

OECD FOOD CHAIN ANALYSIS NETWORK: SUMMARY OF INAUGURAL MEETING AND WORK PLAN PROPOSALS

Background

1. The OECD Committee for Agriculture's included in its 2011-12 programme of work, the establishment of Food Chain Network of government officials, industry stakeholders, NGOs, other IGOs and academic experts to provide a broader platform for dialogue on emerging issues, analytical work and policy experiences. Industry participation is to be coordinated through the OECD Business and Industry Advisory Committee (BIAC) with efforts to engage more of the downstream distribution and retail actors.

2. Initial discussions with member countries on broad themes to be addressed by the Network lead to an inaugural Network planning meeting, held on 13 December 2010 in Paris to flesh out the issues and help develop a work plan. The Secretariat prepared a summary of these discussions (with considerable input from participants) and proposed a number of Network activities, which were discussed again with member countries in early March 2011.

3. The proposed activities were seen as consistent with the issues and concerns raised at the inaugural meeting. It was agreed to start with the first two activities on food price monitoring and on building a sustainable food chain. The other activities will be launched over time as resources and opportunities permit.

4. For the benefit of participants in the December 13 meeting, and others who may have an interest in participating in the Network, this note reproduces that summary record of the meeting and the proposed Network activities. Additional information can be obtained from the Secretariat by contacting the OECD Agro-Food Trade and Markets Division (wayne.jones@oecd.org).

Summary of the Inaugural Network Planning Meeting

5. The objective of the meeting was to discuss the main issues and what contributions the Network might usefully consider within the context of two broad themes identified from initial discussions with Member countries and industry representatives: 1) food chain efficiency and transparency and 2) food and the consumer. The meeting was chaired by Gerrit Meester of the Netherlands and, at the time, Chair of the Committee of Agriculture. There were over 70 participants from 21 countries with representation from 8 international organisations, 10 industry associations, 13 academic institutions and the European Commission. Due to various reasons, producer, retail and consumer groups were unable to attend while representation from environmental groups was very limited (see Annex 1 for list of participants). Wider industry representation will be sought for the Network as appropriate to the issues being addressed as the work proceeds.

OECD overview of food issues

6. The Secretariat provided an overview of recent trends and OECD studies in the food economy. Key drivers in the economic environment include changing demographics (ageing in developed countries),

rising incomes (in emerging economies), higher labour force participation (demand for ready-to-eat, away-from-home meals, fast foods) and greater emphasis on food characteristics (safety, quality, production processes). There has been consolidation and concentration in upstream and downstream operations with strategic mergers and acquisitions and horizontal alliances, increasingly global in nature. The sourcing and distribution of food materials and products is increasingly through a complex Network of relations rather than a linear process as the use of advanced information and communication technology is stepped up in response to increasing competition at various stages in the food chain.

7. Past OECD studies on concentration in the food industry did not reveal significant abuse of market power, although the ongoing shift in market dominance by retailers with national markets dominated by a few (often global) chains continues to raise questions about efficiency gains and the distribution of welfare gains/losses. Suppliers are increasingly linked through buyer specifications (business-to-business) such that the retailers act as the gatekeepers and guarantors of food attributes with private standards playing a greater role in retailer requirements. Private standards have been more responsive to consumer demands and have emerged as a means of product differentiation, resulting in growing competition over quality in food markets. The diversity of private standards and lack of coherence with national and international regulations can impose higher transaction costs and inefficiencies for both suppliers and buyers. They can also limit potential suppliers by increasing entry costs of standards compliance and the accompanying supply logistics requirements.

8. Consumer association surveys suggest the most important consumer concerns are food safety (e.g. harmful residues) and, more recently, nutrition, diet and health (e.g. education, labelling, traceability). Ministries of Agriculture are increasingly becoming involved with health issues with a focus on diet/health information and promotion of fruit and vegetable consumption. Peripheral to these actions are questions about the appropriate role of governments in consumer food choices and about the coherence between agricultural and health policies.

Food chain efficiency and transparency

9. The objective is a better understanding of how the food chain works in various countries with different organisational structures, with a view to identifying the factors (e.g. upstream and downstream concentration, balance between markets and regulation, investment in productive assets/storage/distributions facilities by non-traditional actors) that influence the efficiency and transparency of the overall chain and the various actors along the chain. Price setting mechanisms, contracting practices, the distribution of value added along the chain and the changing inter-relationships between producers, processors, distribution and retail sectors were suggested as possible avenues for investigation with the intent of identifying best practices in terms of transparency, balance of market power, incentives for innovation - in short, how to make the system function better.

10. The European Commission (DG SANCO) provided the lead-off presentation, drawing on the work of the High Level Group on the Competitiveness of the Agro-Food Industry, which was set up in 2008 and has issued 30 recommendations to policy makers and private stakeholders. The scope and membership of the Group was extended in 2010 to include other issues such as price transparency and monitoring, and sustainability. It included Member States, food producers, processors distributors as well as professional association and NGOs representing citizens' interests. Now called the High Level Forum for Better Functioning Food Supply Chain, three areas of Forum activity are closely related to the work envisaged for the Network.

