



**Presentation by IFA President John Bryan,
to the Joint Oireachtas Committee
on Enterprise, Trade & Employment
on 'Food Supply Chain – Retail Code of Practice'**

27 April 2010

Chairman and members of the Oireachtas, I want to thank you for giving the IFA the opportunity to make this presentation.

In February, IFA launched a major new strategy at Irish and EU level to tackle the issue of retailers forcing farmgate prices below the cost of production.

- The IFA publication – ***Equity for Farmers in the Food Supply Chain*** shows that farmers producing everyday food products are on average getting just one-third of the final retail price.
- This is not sustainable for producers, or in the interests of consumers, and must be addressed through effective regulation of the food supply chain.

Product Prices and Farm Incomes

In order for the agri-food sector to realise its growth potential and contribute to economic recovery, farmers, who comprise the essential productive base of the sector, must have a reasonable prospect of achieving viable incomes.

In 2009,

- Average **farm incomes** were just €13,000
- With the average incomes of full-time farmers just €16,000
- Over the past 2 years, the decline in farm incomes, in money terms, is a massive 38%.

In fact, National Farm Income has fallen substantially over the last two decades, with income since 1995 down by almost 50% when adjusted for inflation.

In contrast, it is estimated that Tesco Ireland made profits of €275m last year. This is based on their target operating profit margin of 9.5%.

The prices paid to farmers since the removal of price supports through CAP Reforms have been far below general price increases, and in some cases have fallen.

Analysis of CSO data shows that between 1995 and 2009:

- Overall farm product prices fell by 7%
- Food prices for the consumer rose by 36%, and
- The average increase for all items in the consumer price index was 46%.

While farm product prices have borne no relation to general inflation, farmers have had to contend with significant inflation in their production costs over which they have no control. I want to point out that since 1995, farm input prices have risen by over 53%.

Farmer's Share of Consumer Price

The largest proportion of the costs incurred in bringing food to the consumer, including time, labour, investment and other input costs are borne by the farmer.

- The farmer's share of the retail price has declined significantly in the major commodities over the last 15 years.
- Since 1995, the farmer's share of the retail price for liquid milk has declined from 42% to 33%.
- For cheese, the farmer's share has fallen from 34% to 20%, for pigmeat from 51% to 27%, and for beef from 60% to 50%.

Full details of the farmer's share of the retail price received in 2009 can be seen in Appendix 1 attached to this presentation and is also in IFA's publication *Equity for Farmers in the Food Supply Chain* circulated to all Committee members.

- The clear message to retailers, processors, Government and the EU is that the food supply chain is broken because farm families cannot survive on prices below the cost of production.
- Farmers are the ultimate price takers at the opposite end of the food supply chain from powerful retailers, which are dictating uneconomic price levels to producers.

I wish to bring to your attention the table below which shows the **Farmgate Prices Paid** and the **Breakeven Prices Required**.

- The IFA study shows that an average increase of little more than 5% in the farmer's share of the current retail price would provide producers with a viable income.

Costs of Production by Farm Enterprise Excluding Farmer's Management & Return on Capital and Risk*			
Commodity	Unit of Production	Farmgate Price Paid 2009 (€)	Farmgate Break-Even Cost 2009 (€)
Manufacturing Milk	litre	0.23	0.30
Liquid Milk	litre	0.32	0.37
Beef	kg	3.02	3.58
Sheep	kg	3.93	4.85
Pigs	kg	1.39	1.48
Poultry	kg	0.17	0.21
Potatoes	kg	0.25	0.32
Mushrooms	lb	0.80	0.87
Cabbage (York)	head	0.60	0.67
Carrots	kg	0.62	0.70

*Producer prices required incl. VAT to cover costs of production including labour costs at Average Industrial Earnings of €41,029 based on 2009. This takes account of the Single Payment contribution where applicable, but excluded any return on the farmer's management of the business, capital investment and risk.

- Retailers, processors and food suppliers, in addition to providing real value to consumers, must ensure that primary producers are treated fairly. The evidence shows clearly that this is not happening.

Retail Regulation

- The Government and the EU Commission must address this market failure in the food supply chain by new regulation and the proper enforcement of existing competition law to tackle anti-competitive conduct.

