Defra response to OECD Food Price Formation Project

December 2014

In addition to the following, the UK's response to the OECD's 2011 questionnaire is attached in the Annex. Although not repeated here, much of this 2011 response is still current and relevant information for the OECD project. Since 2011, the Groceries Code Adjudicator has come into force in addition to the monitoring of prices already undertaken by The Office of National Statistics (ONS) and Defra. The response below therefore focusses on this new development, rather than the ongoing monitoring of food prices, completed primarily by the ONS.

1. **Is there a monitoring entity of food prices, food price transmission and/or of contractual arrangements along the chain in your country? What is its name? When was it established? Does it look specifically at certain products/sectors?**

The Office for National Statistics (ONS) monitors prices across the economy, including on food prices. An index of food prices, as part of overall consumer price inflation, is released monthly (http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/index.html). Defra continues to monitor food prices as described in the 2011 response. There are a number of statistical series on prices in the supply chain released by Defra (https://www.gov.uk/government/organisations/department-for-environment-food-rural-affairs/about/statistics).

A new policy initiative since 2011, the UK Groceries Code Adjudicator (GCA), was introduced in June 2013 to give legal force to the enforcement of the Groceries Supply Code of Practice (GSCOP) a voluntary Code introduced in 2010 on the recommendation of the UK Competition Commission. The government gave large retailers time to set up a voluntary Ombudsman; the GCA was established on a statutory basis when the self-regulatory approach did not progress. The GCA remit covers the relationship between the UK's ten biggest retailers (those with £1bn + turnover) and their direct suppliers. The GCA remit does not stretch to food prices, which is a commercial matter between the retailers and their suppliers.

2. **What is the rationale behind the existence of this monitoring entity? What does it add to what was done in the past in terms of monitoring food prices in your country?**

The GCA was introduced as a result of a UK Competition Commission investigation in 2008 which found that there was evidence that retailers were using their buying power to the disadvantage of their suppliers, and that there was a need for GSCOP

to have legal underpinning in order to address this concern. However, the GCA does not have a role in monitoring food prices.

As noted, the ONS and Defra monitoring of food prices is ongoing.

Our understanding of the drivers of food prices is still based on the Universities of Nottingham and Exeter project on the drivers of retail food price inflation modelling.

3. Can you identify three key objectives of this institutional initiative? Have they been reached? Did you set up an assessment process? Can you describe experiences that were not as successful?

The objectives of the GCA are as follows:

I) Promoting the work of the GCA;

ii) Providing advice and guidance on the work of the GCA;

iii) Acting on suppliers' issues and information. These are the objectives for the first year of the GCA, which was established in June 2013. The GCA will itself assess these objectives, but will also be overseen by the UK department for Business, Innovation and Skills which has UK policy responsibility for the GCA.

4. Who are the "clients" of this monitoring entity: government, specific stakeholders along the chain, consumers? How do they use the tool to your knowledge?

The GCA exists to provide advice, support and guidance to businesses along the whole supply chain if they are direct suppliers to the ten largest UK retailers. Consumers are not clients, but are expected to benefit from the operations and monitoring by the GCA of supply chain relationships.

5. What is the cost of getting this monitoring entity up and running in terms of:

- Involvement of ministries, statistical offices, stakeholders along the chain

The GCA is funded by a levy from the ten biggest retailers covered by its remit.

The primary data collection of food prices information by the ONS is a separate process, as part of overall consumer price inflation monitoring. More information can be found at: http://www.ons.gov.uk/ons/guide-method/method-quality/specific/economy/consumer-price-indices/index.html.

- Financial implications for its regular functioning

See above.

6. What are the future plans for this entity?

The GCA is subject to a review in 2015 and then subsequent reviews at 3-yearly intervals.

7. If you do not have such a monitoring entity, are data on food prices at different levels of the chain available publicly? Is food price transmission or transparency an important issue for your government, for consumers and for stakeholders along the chain? Is there a plan to set up a monitoring entity? Did you have one in the past and why did it stop operating?