11. A business-to-business platform will examine contractual practices in the food supply chain with a focus on cases of possible unfair commercial practices. Some practices potentially harmful for competition have been singled out for review, while taking care to stress that many such practices are not

anticompetitive *per se*, that they may in fact entail efficiency gains and that they merit assessment on a case-by-case basis. Also to be addressed is the concerns over, and responses to, unequal bargaining power - when a seller or buyer can impose terms and condition that are deemed unfavourable by the other contracting party (e.g. late payments, unilateral changes in contracts, ad hoc changes to contractual terms, upfront payments as entry to fees to negotiations, etc.).

12. It was noted that unequal bargaining is not the same thing as buyer power, which may have either beneficial or adverse effects on consumers as it is often used to achieve lower prices and better terms from suppliers. The exercise of buyer power which leads to lower prices upstream is not necessarily considered anti-competitive but a competition problem may arise if the buyer does not pass onto consumers any significant part of the benefits obtained on the upstream market from his suppliers. The situation can be quite different between non-processed food chains with weaker suppliers and numerous layers of intermediaries and processed chains with a relatively concentrated food industry wielding significant market power.

13. The European Food Prices Monitoring Tool (ESTAT) aims at improving the accessibility of statistical data on prices in successive stages of a number of food supply chains. The tool reports on price developments of agricultural commodities, producer price indices in the food industries, and consumer prices developments. Future work will extend the number of supply chains and possibly by extending the number of stages in the chains for which prices are made available. The objective is to provide information about food prices and about price formation (Are prices justified?) – including analysis of external (e.g. international commodity markets, weather conditions) and internal factors (e.g. number of intermediaries, market structure). Issues to be addressed include such sensitive areas as “after-sales price setting” since it allegedly drives down the prices paid to producers (cases in Spain, Belgium, Italy). Price monitoring currently occurs within the EU in Bulgaria, Czech Republic, Denmark, Finland, France, Greece, Latvia, Poland, Slovakia, Slovenia and Spain. Investigations on assessing the gap between producer and consumer prices are underway in Estonia, Hungary, France, Greece, Latvia, Lithuania, Slovakia, Slovenia and Spain. Some of the factors examined include the time lag between the demand for production inputs, actual production and demand, the impacts of regulatory and quasi-regulatory measures, the distribution of value-added along the food chain and the length and structure of the food chain.

14. Work on the competitiveness in the agro-food industry will focus on agriculture and the environment, the internal market for food (including consumer issues), research and innovation and trade and exports. The objective is to promote clarity and coherence of information on the food industry to consumers and facilitate the restructuring and consolidation of the agricultural sector (CAP) and improving the competitiveness of the food chain through a holistic approach. Factors identified by the High Level Group for analysis include a review of selected environmental standards and label of origin schemes, access to raw materials, environment/energy efficiency, food law harmonisation and control, labelling, innovation, authorisation procedures for novel foods, incident management systems, support to SMEs and international aspects.

15. The Commission welcomed close collaboration between the High Level Forum and the OECD Food Chain Network, particularly in areas such as food industry concentration/competition, price monitoring and industry responses to consumer issues, where the exchanges of best practices with countries beyond the EU borders would be most beneficial.

Food and the consumer

16. Behind the second theme of Food and the Consumer is the awareness that food production systems, marketing strategies and consumptions patterns are rapidly changing throughout the world, creating a number of concerns for civil society related to food safety, nutrition and general consumer

welfare. Both governments and industry talk increasingly of nutrition and health, resource sustainability, maintaining biodiversity, adapting to climate change and reducing food chain waste when developing food policies and business strategies. NGOs, like Consumers International, are campaigning for changes in government and corporate policies that would protect consumer health and ensure fairness in the market place. The objective is to examine how these challenges are identified, by whom and with which instruments they are being addressed - in particular, labelling, regulations, private/voluntary standards, private/public media campaigns, educational programmes. The role for international agreements and disciplines would be relevant here. The issue of compliance by developing countries and smallholders with increasingly complex and constantly changing standards and regulations in OECD countries is also very topical but whether there is a role for the Network with respect to this additional dimension is not clear.

17. The USDA Economics Research Service provided the lead-off presentation for this theme, highlighting some of the key areas of analysis with respect to changes within the food chain and public or social demands on the food system. Key questions for analysis include price pass through and retail price behaviour, food retailing structure, trends in new product introductions, resource use (energy) in the food system and share/source of imports.