- The new statutory **Code of Practice** promised by the Government must enshrine the principle of **fair trade** for farmers in the grocery trade by providing a means for the more equitable share-out of the consumer price across the food chain.
- The Government had moved to appoint a facilitator to draft this code. David Byrne had to withdraw because of a potential conflict of interest. It is important that the Government announces a new facilitator without delay in order to progress this matter.
- IFA has specific proposals for the code including the banning of
 - ‘Hello money’,
 - ‘Pay to play money’,
 - Below-cost selling and
 - Forcing suppliers to fund discounting campaigns
- We also want the compulsory disclosure of retailers’ **profitability** in their Irish operations.
- The code of practice must also discourage retailers from undermining branded products with the use of own brands
- To police the Code and investigate complaints, the Government must also legislate for an **independent Ombudsman**, who would have the power to demand information from retailers while maintaining the anonymity and confidentiality of suppliers who make complaints.

The retailers are in danger of destroying the benefits to consumers of a secure supply of Irish and European food.

Irish farmers are proud to produce food in an environmentally sustainable way, to the highest standards of traceability, quality, safety and animal welfare, in the world.

Labelling

The Government must close the loopholes in the **labelling legislation**, which are misleading consumers and short-changing producers. I do not propose to go into details in this area here, which you are all aware of.

- The over riding principle is as follows - food labelling must firstly serve consumers by upholding their right to **clear information on the origin of product** and secondly it must safeguard producers by ensuring transparency and fair competition from imported product.

Later this afternoon I am meeting with the Minister for Horticulture Ciarán Cuffe with producers from that sector – a sector that is under particular pressure from the retail sector and will not survive the price war if the Government does not take action.

In conclusion, Chairman, recent media reports of **major expansion plans** by supermarkets provide clear evidence that supermarkets are the clear winner in the retail price war.

I am calling on the Committee here today to investigate the expansion in grocery retail space over the last decade and compare with population growth and requirements.

I believe the **over capacity of the sector** is self-evident and that returns to the primary producer are being forced down in order to pay for the excess capacity.

I strongly question the wisdom of local authorities giving permission for more retail developments when there is already serious over capacity countrywide, and many small shops and convenience stores are struggling to compete as the multiples dominate and expand unabated.

The Government and the EU Commission must accelerate their plans to regulate the sector as the multiples are sapping ever more profit out of the food supply chain. Farm families are being driven to the wall as a result.

I am calling on the Government today to send a strong message to local authorities to put a stop on any further planning permissions for retail outlets until the Code of Practice is in place.

Thank You

Appendix 1

Farmer's Share of Retail Price 2009				
Food Product	Retail Price (€)¹	Farmer's Share of Retail Price (€)²	Farmer's Share %	Farmgate Price (€)³
Whole Milk 1 litre	0.96	0.32	33%	0.3/litre
Cheddar cheese 0.33 kg	3.90	0.76	20%	0.23/litre
Pork 1 kg	7.27	2.01	28%	1.39/kg
Bacon 1 kg	7.87	2.01	26%	1.39/kg
Beef 1 kg	8.10	4.03	50%	3.02/kg
Lamb 1 kg	9.78	4.62	47%	3.93/kg
Potatoes 10 kg	7.00	2.50	36%	0.25/kg
Mushrooms 1 lb	2.15	0.80	37%	0.80/lb
Eggs doz. Medium	3.12	1.05	34%	1.05/doz
Carrots 1 kg	1.36	0.62	46%	0.62/kg

¹ Retail Price

- Retail price for beef, lamb, pork and bacon are based on TNS retail data from Bord Bia on total sales volumes and total receipts for the 52-week period up to November 29 2009.
- Retail price for all other products are based on CSO Consumer Prices Average Price Analysis May 2009. For liquid milk, it is the average price of a litre of whole milk sold in a two-litre pack.

² Farmer's share of retail price

- For beef the bone out or saleable meat yield is about 75%, increasing the farmer carcass price of €3.02 to €4.03/kg or 50% of the retail price.
- For lamb the bone out or saleable meat yield is about 85%, increasing the farmer carcass price of €3.93/kg to the equivalent of €4.62/kg or 47% of the retail price
- For pigmeat the bone out of saleable meat yield is about 69%, increasing the carcass price of €1.39/kg to the equivalent of €2.01/kg or 28% for pork and 26% for bacon.

³ Farmgate Price

- For milk and cheddar, farmer prices used are respectively the annualised average contracted liquid milk price for the two highest paying dairies for 2009, and the average manufacturing milk price for 2009 (VAT inclusive)
- For beef, lamb and pigmeat, the farmer price is the 2009 average price paid by the meat plant (VAT inclusive) for the carcass including bone etc.
- For carrots, the price received represents the average price paid to a grower supplying a high quality product to the retail sector.
- For all other products, the farmer price is the average price paid to producers through 2009.