



## Strengthening How Agricultural and Food Markets Function

### Highlights

- The agricultural and food systems of developed economies are increasingly becoming complex and concentrated, with a low and declining contribution by agriculture to the overall value of the food sector.
- There are concerns that agro-food markets are neither functioning competitively nor fairly – either where processors extract rents from farmers, or where retailers make profits at the expense of consumers.
- Transparency on price determination along the value chain can help to reveal whether markets are operating smoothly and competitively.
- Voluntary approaches that improve the flow of information and promote dialogue between actors may help to clarify where abuses of market power exist, and to enable changes in practices before competition authorities are engaged.



### What's the issue?

The agro-food system is expected to provide consumers with access to safe and affordable food while also meeting objectives with respect to health and environmental sustainability. At the same time, the system provides income to a wide range of food and non-food chain actors.

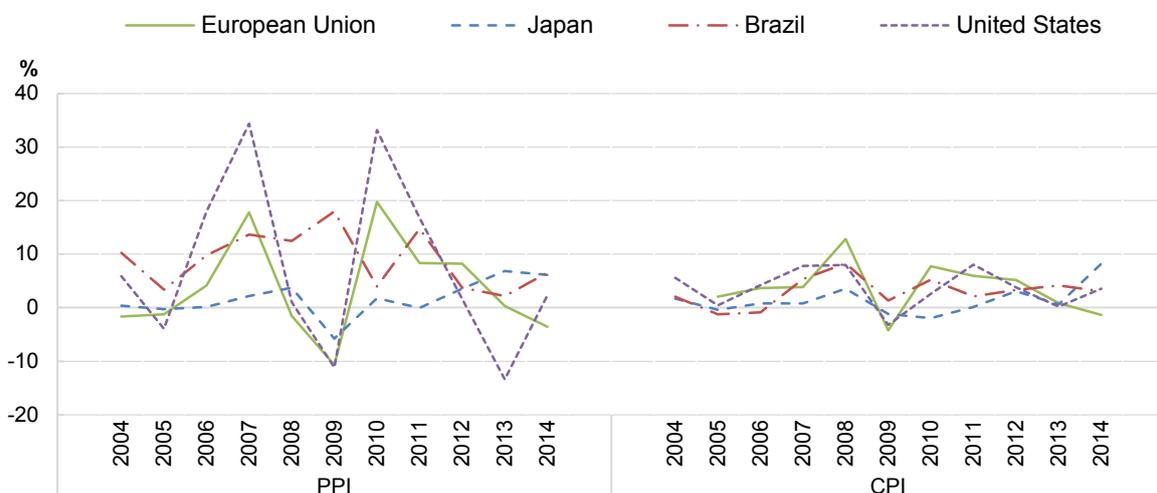
Over recent years, however, the sector has become increasingly complex. This has fuelled questions over the extent to which the food system is meeting its objectives, and whether the division of income across the chain is fair.

All stages of the food chain – from input suppliers to

retailers – have undergone industrialisation, consolidation and concentration. This has had consequences: the share of food expenditure in total household expenditure has decreased over time to less than 15% in most OECD countries.

Moreover, the farm share in food prices is relatively low – around 20%, according to estimates in North America and Europe. In addition, vertical co-ordination and contracting along the chain are increasing in parallel with initiatives related to food safety, traceability and quality.

**PRODUCER PRICES ARE MORE VOLATILE THAN CONSUMER PRICES**  
Producer Price Index (left) and Consumer Price Index (right)



There are long-standing concerns that agriculture and food markets are neither competitive nor efficient, and that alleged market power among retailers and processors could either be reducing prices received by farmers or increasing prices paid by consumers – or indeed both.

Anecdotal evidence has been brought forward to support this argument, but recent OECD analysis of food price formation concludes that there is no compelling proof of anti-competitive market behaviour:

- There are high concentration ratios in the processing and retailing sectors, with four-firm concentration ratios of close to 80% for retailers in many metropolitan areas of the United States. However, strong concentration by itself does not confirm monopolistic behaviour and can in fact be welfare-enhancing to the extent that scale economies increase and transaction costs are reduced.
- Over time, farmers have been receiving a declining share of the food dollar. Research undertaken in the United States and France shows that this is at least partially related to the increased value added along the chain, and greater service content, both of which are embedded in the prices of food items.
- Imperfect price transmission is the norm in the food system, both spatially across markets and vertically along the food chain. The figure overleaf shows how both upward and downward price changes at producer level are only partially transmitted to final consumers. However, the lack of complete price pass-through of higher consumer prices to farmers can be expected, given that other components of consumer prices are inherently less volatile.



### What should policy makers do?

There is a need to better understand the drivers of structural change along the food chain. There are often broad pressures on the incomes of less competitive farmers, and farm level prices are inherently more volatile than consumer prices. These structural issues and adjustment pressures need to be addressed and not be conflated with a lack of competition in the agro-food system.

To this end, policy makers should:

- **Improve information-gathering on price formation along the food chain.** Improved information can help agents make more informed decisions. Since the food price crisis of 2007-08, several initiatives have been developed to fill data gaps and complement the regular reporting of food price data through consumer price

index measurement. The availability of price data at different stages of the food chain often enables policy makers to identify problems related to the functioning of markets.

- **Encourage voluntary initiatives that improve price transparency and facilitate dialogue among stakeholders.** Voluntary initiatives such as these can help to pre-empt the need for costly regulation. This approach is already favoured in Spain and the United Kingdom. Breaches of good practice may warrant a referral to competition authorities.
- **Encourage farmers to develop strategies to cope with price and income fluctuation.** Governments can, for example, provide information and training to farmers to enable them to assess and manage their own risk. Policies should focus on catastrophic risks, support, where needed, the development of market-based instruments, and avoid crowding out both farmer-based efforts and market-based solutions.



### Further reading

This document is based on the evidence and analysis found in a number of OECD reports and papers published in recent years:

- **Food Price Formation**
- **Strategies for Addressing Smallholder Agriculture and Facilitating Structural Transformation**

A complete list of relevant books and papers can be found at <http://oe.cd/taking-stock> or on the Agriculture Ministerial website at [www.oecd.org/agriculture/ministerial](http://www.oecd.org/agriculture/ministerial).