18. Observed trends in the US reflect the impacts of the economic recession and a sluggish recovery. Food price inflation in 2010 could be the lowest since 1992 but there are expectations of higher inflation in 2011. A sharp rise in USDA expenditures on food assistance programs has helped mitigate the impacts. Total food expenditures away from home have been rising faster than at home expenditures over the last two decades but declines in purchases away from home were more pronounced during the recent recession. Interestingly, many studies show eating away from home is associated with reduced diet quality and increased calories (meal away from home adds about 134 calories and adds fat, according to a recent ERS study).

19. One way low income households have responded to higher prices and reduced incomes is to purchase more private label brands as opposed to higher cost national brands. While private label product introductions set a record in 2009, there was a major drop in the number of new US product introductions for the first time in 20 years - likely a result of manufacturers seeking to cut costs and a marketing focus on core products. New products addressing health concerns - such as those advertising lower salt, fat, and cholesterol levels, or higher fibre and calcium levels - continue to be at the forefront of introductions. The US food retailing sector is active and dynamic in responding both to consumer and health advocacy and to customer feedback. For example, Wal-Mart (the Nation's largest grocer) has just announced a Healthy Foods Initiative that, in tandem with the Local Foods Initiative, is likely to have a significant impact on food formulations and product sourcing. The threat of regulation can be a motivator but there are strong market forces at work as well - strong retailers push manufacturers to meet healthier food requirements, as well as changing their own marketing practices.

20. Changes in food retailing tend to shape the price that consumers pay. In a recent ERS study, researchers found that differences in prices at traditional versus discount (non-traditional) food retailers were smaller in areas where non-traditional food retailers had large market shares. Non-traditional food retailers, including supercenters, mass merchandisers, wholesale club stores, and dollar stores, have made substantial gains in their share of the retail food market. Consumers now spend almost 28% of their food-at-home dollars at non-traditional stores. In previous studies, ERS researchers found that prices in the US for 20 food categories were, on average, 20% lower in non-traditional stores than in supermarkets.

21. The main areas seen as increasing demands on the food industry were health (obesity and chronic disease), safety (emerging infectious disease) and resource sustainability (biodiversity, climate change waste reduction). In all three areas, there is a mix of market and "social" demands with credence attributes (characteristics difficult for the consumer to ascertain even after consumption) and where outcomes often

rely on production methods or actions along the entire food chain. Food system changes are required to address these issues and information is the key to determining how well these demands are met.

22. The public sector role in providing information on the food chain involves mandatory record keeping and disclosure, certifying auditors or producers, setting voluntary or mandatory standards and policing fraud or monitoring claims. Private sector information systems include auditing, certification, advertising, labelling and branding. Much of this is tied into business strategies for product differentiation and competition for market share. This raises a number of research questions: How well does private information address emerging demands for health, safety and sustainability? Will better informed consumer demand lead to more socially desirable food chain outcomes? How could public interventions or international agreements facilitate enhanced food chain performance?

23. Trans-fat removal is one example of health driven changes in the food system. Bans and mandatory disclosure initiatives led major companies to commit to removal. This led to reformulation and product innovation with the emergence of new oil crop varieties and dedicated supply chains. How other mandatory disclosure regulations might influence consumer choice and product offerings is unclear. An example of safety driven changes is the introduction of Good Agricultural Practices (GAPs) for food producers in response to food-related health scares and the need to meet requirements for third-party GAPs certification. Voluntary standards have become the norm in the US and the EU, with governments developing the facility to monitor and certify while moving towards tougher minimum safety regulations and greater standardisation.

24. Energy use in the food sector is a growing issue as sustainable production/consumption becomes the focus of business strategies throughout the industry. An ERS analysis of food system energy use indicates that, while total per capita U.S. energy consumption fell by 1% between 2002 and 2007, food-related per capita energy use grew nearly 8% as the food industry relied on more energy-intensive technologies to produce more food per capita for more people. By 2007, the U.S. food system accounted for almost 16% of the nation's energy budget. Between 1997 and 2002, over 80% of the increase in annual U.S. energy consumption was food related. Households are the biggest energy users in the food chain but food processing had the largest growth in energy use (as households and food service establishments outsource manual food preparation and cleanup to manufacturers), surpassing wholesale/retail energy use in 2002.

25. Two areas for international comparisons were proposed. The first was foundational information about food sector changes at the retail level (e.g. retail structure, retail price behaviour, product differentiation, resource use in the marketing system). The second was comparisons on how information is being used in food markets (e.g. labelling policies and the impact on food purchases, private/public roles in food safety certification systems, impact of sustainability certification on market demand and production methods).

