OECD Food Price Formation QUESTIONNAIRE

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?

Food prices have been monitored at EU level by the European Commission (Eurostat) for many years. Additionally, certain EU Member States have set up monitoring entities looking at relevant food prices on their territory. Richer information exists for certain food chains of national importance at Member State level in the national observatories[1] which have been promoted since 2010 by the High Level Forum for a Better Functioning Food Supply Chain[2] (Forum). Under the Platform with the same name of the above mentioned Forum, Eurostat set up the Food Prices Monitoring Tool[3]: a database providing monthly price indices and rates of change for 17 food chains in Europe, giving price information at different levels of the food chain (agriculture, industry and consumer[4]). The Food Prices Monitoring Tool (FPMT) uses existing information currently delivered by Member States to Eurostat.

Other work on price transparency led by the Commission (DG Agriculture and Rural Development) includes:

- Publication once a month of the Price Dashboard, which brings together and compares EU and world prices for most agricultural commodities, agricultural inputs like energy and fertilizers, consumer price indices. It includes detailed information on EU producer and consumer at Member State level.

  http://ec.europa.eu/agriculture/markets-and-prices/price-monitoring/index_en.htm

- Creation in 2014 of a Milk Market Observatory aiming at a constant monitoring of dairy markets. This will become even more important after the expiry of the milk quota system. The recently launched European Milk Market Observatory is responsible for the dissemination of market data and short-term analysis for the dairy market. It will generate more transparency and give quantitative and qualitative tools for economic operators to increase their market awareness and help them with their business decisions. The Observatory will also help the Commission to monitor market developments, to deploy "safety net provisions" in a proactive manner and to react to exceptional circumstances.

  http://ec.europa.eu/agriculture/milk-market-observatory/index_en.htm

- A wealth of price information is also available on DG AGRI website thanks to the notifications by Member States in the framework of Single CMO.

- Monthly summary: http://ec.europa.eu/agriculture/markets-and-prices/price-monitoring/market-prices-from-2007-monthly_en.pdf

- More detailed weekly prices available on most market analysis web pages (e.g. for pig meat http://ec.europa.eu/agriculture/pigmeat/presentations/index_en.htm)

---

[1] See Annex 1 of the Food Prices Monitoring Tool Platform mid-term report http://ec.europa.eu/enterprise/sectors/food/files/competitiveness/midterm_report_pricemonitoring_en.pdf

[2] http://ec.europa.eu/enterprise/sectors/food/competitiveness/forum_food/index_en.htm

[3] http://www.google.com/publicdata/explore?ds=z5kpmhi08g4d40_&ctype=l&strail=false&nselm=h&met_y=i2005&hl=en&dl=en#ctype=l&strail=false&nselm=h&met_y=i2005&fdim_y=price_type:hicp&scale_y=lin&ind_y=false&rdim=country_group&idim=country_group:eu:non-eu&hl=en&dl=en

[4] Import prices will also be integrated in the FPMT, as Unit Value Indices from International Trade Statistics.

The Forum also looked at unfair practices in contractual relations. This work resulted in 2011 in the adoption of a code of good practices[5] and of a voluntary scheme for its implementation called the "Supply Chain Initiative"[6] in 2013. The European Commission also issued a Communication on unfair trading practices in business-to-business relations in the food supply chain (COM(2014)472), which builds on the principles and features of the Supply Chain Initiative and its national platforms and complements it with independent enforcement at national level.

In addition, following the 2009 dairy crisis, specific legislation on contractual relations was set up in the milk sector. The package[7], fully applicable since October 2012, provides for written contracts between milk producers and processors and for the possibility to negotiate contract terms collectively via producer organizations. It also sets out new specific EU rules for inter-branch organizations, allowing actors in the dairy supply chain to dialogue and carry out certain activities. The package also entails a series of measures enhancing transparency in the market.

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?

Eurostat's mission is to provide high quality statistics on Europe. Therefore Eurostat is monitoring among others price evolution in Europe and its Member States inter alia through the Food Prices Monitoring Tool. The FPMT remains for the time being the only source of harmonised information on prices throughout the food supply chain at EU level.

