European Commission
Agriculture and Rural Development

A better functioning food supply chain in Europe

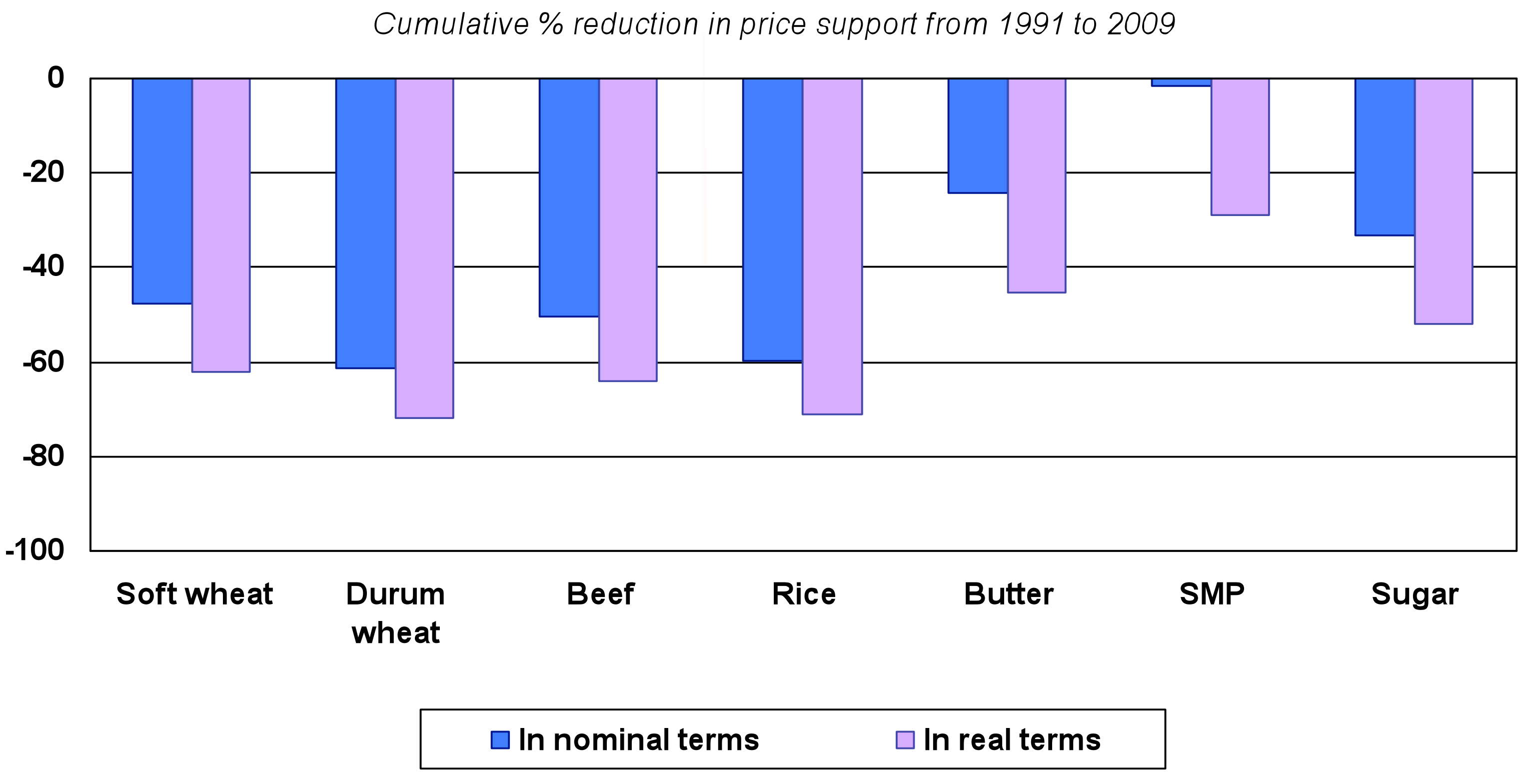
Pierluigi Londero
Economic Analysis of EU Agriculture
DG for Agriculture and Rural Development
European Commission

- ***Context of the Commission work related to the food supply chain***
- ***Key challenges identified for the food supply chain and policy initiatives***
- ***Ongoing discussions related to the food chain, and future processes***

Institutional and economic context

- ***CAP reforms, including big cuts of intervention prices, for many sectors***
- ***Strong turbulence on commodity markets since 2007***
- ***Market monitoring exercise of the food supply chain since 2008***
  - Communication May 2008: high prices
  - Communication December 2008: policy directions on the food supply chain (roadmap: competitiveness, competition and consumer protection, regulation, monitoring and speculation)
  - Communication October 2009: final report presenting concrete initiatives along the line of the roadmap
- ***HLG on agro-food competitiveness***
  - 30 recommendations

