From the stable to the table: the Commission’s coordinated approach to combating soaring food prices in Europe

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Global context: the creation of a food price bubble

Reversing the trend of three decades of low food inflation, 2006 marked the start of a steep upward course for the prices of a number of commodities. The price of nearly every agricultural commodity increased dramatically in the second half of 2007 and reached peak levels in the early months of 2008, creating a global food price bubble resulting in a worldwide food crisis. In terms of concrete figures, world agricultural commodity prices rose by 70% (in dollars) between September 2006 and February 2008. As a consequence, soaring food prices undermined food security and worsened the livelihoods of the most vulnerable households worldwide, eroding their already limited purchasing power.

The rising food prices were the result of the coincidence of several global factors and trends, some structural (rising demand from developing countries, increased use of feedstock to produce biofuels) and others temporary, ranging from droughts in key grain-producing regions, through low stocks of cereals and oilseeds, rapidly rising oil and energy prices to a high level of speculation, among others.

The situation in the EU: wide differences between Member States, sectors and households

In the EU, the food supply chain accounts for 6% of EU value added and 12% of EU employment. It brings together the agricultural sector, the food processing industry and the distribution sector. The role of the food sector for the European economy, as well as the importance of foodstuffs in the daily shopping baskets of European consumers, cannot therefore be overrated. The recent price hikes resulted in a rapid increase in consumer food prices, although they were transmitted to different a degree and pace at Member State level. The likely causes of such differences in pass-through across countries were linked to various factors such as differing infrastructure costs, domestic policies, and market structures. Wide differences in food pricing between Member States could thus be observed as a result.

Although in 2008 the prices of certain commodities started to decline, the unprecedented retail price hikes (and the absence of a downward consumer price trend) have raised important concerns regarding possible malfunctions of the European food supply chain. The competitive structure of food retail markets and the regulatory hurdles which market entrants may face have also been under the spotlight. Such potential malfunctions and legislative barriers have possibly affected the transmission mechanisms linking agricultural commodity prices with producer and consumer food prices.

Commission action and its implications for competition policy

In response to these concerns, the Commission has initiated a process aimed at providing both an immediate and a long-term response to the surge in food prices, so as to mitigate the impact that this trend has on final consumers.

The Communication on “Tackling the challenge of rising food prices: Directions for EU action” of May 2008 (2) set up a Task Force to examine the functioning of the food supply chain, including concentration and market segmentation of the food retail and distribution sectors in the EU. The Task Force produced a first report on the situation that was incorporated into a second Communication on “Food Prices in Europe” (3) adopted in December 2008, which proposed a roadmap to improve the functioning of the food supply chain.

From a competition policy perspective, the latter Communication calls for vigorous and coherent enforcement of competition rules in the food supply markets by both the Commission and national competition authorities. Underlying questions that arise in this context relate to the need to understand whether concentration in the food supply chain is more problematic than in other sectors, whether the food supply chain is prone to price stickiness and whether such alleged stickiness can be linked to competition shortcomings. The intrinsic concern of competition authorities throughout the EU is to ensure that consumers receive the full benefits of well-functioning markets in the food sector.

(1) The content of this article does not necessarily reflect the official position of the European Commission. Responsibility for the information and views expressed lies entirely with the authors.


In its December Communication, the Commission committed to pay particular attention to a number of specific practices that occur with relative frequency in food retail markets. Apart from hardcore restrictions on competition such as cartels and resale price maintenance, some practices have been singled out as potentially harmful for competition. Such practices, which may thus merit closer scrutiny, always on a case-by-case basis, relate to:

- buying alliances, which, under certain circumstances, can be used as a tool for foreclosing rivals’ access to essential inputs or can relate to collusive behaviour on downstream markets;
- exclusive supply agreements and certification schemes, which can lead to foreclosure of competing buyers;
- single branding and tying obligations, which may possibly restrict in-store inter-brand competition/foreclose competing suppliers;
- the use of private labels, which may possibly foreclose competing brands.

On the basis of such reflection at Commission level, DG Competition will endeavour to deploy its advocacy, monitoring and enforcement efforts in order to ensure that the food supply chain functions optimally.

National expertise as a key asset in remediing shortcomings

Given that retail markets are often defined at most as national in scope, it is crucial for competition authorities throughout the EU to address potential malfunctioning within the food supply chain in a coherent and coordinated manner. To this end, in 2008, the European Competition Network (ECN) served as a forum for discussion and exchange of best practice on issues related to food retail markets. In this context, DG Competition organised two meetings of the ECN Food Subgroup in July and November 2008. National competition authorities have been very active and have closely scrutinised many food-related sectors, as well as initiating a number of investigations (e.g. the bakery sector in Italy, the olive oil sector in Spain) and inquiries (e.g. the Grocery Monitor in Ireland), to name just a few.

Outlook

Given the gravity of the global economic crisis, the pricing of foodstuffs is likely to remain high on the political agenda throughout 2009. In January, the United Nations issued a new statement warning of forthcoming food shortages worldwide and reminding governments and policy makers of the need to continue combating soaring food prices in the context of the current economic downturn.

At EU level, the work of the Commission Food Task Force will continue this year and will be reported to the Council in December. It will also feed into the forthcoming Review of the Single Market. In parallel, DG Competition will strive to deepen its knowledge of the markets’ structure and practices in order to identify and remedy any possible breaches of competition rules. To this end, further sustained coordination within the ECN will also take place.