

# Gap between producer prices and the prices paid by consumers

2008/2175(INI) - 09/12/2008 - Non-legislative basic document

**PURPOSE:** to present a Communication from the Commission on food prices in Europe.

**CONTENT:**in the second half of 2007, agricultural commodity price increases accelerated and by early 2008 reached exceptional levels. These price hikes caused a rapid increase in consumer food prices, which reduced EU household purchasing power by around 1%. Low income households were hit even harder. The June 2008 European Council asked the Commission to report back on developments in agricultural commodity and food prices and analysis of the impact of speculation on agricultural commodity prices, as well as investigation of the functioning of the food supply chain. This Communication responds to this request.

Prices of agricultural products have decreased sharply over the past months and prices of food products are expected to follow suit. However, structural factors like the growth in global food demand and the decline in food crop productivity growth are likely to keep prices high up over the medium-term. It is possible that speculation played a role in determining prices, and a continued surveillance of markets for agricultural products is therefore required.

To put global supply and demand for food back into balance, agricultural production should respond to market signals and an open trade policy should be promoted. By agreeing to the Health Check of the Common Agricultural Policy (CAP), the EU has already taken decisive steps to allow farmers to respond better to more volatile market conditions. The Doha Round of WTO trade talks promises the opening up of agricultural markets to developing countries.

Against the background of the economic slowdown, it is more important that consumers benefit without delay when agricultural prices fall. Identifying and resolving problems in the functioning of the food supply chain in terms of regulation and competition is key to achieving this objective.

The Commission reviews developments in agricultural commodity prices and provides an outlook for the medium-term. It analyses the contribution of speculation to agricultural commodity price developments and investigates the functioning of the food supply chain. Drawing from its analysis, it sets out a roadmap to improve the functioning of the food supply chain. The roadmap contains a variety of initiatives and should evolve over time as knowledge of the food supply chain deepens:

**Promote the competitiveness of the food supply chain:** the recommendations from the High Level Group on the Competitiveness of the Agro-Food Industry expected in early 2009 should help the food supply chain to improve its overall competitiveness and thus its resilience in response to price shocks.

**Ensure a vigorous and coherent enforcement of competition and consumer protection rules in the food supply markets:** in the context of the European Competition Network the Commission will continue a sustained dialogue with National Competition Authorities, so as to ensure a coherent and well coordinated enforcement of competition rules throughout the EU, to the benefit of European consumers. Based on the analysis of market developments, investigation should be targeted at those restrictions of competition and/or specific practices which have the highest potential to distort competition. Moreover, at a time of sharply fluctuating food prices, the risk of misleading price advertising increases. For example,

consumers may be misled by suppliers altering pack size or contents in order to apparently maintain the same price for the relevant product. National consumer protection authorities should therefore pay particular attention to the enforcement of the Directives on unfair commercial practices and unit pricing.

**Review of regulations that have been identified as potentially problematic for the functioning of the food supply chain: the Commission proposes the following:** (i) regulations that restrict entry of new companies into the market need to be removed where appropriate, while keeping in mind their environmental and social goals; (ii) regulations which restrict business' ability to compete on prices should be examined at a national level; (iii) practices which distort the relationship between suppliers and retailers should be discouraged; e.g. late payments, unjustified or excessive fees paid by suppliers for services provided by retailers or tempting consumers with misleading offers; (iv) regulations on shop opening hours could deserve examination at national level in view of their impact on food prices, based on consultations of social partners and taking into consideration their social and environmental effects.

**Provide better information by setting up a permanent European monitoring of food prices and the supply chain:** the continued monitoring of producer and consumer prices of a set of selected and comparable consumer goods would reveal price differentials across Europe and help identify cases of market fragmentation. There appears to be a lack of sufficient comparable price and quality information that would empower consumers to make better-informed choices.

The Commission is reviewing regulations impacting the functioning of the retail markets.

**Examine measures to discourage speculation to the detriment of commercial operators in agricultural commodity markets:** the Commission considers that there is a need to avoid the effects that excessive speculation has on food prices. It is of the opinion that such a degree of volatility as the one observed during recent months benefits neither producers nor consumers. Accordingly it will examine what measures contributing to a reduction in price volatility in agricultural commodity markets could be taken. The Commission will take into account the results of the on-going in-depth review of the supervisory and regulatory framework that is applied to all significant financial market actors, including hedge funds and private equity, with a particular focus on capital requirements, risk management and transparency.