Reductions in EU price support, bringing EU prices in line with world prices



Source: European Commission - DG Agriculture and Rural Development

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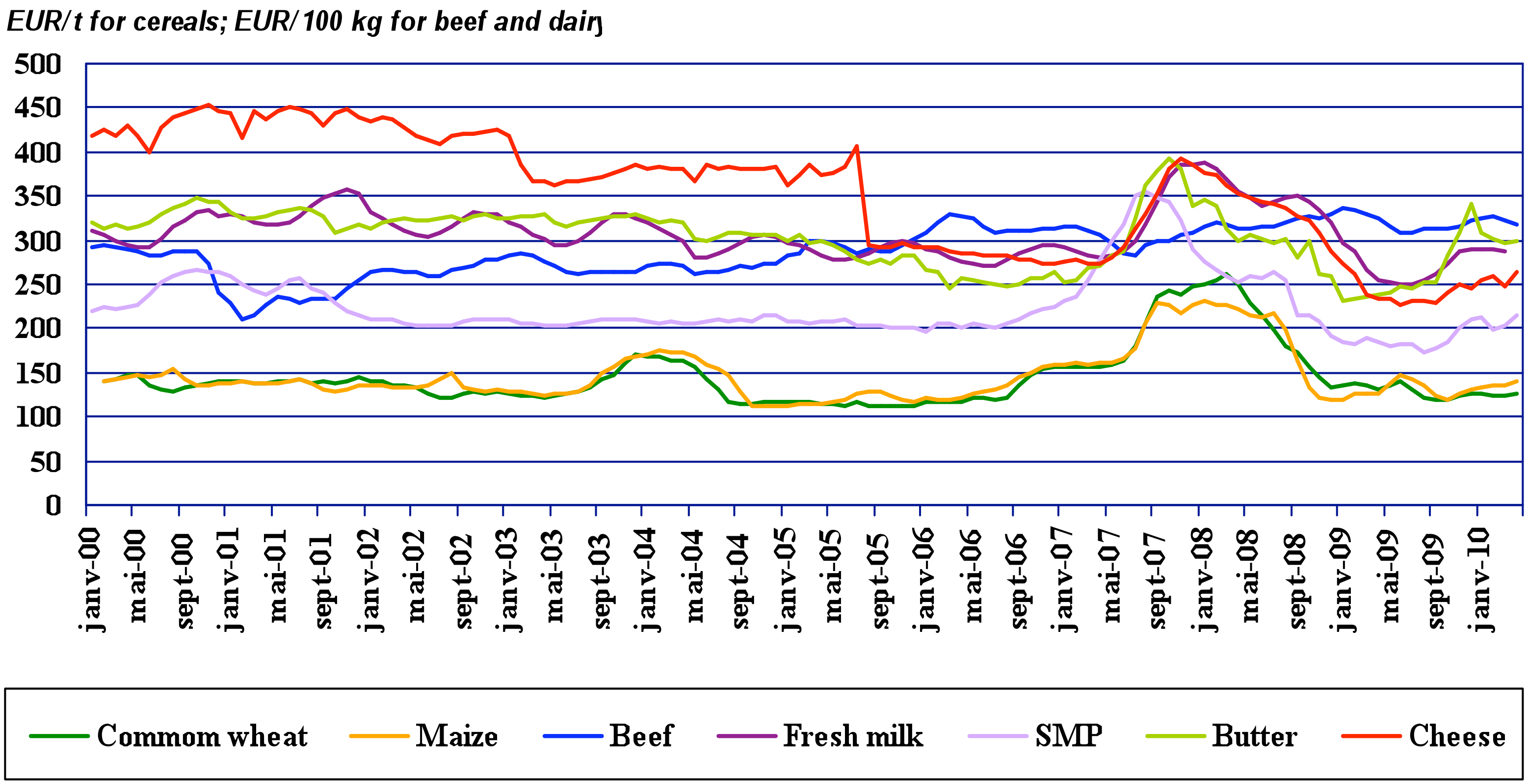
Recent trend of EU agricultural market prices



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Key challenges identified for the food supply chain

