



# A better functioning food supply chain - I

## POSITION PAPER

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**Date:** 3 December 2009

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## EXECUTIVE SUMMARY

### Serving consumers: at the heart of commerce's mission

On behalf of the commerce sector, EuroCommerce takes note of the publication of the Commission communication on a better functioning food supply chain. The commerce sector appreciates that the European Commission has delivered a report that to some extent reflects the functioning of the supply chain. However, some misunderstandings remain. If a number of aspects in this document are to be welcomed; others must be questioned or rejected

We would like to honour the Commission's efforts to better understand the functioning of the entire food supply chain, including an analysis of interactions between the various actors in the food supply chain and moving away from comparing farm gate with consumer prices. Indeed, the food supply chain has grown more and more complex as the complexity of products, of safety and quality requirements and the quality of service to consumers have increased. The communication also recognises that retailers often face large manufacturers which are able to impose their conditions and prices.

The Commission rightly recognizes the importance of competition in the commerce sector. Fierce competition among players in commerce is the best guarantee that consumers will get the best deal and that they will continue to benefit in terms of prices, choice, service and innovation. We concur with the statement that competition *"has translated into relatively low net operating margins for retailers and has contributed to cheaper prices for consumers on the long term"*<sup>1</sup>.

We would like to recall that, with the important exception of big name products, foods are essentially produced, purchased and consumed on national level. This has a clear impact on the structure of retail markets (which are essentially local) and prices.

The communication affirms that after the financial crises the food supply chain will play a key role in the recovery process and that prospects of increasing food prices could undermine the first signs of the process. The commerce sector being the closest link to consumers, it will be of utmost importance to ensure that its ability to continue to deliver low prices to consumers is not jeopardised by the piling up of unnecessary regulation. More than ever, the need for regulatory actions at national or European level should be clearly justified and any measure proportionate to the objectives sought.

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<sup>1</sup> Commission staff working document « competition in the food supply chain » SEC (2009) 1449

## Detailed comments

### 1. General objectives of the communication

Eurocommerce fully endorses that statement the statement in the paper: *“On several dimensions, the chain performs well: it delivers high-quality food products at affordable prices to European consumers; it ensures the safety and traceability of food products and it can pride itself on the ample supply of highly competitive, innovative and traditional products, both within and outside the EU”*. .

Within the context of that statement, and within the context of an understanding that the food supply chain is very different from one Member State to the next, Eurocommerce acknowledges the 10 recommendations in the paper, especially the demand for further studies or exchanges of information **prior to suggesting any further action**.

However, Eurocommerce believes that the Commission needs to define better its objectives. The food supply chain apparently fulfils its key objectives as it does achieve the outcomes noted above. It is hence not clear what further objectives the Commission has for the chain, especially when it claims that the food supply chain is underperforming.

Eurocommerce believes that consumers should be provided with the best possible prices in consistence with the objectives noted above – safety and traceability, for competitive, innovative and traditional high quality products. In our view, this objective can best be achieved by a **free competitive market** in which regulation and broader Government action is used only to guarantee competition, to ensure access for new entrants as well as consumer safety and to correct market failure only where this is clearly proven. Beyond that, any intervention is an unjustified hampering of business which adds unnecessary costs and thus increases the end price to the consumer.

It is not totally clear from the Communication whether the Commission shares the above mentioned aims or whether it would rather interfere in market mechanisms to achieve objectives such as artificially protecting specific interests of suppliers/farmers and/or of processors/manufacturers.

Eurocommerce believes that consumer interests should provide the ultimate test for any food related policy. Those interests are best served by highly competitive agriculture, manufacturing and retail sectors that can act in a commercially sensible and highly efficient manner which restrains costs from producers and processors that would otherwise lead to increased consumers prices.

### 2. Detailed comments on the recommendations

#### **Recommendation 1: The Commission considers that action is needed to eliminate unfair contractual practices between business actors all along the food supply chain**

Bargaining power is an intrinsic part of any market economy and in practice both large and small players exert market power. Cases of imbalance of market power exist as in any other supply chain. However, EuroCommerce fully rejects the confusion that seems to be made between imbalances of bargaining power and abuse of market power.