General discussion

26. Given the broad range of topics and the "brainstorming" nature of the meeting, most of the interventions either expanded on the issues already raised in the lead-off presentations or described related activities underway in Member countries or other organisations (public and private), the sheer number of which demonstrated the strong desire to examine food chain efficiency and the impact of the food industry on society (e.g. nutrition, health, food safety, rural development, animal welfare etc). Many examples of initiatives/experiences that were discussed are only briefly referred to here but follow-up activities are proposed in the next section. There were several calls to recognise the shared responsibility between consumers, industry and government agencies with respect to the health and environmental impacts of food production/consumption, as well as the need to strengthen public/private partnerships to achieve common

objectives. A common view seemed to be that a holistic approach to addressing food industry issues was the way forward involving all levels of the food chain and both public and private sector initiatives.¹

27. There was considerable discussion about food industry and retailer concentration and competition, much of it over concerns over exploitation of market power, the lack of market transparency and the re-distribution of wealth downstream. While the need for adequate returns that enable all stakeholders in the chain to invest was widely recognised, it was pointed out that margins are tight at every stage in the food chain and those (including producers) that invest most heavily and strategically in understanding, and adapting better to, the demands of their consumers are generally the most successful. Abuses of power do occur but most past studies have generally concluded this has not been an endemic problem. Several participants suggested that changes in the industry structure and further concentration in the retail sector may be increasing the potential for anti-competitive behaviour and called for new analysis in this area. New studies addressing some of the different dimensions of this issue, such as fees and delays in payments, may be of more interest.

28. Food price monitoring along the food chain was also discussed at length and generally perceived as a very useful exercise both as a means to increase market transparency and to chart price transmission along the food chain. Many governments collect and publish such information but there is little assessment on the objectives, awareness, accuracy, effectiveness or analytical value of such information. For most consumers, price remains a fundamental driver of food purchase choices. It is not surprising that promotions are becoming increasingly important for retailers and manufacturers fighting for market share. The impact of credence attributes and product labelling is not well understood and may be over-stated when it comes to the determination of consumer behaviour, as it may only be a minority of consumers for whom these attributes matter and who have the understanding and budgets to act accordingly.

29. Some argued that the impact of labelling and the importance of credence attributes is overstated while agreeing that price is not the sole factor that determines most purchases - just one of many. The impact of price/promotion on demand as opposed to “sales” is also exaggerated. Still, some research confirms that sophisticated labelling practices, like Guideline Daily Amounts (GDAs) improves the food literacy of consumers and the European Commission has put this system at the heart of a new food labelling regulation currently being negotiated in Brussels.

30. While not a major element in the original themes for the meeting, food industry sustainability was clearly an issue of growing importance to most participants and ran through much of the day’s discussion. Definitions of sustainability varied but the discussions covered economic, social and environmental aspects, with a heavy focus on the latter. A more sustainable food chain would be one that is much better connected, in which information flows more freely and stakeholders demonstrate a degree of commitment to their trading partners. The discussion also referred to internalising the cost of negative externalities, for example policies that can be used to internalise the costs of the environmental damage created by agricultural production.

31. Discussion of environmental sustainability covered both production and consumption aspects. Sustainable production involves the dissemination of existing best practice and technology at all stages of the food chain as well as technological development can be expected to deliver significant further environmental improvements in areas such as energy use, greenhouse gases, water and resource efficiency.

¹ There is a danger of misinterpreting some of the meeting interventions noted in the summary as nomenclature and terminology is not always standardised. For example, value chains and supply chains may be used interchangeably but the former is consumer focused and the latter supplier driven; and traceability (concerned with food safety, compliance and information flow) is not the same as transparency (concerned with commercial practices and quite different types of information flow). Several participants were contacted in the preparation of this summary to clarify comments and avoid confusion.

Consumers generate their own environmental impacts in the way they transport, store and prepare food, and the amount of waste they produce and how they dispose of it. They also influence impacts upstream in the supply chain through their purchasing decisions.

32. The European Food Sustainable Consumption and Production Round Table is an initiative, co-chaired by the European Commission and food supply chain partners, which aims to establish the food chain as a major contributor towards sustainable consumption and production in Europe.² The objective is to promote a science-based, coherent approach to sustainable consumption and production in the food sector across Europe, while taking into account environmental interactions at all stages of the food chain. A key principle is that environmental information communicated along the food chain, including to consumers, shall be scientifically reliable and consistent, understandable and not misleading, so as to support informed choice. Some fourteen EU level food chain organisations are currently members, including the farmer/cooperative group, COPA COGECA, and the food and drink industry confederation, CIAA. Unilever's recently announced objective to source 100% of its raw materials from sustainable production by 2020 is a good example of an industry-led sustainable initiative.

33. The objective of UNEP's Sustainable Consumption and Production Branch is to promote and facilitate the extraction, processing and consumption of natural resources in a more environmentally sustainable way over the whole life cycle. Activities are designed to contribute to the decoupling of growth in production and consumption of goods and services from resource depletion and environmental degradation, and to strengthen the scientific base for reforms in government policies, changes in private sector management practices and decisions, and increased consumer awareness. The agro-food sector is seen as a particularly difficult challenge. Feeding an additional 2.3 billion people by 2050 presents an unprecedented global challenge, particularly when taking the environmental considerations into account. While technological advances will continue to play a role in addressing the ongoing crisis, the production of food and fish remains dependent upon well-functioning ecological systems that support natural habitat, water, nutrients, soils, climate, and insects.