1. ***Sub-optimal relationships between the stakeholders of the chain***
   - Diversity of markets and actors along the chain => necessity to monitor potential anti-competitive practices; asymmetry in bargaining power can lead to inefficiencies
2. ***Lack of transparency on price formation along the chain and increased volatility of commodity products***
   - Increased delays and asymmetry in price transmission; low comparability of retail prices
   - Excessive speculation and volatility on commodity markets
3. ***Fragmentation of the Internal Market and low competitiveness of EU agro-food sector compared to the rest of the world***
   - Big price differences across Member States
   - Identification of barriers to market integration (territorial supply constraints)

Distribution of value added in the EU-25 food supply chain (1995-2005)

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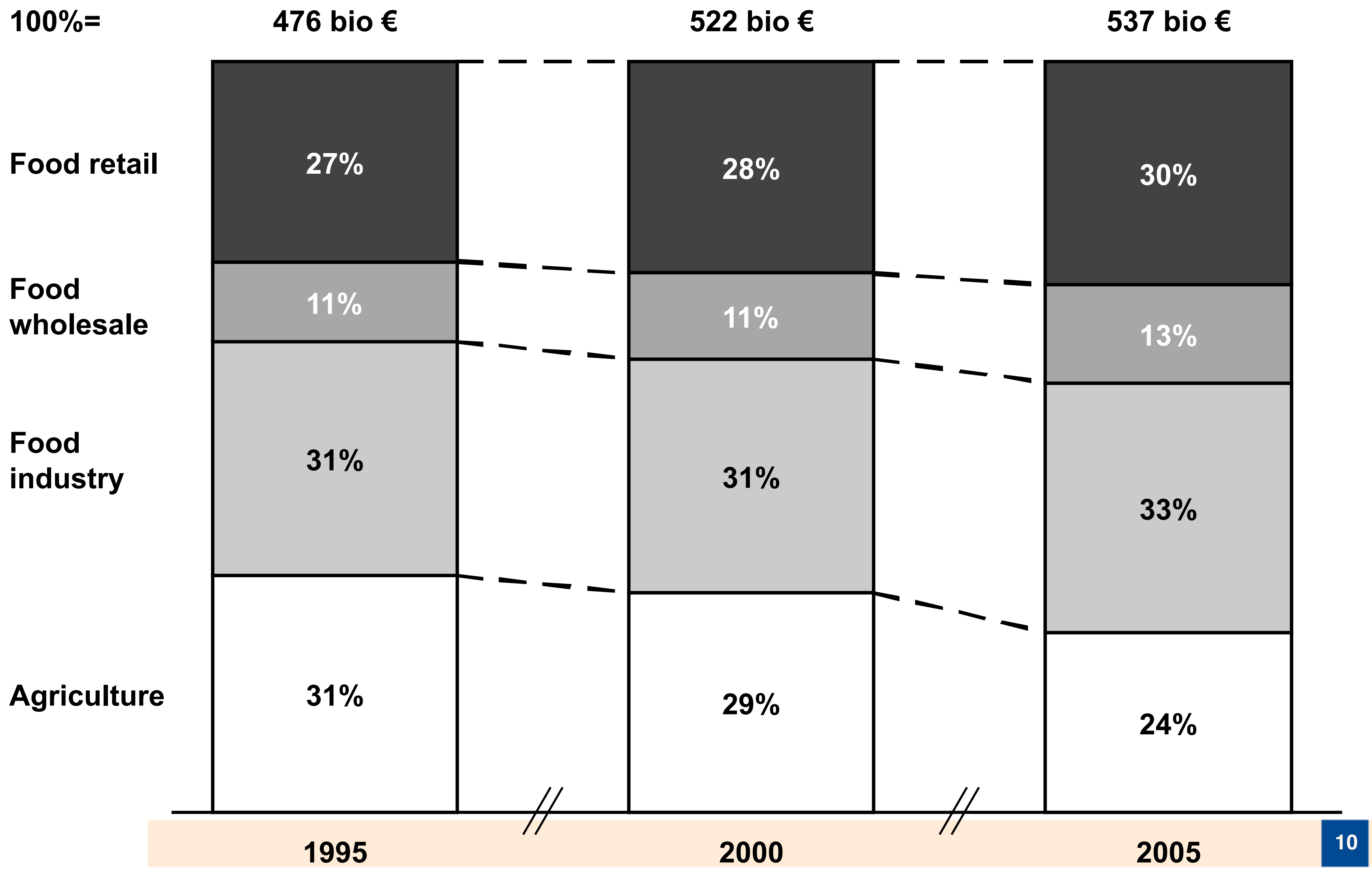

Source: EU KLEMS, EUROSTAT Structural Business Statistics

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Illustrative example: price evolution along the food supply chain

