



High Level group on the competitiveness of the agro-food industry Working Group “Price setting in the food chain”

Brussels, 16 July 2008

Task Force – Investigating the Food supply chain

Fabienne Ilzkovitz

DG ECFIN, European Commission

Context

Communication « Tackling the challenge of rising food prices – Directions for EU actions » (20/05/2008)

- Recent sudden and steep rise in world agricultural commodity prices
- Contribution to headline inflation: Food price inflation in the EU at 7%
- Vulnerable populations hardest hit – particularly in developing countries but also in the EU (16% of households below poverty threshold)

Multiple Causes

Structural reasons:

- Rising demand, esp. from emerging economies
- Rising energy prices
- Emergence of alternative market outlets (biofuels)
- Slowing down of growth in food cereal yields
- Climate change

Temporary reasons:

- Adverse weather conditions in exporting countries
- Financial markets developments
- Low level of stocks
- US dollar depreciation
- Export restrictions

The Policy response

Communication proposes three complementary lines of intervention:

1. Interventions to mitigate **short and medium term effects** of the food price shock
2. Interventions to **increase agricultural supply and ensure food security** in the longer term
3. Interventions to contribute to the global effort to **tackle the effects of the price rise on poor populations**

The Policy response

Short and medium term actions

Setting up of **three task forces** on:

1. Monitoring price developments
2. Analysing the role of speculation
3. *Investigating the functioning of the food supply chain (• in addition to the monitoring of retail sector within the context of the follow up to the Single Market Review)*

Reporting deadline: December 2008 European Council

Investigating the functioning of the food supply chain

Investigation is part of the new method of governance of the Single Market proposed in the SM Review (Nov. 2007)

SM Review:

Concrete policy actions aimed at modernising the SM

Improved governance based on a better understanding of markets:

- Act where it will have a maximum impact
- Act when markets do not deliver
- Assess consequences of policy interventions
- Identify synergies between policy instruments



Proposal for market monitoring

Market Monitoring

- **Market monitoring is a potential powerful tool to improve the governance of the Single Market by providing economic analysis of market functioning as a basis for policy proposals.**
- **It provides bottom up approach to policy making.**
- **It helps to shape a consistent and comprehensive policy strategy by analysing the potential interactions between different instruments.**
- **It allows taking into account interactions between policies implemented at national and Community levels.**



Methodology for product market and sectors monitoring: A two-stage approach

**Sectoral screening on basis of readily available
indicators**

+

**First analysis of the nature of the problems
affecting market functioning**

β

**In-depth investigation of market(s)
in selected sectors**

Criteria for sectoral screening

- 1. Economic importance of the sector**
- 2. Importance of the sector for the adjustment capacity of the EU economy**
- 3. Signs of market malfunctioning**

Selection strategies

Sectors with signs of market malfunctioning and [which are economically important or are important for the adjustment capacity of the EU economy]

- ∅ **22 sectors
(44% of EU VA and 46.5% of EU Employment)**
- ∅ **Food and beverage, wholesale and retail trade candidates for in-depth market monitoring**

SELECTED SECTORS	Market malfunctioning	Economic importance	Contribution to adjustment
22 - Printing and publishing	X		X
25 - Rubber and plastics	X	X	
27 - Basic metals	X	X	
28 - Fabricated metal	X	X	
29 - Machinery	X	X	X
30- Office, ac. computing mach.	X		X
31 - Electrical machinery	X	X	X
32 – Radio, TV, comm. equip.	X	X	X
34 - Motor vehicles	X	X	
35 - Other transport equipment	X		X
36 - Furniture	X		X
37 - Recycling	X		X
E - Electricity, gas & water supply	X	X	
50 - Sales, maint. and repair	X	X	
51 - Wholesale trade	X	X	X
52 - Retail trade	X	X	X
H - Hotels and restaurants	X	X	
60 - Inland transport	X	X	
63 - Other transport activities	X	X	
64 - Post and telecommunications	X	X	X
65 - Financial intermediation	X	X	X
66 - Insurance	X	X	X
74 - Other business activities	X	X	X

Selection strategies

Food and beverages is:

- **Economically important** (1.7% of VA, 2.3% of Employment and 8.7% of final consumption in 2005)
- It has a lot of **backward linkages** with other sectors of the economy (used as inputs by other sectors of the economy)
- It presents **signs of malfunctioning** (Labour productivity growth is 26.5 pp lower than the US over the period 1995-2005)

Selection strategies

Wholesale and retail trade:

- Are **economically important**
- Contribute significantly to the **adjustment capacity** of the EU economy:
 - | they have a lot of interrelations with other sectors
 - | they contribute to the ICT diffusion
 - | They are essential for the transmission of price shocks)
- Presents **signs of malfunctioning** (Labour productivity growth lower than the US over the period 1995-2005)