The European Parliament has called for the improvement of the FPMT in 2014-2015 and resources were made available. The aims are to support the capacity of Member States to collect and compile price statistics in general using new data sources, to improve the coverage and quality of the FPMT and its components and to enhance the price production systems (agricultural commodity, producer and consumer price statistics) along the food chain. The FPMT should be improved to:

- Enhance the use of scanner data for multi-purpose consumer price statistics. The use of scanner data appears as a promising source for the collection of prices for both temporal and spatial estimates, in particular for food and beverage products.
- Establish and improve the coverage of domestic producer price indices (PPI) for manufacture of food products and beverages. Given that there is no legal obligation for Member States, the funding by the EP will be important to enlarge the coverage of products
- Establish and improve detailed import price indices for manufacture of food products and beverages. As with the PPIs countries are not legally obliged to provide import price indices for products covered by the FMPT. The goal of the funding is to make it possible for Member States to deliver import price indices for the products covered by the FPMT. Unit value indices should then be substituted by the import price indices.
- Enhance and develop the production systems of price statistics, notably along the food chains, with particular focus on consumer price statistics.

[5] http://ec.europa.eu/enterprise/sectors/food/files/competitiveness/good_practices_en.pdf
[6] http://www.supplychaininitiative.eu/
[7] http://ec.europa.eu/agriculture/milk/milk-package/index_en.htm

National Statistical Institutes of 28 Member States, Iceland, Liechtenstein and Norway were invited to participate in the call for tender providing grants for the improvement of the FPMT.

In addition, Eurostat is planning to improve the visibility of the FPMT, through the setting up of a dedicated website which responds to the modern concepts of dissemination of statistical information, offers multilingual facilities and provides links to relevant information (sources, methodological aspects, national price observatories, etc.) in particular combining macro information with micro information in general associated to the work of price observatories at national level.

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 basis for the setting up of the FPMT is set in the Communication for a better functioning of the food supply chain COM (2009) 591[8], which sets as one of its priorities the need to increase transparency along the food supply chain. The FPMT aims at enhancing price transparency and predictability throughout the food chain. It was estimated in the same Communication that the visibility on food price evolution in each country "will contribute to increasing pressure on stakeholders to speed up price transmission".

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 FPMT is used by the public administrations (European and national) as well as by stakeholder associations. The use of the tool by private operators remains limited at this stage as the price indices refer to broad categories (e.g. "milk, cheese and eggs" aggregate). The national food price observatories which have more comprehensive price information, including nominal prices/margins for the same product at different food chain levels and/or at regional level, could be more frequently used by market operators.

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

Since the FPMT is based on an existing data collection, it does not bring additional administrative or financial burden to Member States. Its improvement is financed through additional resources as requested by the European Parliament, as mentioned under point 2.

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

Please see under point 2.

[8] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions "A better functioning food supply chain in Europe" COM (2009) 591 http://ec.europa.eu/economy_finance/publications/publication16061_en.pdf

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?

NA

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?

The Forum platform on the FPMT reunites Member State and stakeholder representatives interested in price monitoring. Under this Platform stakeholders have asked for the improvement of the FPMT in terms of content and visibility and stated its usefulness as information source on the food chain in Europe.

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 Communication COM (2009) 591 on the better functioning of the food supply chain identified the magnitude, symmetry and the speed of price transmission as elements which need to be taken into account when monitoring prices in the food chain. The same Communication and the Staff Working document "Analysis of price transmission along the food supply chain in the EU" SEC(2009) 1450[9], accompanying the Communication, note that the asymmetric response of consumer prices to commodity price fluctuations, the reduction of speed and magnitude of price transmission helps prolong inefficiencies at each step of the food chain. An analysis of factors affecting price transmission in the food chain is also made in the 2008 Communication "Food Prices in Europe" COM (2008)821[10].

A more recent analysis based on the FPMT shows the same trend, namely that agricultural price fluctuations are not proportionally transmitted to consumer prices. This can be expected, as the costs of raw material are only part of total cost of food. However, food chain prices also show asymmetric price transmission in a wheat-to-bread case study, in which consumer prices seem to rise in line with agricultural price spikes but never react to downward price movements of raw materials, leading to a steady and homogeneous increase in consumer prices.

In terms of policy actions, work on food price transparency and on unfair trading practices – aiming at reducing abuses in bargaining power in contractual relations – is ongoing in the Forum. In addition, the Commission has also looked at the functioning of food markets in particular in its 2009 European Competition Network report on activities in the food sector[11] and launched a study which looks at the economic impact of modern

[9] http://ec.europa.eu/economy_finance/publications/publication16067_en.pdf

[10] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions "Food prices in Europe" COM (2008) 821 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0821:FIN:EN:PDF

[11] http://ec.europa.eu/competition/ecn/food_report_en.pdf

retail on choice and innovation in the EU food sector, whose results should be available before the end of the year.