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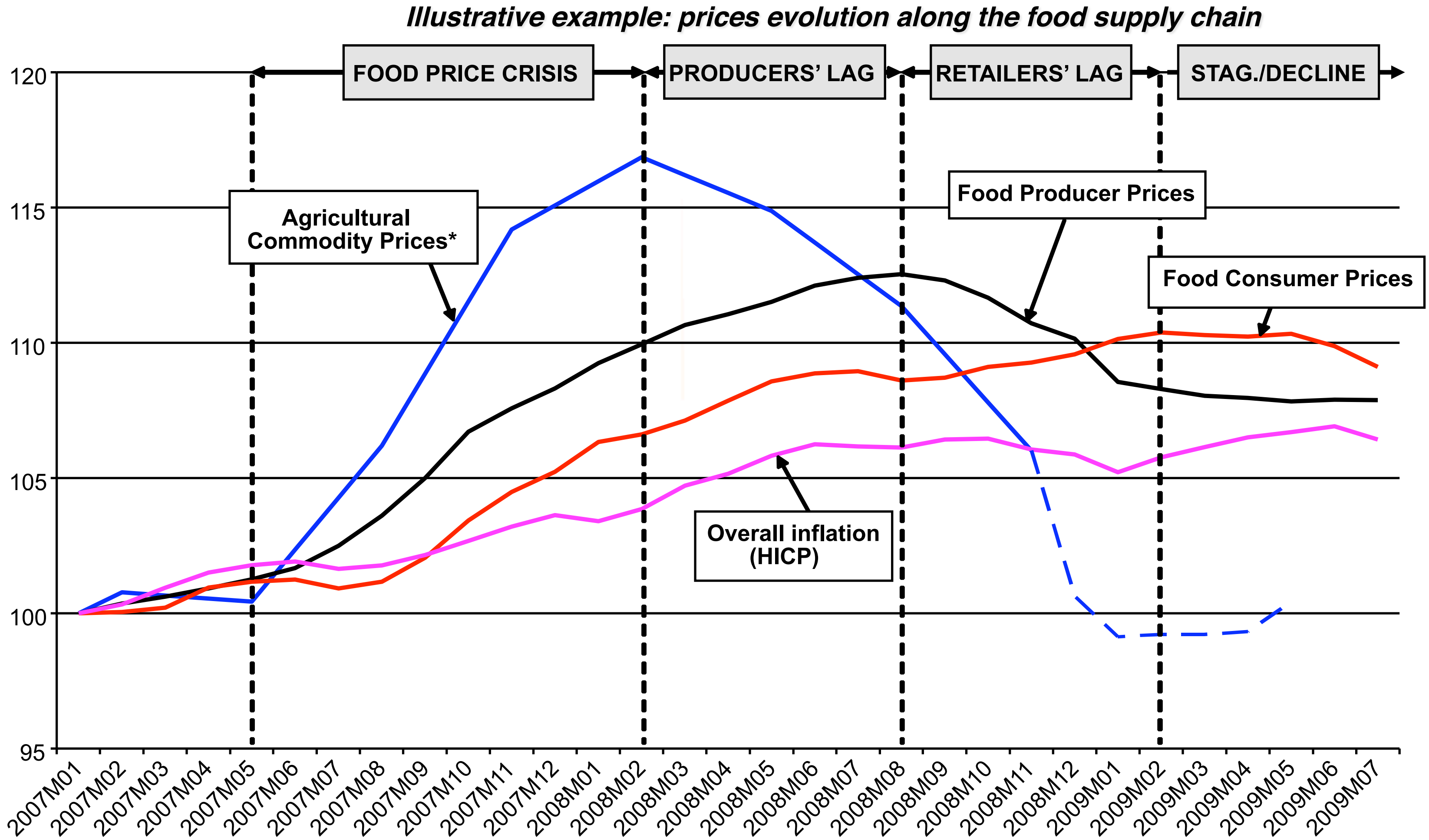

* Quarterly data for agricultural commodity price index; from January 2009, the index has been extrapolated based on price levels of major commodities available in Agriviews database; Source: EUROSTAT; AGRIVIEWS

Pass-through of price increases and price decreases along the food supply chain in the EU

