



## FARMERS' LEADING ROLE FOR INCLUSIVE VALUE CHAINS

### WFO POLICY PAPER

*"A chain cannot be pushed but can only be pulled and the pulling force is the market and the market is driven by efficiencies"*

*(Theo De Jager, WFO President)*

Farmers are one of the actors of usually very long supply chains, where they are often squeezed by other players, losing bargaining power over large suppliers and buyers and their freedom to choose what to grow, how to grow it, and for whom. This is true in developed countries, and mainly in developing and least developed countries where there is a major presence of smallholders also suffering themselves from food insecurity and malnutrition.

With the reorganization of the large-scale retail distribution and a vision of agriculture as a simple provider of raw materials for the industry, often inadequate compensation occurs on the producers' side, while a lack of transparency affects the whole value chain.

World population projected to reach 9.8 billion in 2050, and 11.2 billion in 2100

It is not just a matter of increasing the capacity of production, enabling farmers to face all the challenges with which are confronted everyday (climate change, urbanization, loss of agricultural soil etc) but to produce better and to waste less. In fact, already today the agri-food industry produces food for 10 billion people on earth, but 1/3 goes wasted<sup>1</sup>.

#### ***The World Farmers' Organisation (WFO):***

- A. Advocates a reshaping of food supply chains, from farm to fork, by creating proximity between producers and consumers and deep ties between production and territories. It is essential to innovate in the way of thinking about food.
- B. Shares the genuine concerns 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.
- C. Expresses concerns about growing concentration of the industry upstream and downstream in the farming sector. A few large firms dominate both the distribution side and the input side of the agri-food chain.
- D. Considers essential to change the way we refer to food: not as a commodity but as a valuable product. Stronger relationships can be built between food production and consumption and among value chain actors, developing different networks of distribution and exchange.
- E. Recognizes that it is critical for the sustainability of family farming 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 mutual trust amongst 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.
- F. Underlines that the value of the products of farmers is also often weakened by the lack of transparency on food information and by the proliferation of nutritional labeling systems that tend to mislead the consumers.

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<sup>1</sup> <https://www.undp.org/content/undp/en/home/blog/2017/la-mejor-receta-es-no-desperdiciar-alimentos.html>



## **GARBAGE IN – GARBAGE OUT: ADDRESSING THE MALFUNCTIONING OF THE VALUE CHAIN FROM THE ROOTS**

During 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.

Since 2015, the “biggest year ever for mergers and acquisitions”<sup>2</sup>, mega – mergers have sparked unprecedentedly, often with a view to linking different nodes in the food chain.

Consolidation allows firms to pool economic and political capital in a way that reinforces their influence on decision-making, at national and international levels – and defend the status quo.

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

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 farmers’ and farmers’ cooperatives products while ensuring that the farmers and farmers’ cooperatives 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 farmers’ independence and contracts the market, reducing choice in both products and price. Moreover, consolidation of retailers’ power means that farmers and cooperatives are reliant on a limited number of buyers weakening their bargaining position and for farmers’ cooperatives also their existence.

Looking at the end of the chain, also consumers’ choices affects the entire value chain: lifestyles of consumers, along with shifting demographics, contribute to different eating patterns. Consumers now demand tailored foods and, to ensure that they meet their specifications, food companies want more specific farm products. Also the growing attention to the relationship between diet and health risks to jeopardize the position of farmers, if consumers’ choices are influenced by misleading information that penalize high quality agricultural products because of their natural nutritional contents.

Undoubtedly, these trends have exacerbated existing power imbalances, allowing costs to be shifted onto farmers, squeezing their incomes and the autonomy to choose what to grow, how to grow it, and for whom.

We already see many examples of unfair and abusive commercial practices 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. Actually, many of these practices also add costs to the consumer and limit their choice.

In developing and least developed countries, this market structure affects smallholder farmers the most, with poor access to land, infrastructure, inputs and markets.

In addition to that, farmers’ lack of power is further worsened by small-scale farmers’ limited political voice in influencing agricultural policies. In many Countries, farmers’ organizations and cooperatives are not strongly structured or they do not even exist. This leads to a lack of effective collaboration amongst farmers, who cannot pool their voices to make their needs heard and understood.

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<sup>2</sup> WSJ: <https://www.wsj.com/articles/2015-becomes-the-biggest-m-a-year-ever-1449187101>



The main consequence of this gap is not only the absence of representation of certain group of farmers in relevant fora and institutions, but most alarmingly their increasing weakness in ever-growing complex environments, governed by finance, insurance companies, retailers, and traders. Moreover, the lack of organization among farmers hamper their own resourcefulness to be the first promoter of a win – win coordination within the value chain.

