Finland: Response to the request for information from the OECD on food price formation

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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?

There is no entity in Finland with an explicit mandate to monitor food prices, food price transmission and/or contractual arrangements along the food chain.

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?

Food price information is collected at different levels of the food chain in a systematic manner and made publicly available by several institutions. Tike, the information centre of the Ministry of Agriculture and Forestry, collects detailed data on farm prices, while Statistics Finland (SF) collects food prices at wholesale and retail levels. Regarding consumer prices, it may be worth mentioning that SF makes available to the public not only indices (e.g., CPI) but also absolute price levels for 140 commonly consumed food items. That information is available on a monthly basis from January 2002 to July 2014 on SF's website. By contrast, price data at processor and wholesale levels is relatively scarce, in some cases because the rules safeguarding the anonymity of respondents prevent the release of price data for some sub-sectors of the food industry.

Transparency and price transmission are important issues for the stakeholders of the Finnish food chain. Farmers, consumers, and policy makers worry that concentration in food retail has given a dominant position to retailers, from which they may extract artificially low prices from farmers and suppliers, and charge excessive prices to final consumers. There is also concern that price transmission may be imperfect, with increases in farm prices transmitted faster and more fully to retail prices than decreases. However, testing that proposition is difficult because of a lack of transparency and accurate data on prices throughout the food chain: while there is detailed information on farm prices, information is very incomplete about wholesale prices or the pricing rules that supermarkets use in practice. Studies reporting the continuous increase in the marketing margins of Finnish retailers regularly make headlines in Finnish newspapers.

There has not been any price monitoring entity operating in Finland, since the end of 1988, when the price control act of 1974 was abolished. The price control act required the traders to communicate the necessary price information to the authorities.

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 does not seem to be much demand from food processors and retailers but farmers' unions appear to support greater transparency along the Finnish food chain.

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?

There is no specific policy package focusing on price transmission, but the Finnish Competition & Consumer Authority (FCCA) supervises the functioning of the Finnish food market. The grocery retail sector in Finland is the most concentrated in Europe. Eighty per cent of the market is controlled by the two biggest retailer chains: the S Group and K-Group, which have market shares of 46% and 34%, respectively. In January 2012, the FCCA published a study on the matter, raising questions on whether the level of concentration induces undesired restrictions on competition. During the same year the Finnish government outlined the Programme for Promoting Healthy Competition. In line with the programme, the Ministry of Employment and the Economy started working on an amendment of the Competition Act, one of the key objectives of which is the reduction of the problems caused by the concentrated structure of the grocery retail sector. In December 2012, the Finnish government gave the parliament its proposal to amend the Competition Act in order to take measures against the high level of concentration of the grocery retail sector. The new law entered into force on 1 January 2014. As a result, grocery retail chains with a national market share of 30% or more are considered to hold a dominant position under competition law. The market includes both retail and purchasing market. The aim of this measure is to improve the supervision by FCCA of the centrally operated daily consumer goods sector, which includes food retailing. Competition authorities do not need to establish existence of dominance in an individual case where either of the two major grocery retailer chains is alleged to have abused their market power. The assessment of the abuse of dominant market position would not be changed, nor would the constituent elements of such abuse. The new rules do not apply to individual stores, unless their behavior is based on the actions of the group or central organization. The aim of the new rules is not to prevent the large businesses from growing, but to improve the functionality of competition and prevent the large operators' use of discriminatory practices against smaller operators and consumers.

Finland's largest dairy producer Valio was accused of market abuse in the FCCA proposal to the Market Court on December 2012, asking it to impose a EUR 70 million fine on Valio. The FCCA claimed that Valio has abused its dominant market position in the production and wholesale market of fresh milk. The FCCA started to investigate Valio's fresh milk pricing in the spring of 2012 at the request of Arla Ingman, a dairy producer headquartered in Denmark. The FCCA claims that the decision to engage in predatory pricing was made knowingly in early 2010. Its intent was to prevent effective competition in the fresh milk market in Finland. The FCCA claims that Valio has intentionally priced its fresh milk below costs in order to drive Arla Ingman away from the Finnish market. According to the Market Court decision on the matter on June 2014 Valio must comply with the decision made by the FCCA.

There is also ongoing research work trying to better understand the functioning of the food markets in Finland. This research work is conducted in collaboration with MTT Economic Research, Pellervo Economic

Research (PTT) and National Consumer Research Centre (KTK). The research is funded by the Ministry of Agriculture and Forestry, and by the Ministry of Employment and the Economy. The main purpose of the ongoing research is to gain new empirical knowledge into price formation and the distribution of value added along the food chain and the changing inter-relationships between producers, processors, distribution and retail sectors with the intent of identifying the factors that influence the efficiency and transparency of the overall chain and the various actors along the chain.

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?

All of the issues mentioned in the question are of importance in Finland to a whole range of stakeholders. Farmers, consumers, and policy makers worry that concentration in food retail has given a dominant position to retailers, from which they may extract artificially low prices from farmers and suppliers, and charge excessive prices to final consumers. There is also concern that price transmission may be imperfect, with increases in farm prices transmitted faster and more fully to retail prices than decreases. However, testing that proposition is difficult because of a lack of transparency and accurate data on prices throughout the food chain: while there is detailed information on farm prices, little is known about wholesale prices or the pricing rules that supermarkets use in practice.

To illustrate the policy relevance of the issue, it may be worth mentioning that discussions took place under the last government about the possibility of creating producer groups with the aim of raising the bargaining power of farmers in their dealings with processors and retailers.

Meanwhile, developments on international agricultural and energy markets have motivated a regain of interest in the mechanisms of food price formation, the key issue being the dependence of Finnish food markets on foreign forces as well as the impact of global changes (e.g., climate change) on the food chain.

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

Food price inflation and variability. In Finland as elsewhere, recent developments in agricultural commodity markets have received ample attention from the media, reflecting concern that food prices may, in the future, erode standards of living, destabilize the economy, and even threaten food security in the country.

Distributional issues. The retail sector is very concentrated and there is concern that retailers may have sufficient market power to impose artificially low prices on suppliers (farmers and processors) and charge artificially high prices to the final consumer.

Differential taxation of food. The VAT tax rate was raised by 5% in January 2011 on sugary products, ice-cream, and soft drinks, and there are discussions on whether the tax is fair, what effect it might have on public health and the food industry, and whether it should be raised/lowered or extended to other products.

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.

EFFICIENCY OF FINNISH FOOD MARKETS (ongoing), MTT & PTT, funded by the Ministry of Agriculture and Forestry. The final report is not yet available but academic papers are available on vertical and horizontal price transmission, market power in the food chain, as well as food price inflation in Finland. The project will also publish updated marketing margins for several sub-sectors of the food industry. Preliminary results suggest that Finnish food markets, while imperfect, function relatively efficiently.