Methodology for product market and sectors monitoring: A two-stage approach

Sectoral screening on basis of readily available
indicators

+

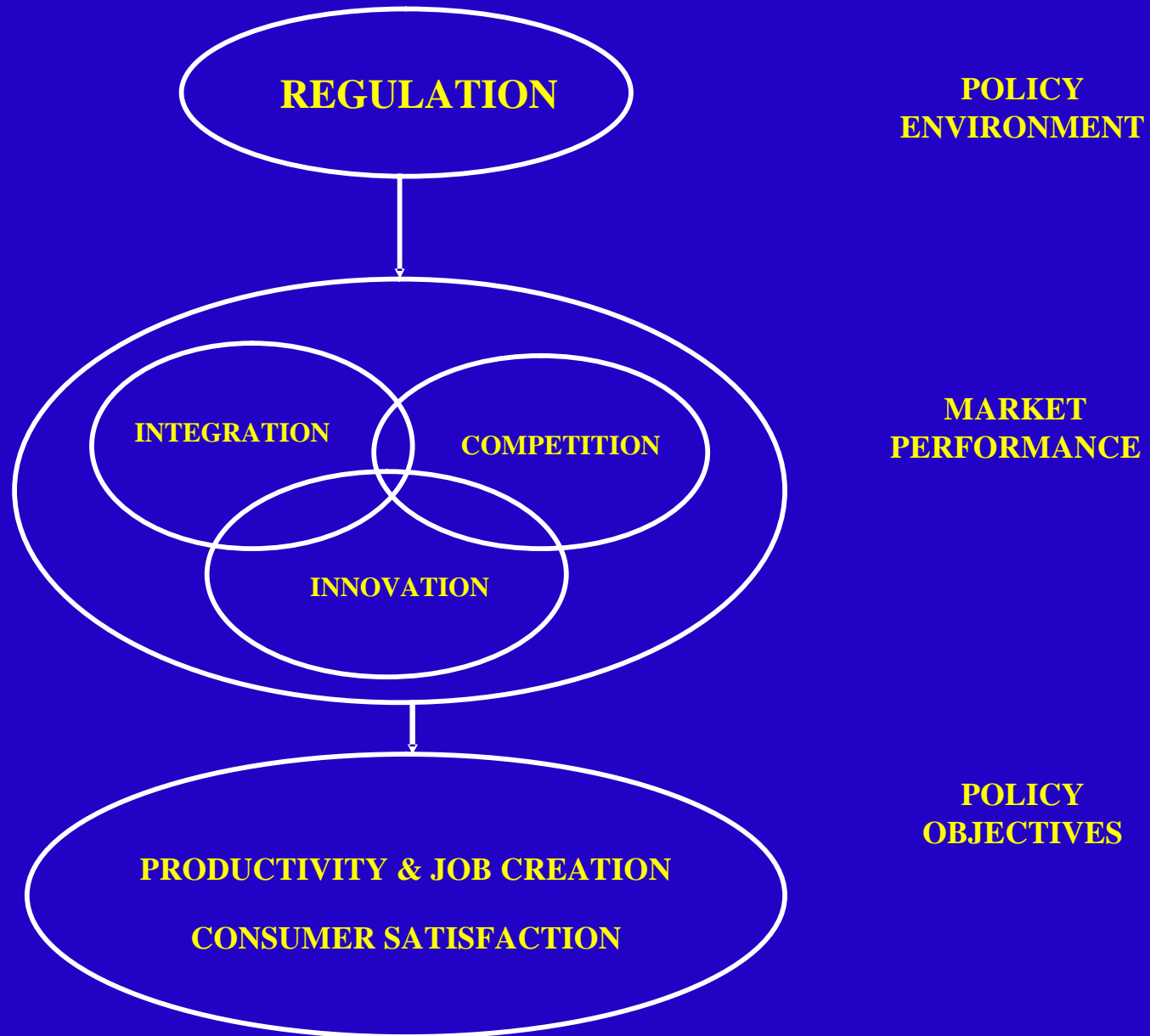
First analysis of the nature of the problems
affecting market functioning

β

In-depth investigation of market(s)
in selected sectors



Adopted approach



Possible causes of market malfunctioning

In the food industry, possible problems of integration, innovation and to a lesser extent competition and regulation

In the wholesale, possible problems of regulation, innovation and to a lesser extent competition.

In the retail trade, possible problems of regulation, integration, innovation and to a lesser extent competition.



Task force - Objectives

1. Better understand how competition and regulation in the food industry and the downstream retail markets may have affected price developments:
 - *Explore link between divergent price developments on the one hand and regulation and intensity of competition on the other*
 - *Explore reasons for differential impact of price rises across Member States*
 - *Explore why price increase is faster for processed food than for non processed food*
2. Identify some best regulatory practices
3. Identify possible actions at the Community level

Task force – Analytical framework

Structure [*Conduct* [*Performance*

1. Structure

Concentration, entry/exit, size of main actors,...

