OECD Food Price Formation Scoping Questions

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 single entity responsible for monitoring prices or contracts along the food supply chain in Australia.

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?

N/A

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?

N/A

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?

N/A

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

N/A

6. What are the future plans for this entity?

N/A

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 retail food prices in Australia is monitored by the Australian Bureau of Statistics as part of its reporting of the food and beverages component of the Consumer Price Index. Farm gate prices for key commodities are monitored by the Australian Bureau of Agricultural & Resource Economics and Sciences (ABARES), and reported quarterly in ABARES' Agricultural Commodities reports.

The Australian Government has periodically undertaken reviews of pricing along the food-value chain. For example the 2004 report, *Price Determination in the Australian Food Industry*[1], which examines and compares prices at the farm-gate (the net price to the primary producer), wholesale

[1] Available at http://www.daff.gov.au/agriculture-food/food/publications/price-determination

(price paid at the point where they enter retail distribution) and retail levels (the price paid by the consumer). The report identifies the main factors that affect pricing, such as farm production, trade, supply chain integration, technology and innovation, regulation and compliance, and market dynamics. The Australian Government also published the 2012 report *FOODmap: An analysis of the Australian food supply chain*[2]. *FOODmap* is a comprehensive comparative analysis of food distribution channels for major categories within the Australian food industry, from food producer to consumer. It summarises the key features of a food industry that continues to undergo change, with significant opportunities and challenges at a category level.

The Department of Agriculture has also recently commissioned the Rural Industries Research and Development Corporation to develop a report to provide a better understanding of factors in domestic and export value chains that influence pricing and, in particular, farmgate prices. The report will build on the work undertaking in the 2004 *Price Determination in the Australian Food Industry* report. However, it should be noted that it is the policy of the Australian Government that while transparency of food prices is important, the setting of food prices is best left to the market.

Food price transmission is seen as a key issue by stakeholders in a number of industries, particularly in areas where prices are not set by international markets. For example, price transmission is seen as a key issue within the horticulture industry. The horticulture industry is often subject to a lack of transparency in pricing due to the long supply chains and perishability of horticultural products. This means that farmers may have little ability to determine the true prices that goods are being sold in geographically distant markets. However, interest in price transparency is not limited to the horticulture industry. Individual industries and even regions within industries have specific arrangement for price disclosure to suit the particular need of that industry. For example, the voluntary wine industry code of conduct requires that winegrape purchasers must provide to contracted winegrape growers Indicative Regional Prices for each variety of winegrape. The indicative price is not binding. Separately, and after harvest the Australian Grape and Wine Authority publish a detailed Price Dispersion report that reports on prices for winegrapes in the previous vintage. Other examples of industry interest in price transparency include the peak-industry body the Cattle Council of Australia's recent request to Meat and Livestock Australia (a Research and Development Corporation) to undertake an examination of price transparency in the Australian beef supply chain.

There is often a limited understanding by consumers as to the relationship between the farm-gate prices of food and the retail prices. Improving this understanding was one of the goals of both the 2004 *Price Determination in the Australian Food Industry* and 2012 *FOODmap* reports.

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 appear to be an increasing demand for greater transparency of food prices along the value-chain, particularly from farmers. However, as highlighted in the 2004 *Price Determination in the Australian Food Industry* report, the aggressive nature of buying practices at the wholesale level in Australia creates an atmosphere where suppliers are fearful of providing information that exposes their underlying costs and margins, or gives a competitor an advantage. At the same time, the push by retailers to identify and share in product cost savings creates a disincentive for food companies to ensure greater transparency along the value chain. Such issues are likely to be considered in the Agricultural Competitiveness White Paper.

[2] Available at http://www.daff.gov.au/agriculture-food/food/publications/foodmap-a-comparative-analysis

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 general, Australia's food markets are highly competitive and well integrated. There are minimal impediments to price transmission in international traded commodities, with the 2004 *price Determination* report noting that "Agricultural goods which are non-perishable, undifferentiated and internationally traded have their prices effectively determined by international markets irrespective of domestic post-farmgate production and competition factors."

However, within the domestic food supply chain, there are some specific features that may act as an 'impediment' to farmers gaining a greater share of the value from price transmission. One of the primary limitations to increasing farmers' share of the value of transmission is the disparity in market power between farmers and other participants along the supply chain. This limits the ability of many farmers to influence prices. This lack of market power is most apparent in the relationship between farmers and the major supermarkets chains (who are becoming increasingly vertically integrated). The major supermarkets account for approximately 70 per cent of the supermarket industry, and approximately 45-47 per cent of the market for fresh food in Australia. This lack of market power may also be partially a result of the historically low use of collective arrangements that might give farmers a greater ability to influence the transmission of value. Australia has a comparatively low number of large, farmer controlled cooperatives compared to countries in Europe, South East Asia and the Americas.

A second factor that has implications for farmers gaining a greater share of value in the food supply chain is the fact that many farms lack the ability to 'value-add' to the raw commodities the farm produces. With consumers increasingly favouring goods which have undergone some form of value transformation, Australian farmers have not necessarily been able to capture a share of this additional value-added component, with the value-adding being captured by processors and/or retailers, and off the final value of retail goods, the value of the raw commodity supplied by the farmer is only be a small component.