34. Improving the knowledge base is a key area for future work. Combined efforts by industry, public authorities, environmental agencies and the European research community have considerable potential to further improve the knowledge-base in areas where relevant data is still incomplete or insufficiently robust. Establishing a reliable knowledge-base not only supports industry in further refining its own sustainability strategies, it is also vital for ensuring science-based policy-making and better regulation.

35. It was stressed that the complexity of the challenge of sustainable food chains requires much more multi-disciplinary research and much more cross-functionality (beyond the individual firm) in our application. Most of the traditional methodologies (e.g. margins analysis, economic modelling) are often inadequate in explaining the status quo or projecting the future. However, multi-disciplinary research is very difficult and academic incentives are biased towards intra-disciplinary research (e.g. reviewed journals, funding sources).

36. Perhaps due to the limited representation of the development community, there was not much discussion of the impacts of global food chains on developing countries or the integration of smaller producers into modern food chains. Market access for smallholder producers did not get much attention, although it was noted that this issue is not just about import opportunities into the OECD; it is also relevant

² For more information on members and objectives see: <http://www.food-scp.eu>

within the domestic markets of a number of OECD countries with relatively large farming populations and where restructuring of the food chains is still underway. Deliberate actions by policymakers and businesses can make a considerable difference between inclusive or exclusive agro-food restructuring. It was argued that “equitable” should be added to the “efficient” and “transparent” criteria when assessing food chain performance, suggesting four requirements for a more equitable chain - organised and empowered farmers, receptive buyers, supporting policy and market facilitators/intermediaries. While the limits to what can be achieved within tightly coordinated buyer-driven chains were recognised, the importance of maintaining a diversity of markets for producers, outside of the large supermarket-driven chains was important to some participants. Insights into successful policy interventions that have supported a vibrant and competitive wholesale sector, for example, could be very valuable. In each case, a careful definition/identification of the problem or issue to be addressed would be a necessary first step.

37. Finally, throughout the discussions there were many suggestions as to how the OECD Food Chain Network could make a useful contribution to the information sharing and dialogue on these various issues. There was general agreement that it could serve as a “*network of networks*” by serving as clearing house for activities in other fora (i.e. a depository of information and contacts for participants). The Network could also provide a forum where information and analysis on specific issues could be compiled, assessed and discussed, perhaps providing observations on what worked and what did not, in terms of a good balance between industry initiatives and public policy instruments. The areas of concentration/competition, price monitoring, alignment of agriculture and health policy and the integration of small producers (and SMEs) in global food chains were all considered valid areas for the Network to investigate. Where information and analysis is deemed too limited or inconclusive to provide much policy guidance, it may be more useful to review the analytical tools and methodological approaches being developed to examine the issues identified here.

38. Some specific sectors were proposed for traditional chain analysis approach, particularly with respect to market concentration, competition and transparency but there was no agreement on which sectors would be the most enlightening. The cereals, fruits and vegetables, dairy and meat sectors were all suggested for various reasons to do with degree of globalisation, sector structure, level of processing and relevance to such issues as health and sustainability. Participants were reminded that the Network would only be able to compile and review existing material, so the choice would be limited to those sectors for which information was readily available. Further reflection of this approach is required.

39. The proposals below attempt to take all of this discussion into account, while maintaining a realistic view of what may be accomplished by the Network over the next year. The Secretariat will work with the Network to flesh out these proposals over the coming months. Of most interest to member countries, would be the implications for government policy and public/private partnerships. Rather than trying at this stage to define a full two-year programme of work, the idea is to launch work in a few of the key areas identified. It is assumed that follow-up work and additional areas for investigation will emerge as the Network matures and that new proposals would be developed for 2012.

OECD Food Chain Network Work Proposals

40. Most of the preparatory work of the OECD Food Chain Network will be undertaken in the Capitals by government officials, by industry organisations participating in the Network and by the Secretariat. Academic experts may be engaged, on occasion, to provide additional analysis if the Network deems this appropriate.

41. Clearly, not all the possible activities listed below can be initiated at once, nor is it likely that all could be adequately addressed over the next two years, although the Food Chain Network may be continued into the next biennium if there was sufficient interest. The number of activities that could be

undertaken by the Network during 2011-12 will depend on the level of active involvement. For each activity to be launched, the Network may want to identify a lead member or group to initiate and oversee the work. The proposals outlined below are listed in rough descending order of interest as interpreted from the discussions on 13 December.

