Background

• High and volatile world commodity prices
• Food inflation increased across many countries though the experience has been variable
• Attention turned to the ‘functioning of the food supply chain’
• And, therein, the role of competition
‘Headline Observations’

- Increasing levels of concentration at all stages in the food supply chain
- Consolidation through mergers and acquisitions
- Large, multi-product retailers becoming dominant in the food supply chain
- Globalisation in the food sector
- Growth of private labels
- Buyer power
- ‘Low’ share of the food dollar received by farmers

Secretariat Paper

- Background
- Aspects of Competition in the Food Supply Chain
- Competition and the Process of Price Transmission
Table 1: Cumulative Impact of Food and Non-Food Inflation between 2005-2011 in Selected OECD Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Food Inflation, Cumulative Effect (%)</th>
<th>Non-Food Inflation, Cumulative Effect (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>23.8</td>
<td>9.3</td>
</tr>
<tr>
<td>Mexico</td>
<td>47.8</td>
<td>24.5</td>
</tr>
<tr>
<td>Hungary</td>
<td>45.7</td>
<td>22.5</td>
</tr>
<tr>
<td>Italy</td>
<td>15.3</td>
<td>11.2</td>
</tr>
<tr>
<td>Spain</td>
<td>31.7</td>
<td>10.7</td>
</tr>
<tr>
<td>Turkey</td>
<td>67.4</td>
<td>50.9</td>
</tr>
<tr>
<td>UK</td>
<td>36.4</td>
<td>13.1</td>
</tr>
<tr>
<td>US</td>
<td>14.2</td>
<td>12.1</td>
</tr>
<tr>
<td>OECD Average</td>
<td>21.7</td>
<td>11.4</td>
</tr>
</tbody>
</table>

Figure 2: Farm-Retail Price Spreads for Cereals-Bread, 2005-2011, for Selected EU Member States.
Competition and the Functioning of the Food Supply Chain

- Several aspects that could contribute to the developments in the supply chain that has less to do with competition (e.g. technology/productivity improvements; vertical coordination; increased share of non-agricultural inputs)

- Low share of agricultural inputs in the retail food product

- ‘Market’ definitions, particularly at retail

- It is the inter-related aspects of competition throughout the supply chain that matters: competition issues have both horizontal and vertical dimensions
Some Observations from Section 2

- Increasing concentration: common trends
- Multi-product retailers: impact more on upstream suppliers/local effects
- Buyer power: distinguish between effects on farmers and effects involving retailers/processors (countervailing power)
- Private label penetration: retailer differentiation but also vertical effects as it impacts on food processors
Insights from Research

• Early approaches did not find substantive deviation from competitive benchmark
• But there are issues with this approach
• In large part, did not deal with retailing
• Ambiguous outcomes: Price effects of private labels: may or may not raise the prices of branded goods
• But there are a large number of challenges that have still to be addressed

Data
• Challenges of dealing with modern retailing
• Identifying manufacturer-retailer relations
• What drives M&As?
• Impact on prices but in a local context
• Mergers at retail may or may not raise prices: if it leads to improved bargaining vis-a-vis upstream suppliers, may lower prices
• Product innovation
Competition and Price Transmission

• Several aspects to the price transmission issue (extent and how long does price adjustment take; asymmetric price transmission etc)
• Large number of econometric studies on price transmission between agriculture and retail; but not always that informative
• Often limited by data access

Intuition

\[ PT = f(\Delta MU, \Delta C) \]

• If competition does not matter, then price transmission will depend on the change in costs-this will depend on agriculture's input share of the food industry cost function
• If competition does matter, the change in the food industry mark-up is important
• This will depend on the intensity of competition, the number of firms and the shape of the demand function
• Under ‘normal’ circumstances, less competitive markets will reduce the extent of price transmission
Other aspects of the food chain will also determine the extent of price transmission

- Multi-stage nature of the food chain
- Vertical contracts
- Buyer power
- Returns to scale
- Product differentiation

- Increased recognition that these issues are important
- Use of structural models...these approaches are data intensive
- But more insightful than the time series approaches e.g. can decompose pass-through; deal with retailer-manufacturer relations etc
Conclusions

• “the food supply chain is a complex series of inter-related markets where competition at different stages of the supply chain matters for the overall functioning of the food sector”

• Even if no specific issues arise with respect to multi-product retailers on the seller side, there may still be issues with respect to competition throughout the rest of the food supply chain

• With respect to farmers at the other end of the supply chain, broader issues of “fairness” are raised

• World food markets are expected to reflect higher and more volatile prices in the future

• The concern with the “functioning of the supply chain will continue

• More input from the research community also required to address food chain issues