farm payments" will be linked to these policies.

What's going on in the food chain?

Not only European policies are changing fundamentally in order to be able to look the public straight in the eye. The food chain itself is also changing significantly. The speed of change has accelerated dramatically over the last ten years. The opening up of Central Europe and the collapse of the Soviet Empire were all accompanied by massive changes in the rest of the world. From 1991 onwards, governments in India and Brazil began liberalising their economies. China continued and consolidated a process of economic reform, and South Africa ended its long isolation. Within a period of three to five years most countries in the world were becoming a part of a world market.

In the globalisation process, the food and agricultural industry has moved from independent producers and marketing firms to integrated and multinational supply chains. During the OECD “Conference on changing dimensions of the food economy: exploring the policy issues”, held in The Hague in February 2003, several trends were signalled in the new global food economy (Kinsey, 2003):

1. The supply chain has become a demand/supply loop where information about consumer demand heavily influences what is produced and when it is delivered.
2. The tasks of moving food and agricultural products from field to fork are performed by a diverse set of firms and agencies in complex, often global networks, involving private contracts, public agencies and diverse consumers.
3. As parties in the food network become more tightly integrated, the role of international trade policy, as it relates to agriculture, is weakened. Nation states' trade agreements are still vital for opening borders, but private parties negotiate the characteristics of the products that are traded.
4. Consumers continue to seek value (quality at low prices) and convenience and retailers who provide both are leading the retail industry and changing the business model for everyone in the food chain.
5. Horizontal consolidation of firms in all segments of the food chain is being promoted by the economies of scale that come with business to business e-commerce, forward contracting and the purchasing power of large retailers.

6. Public policy is focusing less on protecting small farmers or feeding the hungry, and more on consumer issues like the costs of health care in the face of rising diabetes and obesity, the safety of the food supply in the face of bio terrorism, the identity of food sources, be it country or genetic strain and the potential for monopolistic/monopsonistic retailers to exploit both consumers and suppliers.

Though food is safer than ever, consumers in Western Europe, increasingly worry about the safety and quality of their food and about the production circumstances and their effects on environment and animal welfare. This concern has been fuelled by the possible link between BSE and human illness, by the widespread incidence of illnesses from contaminated food sources and by the growing awareness of the impact of farm production practices on the environment and animal welfare. This results in increasing demands for food products with known and documented characteristics and with certified attributes.

Certification

The food industry has responded to these demands by the development and implementation of mandatory and voluntary quality control, management, and assurance schemes. Such schemes include, for example, certification systems for meat supply chains guaranteeing the ability to trace fresh and processed meat back to the original animal and farm, certification schemes aimed at guaranteeing both product quality and environmental management of farms, and labelling and certification schemes covering organic and natural production. These schemes are an important part of the changes in the way food products are produced, marketed and traded in Europe (Bredahl et al, 2001).

Quality assurance schemes define a series of technical requirements for producing, processing or transporting food, and may include standards for environmental and other management practices. The schemes also include an inspection system to verify that members comply with these requirements. Labels or quality marks from these programmes provide an indicator of a product attribute, such as animal welfare, organic production practices, or some aspects of food safety, such as permitted uses of veterinary medicine.

The development, operation and interaction of private food quality assurance schemes will be an increasingly important determinant of the competitiveness of agricultural and food industries through their effects on production, prices and transaction costs (buying and selling costs). Fulfilling the requirements may increase production costs, but a well organised and credible quality assurance system may also reduce transaction costs. In particular, the costs associated with searching and screening for suitable customers or suppliers and the costs involved in negotiating and monitoring the terms of a contract may be reduced. Moreover, well organised quality assurance schemes may also provide a price premium from the provision of an extrinsic (visible) cue of production practices, as well as the intrinsic (experience) attributes of the product like taste, texture or convenience. Finally, these schemes may largely localise damage in case of emergency situations.

If the advantages outweigh the extra efforts, quality assurance schemes may convey a competitive advantage to producers covered by the programme. For example, all of the large food retail chains in the United Kingdom require farm assured livestock. Clearly, in order to source this primary market, quality assurance scheme membership has become de facto mandatory, conveying an advantage to suppliers participating in the schemes and a disadvantage to those who do not. (Bredahl et al, 2001).

Many schemes have been developed in recent years. In the Netherlands for example 99 percent of the dairy farms are certified to deliver milk meeting the KKM (Chain Quality Milk) standards. This is a private initiative to strengthen the Netherlands dairy sector's market position. The standards cover the use of veterinary medicines, animal health and welfare, the use of feed and water, hygiene, environment and waste. Similar standards apply in the IKB concept (Integrated Chain Management) in the Netherlands meat sector. Examples in other Member States are the British Retail Consortium scheme, the Danish Quality Guarantee scheme and the International Food Standard (IFS). Quality assurance schemes related to geographical origin play an important role in several Member States (like Greece, Italy, Spain and Portugal). These schemes involve greater government controls. Also more government-controlled is the French "agriculture raisonnée" certification system.