42. Follow-up bilateral discussions to date suggest that member countries might favour the first proposal on food price monitoring/transparency while the industry participants (via BIAC) expressed most interest in the sustainable food chain activity. The Secretariat, therefore, suggests that the Network could start with these two proposals since the price monitoring activity would primarily involve member countries while the work on sustainable food chain activity would more directly involve the food industry. The Secretariat would also like to have industry input into its work on waste and innovation but the nature and timing of this input would need to be discussed with the Network.

43. Some sort of restricted access website will need to be established as a communication tool for the Network. This site could also serve as a central source of information on related work and events undertaken elsewhere – the “*network of networks*” concept as suggested at the meeting held on 13 December 2010. Member countries, industry groups and other international organisations would be encouraged to post summaries and links to new food chain studies and initiatives.

44. Network meetings will be kept to a minimum – perhaps one per year – when sufficient material is assembled and circulated in advance to ensure a substantive discussion and productive outcome. Since arrangements must be made well in advance, an OECD meeting room has been tentatively reserved for 12-13 September 2011 as indicated at the 13 December 2010 inaugural meeting. The agenda will need to be developed by the Network over the coming months. Meeting dates and other possible events for 2012 will be discussed in due course with the Network participants. A smaller expert workshop may also be considered if deemed feasible and desirable, so for the moment a provisional date of 24-25 October will be kept open until the Network has a chance to consider this option in light of the agreed work plan.

Network Activity 1: Food price monitoring and transparency

45. The monitoring of food prices/transmission along the food chain is quite common among OECD countries. The objectives are usually linked to increased transparency, competition and price stability but little is known about the different methodologies used, the value/accuracy of the information collected or the types of analysis undertaken with such databases. For example, Eurostat, in cooperation with National Statistical Institutes, is just now bringing together the available data on price developments in the different steps of the supply chain, comparing price developments (overtime and across countries) for the relevant agricultural commodities, for the relevant food industries as well as other selected chosen consumer goods. Other food price indicators, such as the FAO Food Price Index and the food component of national Consumer Price Index (CPI), are commonly quoted but often misinterpreted. There is also a growing body of literature on the mechanisms and measurement of price transmission (see Vavra, P. and B. K. Goodwin (2005), "Analysis of Price Transmission along the Food Chain", OECD Food, Agriculture and Fisheries Working Papers, No. 3, OECD).

46. Member countries would be invited to submit short notes on their food price monitoring activities that would include information on the databases available (coverage in terms of years, commodities/products, geographical area, steps in the chain, etc.), the methodologies used and any evaluation/assessments/analysis of the information collected. The information would be compiled and summarised for Network information and discussion with an attempt to identify best practices. This activity could be broadened to encompass initiatives such as the French Observatory of Food Price Formation and Margins (l'Observatoire de la formation des prix et des marges des produits alimentaires)

which are developing new methodologies and seeking consensus among stakeholders to promote greater price transparency along the food chain.

47. The Secretariat could provide a short note on the food component of national CPIs, drawing out the key messages from recent movements in these databases. This note could be a slightly expanded version of the analysis presented each year in the OECD-FAO Agricultural Outlook report. The FAO could be asked to provide a technical note on the construction and interpretation of the FAO World Food Price Index which is so widely quoted these days.

48. Consideration could be given to engaging a consultant to provide a literature review of recent research on asymmetric price transmission along the food chain, primarily the characteristics of adjustment to a price shock (e.g. speed, direction, magnitude) and the underlying factors (e.g. chain structure, market power, adjustment costs, government regulations/interventions).

Network Activity 2: Building a sustainable food chain

49. The overarching objective of the OECD's Green Growth strategy, which is a high priority across the OECD and was identified by Agriculture Ministers at their meeting in 2010, is to help OECD and non-OECD governments to identify policies that can contribute to economic growth that is also environmentally sustainable. For the agro-food sector this means ensuring that in the coming decades enough food is provided for an increasing global population while reducing the carbon intensity of the agricultural sector and sustainably managing scarce natural resources - especially land, water and biodiversity - and reducing adverse environmental impacts.

50. TAD activities (in collaboration with especially ECO, ENV, DSTI and STD) will focus on climate change and water management. The proposed work will cover OECD, Enhanced Engagement countries and selected developing countries. A taxonomy of policies and alternative farm management practices that have a bearing on Green Growth in the agro-food supply chain will be developed and the implications of different policy approaches will be explored. The Network would be informed about outputs from these activities and possibly called on to provide reactions/feedback.

51. Both government intervention (e.g. regulations, certification, labelling) and private sector investment will play key roles in addressing this challenge, and their collaboration will be central to transforming global agro-food supply chains into models of sustainable production and consumption. As noted above, a new UNEP SCP initiative is convening actors across the sector, working closely with national policy makers, agro-food producers, and global retailers to build public-private and business-to-business partnerships that harness the power of markets to promote sustainability throughout all stages of agro-food supply chains.

