2014 UPDATED RESPONSES TO OECD FOOD PRICE QUESTIONS FOR CANADA

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

Yes these issues are important. As government, we have a responsibility in understanding developments arising from changing structure, consolidation, new players, mergers, acquisitions, and foreign investment affecting the agriculture, agri-food and agri-based products sectors so we can understand how these changes are impacting the structure and performance of the sector and the various stakeholders that make up the sector (i.e. farmers, farm input suppliers, food processors, retailers, food service, consumers, etc.). Ultimately these may affect the cost, effectiveness and outcomes of our policies and programs which may require revisions to respond.

Changes in prices along the food supply chain also have implications to the effectiveness and outcomes of policy and programs in shaping the structure and performance of the entire food supply chain.

We have strong Competition Policy and oversight in Canada to ensure that price fixing, non-competitive behaviour, and injury from non-competitive behaviour are kept to a minimum.

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

1. One of the main issues, with respect to food prices in Canada, is how food price increases are shared among player in the supply chain and whether the price increase is transmitted to primary producers. Recently, there has been the entrance of major US retail chains, such as Walmart and Target, into the Canadian retail food marketplace and the impact that this will have on prices received by domestic producers. To date, AAFC has not observed any noticeable change in growth of producer prices that can be attributed to entry of US retailers.
2. A related concern is the restructuring taking place in the food retailing sector in recent years, partly as a response by domestic grocery retailers to the entry of US retailers, but also to generate cost savings from economies of scale through integrating and modernizing distribution networks, procurement, marketing, and eliminating duplication and redundancies. To date, AAFC has not observed any noticeable change in growth of retail food prices that can be attributed to restructuring.
3. Food prices in Northern Canada are a concern because they are extremely high compared to the rest of the country. This is due to the long distance from food producing regions and the high transportation costs to bring food to Northern Canada.

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?

The Competition Bureau is always monitoring and investigating these issues.

Since 2011, the only recent initiatives are two food dollar share studies. For the first study, AAFC assisted the University of Guelph with conducting research for Canada from April 2013 until April 2014 that replicated the US food dollar study, from the Economic Research Service. Using Input-Output (IO) data analysis, the research calculated the Canadian farm share from 1997 to 2010 for food only, food & beverages, food consumed at home, food consumed away from home and compared the results to those from the US. The farm share for specific food commodities was also calculated.

In May 2014, the first Canadian study was released. A summary of the results from the paper can be found at the following link:

http://www.producer.com/2014/07/farm-returns-food-spending-is-farmers-share-declining/

The second food dollar study is a broader Canada-US comparative study involving collaboration between AAFC and the ERS. Results from this study will attempt to quantify the impact of changes in prices of components within the food value chain on final consumer food expenditures and examine the changing relationships between value chain participants as input and output prices change.

Preliminary results are expected to be released in September 2014. An ERS Research Report (ERR) and an "Amber Waves" article on results will be published and posted online on the ERS website in 2015. Depending on data availability and interest, a broader study in the future could expand food dollar share comparisons to other countries, such as OECD countries.

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.

Since 2011, there have been no new cross departmental working groups, new statistical units and government offices that have been set up to look at food price issues.

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

The Keystone Agricultural Producers of Manitoba (KAP) funded a study titled "The Farmers Share 2012 Update". The study looked at price margins in agriculture and food across Canada from 2008-2012. The study was released on July 20, 2012. The report, along with the accompanying data tables, has been included.

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.

Agriculture and Agri-food Canada, Markets and Industry Services Branch have commodity experts who monitor and collect prices of various commodities. Much of this information is available at:
http://www.agr.gc.ca/pol/mad-dam/index_e.php

Ridgetown College in Ontario collects cost of production and prices information of Ontario commodity prices for corn, soybeans, canola, wheat, barley, oats, mixed grains, Western feed wheat and barley dating back to 1991.

Dairy Farmers of Canada collect cost of production and prices information for milk and dairy products to determine policies/regulations around production and marketing.

The Canadian Egg Marketing Agency also collects price information on eggs, which are used to establish and assess regulations related to the production and marketing of eggs.

Most provincial ministries collect cost of production data for benchmarking farms (i.e. Alberta, Quebec etc.)

Statistics Canada collects farm level, industry level and retail level prices for developing price indexes at the input level, farm level, the food processing level and retail level.

Nutrition North Canada (NNC) monitors trends in the cost of healthy eating in isolated northern communities eligible for the NNC program. More information about NNC is available at:
http://www.nutritionnorthcanada.gc.ca/eng/1369314079798/1369314090524

As mentioned previously, AAFC provided technical support for a recent project (Kelly et al., 2014) which replicated recent ERS work on US retail prices (Canning, 2011) for Canada. Like the ERS study, similar results were found for Canada that shows commodity prices have a smaller impact on retail food prices in developed countries with well-established value chains.

AAFC is also collaborating on a country comparison research project, with Patrick Canning from the Food Markets Branch of the Food Economics Division of the ERS, examining how other industries, such as food services and food processing, also shape retail food prices.

References

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2014 OECD FOOD PRICE QUESTIONS FOR CANADA

NB: If you answer positively to question 1, please answer question 2 to 6. If not, please answer question 7. In all circumstances, please answer questions 8 and 9.

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?

   No, other than Statistics Canada's regular collection of food prices to construct the food components of its Consumer Price Index. A copy of the Statistics Canada's CPI publication is attached. Table 4-1 shows the food categories covered.

   Other than Statistics Canada, the University of Guelph is the only other organization which has recent experience in reporting on retail food prices. A copy of the University of Guelph Food Price Index is also attached.

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?

   Data on food prices at different levels of the chain are determined through private contracts and are not, in general, publicly available.

   The monitoring of competition and its impact on prices is mainly the purview of the Competition Bureau. This includes competition between different elements of Canada's food chain. During the recent acquisition of the Safeway retail grocery chain by Sobeys in western Canada, the Competition Bureau considered the potential impact of the merger on the wholesale buying power of other retail grocers, including impacts on wholesale supply and prices. The Competition Bureau concluded that the remaining competitors would act as a constraint to an exercise of market power arising from the acquisition.

   The Competition Bureau also considered the impacts of the Sobeys acquisition of Safeway on local retail markets, including the impact on prices faced by consumers. In certain local markets, the Competition Bureau concluded that "the parties have significant market share and the extent of other competition is limited. Furthermore, the Bureau found that barriers to entry are relatively high. These barriers include the amount of time and costs required for an entrant to access an appropriate real estate location, obtain the necessary permits and governmental approvals, and build or convert a suitable retail store. In particular, it is often difficult in urban markets to access

appropriate real estate locations for full-line grocery stores in a timely manner." In order to alleviate these concerns, the Competition Bureau made the acquisition conditional on Sobeys divesting 23 stores. (http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03619.html)

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? **No. We are unaware of the existence of codes of conduct within the industry to foster transparency along the food chain. This requires further validation from sector specialists.**

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?

   As identified above, the monitoring of market power issues in Canada falls under the purview of the Competition Bureau. The Sobeys example above highlights the extent to which current policy allows the Competition Bureau to take action.

   In terms of effectiveness, AAFC believes the food retail market in Canada to be highly competitive, and the recent entry of Walmart and Target has added to the degree of competition within the marketplace. The competitiveness of the marketplace is borne out by what we believe to be access to high-quality food at reasonable prices for Canada.

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