Fair revenues for farmers: a better functioning food supply chain in Europe

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PURPOSE: to propose concrete actions to improve functioning of the food supply chain in the EU.

CONTEXT: the Commission has been following developments in food prices as part of a market monitoring exercise launched within the context of the November 2007 Single Market Review. In December 2008, the Commission published an interim report on "Food prices in Europe" and set out a roadmap identifying the key directions for policy actions. The food supply chain connects three important sectors of the European economy – agriculture, the food processing industry and the distribution sectors – that together make more than 5% of European value-added and 7% of employment. Moreover, its performance has direct consequences for all European citizens, since food represents 16% of European households' expenditures. It is thus essential that the food supply chain functions well to provide quality and safe food products at affordable prices. Over the past couple of years, prices along the food supply chain have fluctuated widely. From mid-2007 to mid-2008, agricultural commodity prices rose sharply, which resulted in increased consumer food prices and higher inflation levels overall. Since then, prices of many commodities have come down to levels comparable to or even lower than those reached before the start of the price surge. These changes have caused considerable hardship for agricultural producers and imply that consumers are not getting a fair deal. Looking into the future, it should not come as a great surprise that agricultural commodity prices may increase again rapidly as the world climbs out of recession. If the identified market malfunctioning is not addressed soon, there is a risk that consumer food prices will increase in turn disproportionately, leading to a drop in purchasing power and consumer confidence, and possibly slowing the emerging recovery of the European economy. It is therefore of the utmost importance to exert constant vigilance in order to identify and remove market distortions that have contributed to the observed asymmetries in price transmission along the food supply chain.

CONTENT: the Communication identifies significant tensions in contractual relations between actors of the chain, stemming from their diversity and differences in bargaining power. It also highlights the lack of transparency of prices along the food chain as well as the increased volatility of commodity prices. Lastly, it shows that the internal market for food is still fragmented across products and Member States. The Communication proposes **concrete policy actions at Member States and EU levels to improve the functioning of the food supply chain in Europe**. It describes the link between agricultural commodity prices and changes in consumer food prices. It identifies the main challenges faced by the food supply chain and presents a number of policy initiatives aimed at overcoming them. Lastly, it presents the next steps the Commission will take to implement these initiatives.

In order to improve the functioning of the chain, the Commission proposes:

(1) to promote sustainable and market-based relationships between stakeholders of the food supply chain:

- the Commission will work with Member States to put contractual relations on a more secure footing so that contracting parties will be able to reap the full benefits from the single market while retaining their freedom to contract. This will entail: i) an exchange of information on contractual practices, including a clarification of contractual rights and of the legality and fairness of commonly used contract clauses; ii) the launch of awareness campaigns to inform stakeholders of their

contractual rights and potentially illegal or unfair practices; iii) an exchange of best practices on notification of contractual practices (e.g. Ombudsmen, actions by enforcement authorities, collective actions);

- at Community level, on the basis of the information gathered in this context, the Commission will: i) work together with the food supply chain stakeholders to prepare sets of standard contracts, whose use would be voluntary, taking into account the diversity of the food supply chain; ii) assess unfair contractual practices in the Internal Market and propose any necessary Community measures to address such practices;
- lastly, the Commission will work with the European Competition Network (ECN) to develop a common approach to relevant competition issues aiming at a sustained exchange of information, a swift identification of problematic cases and an efficient allocation of tasks among each member.

(2) to increase transparency in the food supply chain to improve the oversight of agricultural commodity derivatives market with the view to contain volatility and speculation:

- the Commission will make proposals to improve the oversight and overall transparency of agricultural commodity derivatives markets in the context of the overall approach on derivatives and the review of the Directive for Markets in Financial Instruments (MiFID);
- it publishes the first edition of the European Food Prices Monitoring tool and commits itself to examining ways of developing it further in order to cover a greater number of food products and chains, starting from the Summer of 2010. The Commission and calls for Member States to set up web-based and easily accessible food retail price comparison services;

(3) to foster the integration and competitiveness of the European food supply chain across Member States:

- in order to remove obstacles and end practices that fragment the Internal Market, the Commission: (i) will assess measures to address territorial supply constraints, to the extent that these create economic inefficiencies and contradict Internal Market principles (an Impact Assessment based on a detailed study to inform its action will be produced by the end of 2010); ii) urges the Council and the European Parliament to adopt rapidly the Commission's proposal for the revision of the legislation on labelling rules; iii) will review selected environmental standards and origin labelling schemes that may impede cross-border trade, with a view to establishing whether the policy objectives of these regulations can be reached with a smaller impact on the integration of the food supply chain; iv) also work with Member States and industry towards better harmonising the implementation of Community food safety standards;
- in order to foster the competitiveness of the food supply chain, the Commission will: i) promote and facilitate the restructuring and consolidation of the agricultural sector both in the context of the Rural Development policy, notably by encouraging the creation of voluntary agricultural producer organisations, and in the broader context of post 2013 Common Agricultural Policy. This will first be examined for the specific situation in the dairy sector; ii) take action to bring forward the proposals of the High Level Group aiming to improve the competitiveness of the agro-food sector, notably of SMEs, and to foster innovation and exports in the sector.

The increase in transparency along the food supply chain and the promotion of sustainable and market-based relationships between stakeholders have the potential to facilitate European recovery and should thus be undertaken as a priority before the end of 2010. The other initiatives address structural issues of the chain, with the aim of improving integration and competitiveness in the longer term. They will be complemented by proposals to strengthen the competitiveness of Europe's retail sector in the forthcoming Communication on the Retail Market Monitoring exercise. The **Commission will issue by November 2010 a report on the follow-up to the actions proposed,** on the basis of on-going discussions with EU

Institutions and relevant stakeholders. To that effect, the Commission plans to broaden the scope and mandate of the existing High Level Group on the Competitiveness of the Agro-Food Industry, as well as its membership.