N/A

8. Does the private sector have a demand for and willingness to provide greater transparency regarding price formation along the food chain according to your experience?

There are a number of non-Government sources of food price data along the chain. In addition to those mentioned in the 2011 response Farmers Weekly also publish food chain price information, for example on livestock prices.

9. Have you identified impediments to price transmission along the food chain? What policies do you think might help mitigate those impediments? Have policy actions been taken? For example, have measures been taken to ensure that food markets are competitive and integrated in your country? What is your assessment of their effectiveness? Are any future policy initiatives affecting relationships along the food chain in the pipelines?

The UK believes that consumers are best served by a competitive market across the food chain. The Competition and Markets Authority (formed from the Competition Commission and Office of Fair Trading) are responsible for:

- investigating mergers which could restrict competition
- conducting market studies and investigations in markets where there may be competition and consumer problems
- investigating where there may be breaches of UK or EU prohibitions against anti-competitive agreements and abuses of dominant positions

- bringing criminal proceedings against individuals who commit the cartel offence
- enforcing consumer protection legislation to tackle practices and market conditions that make it difficult for consumers to exercise choice
- co-operating with sector regulators and encouraging them to use their competition powers
- considering regulatory references and appeals

The Competition Commission's investigation[1] (published in 2008) into the supply or groceries in the UK found that the 'in many important respects, competition in the UK groceries industry is effective and delivers good outcomes for consumers'. It identified some issues of local market power and the transfer of 'excessive risk and unexpected costs' from retailers to their suppliers. The Grocery Code Adjudicator was an evolution of the GSCOP, which was the response to dealing with this latter issue.

[1] http://webarchive.nationalarchives.gov.uk/20140402141250/http://www.competition-commission.org.uk/assets/competitioncommission/docs/pdf/non-inquiry/rep_pub/reports/2008/fulltext/538.pdf

Annex: UK 2011 response

UK Response July 2011

Survey of activities in food price formation, transparency and monitoring along the chain

The objective of this initial meeting is to exchange information and experiences with respect to new initiatives and ongoing activities in capitals on understanding and monitoring the issue of price formation and transmission throughout the chain from producers to consumers. It is the intention of the Network to be as inclusive as possible for this topic thus encouraging the participation of different stakeholders either directly or indirectly through their delegation.

To the extent possible the OECD Secretariat will attempt to briefly summarise what Members consider to be the main economic policy issues in the price formation and transmission of food prices along the chain for the different stakeholders and how these are being addressed in capitals. The attached survey is to provide the OECD Secretariat with information for the summary to be distributed prior to the meeting.

I Are price formation, transmission and transparency issues along the food chain important and if so for which stakeholders and why?

Price formation is a matter for private negotiation. There needs to be appropriate scope for commercial negotiations between suppliers and retailers to take place on prices and other commercial elements of the supply agreement, retailers should not be prevented from securing the best deals and passing on benefits to consumers.

Suppliers are likely to benefit most from the method of price formation being set-out clearly and then agreed by contracting parties. Transparency of prices and margins across supply chains could be achieved using a few aggregated selling and buying prices at each level (farm, processing, distribution/final sale) for key commodities in each sector and should demonstrate whether price transmission is proportionate and consistent with the overall market, which should be in everyone's interest since it should ensure that revenue and risks are shared more proportionately through the supply chain.

Defra routinely monitors trends in the affordability of food both domestic retail food price inflation (as measured by the Consumer Price index) and movements in the drivers of domestic retail food price inflation. The drivers of domestic retail food price inflation include:

- Commodity prices
- Oil price
- Exchange rates

Whilst vigorous competition between large grocery retailers may dampen some of the impacts from upward pressure of these drivers, especially where there is short term volatility in prices, it is not to say that supermarkets will continue to absorb rising input costs indefinitely and in their entirety.

II. What are the three most important issues with respect to food prices that have raised concern over the recent period?

