INSTITUTE OF AGRICULTURAL ECONOMICS AND INFORMATION

„OECD Food Price Formation Project“

Response for the Czech Republic

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OECD Food Price Formation Project

Introduction Information

This document includes two questionnaires focused on price formation, monitoring, transmission and transparency along the food chain in the Czech Republic.

The purpose of the first questionnaire is to collect information concerning the role of institutions in providing food price formation data and analysis in the Czech Republic. This section contains nine questions about price formation issue. Data will be used as a basis for preparing report on food price formation by The OECD Secretariat. This report will be presented at the November APM meeting.

Second part of this document includes response on five questions on a Survey of activities in food price formation, transparency and monitoring along the chain in the Czech Republic. This survey was already submitted in the context of the 3rd Food Chain Analysis Network (FCAN) meeting in 2011.

Food price formation

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

In part of commodity chain (ie primary production and processing industry) survey of Agricultural producer prices and Industrial producer prices of selected commodities dealing with some government departments, as State Agricultural Intervention Fund (hereinafter referred to as "SAIF") and Ministry of Agricultural (hereinafter referred to as "MoA"). **SAIF** regularly monitors and published monthly Agricultural producer and Industrial producer prices of selected agricultural commodities (cattle, pigs, poultry, eggs, milk, potatoes, cereals, fruits and vegetables) and products made from them. Also **MoA** performed regular monthly survey of Agricultural producer and Industrial producer prices of poultry, milk and products. Neither from these two institutions, however, does not perform price investigation across commodity chain, because does not perform Consumer prices.

In the Czech Republic is not institution which monitors price transmission in producer chain of agricultural commodities. Individual studies were processed to analyze and evaluate price transmission in commodity chain of cereals, beef, pork and poultry meat and eggs. These studies were prepared by Czech University of Life Sciences Prague (hereinafter referred to as "CULS"), Mendel University in Brno (hereinafter referred to as "MUB"), Institute of agricultural economics and information (hereinafter referred to as "IAEI"). For example there are only selected thesis:

1) LECHANOVÁ, I., BEČVÁŘOVÁ, V., Possibilities of price transmission analysis to assess the impact of market power in food verticals, MUB, 2006
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4) GALLOVÁ, L., CÍROVÁ, V., Price transmission in commodity chain, CULS, 2010
5) ABRAHAMOVÁ a kol., Analysis of commodity chain of pork and poultry meat and eggs, IAEI, 2012

Monitoring of food prices in the Czech Republic engaged **the Czech Statistical Office** (hereinafter referred to as "the CZSO"). Regularly, at monthly intervals are identified and published prices of selected commodities along the commodity chain. Agricultural producer prices, Industrial producer prices and Consumer prices. Prices are monitored both absolutely (expressed in CZK for unit of goods) and indexing.

Agricultural producer prices are identified through national statistical statement of prices Zem 1-12 in approximately 480 selected producers in agricultural (cooperatives, private and public organization). Prices are published by territory (districts, regions and Czech Republic). For index monitoring of prices is selected 71 crucial agricultural products. Selection includes 55 plant products including fruits and vegetables and 16 animal products. Then are monitored prices of others 40 representatives, which do not enter into the calculation of indices; the CZSO published only their prices.

Industrial producer prices are monitored in national statistical statement of prices Prům 1-12 in selected companies. The selection includes about 4600 products, involved in industrial production. Prices of "Food products, beverages and tobacco products" includes about 980 representatives enter into calculation of indices. Problem is that concrete prices of food goods are published by very narrow range due to individual data protection, specifically by 23 items.

Price indices are published for food products, beverages and tobacco altogether and then for individual food industries by division CZ-CPA (overall 8 basic branches of food and drink production).

Consumer Prices of individual types of goods and services are identified in selected stores and premises of services by employees of the Czech Statistical Office in 35 districts across the Czech Republic. For price collection is chosen 721 representatives. Total number of individual representatives of food and non-alcoholic beverages are 161 products (of which 146 food and 15 non-alcoholic beverages), alcoholic beverages represented 15 representatives. Prices for districts, regions, the whole country and capital city Prague are available. From the collected prices for individual representatives the average price for whole Czech Republic is calculated.

In addition, the consumer price index for households in total are calculated indices of consumer prices for households of pensioners and households living in Prague.

Indices of all listed prices are calculated and published as basic monthly or year-to-year. In regular (roughly 5-year) intervals occurs a comprehensive review of these indices (replacement price representatives, construction of new weighting system).

The Czech statistical office is the central authority of state administration of the Czech Republic. It was established on 8thJanuar 1969 by Act no. 2/1969 Coll., The establishment of ministries and other central state authorities, as amended.