2. Conduct

Collusion, M&A, buying power of retailers,...

3. Performance

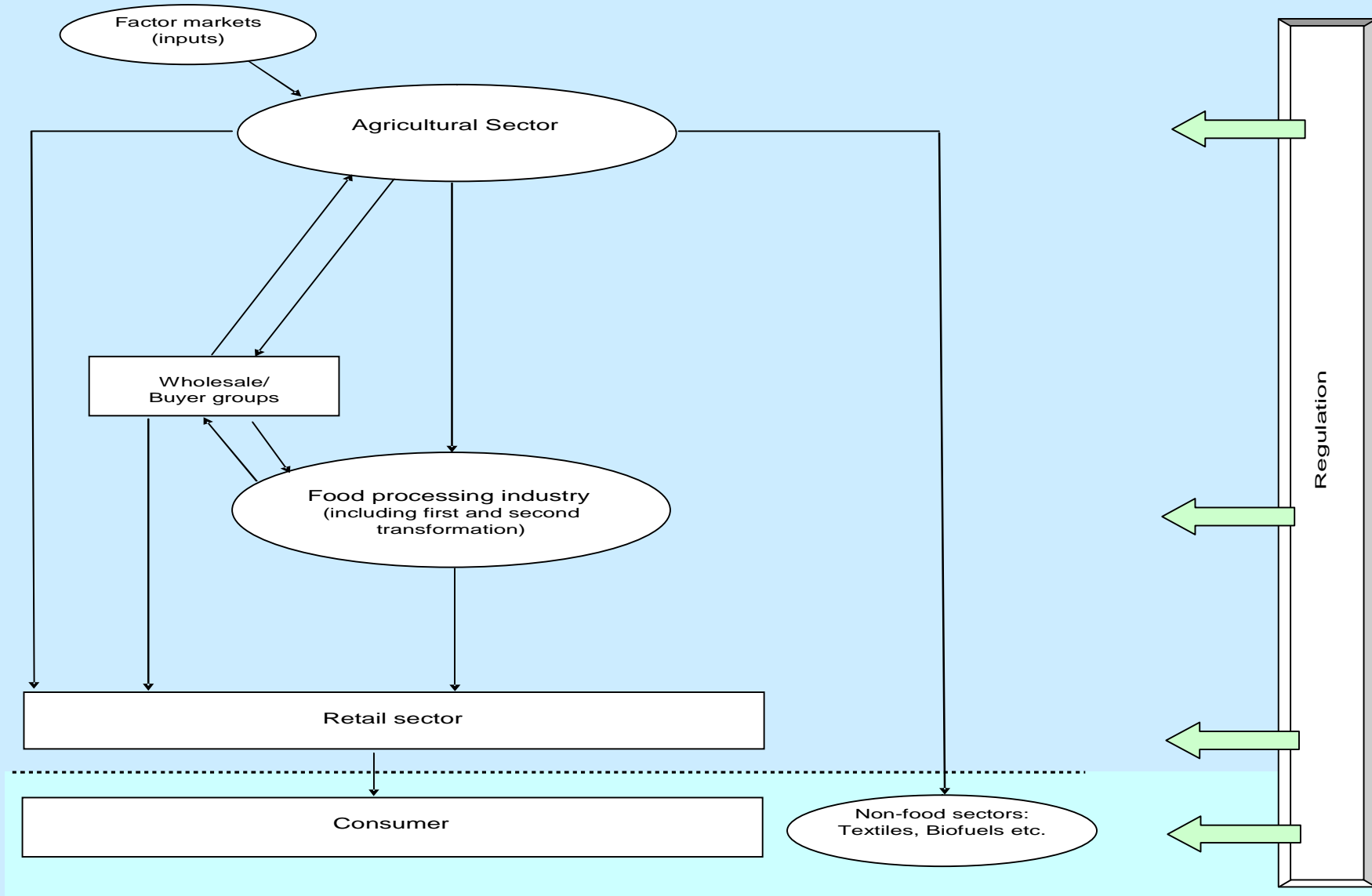
Prices, productivity, mark-ups, quality, consumer satisfaction



Task force – Outline of the report

- 1. Introduction**
- 2. Description of the food supply chain**
- 3. Scope for the analysis: Choice of three food product chains:**
 - Cereals for animal feed [meat
 - Cereals for milling flour [bread and cereals
 - Milk [milk and cheese
- 4. Economic performance and competition along the supply chain**
 - Prices, productivity, quality, mark-ups, consumer satisfaction....
 - Horizontal competition issues
 - Vertical competition issues
- 5. Regulation and Single Market issues**
 - Benefits and costs of regulations in terms of quality, choice and prices?
 - Main features of the regulatory framework and recent reforms
- 6. Conclusions**

Schematic representation of the food supply chain





Thank you

Contact:

fabienne.ilzkovitz@ec.europa.eu