

## POSITION PAPER

26 March 2018

### FoodDrinkEurope position on price transparency

Over the years, the Common Agricultural Policy (CAP) has become more market-oriented and the share of market support in the CAP budget has gone down. At the same time, to strengthen the position of farmers in the food chain, calls for intervention in B2B relations have increased, including calls for more market transparency. The EU institutions have launched EU Market Observatories,<sup>1</sup> the initiative on price transparency<sup>2</sup> and 'Food Euro' calculations.<sup>3</sup>

With this paper, FoodDrinkEurope would like to bring scientific evidence and the experiences of operators in the food chain into the discussions on price transparency.

#### ❖ Evidence on price transparency

- Market-driven agriculture requires market intelligence, i.e. facts, estimates, opinions and other market information. **Overall there is sufficient market transparency, from both public and private sources, for all stakeholders to get a comprehensive overview of agricultural markets.**
- Policy-makers and stakeholders justify the need for increased market transparency with the objective of “strengthening farmers’ bargaining power and helping them take well-informed production decisions”. However, science and experiences in the food chain provide evidence that:
  - **Price transparency can be a double-edged sword.** Excessive price transparency can reduce operators’ negotiating capacity and thus restrict competition. Market information can be misinterpreted and contribute to a distorted picture of the supply chain.
  - Uneven bargaining power in the food supply chain is due to the nature and structure of the sector, such as limited consolidation at farmers’ level. **Price transparency will do nothing to solve these structural issues.**

#### ❖ FoodDrinkEurope asks

- **The food and drink industry is neither able** (because of the multiple uses of raw materials) **nor willing** (for reasons of competition law) **to report on prices.**
- With its central position in the food supply chain between farmers and retailers, **the food processing industry needs fair competition conditions along the chain and well-functioning markets.**

---

<sup>1</sup> See [https://ec.europa.eu/agriculture/market-observatory\\_en](https://ec.europa.eu/agriculture/market-observatory_en).

<sup>2</sup> As part of the European Commission’s [Initiative to improve the food supply chain](#).

<sup>3</sup> The ‘Food Euro’ is the breakdown of value added across the food supply chain.

- Cost-effectiveness of transparency measures has to be considered. **Understanding the limits and assessing the (undesirable) effects of transparency on the entire food supply chain must guide policy makers.**
- **Maintaining market orientation** is the most effective approach to improve the competitiveness of EU farmers and to deliver sufficient quantities of agricultural raw materials that are in line with the needs of consumers. In addition to this market-oriented approach, structural measures would strengthen EU agriculture and make it more resilient.

\*\*\*

## 1. Existing initiatives on market transparency are sufficient

FoodDrinkEurope supports a market-oriented CAP that enables farmers to become more competitive by making production decisions in line with market demand. We acknowledge that a market-driven agriculture requires market intelligence, i.e. facts, estimates, opinions and other market information.

FoodDrinkEurope finds that, overall, there is sufficient market transparency, from both public and private sources, for all stakeholders to obtain a comprehensive overview of agricultural markets. These sources include:

- The European Commission (DG AGRI) and Member States, which have rich experience collecting and reporting data for the purpose of implementing the Common Market Organisation. Today, DG AGRI consolidates and disseminates on its public website a wide range of information on price and market developments for agricultural commodities at EU and world level. All stakeholders of the food supply chain have access to this market information. Stakeholders further benefit from face-to-face interactions within the DG AGRI Civil Dialogue Groups and EU Market Observatories.<sup>4</sup>
- Other public bodies (e.g. AMIS, USDA, World Bank), which assemble and publish data on production, trade, prices and stocks for a range of agricultural commodities.
- The private sector (e.g. commodity boards, trade and industry associations), which also produces and disseminates market information. In addition, transactions on futures markets provide an element of price discovery for the main agricultural commodities, both in the EU and worldwide.

In a market-driven agriculture and food chain, it is up to operators themselves to use these data sources to inform their business decisions.

## 2. Limited cost-effectiveness of initiatives to increase market transparency

Although market transparency is high on the political agenda for the food chain, this is not supported by economic justification nor an impact assessment. In fact, science and practical experiences in the food chain seem to concur that:

- transparency can be a double-edged sword, and;
- transparency is not the solution to imbalances in the food chain.

---

<sup>4</sup> See [https://ec.europa.eu/agriculture/markets-and-prices\\_en](https://ec.europa.eu/agriculture/markets-and-prices_en).

Before judging whether it is expedient or not to introduce measures at EU level to increase market transparency at different stages of the food supply chain, the EU institutions must clarify what objective they aim to achieve with these measures. Only once the objective is clear will it be possible to judge whether increased transparency is cost-effective and expedient (or not).

### **2.1. The real effects of transparency - an academic perspective**

In 2016 the Agricultural Markets Task Force (AMTF) called on the Commission to “introduce or enhance mandatory price reporting” as well as to “undertake and publish ‘Food Euro’ calculations”, with the aim of improving farmers’ positioning in the food supply chain.<sup>5</sup> The final AMTF report is to a large extent based on interviews, comments and suggestions of interest groups.

A paper by Ghent University complements the AMTF recommendations with an academic perspective on the effects of market transparency.<sup>6</sup> A review of economics and management literature shows that:

- Increased market transparency does not automatically result in a higher intensity of competition, higher innovation capacity and more sustainability.
- An appropriate balance between information transparency and data confidentiality has to be made to minimise competitive risks.
- Transparency policies may work where information needs/expectations are limited. The more complex the information is, the more important it is to communicate a complete message, rather than a flood of bits and pieces of information.