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 Czech Statistical Office has been established as a central authority of state administration through Act No. 2/1969 Coll., passed by the Czech National Council, on the establishment of ministries and other central authorities, as amended. The CZSO is an organizational unit of state. Act No. 89/1995 Coll., on the State Statistical Service, and other legal regulations, lay down jurisdiction of the CZSO

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?**

<u>Main objectives of the CZSO are follows:</u>

- coordinates the state statistical service carried out by CZSO and other institutions and ministries;
- defines the methodology of statistical surveys and is responsible for their processing and use;
- cooperate with international organizations in the unification of international recommendations and standards in the area of statistics;
- develops new statistical methods
- complies national accounts;
- issues a wide range of statistical publications and releases and provides statistical information, including the methodology or corresponding surveys.

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?**

Obtained information and results of comparison provides to national institutes and public. All data and information are free and available on www.czso.cz. Issues statistical yearbook of the Czech Republic, and others professional publications and magazines and provides development of new statistical methods. The newest data about economy and social development in the Czech Republic are published by Quick Information. On their web pages they published analysis, online publications, time series, press releases and other information.

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
   - Financial implications for its regular functioning

The CZSO is funded from state budget of the Czech Republic. In 2012, the Chamber of Deputies of the Czech Parliament in its resolution no. 1445 law no. 504/2012 Coll., On the state budget of the Czech Republic for the year 2013 was mentioned laws for chapter 345 – The Czech statistical Office approved budget revenues of CZK 112 398 000 and expenditure budget in the amount of 1 012 920 000 CZK.

Permanent source of income for the CZSO are revenues from own activities. The most of the CZSO outputs are available free of charge on CZSO internet website. In spite of that fact, demand for the CZSO outputs and for outputs published by publication are growing and the CZSO prepare outputs individually and exactly for each single user. Another source of income received penalty payments, income from the sale of assets, in particular received transfers.

6. **What are the future plans for this entity?**

Key priorities of the CZSO up to 2020:

- To support the e-government and active implementation of administrative data sources in the statistical system.
- To transfer statistics from ministries to the CZSO.

- To actively participate in the process of building of a system of registers of the Czech Republic.
- To unify technical and technological environment for collection, processing, storing and publishing of statistical data and information.
- To prepare a strategy for preparation of 2021 Census.
- To continually evaluate and direct the development of contents of statistical surveys having considered both national and international conditions.

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?**

This question must be answered if the first question is replied negative, that is not the case of the Czech Republic.

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?**

Public sector in the Czech Republic is not willingness to provide greater transparency regarding price formation along the food chain. In the past, there was a survey on consumer prices in chain stores, but it was private, paid survey.

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?**

In recent months is spoken in the Czech Chamber of Deputies about the amended Act on food. This amendment was approved on 18 June 2014 the Senate of the Czech Republic. Is a response to the EU regulation no. 1169/2011 on the provision of food information to consumer. This new regulation provides scope and method of food information on their package. The biggest change in the future is mandatory inclusion of nutrition information on food packages. Czech Food Act will establish rules for providing information for unpackaged food and packaged food without the presence of consumer for the purpose of direct sales. Depending on the adoption of relevant implementing regulations will be unpackaged food provides such as placing information about the products or quantity of the main ingredients. Obligation to change the labeling of foodstuffs resulting from EU regulation provides signification costs to business operators. These costs will be further increased by the obligation to adapt the labeling of unpackaged food on the basis of the amended Act. Part of the amendments is increase of sanctions in case of non-compliance with labeling requirements. European regulation became effective on 15 December 2014. The Czech Food Act became effective, when it will be sign by President, on 1 January 2015.

Part of the purpose amendment is a new obligation imposed on food retailers with sales over 5 billion CZK per year, to make available at the entrance to the store and notify the MoA a list of five countries containing a percentage of the share of food from all these countries are taken and that launches in the Czech Republic. Key for this law will be, that from which country retail chains will import food, where they will buy food (not its origin, where food was made). Retail chains will be added administrative burden and consumer newly will learn ummary information about food purchase for the whole range of food, not information about origin of individual food.

Improving the quality of food products contributes also to competitiveness of agrarian production in the Czech Republic. About advantages of quality food is necessarily to convince consumers by appropriate marketing or education on proper nutrition. Quality food products are usually certified and labeled so that when buying allow better orientation on market to consumer. Include following:

KLASA – KLASA Mark as a marketing tool helps to increase value of valued food products. Its purpose is to support activities of food producers, on the other hand to inform consumers. This mark guaranteed, that offering food is really quality and safe health. It is a process of gaining the trust of consumers and customers, retaining this trust, which is prerequisite for the development of food security and competitiveness in the markets home and abroad. The aim of campaign in 2013 was to bring the KLASA Mark consumers to food

marked with the KLASA retrieving prefer while so at their shopping behavior created pressure on the seller on the widest stores offers these products. In 2013 were used proven communication activities focused on sales support and increasing consumer preference of food brand KLASA in all regions of the Czech Republic. On 31 January 2013 overall status of database KLASA Mark has 1183 products from 224 producers. In 2013 440 products was awarded.