An **analysis per product category** would provide more accurate results than looking at relationships between operators on the basis of their size. In particular, it would show that small operators can also exert pressure on larger ones, as in the case of “must have

products". A survey conducted in Germany<sup>2</sup> shows that consumers expect the retailers' assortment to be composed of up to 50% must stock products. Retailers, big or small, have no negotiating power with the manufacturers of "must have" products, be they large or small companies. They simply cannot afford to lose the availability of these sought-after brands from their shelves by imposing unfair conditions on suppliers.

Furthermore, retailers depend on reliable and - commercially seen - sustainable supply chains in order to offer consumers the right product at the right location at the right time at the best price. Engaging in unfair practices would harm, not profit, retailers. Such abuse would undermine retailers' ability to source and to offer a wide range of products and therefore damage their competitive position.

Retail markets, by nature, tend to be national with differing legal, economic, political and cultural characteristics. Contractual relationships between retailers and suppliers are governed by national legislation, with distinctive features which vary from one Member State to another. Such contractual relationships should in all EU Member States be governed by the **principle of contractual freedom**, unless there is clear and unequivocal evidence of an abuse of a dominant position of a concrete operator on the product market in question.

The basic principle of freedom of contract must be maintained and any potential EU or national initiative in this area should be fully assessed in advance and clearly based on evidence of need, involving all parties in the food chain, in respect of the principles of the Single Market and of non discrimination.

The regulator's role is not to interfere in the functioning of markets without clear evidence of market failure but to ensure that the rules of competition are being observed so that the market can work freely. It is not appropriate for governments or the EU to interfere in business to business relations and try to influence the result in favour of one or other player in the market

Eurocommerce strongly defends the freedom of contract between businesses. To interfere here means to interfere in the competitive process.

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EuroCommerce acknowledges the Commission's commitment to act only on the basis of further studies. They MUST be the only basis and involve all operators along the food supply chain. It will finally show that no action along these lines is desirable or necessary.

#### **Recommendation N°4: The Commission publishes (...) the first edition of the European Food Price Monitoring tool and commits itself to examining ways of developing it further**

EuroCommerce has strong concerns over this proposal and questions whether this is the appropriate tool to meet stated objectives –ie. increasing transparency in the food supply chain and foster its competitiveness. In our views, to make sense, any price monitoring tool should focus on price transmission throughout the entire supply chain and its methodology agreed with all operators concerned.

Retailers are indeed the last link in the food chain, a chain that has grown more complex as consumer demand for more processed foods (to cope with changing lifestyles) has developed over time. With a few rare exceptions, they do not buy directly from farmers and do not dictate food prices: they pay the market price imposed by their suppliers. This determines the final price. Retailers make a relatively low profit margin (2-3% on average).

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<sup>2</sup> Institut für Handelsforschung, BBE Retail Experts

A direct link between commodity prices and retail food prices is difficult to make without an analysis of the food processing and distribution structure as well as the relative cost of inputs. The higher the degree of processing, the lower the share of commodity price in the final retail price. Before raw agricultural products reach the retailer they have to pass through a variety of stages -e.g. grading, sorting, cleaning, processing, packing and distribution. Each of these stages adds a value and has an impact on the final price. Retailers are also often required to buy branded goods from the national purchasing office of a brand manufacturer (territorial supply constraints), making it impossible to buy across borders and imposing large price differences across countries.

Any price monitoring tool should therefore focus on price transmission throughout the entire food chain and be able to capture all steps, be it for processed or non processed products. Limiting the analysis to retail and farm gate prices would overlook the fact that manufacturers exert a dominant influence on price levels.

In addition, comparing food prices across European countries makes little sense and will not improve the competitiveness of the food chain. Foodstuffs are indeed mainly purchased and consumed locally. Prices and product ranges - which are defined by consumer demands - differ strongly from country to country ; they reflect costs and a small margin.

Finally, we regret that stakeholders along the supply chain were not invited to discuss and agree on the goals, methodology, product categories and sub-sectors before it was launched ; this would have helped providing a balanced view.

The efficiency of the links that make the chain from farm to shop determines to a large extent the retail price. Promoting competitiveness and competition throughout the supply chain is the best guarantee that consumers will eventually get the best deal in terms of choice, price and quality.

To make sense, any price monitoring tool should focus on price transmission throughout the entire supply chain and its methodology agreed with all operators concerned.