Other related themes in the Forum address the stimulation of food chain competitiveness, removal of trade barriers, ensuring supply of raw materials and sustainability of the food chain, a proper functioning of financial markets etc.

10. Survey of activities in food price formation, transparency and monitoring along the chain that was put together in the context of the 3rd Food Chain Analysis Network (FCAN) meeting in 2011:

UPDATE OF 2011 QUESTIONNAIRE

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

The importance of these three aspects is stated in the Commission Communication 2009(591) which raised the issue of imperfect price transmission in the context of the 2008 agricultural commodity price spikes: "Since the second quarter of 2008, prices of agricultural commodities have been plummeting. Contrary to agricultural commodity prices, food producer prices continued to rise until the fourth quarter of 2008, while consumer food prices did not come down until recently. Moreover, the rates of decline in producer and consumer food prices are rather low when compared to the drop in agricultural commodity prices. The reaction of food processors and distributors to a decrease in agricultural commodity prices has been both slower and weaker than their reaction to their increase of 2007. This discrepancy has negative consequences for the food supply chain as it prevents consumers from benefitting from lower prices and curtails the recovery of agricultural commodity prices by reducing the demand for food products." The issue of imperfect price transmission impacts operators of the entire food chain and consumers.

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

Excessive volatility and high prices have been at the centre of the debate. While price levels are affected by certain factors (demand, oil prices, trade distortions etc.), the rise in volatility coincided with growing finacialization of commodity markets.

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.

Within the EU, the activities of the Forum provide an opportunity for Member States, wishing to attend, to improve understanding of price issues and, from the Commission side, represent an inter-departmental initiative (agriculture, industry, consumers, competition, economic affairs).

Outside the EU, established at the request of the Agriculture Ministers of the G20 in 2011, AMIS (the Agricultural Markets Information System) is an inter-Agency Platform to enhance food market transparency and encourage coordination of policy action in response to market uncertainty. The initial focus of AMIS is on four crops that are particularly important in international food markets, namely wheat, maize, rice and soybeans.

AMIS seeks to strengthen collaboration and dialogue among main producing, exporting and importing countries. Apart from G20 members plus Spain, participants in AMIS include seven major producing, consuming and exporting countries of commodities covered by AMIS. Together, these countries represent a large share of global production, consumption and trade volumes of the targeted crops, typically in the range of 80-90

percent. In addition, AMIS reaches out to other key stakeholders in international food markets such as commodity associations and institutional investors in commodity markets.

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 FPMT platform reunites European associations representing food chain operators, members of the Forum[12].

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.

The FP 7 project TRANSFOP (The Transparency of Food Pricing Research Project) aimed to investigate the determinants of food prices across EU Member States and the role that competition and other features of food chains may determine food prices. The TRANSFOP project was organized across a number of inter-related themes: the experience of food price inflation across the EU, theoretical and empirical approaches to price transmission, retailer-manufacturer interactions, factor market imperfections and contract enforcement issues in the food supply chain, the role and impact of small and medium enterprises in the EU food sector and mergers and acquisitions in the food sector. The project involved 13 partner universities and research institutes across 10 EU countries.

Another project worth mentioning is the FP7 project ULYSSES (Understanding and coping with food markets volatility towards more Stable World and EU food Systems). ULYSSES will assess the literature on price volatility for food, feed and non-food commodities. It will also attempt to determine drivers and factors causing market volatility. Projections for supply shocks, demand changes and climate change impacts on agricultural production will be performed to assess the likelihood of more volatile markets. ULYSSES also looks at the impact of markets' volatility in the food supply chain in the EU and in developing countries, analysing traditional and new instruments to manage price risks. It also evaluates impacts on households in the EU and developing countries. Results will help the consortium draw policy-relevant conclusions that help the EU define market management strategies within the CAP after 2013 and inform EU's standing in the international context.

[12] Please see page 35, Annex 1 of the 2012 Forum report for the Forum membership: http://ec.europa.eu/enterprise/sectors/food/files/hlf-third-meeting-final-report-cover_en.pdf