⇒ **Transparency is not always possible nor desirable. Rather than absolute transparency, an optimal degree of transparency should be pursued.**

### **2.2. Challenges and shortcomings of price transparency - experiences in the food chain**

- **The effects of transparency depend on the type of information being shared and on the market context**

Depending on the market context and whether the product is a commodity or a differentiated/branded product, sharing information on prices can lead to collusion. The effect is the same whether the information is shared between companies or made public by national authorities. The published price becomes a benchmark for all the operators in the sector.

#### *Example*

*National competition authorities have investigated certain practices of flour millers to exchange commercially sensitive information, including flour prices, in meetings and considered it an anti-competitive behaviour. The French Statistical Institute intended to make the same information (i.e. prices) public. Finally, the French Statistical Institute has decided to publish prices with a 3 month-delay, to avoid influencing the price setting on the market.*

<sup>5</sup> Agricultural Markets Task Force, 2016. [Improving market outcomes: Enhancing the position of farmers in the supply chain.](#)

<sup>6</sup> Gellynck, X. et al, 2018. [An academic perspective on the Agricultural Markets Task Force Report - focus on market transparency.](#)

Price transparency does not necessarily improve market efficiency and competitiveness. Providing chain parties and competitors in the EU and in third countries with price information can actually produce undesirable effects on the performance of the food supply chain and even hamper competition. The increased pressure on primary and secondary processors can be felt by farmers upstream in the supply chain.

#### Example

*The French Observatory on Prices and Margins calculates the difference in prices at successive steps of the food supply chain for UHT liquid milk, thus providing the gross margin per unit. This information benefits the strongest operator in the milk supply chain, i.e. the retailers, who can add pressure on all the others operators of the chain (farmers and industry).*

- **The reality of price formation/transmission in the food supply chain is very complex and goes beyond price data**

The food industry prices (and food shelf-prices) are much more than just the price of the raw materials. Comparing prices at successive steps of the food supply chain says nothing on these other inputs and costs.

#### Examples

*The price of processed meat includes the price of the agricultural raw materials, other ingredients/seasoning, labour, transport, energy, taxation, processing method, innovation, etc.*

*Sugar typically makes up between 0.5 per cent and 3 per cent of the retail price of confectionery products.*

The industry processes the same agricultural raw material into a wide variety of food products for different markets. Even the same product can be produced with hundreds of recipes. An average price would hide how heterogeneous processed products can be.

#### Examples

*The dairy industry uses raw milk for a wide variety of processed products (consumption milk, yoghourts, cheese, powders, etc.) and not all the milk collected is used for consumer dairy products.*

*A ham can be cured or not, prepared from a processed single cut – ham or picnic - or from a combination of different pieces, can have ingredients other than meat, etc. An Italian cured ham is different than a German one, as a Dutch salami is completely different than a Spanish salami.*

Pure price information does not give qualitative aspects that affect price formation, such as contractual relationships, competition at the level of the supplier and retailer, seasonality, promotions, contract duration. As a consequence, commodity prices and food industry prices may not move at the same time.

#### Example

*Many meat products are sold after a maturation process. Processed products sold now can use raw materials of pigs slaughtered weeks or months before.*

Other factors determine shelf-prices and their developments, e.g. consumer preferences for convenience and variety lead to increasing value added in downstream stages of the food supply chain.<sup>7</sup>

*Example*

*Consumption milk has considerably changed between 2001 and 2016. Many innovations have taken place in the meantime to address consumer preferences: formulation, packaging, serving. Comparing the unit price over time is comparing the price of totally different products.*

Due to the complexity of price formation/transmission in the food supply chain, average prices would be meaningless, they could be misinterpreted and generate confusion on the market.

*Example*

*The former Spanish Food Price Observatory used to analyse the value chain and price formation with a view to contributing to market transparency. A study by LEI Wageningen UR<sup>8</sup> notes that “the additional prices collected and published by the Spanish observatory are barely used by chain parties.”*

⇒ **Price transparency can actually reduce competition, further consolidate bargaining power in certain stages of the food chain, and not provide market visibility.**

### **2.3. Price transparency is not appropriate to regulate bargaining power in the food chain**

Ghent University’s paper underlines that a large number of small-scale farmers exist.<sup>9</sup> “Small” implies they lack economies of scale and therefore a relatively low productivity. “Large number” implies they have low bargaining power and are price takers. Transparency will not address these structural issues.

Likewise, LEI Wageningen UR found that “price transparency does not offer a solution for unequal power relationships in the chain”.<sup>10</sup>

⇒ **Increased market transparency will not help to regulate buyer power in the agri-food chain.**

---

<sup>7</sup> The FP7 [TRANSFOP](#) project concluded that “it is difficult to disentangle static concerns (e.g. outcomes such as declining farm share in food bill) from dynamic developments (e.g. technological change and growing preferences for convenience and variety leading to increasing value added in downstream stages)”.

<sup>8</sup> Oosterkamp, E. et al, 2013. [Food price monitoring and observatories: an exploration of costs and effects](#).

<sup>9</sup> Gellynck, X. et al, 2018.

<sup>10</sup> Oosterkamp, E. et al, 2013.