### **Recommendation N° 5: the Commission (...) recommends that all Member States have web-based and easily accessible food retail price comparison services**

Again, EuroCommerce wonders if this recommendation is the best approach to meet stated objectives. It is interesting to note that the need for more transparency in food prices is justified by a consumer satisfaction survey, which concludes that consumers are overall satisfied with retail prices, quality of services, trust and market factors<sup>3</sup>. The Commission staff working paper on price transparency<sup>4</sup> goes further stating that the majority of EU consumers agree that in the three markets analysed "prices are clear and accurate".

In practice, consumers can and do compare prices –as they visit on average three supermarkets a week for their grocery shopping and the role of competition among retailers in delivering lower prices is recognised. As stated in the Commission staff working paper on competition, *"retailers engage in frequent price wars and this intense competition maintains a high pressure on them to deliver better prices for consumers"*.

A more detailed analysis of prices would show that prices change regularly, often daily (seasons, promotions, etc.) and vary according to a number of other factors, including store format, location, service, etc. It will thus be interesting to see how web based price monitoring tools are able to capture those daily developments, whilst avoiding discrimination between large and small retailers, rural areas and cities, etc.

<sup>3</sup> Commission staff working paper « improving price transparency along the food supply chain for consumers and policy makers » SEC (2009) 1446

<sup>4</sup> "Improving price transparency along the food supply chain for consumers and policy makers", SEC(2009) 1446

The need and role of such web-based price monitoring tools can therefore be strongly questioned.

**Recommendation n° 6: The Commission (...) will assess measures to address territorial supply constraints, to the extent that these create economic inefficiencies and contradict Internal Market Principles**

The commerce sector has always been a strong supporter and beneficiary of the Single Market. In turn, consumers benefit from an increased choice of products at better prices. In practice however, suppliers of branded goods have largely managed to prevent the creation of an EU wide internal market for their products by forcing retailers to purchase from their national distribution organisations. Retailers are unable to negotiate on identical products on a cross-border basis (rather than on a national basis). As a consequence, purchase prices invoiced to retailers for the same products differ substantially from country to country, and suppliers manage to push through higher purchase prices.

The table below shows price differences applied by manufacturers of branded products across various countries:

Products	Most expensive country	Cheapest country	Price difference
Light fresh cheese	Italy	Spain	49 %
Cleaning liquid	Belgium	France	41 %
Chocolate kids' cereals	Belgium	Spain	41 %
Regular kids' cereals	Italy	Spain	38 %
Chips	France / Belgium	Italy	12 %
Chocolate spread 400g	France	Belgium	11 %
Chocolate candy	Spain	Italy	10 %

Source: FCD

Having looked at the practices of its suppliers, a leading retailer highlights that price differences can reach up to 35% and even more for the same, identical product between Member States.

In Ireland, according to information given at a meeting of an Irish parliamentary committee in February 2009, differences applied to products sold in Ireland and in the UK can vary up to 130% with Irish retailers being obliged to procure on the basis of the price list applying to Ireland.

Those figures explain a large portion of the consumer price differences between markets for the same branded product. However, other factors will include salaries and social charges, cost of energy, taxes, logistics, etc.

Allowing retailers to fully benefit from a functioning internal market for the supply of goods, in particular branded products, would have a positive impact on prices to the benefit of consumers.

We therefore warmly welcome the Commission recommendation to assess and take measures to address territorial supply constraints. The main beneficiary will be the consumer.

**Recommendation N° 7: The Commission (...) urges the Council and the European Parliament to rapidly adopt the Commission's proposal for the revision of the legislation on labelling rules**

EuroCommerce supports the proposition that food labelling legislation should be adopted as soon as possible –but only consistent with a thorough consideration of the proposals and the many amendments that have been proposed. This is important legislation and must not be rushed simply to have it on the statute book. It is more important to get it right than to rush it through. We are concerned that some aspects of the draft regulation on food consumer information contradict internal market principles and may generate unnecessary costs and legal uncertainty.

Since the late 70's, consumer demand and marketing practices have continuously changed. There is thus a real necessity for reviewing the current EU food labelling legislation, by meeting consumers' expectations for simple, legible and understandable information and the needs of business for flexible rules that can adapt to the changing market. At the same time, as any other EU policy, the rules of food legislation have to be in line with fundamental principles of European Union and in particular enable free movement of goods within the Internal Market.

