



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 1/10/2008

GAIN Report Number: E48003

EU-27

Agricultural Situation

EU Food Prices - Recent developments and outlook 2008

Approved by:

David Leishman

U.S. Mission to the EU

Prepared by:

J. Barrie Williams

Report Highlights:

The European Central Bank recently published an overview of recent developments of EU commodity and food prices. The analysis confirms that significant prices increases are tied to energy prices, adverse weather conditions, greater demand for biofuels and strong demand for crops in emerging economies.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Brussels USEU [BE2]
[E4]

FOOD PRICES IN THE EURO AREA

The European Central Bank (ECB) December 2007 Monthly Bulletin reports a significant increase in agricultural commodity prices over the past few months. This, in part, reflects temporary factors affecting the global supply of these commodities, including adverse weather conditions in some major agricultural commodity-exporting countries.

Global food prices have also been bolstered by a strong increase in global demand for foodstuff resulting from the changes in food consumption patterns in many developing economies, as well as from the emergence of new sources of demand for some agricultural commodities, for example biofuels. The report asserts that, as these latter developments are structural in nature, they are likely to have a more persistent impact on global food prices in the future.

The rise in global food prices has already led to significant increases in food prices in the euro area at both producer and consumer level. Producer prices of food products and beverages rose by 7.5 percent in annual terms in October 2007, compared with a rate of 2.2 percent on average in 2006. At the consumer level, the annual rate of change in the Harmonized Index of Consumer Prices (HICP) processed food excluding tobacco rose to 4.0 percent in October, up from 1.6 percent in 2006.. By contrast, unprocessed food prices seem to have been less affected by the recent developments in global food prices so far.

Although food prices have risen in all euro area countries, the extent to which the global food price shock has been transmitted to individual euro area countries has varied significantly.

A number of factors are behind the diverse food price developments across countries. In countries where food price increases have been relatively contained, it seems that, in the context of high competition among retailers, profit margins may have acted as a buffer cushioning the steep increases in global food prices. By contrast, in countries where food price increases have been more considerable, it appears that retailers' profit margins have not acted as a buffer.

HICP food price inflation may increase further in the very near term as increases in producer costs are passed through to retail prices. Barring further shocks in food commodity prices, HICP food price inflation could subsequently fall back towards levels more consistent with its historical average.

Further ahead, the outlook for both world and domestic food prices remains highly uncertain. Although the supply of agricultural products should eventually respond to the increase in demand, the catch-up period may be more prolonged than currently envisaged. Moreover, food price developments depend on a number of factors which are hard to predict, including technology advances and possible changes in energy policy. Hence, the risks in the medium term also seem to be on the upside.

Against the background of a marked increase in international food prices, further liberalization and reforms in the EU agricultural markets are particularly important. Despite the 2003 reform of the Common Agricultural Policy (CAP), CAP policies still entail distortionary effects and divergence between the EU prices and the international prices of a number of agricultural products (such as milk, beef and sugar). Certain subsidies are still linked to production or land area, and thus often benefit larger farms. The European Commission has acknowledged this distortion by proposing an increase in the decoupling rate, as well as payment cuts for larger farms. Reforms would help to enhance market efficiency and benefit European consumers in the form of lower prices. In order to allow consumers to profit from lower farm-gate prices, adequate competition in the downstream

sectors (food processing, retail trade and catering) and compliance with Single Market provisions are necessary. The successful conclusion of the Doha round of world trade negotiations should also help to improve the functioning of global trade in general, and of agricultural markets in Europe and worldwide in particular.

The full report may be accessed in the [European Central Bank's December Monthly Bulletin](#).

An indication of consumer price movements for food in EU 27 is given below.

HICP Food Index (2005 = 100)

2007

	Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov
Belgium	105.2	105.3	105.2	106.8	105.8	106.0	106.4	105.9	106.5	107.9	109.3
Bulgaria	113.3	114.2	113.6	114.2	113.4	111.5	115.9	124.4	127.1	128.0	131.2
Czech	102.5	102.5	102.7	104.2	104.0	104.2	103.6	103.2	103.5	106.0	110.2
Denmark	105.6	105.9	105.7	106.5	106.9	106.1	106.0	105.7	107.0	108.9	111.4
Germany	103.5	103.4	103.3	104.3	104.2	104.3	104.2	104.5	104.9	106.5	107.6
Estonia	109.8	109.6	111.0	112.2	111.8	112.3	113.9	112.9	114.8	119.4	123.4
Ireland	101.6	101.7	101.9	103.1	103.7	104.2	104.3	104.3	104.6	106.0	107.1
Greece	105.0	104.1	104.8	105.8	105.4	104.1	103.7	104.6	106.0	107.6	108.3
Spain	105.8	105.6	106.0	106.6	106.8	107.0	107.2	107.6	108.6	110.7	111.7
France	102.3	101.9	101.8	102.7	103.2	103.6	102.8	102.6	103.2	103.8	104.5
Italy	103.4	103.3	103.4	103.8	104.2	104.3	104.3	104.6	105.3	106.2	106.8
Cyprus	110.0	109.4	110.2	111.1	110.6	107.4	108.5	111.5	113.3	111.6	111.9
Latvia	114.9	115.8	117.3	118.9	119.6	121.9	124.0	122.3	123.9	128.2	132.5
Lithuania	111.6	112.4	113.0	115.2	115.6	115.8	117.0	117.4	119.4	124.3	125.6
Luxembourg	104.1	104.1	104.5	104.5	104.9	105.1	105.4	105.5	106.0	107.7	108.6
Hungary	115.5	116.4	117.2	118.4	120.7	121.0	119.8	119.8	122.8	125.6	127.6
Malta	103.7	103.0	103.7	103.8	103.7	102.9	104.3	106.0	109.5	110.3	112.1
Netherlands	102.6	102.8	102.7	103.1	102.6	102.8	102.7	102.6	102.9	103.7	105.0
Austria	103.9	103.5	103.9	104.8	105.1	104.6	104.8	105.5	105.5	107.7	108.9
Poland	102.5	103.2	104.0	105.0	106.3	105.3	103.5	102.9	105.5	107.4	109.0
Portugal	105.5	105.0	104.5	105.4	105.2	104.8	104.6	105.2	104.8	105.6	105.8
Romania	104.8	104.7	104.7	105.2	105.4	105.8	106.4	108.2	110.4	111.9	113.2
Slovenia	105.4	104.6	105.4	107.3	108.7	108.7	108.9	109.0	112.0	114.6	114.7
Slovakia	104.6	105.1	105.0	106.1	106.6	106.2	104.8	103.8	104.6	107.7	108.9
Finland	103.6	103.8	103.5	104.8	103.0	102.4	103.7	102.6	103.2	103.5	104.9
Sweden	101.7	101.8	102.1	103.0	102.0	101.9	102.8	102.7	102.5	103.7	104.9
UK	104.4	105.4	106.0	106.2	106.7	107.3	105.5	106.1	107.4	109.1	

Source: Eurostat