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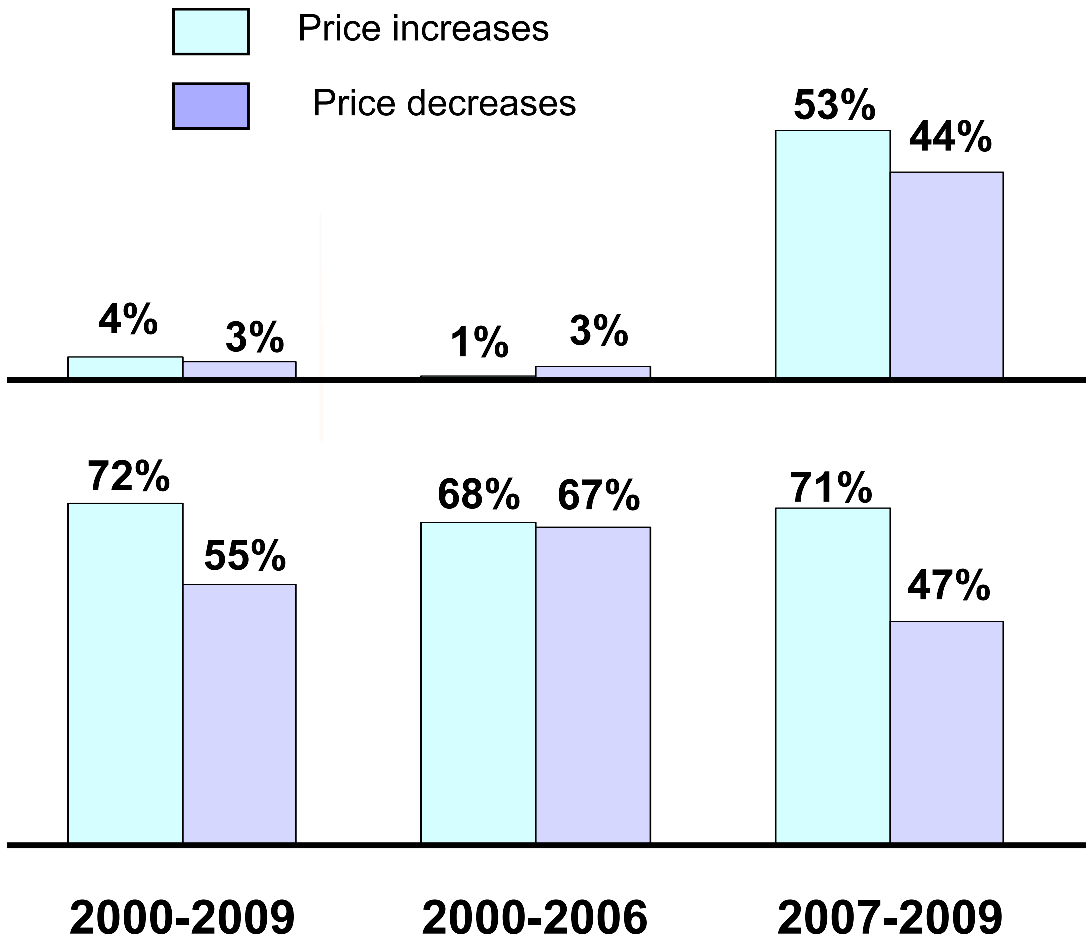
Pass-through from agricultural commodity prices to food producer prices – Up to 6-month lags

Pass-through from food producer prices to food consumer prices – Up to 3-month lags*



*Source: EUROSTAT; own calculations

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Policy initiatives for the food supply chain

1. **Promote <u>sustainable and market based relationships</u> between stakeholders of the food supply chain**

2. **<u>Increase transparency</u> along the chain to spur competition and improve <u>resilience to price volatility</u>**

3. **<u>Foster the integration and competitiveness</u> of the European food supply chain across Member States**

Recent initiatives on food supply chain

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- ***Commission:* Communications and staff working documents (latest in October 2009)**
- ***Council:* Presidency conclusions (March 2010)**
- ***European Parliament:* own-initiative report (MEP Bové) adopted (September 2010)**
- ***Economic and Social Committee:* Narro/Kapuvari report (September 2010)**
- ***High Level Group of the Competitiveness of the Food Supply Chain***
- ***High Level Expert Group (HLG) on Dairy* (June 2010)**
- ***Food Supply Chain Forum* (to be launched in December)**

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For further information

- ***The CAP after 2013***
  http://ec.europa.eu/agriculture/cap-post-2013/index_en.htm

- ***EU agriculture and CAP reform***
  http://ec.europa.eu/agriculture/index_en.htm

- ***Economic Analysis and Evaluation***
  http://ec.europa.eu/agriculture/analysis/index_en.htm

- ***Agricultural Policy Analysis and Perspectives***
  http://ec.europa.eu/agriculture/analysis/perspec/index_en.htm

Thank you