Thus, EuroCommerce fears that some of the recently proposed new rules<sup>5</sup> may seriously threaten the Single Market. These concern essentially national schemes (articles 44 to 47), which would allow each Member State to develop its own labelling system. The so-called **"voluntary" schemes will de facto become the rule** for a given national market and operators will need to comply with various systems across Europe. In particular, situations such as Member States discriminating against products labelled according to other Member States' national schemes must be avoided.

Furthermore EuroCommerce supports the Commission initiative to define the **responsible person for food information** in the framework of revision of the food labelling legislation. Indeed today the actors of Single Market are facing the gap of clear and transparent provisions on the responsibility of operators for food labeling, which leads in practice to a decrease of consumer protection and unnecessary costs and legal uncertainty for retailers since the latter are often held responsible for food information provided by the manufacturer established in another Member State. However the wording proposed by the Commission leaves room for interpretation and goes against the purpose of this Regulation as expressed by the Commission itself which is the *prevention of a fragmentation of the rules concerning the responsibility of food business operators with respect to food information* (recital 21). In conformity with the approach already adopted in several Community acts (e.g. recent feed regulation), the Regulation should provide a clear and proportionate distribution of obligations that correspond to the role and activities of each operator in the food supply chain. As a consequence it should be clearly stated that the responsible person for the accuracy and presence of the food information is the operator who places this food for the first time on the Community market, i.e. the EU manufacturer or importer, or the retailer for its own branded products. Otherwise retailers will be discouraged to purchase products in other Member States.

Retailers are fully responsible for the labelling of products they import from third countries and sell as own brands. However, retailers who simply market manufacturer branded EU products without affecting food information will have to react immediately if they have been notified about the non-conformity of the food information with the relevant legislation or when they become aware of it when exercising their respective activities considering the information at their disposal.

National schemes are a threat to the Single Market and will risk leading to higher prices for consumers and/or less choice.  
A clear and proportionate distribution of responsibilities that correspond to the role and activities of each operator in the food supply chain is essential to guarantee both consumer protection and proper functioning of the internal market. Any unjustified shift of responsibility onto retailers on labeling will increase legal uncertainty and costs.

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<sup>5</sup> Proposal for a Regulation on the provision of food information to consumers.



**Recommendation N° 8: The Commission (...) will review selected environmental standards and origin labeling schemes that may impede cross-border trade (...) it will also work with Member States and the industry towards better harmonising the implementation of Community food safety standards**

As a basic principle, EuroCommerce is concerned that mandatory information provided on labels should be restricted to essential or “need to know” information. “Nice to know” information should remain voluntary. We are extremely concerned with the proliferation of new mandatory information / logo requirements or proposals at EU and national level (environmental, nutrition, health, origin, packaging, etc.) and strongly encourage the various Commission services to coordinate better their activities.

Many of these schemes, such as Assured Food Standards (AFS) in the UK have been developed with farmers and are an opportunity for farmers to market their produce with retailers taking into account the steps they have taken to meet consumer demand, such as independent auditing or higher animal welfare. These schemes are not barriers to trade they are simply a case of the supply chain working together to meet consumer demand and helping them to make easier choices through clear labeling. These schemes should be applauded for giving consumers what they want and raising the standard of production above base legislative levels.

With regard to origin labeling, the proposed regulation on food information to consumers introduces new criteria to allow Member States to adopt national measures for indications of origin. Knowing that one of the basic principles of the EU is the free movement of goods, the procedure should remain as strict as possible to avoid the increase of derogations and of technical barriers to the free movement of goods. The existing procedure, which foresees the possibility for the Member States to require additional mandatory particulars for specific types of products, should be sufficient.

With regard to food safety standards, we would like to draw the Commission’s attention on the need to ensure that their added value for SMEs are truly taken into account.

In particular, as a result of increased legal obligations, pressure put on retailers to go beyond these legal obligations and with the objective of reducing costs of auditing, retailers and wholesalers have developed common food safety certification schemes such as the BRC (British Retail Consortium) standard or the IFS (International Food Standard). Before the setting of those schemes, each retailer (or wholesaler) carried out their own specific supplier food safety audits.

The goal of standards like IFS or BRC is to eliminate duplication, decrease the number of retailer (wholesaler) audits and save money and time by creating one unique third part audit recognised by a large number of different retailers (and wholesalers). For legal reasons (cf. in the case of own brand products, the retailer is the “producer” and has specific control obligations of the production site), these audits are third party product safety certifications and the standards are managed and controlled by the retailers using them. These standards are tailored for SMEs manufacturing retailer or wholesaler private label food products (90% of retailer (or wholesaler) private label products are manufactured by SMEs). All levels of the supply chain have been and continue to be involved in formulating and developing such standards, and the costs/benefits balance by implementing such certification schemes are generally rather positive.