Initiatives are not only taken on a national level. In 1997 a group of 26 retail organisations belonging to the Euro-Retailer Produce Working Group (EUREP) took the initiative to develop and harmonise widely accepted standards and procedures for the global certification of Good Agricultural Practices, known as EUREPGAP. Technically speaking, EUREPGAP is a set of normative documents suitable to be accredited to internationally recognised certification criteria. Representatives from around the globe and all stages of the food chain, including consumer and environmental organisations, have been involved in the development of these documents.

Another international example is the Global Food Safety Initiative (GFSI) taken in 2000 by 50 international retailers (with 65 % share of the global retail market). In the meantime EUREPGAP, the British Retail Consortium and other certification schemes have become elements of the GFSI.

Increasingly important, too, are intra-industry arrangements and initiatives for the development of standards for deliveries between companies within the chain. Examples are the Forest Stewardship Council for sustainable produced or harvested wood, the Marine Stewardship Council for sustainable fisheries, the Global Food Lab Initiative and the Sustainable Agricultural Initiative platform. With these initiatives, participants aim to take their corporate responsibility in sustainable development seriously, meanwhile realising that this also serves long-term economic goals. Moreover, these initiatives diminish the risk of being blamed for socially, environmentally or otherwise unacceptable production methods within the chain. Companies with strong brand names, especially, prefer to avoid forms of production in the chain that could damage their positive images and brand names. Another question in this respect relates to liability. If the private sector gets involved in more quality assurance systems, and consequently, the government gets a more modest role, customers of the private sector have to turn automatically to the market parties if problems arise

Concentration

The consolidation and internationalisation of the food retail and manufacturing industry is expected to continue. In the near future, four or five large retail organisations will be operating on a world-wide scale. There will, however also be a number of dominant regional and national retailers. A similar situation will exist among the large (A-brand) food processing industries.

About ten food manufacturers will be operating globally, with 20 to 25 global brands. Furthermore, a small number of international fast food chains and catering services increasingly dominate the market for “away from home meals” in for instance restaurants, canteens and hospitals.

The following figures illustrate the situation among retailers. In the period 1993-1999, the aggregate concentration of the top 10 grocery retailers in the EU-15 grew by 25 percent, whereas the market share of the bottom 10 companies in the EU-15 top 50 declined by more than 70 percent. The larger are getting larger and the smaller are being squeezed (Dobson, 2003). The Institute of Grocery Distribution, a food sector research institute, predicts that, based on historical growth rates in European turnovers for the last five years, the top ten retailers will increase their market share from 37 to 60 percent by 2010. Table 1 illustrates that the share held by the top three firms in EU-15 countries ranged in 2001 from 32 percent in Greece and Italy to 95 percent in Sweden. Some emerging giants such as Carrefour, Aldi, Tesco and Ahold operated in several countries under their own company name or had, partly or fully, the ownership of local companies.

In a minority of Member States (for example Greece, Italy and Spain) distribution of food is organised in a more traditional way, whereas the role of multinational retailers is far from dominating.

Table 1: Retail top 3 position in different countries in 2001

	1	2	3	Combined share
Sweden	ICA	OF	AXFOOD	95%
Norway	NORGESGRUPPEN	HAKON	COOP	86%
Netherlands	AHOLD	LAURUS	SU	83%
Finland	KESKO	SOK	SUOMEN SPAR	80%
		DANSK		
Denmark	FDB	SUPERMARKT	SUPERGROS	78%
Austria	BML-REWE	SPAR	ADEG	78%
Switzerland	MIGROS	COOP	PRIMO VISAVIS	76%
France	CARREFOUR	LECLERC/SYS U	INTERMARCHE	64%
Belgium	CARREFOUR	DELHAIZE	COLRUYT	60%
UK	TESCO	SAINSBURY	ASDA	58%
Germany	EDEKA	REWE	ALDI	57%
Ireland	TESCO	DUNNES	SUPERVALUE	54%
Portugal	SONAE	JMR	INTERMARCHE	52%
Spain	CARREFOUR	EROSKI GROUP	AUCHAN	44%
Italy	COOP	CONAD	CARREFOUR	32%
Greece	CARREFOUR	ALFA BETA	VEROPOULOUS	32%

Source: Capgemini, 2002

Nowadays, strong concentrations in the food chain also take place in the new Member States of the Union. Well known examples can be found in Hungary, Poland and the Czech Republic.