A main concern is that consumers, particularly those with low incomes, move further away from healthier diets and buy and consume fewer fruit and vegetables. However evidence from recent surveys related to food prices do not show any evidence of this.

http://www.food.gov.uk/science/socsci/surveys/foodandyou/foodyou10

Full report:
http://www.food.gov.uk/multimedia/pdfs/publicattitudestofood.pdf

A second concern is economic – the impact of higher prices on the food service sector and farm businesses. There is evidence in the above report to say that people are eating out less – 26% of respondents said they were eating out less/having less takeaways. High input prices may also have an impact on the viability of farm businesses.

Thirdly, the Government has undertaken research to help understand what drives the purchasing behaviour of consumers. From this we know that sustainability labelling alone is not effective in resulting in consumer behaviour change. Cost, along with habit and taste, have been identified as the key barriers to the purchasing of sustainable produce. Therefore with rising food prices, there is concern that consumers may be even less likely to make choices based on sustainability.

III. Have you undertaken any institutional initiatives in recent years to improve your understanding of impacts of price formation, transmission and transparency on stakeholders in the food chain? Do these involve more than one ministry or units in a ministry, and if so which? These should include new working groups, new statistical units and special government offices and how they are administratively set up and operate. Any cross department activities in this area would be of particular interest.

Defra has recently funded research looking at *Domestic retail food price inflation modelling project*

- The project was carried out by the University of Nottingham (led by Wyn Morgan, Professor of Economics) and the University of Exeter (led by Steve McCorriston, Professor of Agricultural Economics). The project team was appointed by Defra's Food Chain Analysis Group in January 2010, the report is to be published shortly.

- The key objective of the project was to considerably improve Defra's understanding of the drivers of domestic food price inflation, and to develop and deliver a forecasting tool to be used to predict how movements in key variables affect the strength and direction of domestic food price inflation.

- The University of Nottingham-led project team have undertaken and delivered a rigorous empirical analysis, based on modern econometric methods (cointegration analysis in a multi-equation framework), which has greatly improved the evidence base.

nexus

IV. Are there non-governmental institutions which are involved in the same activities? Please include trade unions, co-operatives, consumer groups or business associations

Monitoring of retail food price analysis undertaken by external organisations

- **European Food and Farming Partnership (EFFP)/Cranfield University** model of domestic retail food price inflation - EFFP is an agri-food business consultancy, which provides specialist food chain advice to the private and public sectors. EFFP publish a quarterly forecast of domestic retail food price inflation.

- **British Retail Consortium/Nielsen Shop Price Index** - the BRC/Nielsen Shop Price Index is a measure of inflation based on 500 commonly purchased food and non-food items.

- **The Grocer Price Index** - The Grocer Price Index measures the cost of a basket of groceries purchased from **Tesco**, **Asda**, **Sainsbury's**, and **Morrison's:** the UK's four largest grocery retailers**.** Currently, it is the only measure of food and non-food inflation which accounts for the retailer promotional and discounting activity.

V. Please describe briefly statistical and analytical activities undertaken on a regular or ad hoc basis? Please include special studies and research projects, database development, statistical analyses and other relevant activities.

- Monitoring of the percentage of total spend that goes on food. We use this as an indicator of household food security and produce the indicator for all households and for the lowest income quintile households (using equivilised income to control for differences in household composition). When food prices rise faster than general inflation this indicator tends to rise, indicating that food shopping is placing greater pressure on households. (Annual in Family Food)
- Monitoring of the relative price of fruit and vegetables compared to all food. This measure is an indicator of the affordability of a healthy diet compared to a less healthy diet. (Annual in the Pocketbook)
- We measure the farmgate share of the retail price for a basket of foods to reveal if farmers are achieving a reasonable price and to show how much of the retail price is taken by distribution and processing. (Annual in Agriculture in the United Kingdom)
- We compare unit values (price per kilo) of consumer purchases on a range of foods against retail price indices for the same foods. This analysis reveals the extent to which consumers are 'trading down' to cheaper products within the same food group. (Annual in Family Food)