52. The sustainable supply chains approach utilises innovative market-based tools - from field-to-fork and capture-to-consumption - to provide incentives for sustainable management of the agro-food natural resource base, and for the socioeconomic well-being of chain actors. When tools are targeted to build sustainability-related value and to deliver sustainability-related returns, the sector becomes rooted in a new operational paradigm and strategic planning across the chain can be coordinated for the long-term viability of the resource base and the industry.

53. This supply chain approach is just one of four activity clusters identified in a UNEP-convened scoping meeting for an Agri-food Programme for inclusion in a 10-Year Framework of Programmes on SCP to be adopted at a meeting in May 2011. The Agri-food programme will facilitate the transition to more sustainable and resource-efficient production and consumption patterns in the agri-food sector.

54. The UNEP initiative largely addresses the concerns identified at the inaugural Network meeting. Rather than duplicate on-going work, it is suggested that Secretariat consult with UNEP with respect to possible linkages between their activities under the Agri-food Programme on SCP, and the OECD Food Chain Network. One option may be to jointly organise a small experts' workshop, possibly focusing on promoting sustainability through markets (recall 24-25 October has been set aside for such a contingency). When tools are targeted to build sustainability-related value and to deliver sustainability-related returns, the sector becomes rooted in a new operational paradigm and strategic planning across the chain can be coordinated for the long-term viability of the resource base and the industry.

Network Activity 3: Compilation of studies on food industry concentration and competition

55. While there are concerns about the changing structure of the food industry and its consequences for potential anti-competitive behaviour, past OECD studies of the food industry have not identified significant abuse of market power. New work is continually coming forward in this area but the results are not widely available nor are the policy messages/lessons drawn out. As noted by some meeting participants, there is a need to clearly define the problem before seeking solutions. The Network could take on the job of compiling recent studies and distilling the observations that emerge.

56. For example, the EU DG Competition carried out a stakeholder survey involving producers, processors, traders, wholesalers and retailers over 2008-09 to improve knowledge of food markets aimed at identifying potential competition related concerns while the EU High Level Forum on a Better Functioning Food Supply Chain will examine business-to-business contractual relationships along the food chain for possible unfair commercial practices and exchange information on best practices (commercial codes of conduct, laws, ombudsmen, competition authorities, etc.).

57. In December 2009, the Farm Foundation organised a conference on the economics of structural change and competition in US agriculture and food markets. Again the basis of the event was the rapid changes in technology and economic conditions that have driven structural changes in every part of the food system which have raised questions about how food and agricultural markets are performing. The US Department of Agriculture and the US Department of Justice have held a series of hearings on these issues beginning in March 2010.

58. Member countries would be invited to provide a list of reference documents and to synthesise the findings. Industry organisations participating in the Network that have organised events or commissioned analytical work in this area would also be invited to share this information. The Secretariat will consult with the Competition Division within the OECD Directorate for Financial and Enterprise Affairs on the possibility of that Division undertaking some related work that would be of interest to the Network. All material would be made available on to Network members via a restricted access site. Depending on the timing and interest in the material submitted, this issue could be an agenda item for the September 2011 Network meeting or the subject of a future expert workshop.

Network Activity 4: Promoting diet, health and nutrition

59. A recent TAD report on diet, health and nutrition stated that health care and health-related productivity losses are very high and rising in most OECD countries which is directly associated with poor diets, obesity and lack of physical exercise, while noting Agriculture Ministries were becoming increasingly involved with health issues (see Fulponi, L (2009), Policy Initiatives Concerning Diet Health and Nutrition, OECD). The 2010 OECD report on Obesity and the Economics of Prevention noted that obesity has risen to the top of the public health policy agenda worldwide. Before 1980, rates were generally well below 10%. They have since doubled or tripled in many countries, and in almost half of the

OECD, 50% or more of the population is overweight. A key risk factor for numerous chronic diseases, obesity is a major public health concern.

60. Many costly public and private programmes have been initiated to educate and inform consumers about healthy food choices. The European Guideline Daily Amounts (GDAs) is one such system. NUVAL is a score system which is being implemented by some food producers in the US. Every product gets a number ranging from 1 to 100 according to its nutritional values - the higher the score, the healthier the food. The US Grocery Manufacturers Association (GMA) and Food Marketing Institute (FMI) have partnered to create a new front-of-pack nutrition labelling system based on calories and nutrients to limit. The label's launch was to be accompanied by a USD 50 million consumer education campaign directed toward parents and primary shoppers.

61. The Network could organise a session at its September meeting or a future workshop, examining these various practices with the objective of distilling best practices from recent experiences. The effectiveness of these consumer "nudge" approaches could be compared with the more direct industry efforts at health-related product reformulation and innovation. The Food Economics Division of the USDA/ERS has done some work in this area and may be willing to contribute a paper for Network discussion.

