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Discussing floor prices: taking the debate on agricultural policies to the next level

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On the first day of the French Agriculture Fair, the French President announced his intention to move forward on "floor prices" in France. This surprise announcement divided both the political class and the agricultural profession. However, as any political instrument, a floor price only makes sense in the light of the political vision it is designed to serve. In the absence of a well-defined project for the future of the French agricultural and food system, the debates surrounding the introduction of floor prices are primarily a reflection of the various stakeholders' divergent visions.

Floor prices: what are we talking about, and is it achievable?

The term "floor price" could be interpreted as a return to the guaranteed minimum prices that existed at the start of the Common Agricultural Policy (CAP). However, in the current context, the point is not to go back to the annual fixing of minimum purchase prices for each product, nor is it to ensure that the public authorities would buy these products, should they fail to find buyers on the market.

Today's intention is quite different, as the objective is to reinforce the consideration of production costs in the selling price of agricultural produces. These production costs would be calculated on the basis of indicators defined for each sector concerned by the scheme, and updated at a certain frequency; the reference to production costs would constitute a significant proportion (e.g. 50%) of the purchase price.

This mechanism is not new in France: successive *Egalim* laws already enacted in this direction for voluntary sectors. However, a number of loopholes allowed the system to be circumvented (for example, the fact that price formulas are negotiated between producers and the rest of the value chain, in which the balance of power is unfavorable to farmers). Hence the President's proposal for a 4th *Egalim* law to complete and reinforce the system.

On this basis, going one step further does not seem to call into question the compatibility of such a system with legal standards governing price fixing in agriculture. It should be noted that Spain, another country subject to European competition law, introduced a law on minimum prices in 2022. Finally, the European regulation on the common market organization (CMO) introduces derogations from competition law for the agricultural sector. Clearly, the legal feasibility of the mechanism does not appear to be an insurmountable obstacle.

Is introducing floor prices at national level a dangerous idea?

Would the introduction of floor prices at a French level lead to higher final prices for consumers? If so, would consumers switch to cheaper imported products, thus boosting import volumes? If the risk does exist, it can be relativised.

On the one hand, the final price paid by the consumer depends only partially on the purchase price of agricultural raw materials. These account only for 13% of the total value of foodstuffs consumed in France (including out-of-home catering), with noticeable variations from one sector to another. A significant proportion of the value is created by industries or retailers, in the form of transport, processing, packaging, R&D costs and margins. A change in the purchase price of raw materials is therefore not automatically reflected in consumer prices; the question at stake is that of value sharing and power asymmetries between players in the agricultural sector.

On the other hand, to be fully effective and avoid perverse effects, any effort to bring about a just transition in the food system requires simultaneity between levels of action: national and European levels at least; as well as production, mid-chain and consumption segments. From this point of view, introducing floor prices in France should induce to open that same policy file at EU level at the same time. This does not mean, however, that it would be absurd to push the issue forward at national level. Indeed, the introduction of floor prices would likewise benefit from being worked on in parallel with progress on topics such as the distribution of value within supply chains, or the labelling of the origin of raw materials, in order to minimise the aforementioned risks of rising prices for consumers or a shift towards imported foodstuffs.

What role for market regulation?

Decision-makers who are genuinely concerned about farmers' incomes do not have a wide range of tools at their disposal. A slogan from the French farmers' union *Coordination rurale*, which was widely taken up by farmers from other unions and by politicians of all persuasions, sums up the alternative: "prices, not premiums". Public authorities

can essentially support farmers' incomes either by using public money, through subsidies, compensation, tax breaks, etc. ("premiums"), or by incentivising markets to offer farmers decent prices, i.e. by dipping into the box of market regulation tools ("prices").

While floor prices come under this "market regulation" heading, it is also the case for many other measures: from the more consensual ones, such as margin controls or loss-leader thresholds for supermarkets (the importance of which was underlined by the adoption of the directive on unfair practices in the agri-food sector in 2018); to the more intrusive ones, such as quotas limiting the maximum production of each farm. In any case, French farming unions agree on agriculture not being kept alive by premiums alone, so that it seems legitimate to yet again raise the question of how to regulate agricultural markets. And all the more so in a context where French and European agriculture is far from evolving in a situation of pure and perfect competition, without any public intervention (insofar as we choose, for example, to maintain farms in disadvantaged areas, or to help those that do not have the resilience required to overcome a climatic or health hazard on their own).

A tool with potential effects that vary from one sector to another

In some sectors, such as suckler cows, prices paid to producers are regularly lower than production costs, a situation that is mainly compensated for by coupled aids. For some, the structural weakness of incomes demonstrates the sector's lack of competitiveness in relation to the state of the market and our competitors; others, on the contrary, argue that it is in our interest to maintain these production methods for the ecosystem services they provide to society. For the latter, floor prices appear to be one of the levers that can be activated to support production methods that provide insufficiently remunerated environmental services, while avoiding the risk of subsidies being captured by the downstream sector.

For sectors that can currently count on sufficient sales prices, but are subject to significant price variations, with low prices falling below the level required to cover production costs (e.g. the pork sector—but this is now true of virtually all sectors), the floor price system could act as a safety net. Depending on the calculation method used and the weight given to production costs in price formation, farmers could lose out in periods during which the market is buoyant, but they would minimise losses in times of market slump.

Finally, there is another situation in which floor prices could be an advantage, namely in sectors where production costs vary widely from one geographical area to another (for example, in the arable farming sector, between the fertile lands of the greater Paris basin and the more difficult lands of intermediate or southern zones). In this situation, floor prices could contribute to maintaining a certain diversity of production basins within the same sector and thus, indirectly, to combating the specialisation of territories or the fallowing of farmland.

From a debate on a tool to a debate on a vision

Clearly, floor prices are not a self-sufficient measure that can be adapted to all types of production. However, they do have the potential to provide part of the solution for those sectors that would choose to use them. And unlike the redistribution of subsidies that happens within a limited envelope, the experimentation of floor prices by some sectors would not constitute a deprivation of resources for others. In this respect, efforts to increase the inclusion of production costs in the price paid to farmers should be continued.

Nevertheless, pointing out the potential benefits of introducing floor prices does not mean refusing to raise the question of competition and competitiveness—issues often mentioned by parties opposed to their introduction. On the contrary, discussing the relevance of floor prices does highlight the need to define the agricultural and food system deemed desirable. This debate calls into question an approach based mainly on price competitiveness, and the

economic room for maneuver available to farmers, and supply chains alike, in order to make progress on issues that are not, or only marginally, addressed by the market: adaptation to climate change, land and biodiversity management. Floor prices reinforce the importance of what the recent agricultural crisis has already revealed: the need to develop a shared vision, within the agricultural profession, and with the rest of society, about the direction to be taken by the food system's stakeholders.

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