Similar developments are being signalled in other parts of the world like in China, Thailand and Brazil. On the one side they are very welcome for their knowledge and for their investment and organisation of qualitative high-ranking production, processing and retailing systems of food. On the other side they are questioned for their increasing dominance on domestic markets.

As a result of the concentration process in most Member States, retailers will increasingly operate as, we might say, consumer buying agents or as protectors of consumers' interest. By demanding participation of their suppliers in quality assurance schemes, retailers and other big players in the food chain will no longer buy individual products or assortments. Rather, they will buy – and control – the total process, from ingredients through production, ensuring that the finished product will meet the needs of consumers (Capgemini, 2002).

Small farmers and retailers frequently have an insufficient economic scale for complying with all the requirements demanded of them by these schemes. They may therefore be forced out of business. This is especially the case for small producers in developing countries. They feel more and more uncomfortable with the increasing quality standards and even see them as new protectionism measures by western countries.

Duality

While companies have introduced tougher specifications for suppliers and new traceability controls (plough to plate or stable to table), governments have introduced new policies. These range from the creation of the European Food Authority and changes in the focus and names of Ministries (for example in the UK, Germany and The Netherlands) to the introduction of a number of regulations to meet public concerns about the production of food. This creates an important duality. On the one side, we find a State system of regulation, on the other side a system of self-regulation, largely driven by the major players in the supply chain (Barling and Lang, 2003).

This has consequences for all parties in the chain, including farmers. For example, farmers have to meet numerous standards based on European legislation safeguarding environmental, food

safety and animal welfare standards. At the same time, they have to fulfil the demands of private quality assurance schemes.

In many cases private schemes contain elements that go much further than the requirements laid down in public legislation. Nevertheless, both the European system, the State system and the system of self-regulation have their own specific control regimes with different documents, inspection agencies etc. This means that there is some kind of double check on the same objectives. This may result in unnecessary burdens for the sector, impeding its competitiveness on the global market. Clearly, whether the issue of control can vary amongst different subjects and in this regard deserves closer consideration.

Lisbon strategy

The issue of regulatory costs and its impact on the competitive position of European producers is an important element in the Lisbon strategy. In the Lisbon strategy documents, the Commission states that regulations can place costly burdens on European enterprises and may impede the necessary dynamics. According to OECD estimates, the costs of regulation at European level, but also as a result of national and regional regulation, will be between three and five percent of the EU-15's GDP. Farmers in the Netherlands claim that they need on average seven hours a week to finish all government paperwork (almost half of it originating from the Ministry of Agriculture). Initiatives are needed to improve the regulatory environment at all levels. With further liberalisation on the horizon as a result of the Doha Development Agenda, a simple and effective regulatory environment for the agro-food complex is essential to improve the competitiveness and vitality of European agriculture and agribusiness.

The Lisbon conclusions also stress that formal regulation is not always the answer. Alternatives such as co-regulation, self-regulation or agreements between the social partners can sometimes provide more effective solutions (COM, 2001/79 final). The challenge is to reach the goals set in the ecological and social spheres while avoiding over-regulation.

The White Paper on European Governance, (COM, 2001/428 final) proposes opening up the policy-making process to get more people and organisations involved in shaping and delivering EU policy. One of the proposals in the White Paper is to make greater use of the skills and practical experience of regional and local players. It is also proposed to define policy objectives more clearly and improve effectiveness by combining legislation with non-legislative and self-regulatory solutions.

EU-Action Plan

As a follow-up to the White Paper, the Commission stated in the June 2002 “Action Plan for better Regulation” that EU laws should be written in a less complicated style, making it easier for Member State authorities to implement them. European legislation should also be easier to understand for the public. As part of the action plan the Commission adopted a broad set of measures with a view to improving the decision-making in the European Union. From the beginning of 2003, a set of general principles and minimum standards concerning public consultation of interested parties apply for all major Commission policy initiatives.

Furthermore, from 2003 each major policy initiative includes an analysis of the measure’s impact. Social, economic and environmental impacts have to be assessed for major initiatives when policies are being devised. This new mechanism integrates and broadens the various impact procedures used by the Commission. The results of each assessment are made public. According to the Commission, such impact assessment would help to ensure that the European Union stays away from all matters that can be regulated more effectively and efficiently at national or regional level. The EU should reconsider the subsidiarity principle and rely more on co-regulatory approaches, whereby people and organisations take on commitments and responsibilities for achieving objectives fixed by EU legislators.