Regional Food – Label Regional Food grants Minister of Agriculture from 2010 in 13 regions of the Czech Republic for the highest quality agricultural or food products, that prevail in regional competitions. Products must to be made by local ingredients and have a link on their region – whether traditional way of production or original regional recipes. Label Regional Food is managed by MoA. From 2012, administrator is SAIF. Label regional food is represented form nationwide information campaign, which aim is raise awareness about this label between consumers, point to the origin, tradition and quality of product and concurrently to create a positive perception of regional products. Motivate consumers to actively seek the way to mark Regional Food and know why is should be selected. Support sales and inform consumers about, where they can buy the Regional Food. Through appropriate information and communication channels visible brand and help increase public loyalty to local agricultural and food production. Amount of awarded products on 31 December 2013 was 373. In 2013 was awarded 100 products. Procedures for the labeling of Regional Food, along with other information, such as the award-winning can be found at www.regionalnipotravina.cz.

System of protected labels of agricultural products and foodstuffs – Protected labels are support and protection of agricultural products and foodstuffs. System of protected label was introduced in EU in 1993 and purpose is protected titles of agricultural products and foodstuffs from competitive products for the wrongfully issuing these products. Foodstuffs and agricultural products can be protected by three institutes that provide protection designation to the member states of the EU. In the case of bilateral contracts, the protection is ensured in contracting third world countries. Protection is provided on the basis of registration of the European Commission. Including following:

Protected designation of origin – Protected designation of origin covered name of region. It is designation of agricultural products and foodstuffs, which originates from this place. Production, preparation and processing of these products must be carried out in the defined geographical area. There must be a very close link between products and its geographical origin.

Protected geographical indication (PDI) – Protected geographical indication meant the term used to identify agricultural products and foodstuffs originating from this place. Agricultural products and foodstuffs, marked by this label, have specific quality, reputation or other characteristics attributable to the geographical origin. Against the protected designation of origin is link between product and geographical area looser, in sufficient if at least one stage of production – processing, preparation or production – occurred in the defined geographical area.

Traditional specialty guaranteed – It is agricultural product or foodstuff, which comes from traditional row materials or features traditional composition or means of production or processing. The term "traditional" means the proven use of the name for at least 25 years on the market. Due to Traditional specialty guaranteed mark is able to distinguish product which has a geographical relation with specific area from the other products on the market.

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

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

Price formation, transmission and transparency are important in food chain and affect directly or indirectly all section of price chain. In the Czech Republic does not occur institution that monitors directly price transmission. Prices of Agricultural and Industrial producers are monitored primarily by the Czech Statistical Office, selected commodities are also monitored by State Agricultural Intervention Fund (hereinafter referred to as "SAIF") and Ministry of agricultural (hereinafter referred to as "MoA"). Consumer prices of food products are reported only by the Czech Statistical Office; consumer basket, however, involves much more representatives than prices of Agricultural and Industrial producers. Price transparency and transmission are not adequately mapped in the Czech Republic.

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

Consumer food prices in the Czech Republic in recent years (2005 – 2013) considerably increased. Their growth was more dynamic than inflation. In comparison with EU average was the growth of food prices in the Czech Republic in this period higher (according to calculation of EUROSTAT data by about 5 percentage points). The rise in price level of food from domestic factors, to a considerably extent due to higher value added tax (VAT). The VAT rate was increased several times in the past. Currently, the rate of VAT applicable on sale on food in the Czech Republic, is 15% (in 2005 it was 5%), among the highest in whole EU.

III. Have you undertaken any institutional initiatives in recent years to improve your understanding of impact 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 particular interest.

It was processed individual studies, which analyzed and evaluated price transmission in commodity chain of cereals, beef, pork and poultry meat and eggs. These studies were prepared by Czech University of Life Sciences Prague (hereinafter referred to as "CULS"), Mendel University in Brno (hereinafter referred to as "MUB"), Institute of agricultural economics and information (hereinafter referred to as "IAEI"). For example there are only selected thesis:

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

As stated in previous question to price transmission process, are involved especially Czech universities, which conducted studies on this topic (CULS and MUB). Further studies participates IAEI, but this institution is contributory organization of the Ministry of Agriculture.

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.

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