Those schemes and their added value for SMEs should be duly taken into account when discussing a better harmonisation of food safety standards. Other sectors of the supply chain (manufacturing and catering sectors) should also shift from numerous specific individual company audits to such common schemes to eliminate duplication and decrease costs and time.



The results of food certification audits should be taken into account by competent authorities when planning and carrying out official food safety controls.

**Recommendation N°10: the Commission will (...) take action to bring forward the proposals of the High Level Group aiming at improving the competitiveness of the agro-food sector, notably of SMEs, and to foster innovation and exports in the sector**

EuroCommerce has participated in the work of the High level Group and as a general comment recalls that a balanced opinion can only be achieved if all stakeholders in the supply chain –from farm to fork– are duly represented. Any broadening of the scope and mandate of the High Level Group should aim at ensuring a balanced representation of all stakeholders, including commerce and consumers, and at promoting the competitiveness of the entire food supply chain and not only the manufacturing sector.

Overall, the commerce sector supports any initiative which aims to achieve a competitive and profitable agricultural sector, while reducing price volatility, removing trade barriers, increasing production, limiting speculation and overall improving competitiveness in the supply chain. We also welcome measures aimed at promoting the consolidation of the agricultural sector and the creation of voluntary producer organisations where necessary.

Furthermore, to ensure consumer choice, retain their individuality and strengthen their local image, retailers must avoid dependence on two or three large suppliers of global brands. They seek therefore to develop private labels and complete their range of products via networks of suppliers, many of them local SMEs. They encourage suppliers to innovate and develop new products, adapting to consumer demand and expectations ; they share new processes and technologies with their suppliers. They also offer SME producers an access to international markets. Retailers' competitiveness also depends on that of their suppliers, including SMEs.

We also regret that a too brief reference to the retail market monitoring exercise is made. As the closest link to consumers, the commerce sector will play a key role in the recovery process. Yet, increasing regulatory burdens in this sector explain to a large extent its relatively low productivity growth. We urge the Commission to publish the retail market monitoring rapidly.

Finally, as the last link in the supply chain, we welcome the broadening of the mandate and representativeness of the High Level Group on the competitiveness of the agro-food chain, whose composition is currently dominated by the food manufacturing industry.

Any broadening of the scope and mission of the High Level Group should be aimed at ensuring a balanced representation of all stakeholders in the food supply chain, including of the commerce sector and consumers, and improving the competitiveness of the entire supply chain and not focus on specific sectors. This would help rebalancing discussions in order to deliver consumers better choice, better prices and better service.

### **3. Conclusion**

Eurocommerce takes note of the publication of the communication on delivering a better food supply chain as a useful contribution and welcomes the fact that they will lead to further studies to better understand the actual situation. In this context, we believe that the overall objective should be to ensure that the supply chain should work to supply consumers with quality, safe products at the best price. We are concerned that there remains a lack of understanding of the supply chain, the role of processors and manufacturers, the costs of distribution, the regulatory burden, and the way in which competitive retailing acts to hold down the final price to the consumer and itself provides innovative and competitively priced

products through 'own brands' that act to ensure branded products are themselves competitively priced.

We look forward to the forthcoming Communication on the Retail Market Monitoring exercise and trust that it will address these misunderstandings - and the regulatory burdens that are sometimes applied - and which regulators can actually directly remove - and which the current Communication only mentions in passing.

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#### **EuroCommerce and the commerce sector**

EuroCommerce represents the retail, wholesale and international trade sectors in Europe. Its membership includes commerce federations and companies in 31 European countries.

Commerce plays a unique role in the European economy, acting as the link between manufacturers and the nearly 500 million consumers across Europe over a billion times a day. It is a dynamic and labour-intensive sector, generating 11% of the EU's GDP. One company out of three in Europe is active in the commerce sector. Over 95% of the 6 million companies in commerce are small and medium-sized enterprises. It also includes some of Europe's most successful companies. The sector is a major source of employment creation: 31 million Europeans work in commerce, which is one of the few remaining job-creating activities in Europe. It also supports millions of dependent jobs throughout the supply chain from small local suppliers to international businesses.