Competition within the food supply chain falls under Australian competition, fair trading, and consumer protection laws - in particular the *Competition and Consumer Act 2010* (CCA), which is administered by the Australian Competition and Consumer Commission (ACCC). The CCA allows for the establishment of both voluntary and mandatory prescribed codes of conduct, which may cover issues associated with price transparency. There is currently one prescribed code of conduct in the agricultural sector, the Horticulture Code of Conduct. The mandatory Horticulture Code of Conduct was introduced for the horticulture wholesale sector in 2007. The code aims to provide greater clarity and commercial transparency in trade transactions between growers and wholesale traders by clarifying the rights and responsibilities of each party. The code also provides an alternate dispute resolution procedure where disagreements arise over matters covered by the code.

Additionally, the government is currently consulting on a proposal to introduce a food and grocery code of conduct, to govern the relationship between supermarkets and their suppliers, including farmers where a direct supplier relationship exists. The proposed food and grocery code is a voluntary-prescribed code under the CCA, and would allow retailers to opt-in to be bound by the code. Once a retailer opts-in, the code is binding on the retailer and a breach of the code can be enforced by the ACCC. Remedies under a prescribed code include injunctions and award of damages.

In order to identify pathways and approaches for growing farm profitability and boosting agriculture's contribution to economic growth, trade, innovation and productivity, the Australian Government is developing an Agricultural Competitiveness White Paper. Although the White Paper has not yet been published, it is expected to consider relationships along the food supply chain. Additionally, the government is undertaking a major 'root and branch' review of Australia's competition laws. The Competition Policy Review will examine the broader competition framework in Australia to ensure that it continues to play a role as a significant driver of productivity improvements and to ensure that the current laws, including those affecting the agriculture industry, are operating as intended.

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?

It is the policy of the Australian Government that while transparency of food prices is important, the setting of food prices is best left to the market.

Food price transmission is seen as a key issue by stakeholders in a number of industries, particularly where prices are not set by international markets such as the horticulture industry. The horticulture industry in particular is often subject to a lack of transparency in pricing due to the long supply chains and perishability of horticultural products. This means that farmers may have little ability to determine the true prices that goods are being sold in geographically distant markets. More generally, there have been concerns raised by many farmers that the market power of the major supermarkets is placing downwards pressure on farm-gate prices.

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

Three issues that have been of most concern recently within the agriculture sector, either due to their direct or indirect effect on prices are:

1. The high costs of inputs and associated declining terms of trade for farmers. While the price of commodities has generally increased over the recent period, this increase has often been offset by an increase in the cost of production (particularly the cost of fertiliser and electricity). This continues the long term trend of declining terms of trade for Australian farmers, who, although they remain internationally competitive through efficiencies and productivity growth, face an increasing risk that the industry as a whole will suffer stagnation if the terms of trade continue to decline.
2. The apparent disparity in market power between farmers and other participants along the supply chain, and in turn the limited ability of farmers to influence. In particular, the dominance of the two major supermarkets chains in Australia, who have become increasingly vertically integrated, and now account for approximately 70 per cent of the supermarket industry, and approximately 45-47 per cent of the market for fresh food. This has lead to a strong perception amongst farmers that the domestic value chain is uncompetitive. A commonly cited example of is the decision of the major supermarkets to sell their private label milk for $1 a litre. Many farmers claim that this has resulted in a reduction in the farm-gate price of milk, although the supermarkets reject the proposition.

3. Geographic monopolies for products such as livestock, dairy, sugar and horticulture. For many farm businesses, it is too expensive, or impractical, to ship goods further than the closest abattoir, sugar mill or dairy processing facility. Also, because of the geographic length of the some supply chains (i.e. production may occur in far north Queensland, but the goods are sold by a wholesaler in Melbourne), farmers often have little choice but to accept the price wholesalers offer, as the farmer may not be in a position to confirm the market price or to find an alternative seller for their highly perishable produce.

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.

The Department of Agriculture has periodically undertaken reviews of pricing along the food-value chain, including the reports *Price Determination in the Australian Food Industry* (2004) and *FOODmap: An analysis of the Australian food supply chain* (2012).

The department has also recently commissioned the Rural Industries Research and Development Corporation to develop a report to provide a better understanding of factors in domestic and export value chains that influence pricing and, in particular, farmgate prices. The report will build on the work undertaking in the 2004 *Price Determination in the Australian Food Industry* report.

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

Although a number of non-government organisations, such as peak industry groups, have raised concerns about issues associated with price formation, transmission and transparency, this has generally been within the context of working with the government to undertake specific actions, rather than being a non-governmental industry-lead initiative. For example, the peak-industry body the Cattle Council of Australia recently requested that Meat and Livestock Australia (a government Research and Development Corporation) undertake an examination of price transparency in the Australian beef supply chain.

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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As mentioned above, the Australian Government has also undertaken ad-hoc studies including *Price Determination in the Australian Food Industry* (2004) and *FOODmap: An analysis of the Australian food supply chain* (2012), and is currently undertaking a further study into price determination along the food supply chain.