

Brussels, 28 October 2009

A better functioning food supply chain in Europe

What is the objective?

In this Communication, the European Commission proposes concrete actions at Member States and Community levels aiming at improving the functioning of the food supply chain in Europe.

The central objective is to ensure that consumers pay the right price for food and that actors in the chain – be they farmers, food producers and distributors, get the right compensation for their activity.

Why is this important?

How the food supply chain works is important for all European citizens since it impacts the safety, quality and price of food products. On average, European households spend 16% of their budget on food, making it one of their biggest expenditures.

The food supply chain is also important for the European economy since it connects three large sectors – agricultural, food processing industry and distribution – that together make more than 7% of European employment.

Improving the functioning of the food supply chain can thus have positive consequences for citizens, through better food at cheaper prices, and for companies active in this field, through higher growth and employment.

What is the problem today?

At present, food prices for consumers react only partially to changes in prices of agricultural products. A good example is that prices of food have remained rather high over the past year while at the same time the prices of agricultural products were plummeting.

To some extent, it is normal that food prices for consumers and agricultural products do not evolve exactly in the same ways because there is a lot more in a food product than just the raw agricultural commodity (such as the costs of energy to transport it to shops or costs of labour to transform it into ready-to-eat food).

However, since 2007 the situation has worsened because food consumer prices appeared to increase when agricultural commodity prices increase but not to decrease as much when commodity prices decrease.

Another important problem in the food supply chain is that relationships between the different actors are sometimes conflicting. A specificity of the food supply in Europe is that it includes very different economic actors: farmers, either independent or in cooperatives, food producers, either SMEs or large international groups and distributors, either small cornershops or supermarkets chains.

This means that very often, when doing business and signing a contract, there is an asymmetry of bargaining power between the actors: for one actor, it is just another contract, for the other it is a very important contract. The most powerful actor will thus be in a good position to ask for ever better prices and conditions. If this is 'business-as-usual' in most cases, it can also lead to unfair practices, such as late payments, unilateral changes in delivery date and quantity or unilateral changes in prices. If such practices occur too frequently, this can negatively affect the long term performance of all actors of the chain.

What are the actions?

The Commission considers that improving the relationships between the actors of the chain will contribute to a better functioning food supply chain.

Freedom of contracts is a very important principle of the EU internal market; so the Commission is not looking at intervening directly in the contractual relations between two economic actors.

However, it will work with Member States to better identify unfair contractual practices in order to better understand the problem. It also proposes, together with the Member States, to launch awareness campaigns to better inform the economic actors on the unfair contractual practices. Too often, the smallest actors don't know their rights. Last, a very important point is to help actors report potential abuses. It is often difficult for an actor with little bargaining power to complain about a contract because he fears he will lose it altogether.

The Commission also proposes to draft standard contracts with stakeholders from the different sectors. These contracts will serve as reference points, and would be used on a voluntary basis.

The Commission will also contribute to increase the transparency on prices in the food supply chain. It has set up a [food prices monitoring tool](#), available to the public, which will enable to follow price developments of food at each step of the chain. It will then be easier to identify, for example, when the food consumer prices do not decrease fast enough.

Another important action proposed by the Commission is to develop services for comparing prices between the different retail outlets. This can be very useful for European citizens since it can help them to better identify the price differences between retailers and to better choose where they want to shop. The Commission has proposed that all Member States have such price comparison services.

The Commission also plans to increase the oversight of agricultural commodity derivatives markets. This will contribute to contain speculation and volatility in these markets and ultimately benefit all actors of the chain.

Last the Commission will work to further facilitate cross-border trade of food products. This is important because it will increase competition within the European internal market, ultimately leading to better prices and wider choice of food products for the European citizens.

What are the next steps?

Issues affecting the food supply chain are incredibly complex and wide-ranging. The Commission will need the support of Member States and of all the actors of the chain in order to put forward its proposals.

This is why the Commission will broaden the membership of the existing High Level Group on the competitiveness of the agro-food industry to create a forum including all stakeholders of the chain in order to discuss how these proposals can be implemented.

The full text of the Communication is available at:

http://ec.europa.eu/economy_finance/thematic_articles/article16028_en.htm