Roundtable on Competition in the Food Chain Industry

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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

Country	*Food Inflation, Cumulative Effect (%)*	*Non-Food Inflation, Cumulative Effect (%)*
Canada	23.8	9.3
Mexico	47.8	24.5
Hungary	45.7	22.5
Italy	15.3	11.2
Spain	31.7	10.7
Turkey	67.4	50.9
UK	36.4	13.1
US	14.2	12.1
OECD Average	21.7	11.4

Figure 2: Farm-Retail Price Spreads for Cereals-Bread, 2005-2011, for Selected EU Member States.

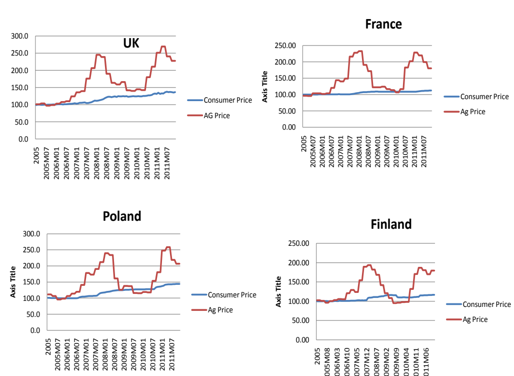
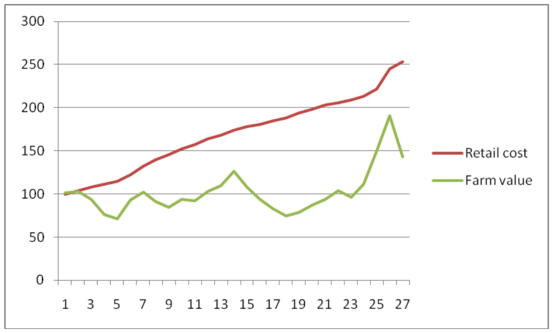


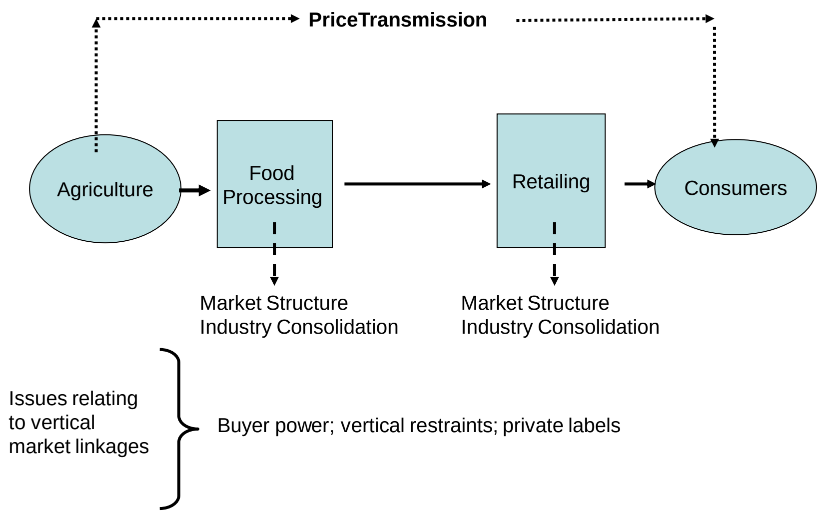
Figure 3: Cereals-Bread Farm-Retail Price Spreads, US: 1983-2009 (1983-100)



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

Figure 4: Stylized Framework to Address Competition and Pricing Issues in the Food Sector



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