



NOTE

28 July 2008

To whom it may concern

From: The Danish Agricultural Council

Recommendations for the High Level Group on the Competitiveness of the Agro-Food Industry: Rising food prices

Agricultural prices have also increased in Denmark. Today, the prices of grain and dairy products are at the highest level within the last 5 years, and they are expected to remain at a higher level in the future. The pork price is still very low, and many pig producers are under economic pressure due to higher cost of fodder and energy.

Main explanations of the higher prices

There are three main reasons of the higher prices: The fall in the supply of grain products caused by weather conditions; the growing food demand, especially in China, and the increasing production of biofuels. Other factors are also emerging. We think that increasing oil prices and speculation in food prices have added to the upward price pressure.

Finally, we think that the rising food prices are a consequence of a more liberal trade policy and the liberalization of the CAP. We believe that more fluctuations in agricultural prices will be common in the future. New political instruments in the EU can therefore be necessary. A policy, which initiates some kind of safety net when prices are low, can be a very good instrument for farmers in the EU.

The rising prices have induced some countries to launch a more protectionist trade policy. We are not happy about this development. We want a liberal and fair trade policy which is decided in WTO. In the end this will lead to the most stable production and price structure, and it will also be beneficial for the consumer.

The consumer price goes up

The consumer prices on food have increased by nearly 8 per cent from May 2007 to May 2008. In the same period the prices of bread, cereals and dairy products increased by 14 per cent. The price of fruit and vegetables went up by around 4-5 per cent, but the price of pork has fallen by 3 per cent.

Strong competition in the retail sector

In media there has been a lot of discussion about the price structure between the farmer, the food industry and the retail sector. Therefore Danish Competition Authority has surveyed the bread industry this spring. However, their initial investigation has not found anything suspicious. The Competition Authority is currently working on a report about the price competition on the food market. The survey has focus on dairy products, bread and cereals. The work will be completed in the beginning of October.

Consumer reactions on the price

In May 2008 Danish Agricultural Council made a survey on the consumer's reactions to the rising prices. It shows that 54 per cent of the Danish consumers do not change their consumption. But 15 per cent buy their foods in cheaper stores – mainly discount stores which today have nearly one third of the market for food. Some consumers are also changing their consumption from expensive products to cheaper products. We expect that the consumer reactions will be more significant in the coming year.