62. The Health Division of the OECD Directorate of Employment Labour and Social Affairs is involved in combining modelling efforts to analyse the impact of agriculture and food market policies in the United Kingdom, Canada and other countries. The objective would be to assess the impact on health, the impact on health expenditure and the impact on the wider economy. A synthesis of economic modelling efforts to study the impact of a healthier diet could be of interest to the Network. McGill University in Montreal and the Public Health Agency of Canada are involved in this work and could possibly undertake such a synthesis for the Network.

Network Activity 5: Contributions to OECD/TAD work on waste and innovation

63. The 2011-12 PWB of the Committee for Agriculture includes two activities (Innovation Systems and Waste Management in the Food Chain) for which the Network, in particular the private sector participants, could make a significant contribution. Responding effectively to the growing global demand for feed, food and fuel, in a context of finite resources, will require further innovation (in terms of products, processes, and organisation). This is a new area of focus for the Committee and a clear response to growing interest in ensuring that the global food system remains a productive source of adequate supplies of high quality food and non-food products.

64. Building on ongoing work, it is proposed to undertake in-depth reviews of R&D and innovation systems, broadly defined to include research, development and extension, in selected OECD countries and emerging economies, aiming at identifying best innovation practices. Interest in the determinants of farm-level performance and ability to compete internationally is growing. An important input into the design of the country reviews will be a conference to be held 15-17 June 2011 at the OECD on the Agricultural Knowledge Systems (research, education and extension systems) which will foster international and cross-disciplinary dialogue on innovation systems in agriculture and food.

65. The Network could contribute in two ways - by actively participating in the AKS conference and by organising (in cooperation with BIAC) a private sector survey on ways in which public, private and public-private actions would improve innovation within the global food and agriculture system, with a view to increasing productivity growth, ensuring sustainable resource use, responding to demands from consumers and limiting waste.

66. Waste in the food chain can happen pre-consumer in the marketing and processing chain, or post-consumer as food purchased but not eaten. Moreover, improper storage and handling of food that does make it to market can reduce its nutritional value significantly. As expressed by Agriculture Ministers, reducing food waste can contribute to several global policy goals, from improving food security to supporting more sustainable resource use. Estimates of food waste are not available in all countries, but where it is measured it is constantly seen to represent a considerable share of the total food supply.

67. While food waste is an issue involving the whole food chain, the predominant issues in OECD countries likely lie in the retail and post-retail parts of the food chain. In developing countries, on the other hand, losses in getting food from the farm into the marketing system are seen as relatively important. It is proposed to assemble comparable food waste statistics from OECD countries and selected developing countries and attempt to characterise the issue and its scale for each country. The goal is to provide a more comprehensive view of the empirical evidence regarding food waste, drawing where possible upon work undertaken by other institutions.

68. The Secretariat staff responsible for this activity will work directly with Member (and some non-Member) countries as well as other institutions to assemble the statistics on food waste. The private sector participants in the Network could make an important contribution to this activity by providing firm/sector information on waste at various stages of the food chain from primary processing to retail establishments. In future phases of this project, there may also be opportunities for the Network to provide information on private sector initiatives to reduce waste and its views on need for regulatory reform to facilitate such initiatives.

Network Activity 6: Impacts of global food chains on developing countries

69. Due to time constraints and because the development community and non-member economies were not well represented at the 13 December meeting, there was very little discussion about the impact of global food chains and developing countries or small producers (or SMEs). More interest in this area was expressed in earlier consultations with Member countries and international organisations. In those consultations, both the impacts on of market access/integration and of diet/nutrition/health were raised as concerns. More consultations and reflection is required in this area.

70. The issue of compliance by developing countries and smallholders, with increasingly complex and constantly changing standards and regulations in OECD countries, is an important issue. Examining the inadequacies of the food chain in developing countries (input supplies, storage, transportation, communication, regulatory oversight, etc.) might be an issue for a future Global Forum on Agriculture. In 2010, the OECD issued a report on the transformation of food production and distribution systems over a wide range of transition and developing economies [TAD/CA/APM/WP(2010)10/FINAL]. From the set of studies reviewed, there was a consensus that modern food supply chains have important positive implications for production although further analysis was required on the degree to which small farms and farm workers are included in this transformation process and on the extent to which inclusion may have raised incomes and/or modernised farming practices. Building on this work, the Network could initiate some follow-up work, focusing on ways in which governments in developing countries could facilitate equity and efficiency gains in modern supply chains (e.g. reducing transactions costs, enhancing competition, and enhancing the bargaining power of small farmers).

71. On the diet/nutrition/health issue, the impact of developing countries converging towards a North American diet could be examined. As a first step, the Secretariat could invite analysts working in the area to present their findings to the Network. Josef Schmidhuber (FAO) has developed a “consumption similarity index”, which captures changing food consumption patterns in developing countries over time. Janet Beauvais at McGill University is currently involved in projects in India (and Quebec) studying

approaches to measuring the food related health and economic outcomes in small villages/communities as they undergo transitions. The World Health Organization would also be contacted for possible contributions.