The Commission's report to the 2004 spring European Council restated that a favourable regulatory environment is likewise essential if competitiveness is to improve. From this point of view the measures described earlier should help make the Community’s regulatory framework more effective, more flexible and simpler. The Commission’s introduction of an impact analysis tool and the formulation of alternative regulatory instruments – such as co-regulation and self-regulation – constitute important steps forward that ought to be exploited.

Conclusion: Who should be responsible for what?

It is clear that promoting more sustainable and socially more acceptable agriculture remains a challenging policy priority throughout Europe. However, as described in this paper, governments are not the only ones working on this matter. Private players in the chain are doing the same.

These private players are involved in a continuing process of concentration. In most Member States, food processing and distribution is nowadays dominated by a small number of large chains that increasingly operate as protectors of consumers' interests.

Companies are responding to ever-growing consumer demands and concerns by implementing private quality control and assurance schemes. Often, the requirements of these schemes go even further than those laid down in public legislation. Moreover, both the State system and the private system have their own control organisation. This may lead to unnecessary burdens for the sector, impeding its competitiveness. The Lisbon conclusions stress that formal regulation is not always the answer and that alternatives such as co-regulation, self-regulation or agreements between the social partners can sometimes provide more effective solutions.

The time may therefore have come to discuss whether the developments described in this paper should lead to a further review of the balance between market and government. "Who is responsible for what?"

- What responsibility should the private sector have and what should be the responsibility of government?
- And on what level, the European or national or regional one?
- Could a new balance between private sector and government mean that governments restrict their activities to supervising the private sector to safeguard public objectives?
- Could requirements laid down in private quality assurance schemes be accepted as sufficient to safeguard public concerns about food safety, environment, animal welfare and animal and plant health, or should this be solely a public responsibility?
- Could for example such private requirements be used - under certain conditions - as indicators for farms meeting their cross-compliance requirements?
- Could this approach lead to a more efficient way of safeguarding public goals, while at the same time reducing the administrative burden?
- Could the coordination of all parties involved in control, be enhanced by a European Agency?

The Presidency would like to discuss these questions by identifying three themes that need to be addressed in this respect.

Consumer confidence

The opinion of the public on a changing balance of responsibilities is a first subject that should be discussed. What will the public think of a changing balance of responsibilities?

- Will greater responsibility for private players in safeguarding public objectives on food safety, environment, animal welfare etc., be acceptable to the consumer and the citizen?
- Does the public have enough confidence in private systems, or is it necessary to apply State regulations and State controls to ensure consumers' trust in food?

A survey by the National Institute for Consumer Research, Oslo (2003) asked respondents in various countries to evaluate information from different institutional players in a food scandal involving salmonella chicken. Consumers' rank-order of truth-telling players generated groups of two:

- First come consumer organisations and food experts.
- Next on the list are food authorities and media.
- Ranked as third come farmers and supermarket chains.
- The least supported couple of players with respect to truth telling are politicians and the processing industry.

Should government contribute by ensuring consumers' trust in private systems? For example, in Germany, the government aims to give consumers the legal right to be fully informed about the products they purchase. The idea behind this is that only consumers who have full access to information are able to use their power over the seller of the products. Denmark has introduced a smiley system that informs consumers about the hygienic quality of restaurants and other food suppliers, and the EU General Food Law introduces the obligation for companies to be able to trace their products one link up and one link down in the chain, from 2005 on.

Effects on international trade

A second subject to be discussed is the impact of a changing balance of responsibilities on our trade policies. The self-regulation systems of multinational firms may have an impact on international trade. Trade policy is aimed at liberalising trade in agricultural products in order to give producers around the world better access to each other's markets. Producers in developing countries should also benefit from trade liberalisation. However, the role of international trade policy, as it relates to agriculture, is becoming comparatively weaker. Nation States' trade agreements are still vital for opening borders, but private parties negotiate the products that are bought and sold.

Multinationals source their inputs and build their commercial relationships with suppliers or buyers that best suit their business strategy regardless of a nation's public policy. This could also mean for example, that consumer concerns are easier to safeguard by private players with their international quality assurance schemes than by government regulations. But:

- What does that mean for small producers and for producers in developing countries? Will they also be able to benefit from trade liberalisation?
- Can they comply with the regulations or are they not able to participate in the global trade system?
- Should governments of developed countries and international organisations like the FAO and the World Bank make more efforts to assist developing countries to help their producers to fulfil the requirements laid on them by the food chain?
- Or does this belong to the corporate social responsibility of the private sector itself?

Subsidiarity

The balance of responsibilities between governments is a third subject for discussion. In an enlarging European Union (which started with 6 and now has 25 Member States), variety of climates and cultural and regional differences continue to grow. Availability of water for agriculture for instance is a totally different subject in Spain or Greece than for example in

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