In a general context where agriculture and agri-food are back at the center of the political debate, these challenges shall be added to the immense pressures that weigh on the farmers' community. A growing world population, the fight against climate change, a volatile international trade and the urbanization and the loss of agricultural soil are just some of the global trials to which farmers and policy makers are confronted every day.

Food security and food safety came back to be elements of reflection and strategic planning for all States, not only for those in the developing world. It is therefore undeniable that farmers need a fair return for their products in order to cope up with the need for a sustainable production – in economic, environmental and social terms.

Promoting fair trading practices and stronger relationships between food production and consumption, and among value chain actors, developing different networks of distribution and exchange could bring concrete solutions to global challenges contributing to the sustainability of food systems and security of food supply.

Giving more freedom of choice to farmers together with more value added can contribute to global food security ensuring sustainable food systems that respect producers' work, consumers and environment.

## POLICY RECCOMANDATIONS

- ***Creating an enabling environment for farmers to organise and be well represented***  
Farmers and farmers' cooperative organisations can play many roles and perform different functions, from facilitating services delivery, mobilisation of local resources, and collective marketing, to members' empowerment at local level and engagement with policy and service providers by creating an enabling environment to build farmers' capabilities. In the same way, the provision of advisory services by FOs and FCOs to farmers can lead to a sustainable agricultural development, as it plays an important role in ensuring that farmers and various stakeholders have access to innovation and that their concerns and needs are properly addressed. For this purpose, capabilities and strengths of farmers' organisation must be enhanced. We call on policy makers to create an enabling environment for this boost to structured organization for farmers by legal systems, political support and inclusion within relevant fora of discussion.
- ***Facilitate the development of business models that put farmers at the same level of industry (value chain contracts)***  
Value chain contracts among all the different actors of the value chain (from producers to retailers) can contribute to reinforce the bargaining power of farmers, also through the intervention of farmers' organisations, promoting fair trading practices and prices.  
Farmers and industry must work closer in order to build contract relations that guarantee to farmers a medium-long term stability and certainty and to industry assurance of safe raw material.  
The sustainability of farming is necessarily linked to a better cooperation between the actors of the chain. We call on policy makers to build on different voluntary initiatives that are raising to achieve the objective of enhancing the competitiveness of farmers.



- **Promote short supply chain in order to allow farmers, in particular small holders, the right value added**  
Short supply chains (SSCs) present a modern view of the relationship to food as well as a certain vision of the economic competitiveness of farming and its social and environmental efficiency. Not only they eliminate the need for long-haul transport, and reduce waste and losses, they also boost local economies and empower consumers to play an active part in the economic development of their local area. Already in 2011 the role of short distribution channels in increasing “the income of producers and ensure the survival of a large number of farms” was recognized at European level. WFO considers that policy makers should facilitate the development of the different models of SSC, all based on the concept of proximity: geographical, organizational and social. Farmers` owned cooperatives would be considered part of this short supply chain and should be encouraged.
- **Tackle the abuse of dominant market positions and unfair trading practices, through regulatory initiatives**  
After years of debates, with farmers at the forefront in asking a legislative approach, the European Union at the end of 2018 approved the new Directive on unfair trading practices along the food supply chain<sup>3</sup>. This is an example of how regulatory processes can help farmers to deal with the unbalances and unfair practices that make them the weakest part of the value chain. Based on this example, we call on policy makers to analyse the state of unfair practices (as was done at EU level with the valuable job of the task force of the Agricultural Markets) and to develop legislative processes in order to give farmers the rights to get a fair and stable income from their products.
- **Facilitate a closer relation between farmers and consumers, through education campaigns and enhanced transparency, based on science and on the benefit of balanced dietary models**  
For the farmers to be rewarded by the market for the quality of the products they produce, it is of the outmost importance to make it easy for the consumer to trace the food they consume. Some practices are already demonstrating ability to ensure fairer prices for farmers: according to a recent report published by FAO “Strengthening sustainable food systems through geographical indications”<sup>4</sup>, origin labelling of food ensures more value added for producers, boosting local economies and sustainable development. In the same way, we need to avoid misleading labelling systems that risk influencing the choice of consumers instead of informing them on the real characteristics of the products. We call on policy makers to take action against misleading food information that hamper the work of farmers, promoting instead the value of agricultural products for healthy diets. In this respect, education on nutrition should be included in school programs. Local market and direct selling should be promoted as they connect consumers directly to farmers, benefiting both: they give consumers better access to fresh, healthy, seasonal produce, restoring farmers' value added. Furthermore, they are also an important tool to reduce waste and plastics.

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<sup>3</sup> “The new European law will cover agricultural and food products traded in the food supply chain, banning for the first time up to 16 unfair trading practices imposed unilaterally by one trading partner on another. Other practices will only be permitted if subject to a clear and unambiguous upfront agreement between the parties involved” (source: European Commission).

<sup>4</sup> <http://www.fao.org/3/i8737EN/i8737en.pdf>