Survey of activities in food price formation, transparency and monitoring along the chain

The meeting of the Food Chain Network on September 13 2011 will focus on the issue of price formation and transparency along the food 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 summarize 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 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.
1 Are price formation, transmission and transparency issues along the food chain important and if so for which stakeholders and why?

1. Imperfect competition in the traditional or wholesale markets:

Wholesale markets display imperfect competition as they control 60 per cent of the food market. Price anomalies are exposed as large buyers would rather waste the products instead of lowering prices to the consumer. In addition, without the support from the government wholesale markets are reluctant to invest in cooling systems and equipment. They are also unable to monitor food prices as they do not apply quality standards and finally, their logistic inefficiency is enhanced by the limited access to credit and payment difficulties out of the area for auctions.

Wholesale markets in Mexico

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Challenges of wholesale markets in Mexico:

- 30% < Food waste < 40%
- Limited use of cooling systems
- Nil use of quality standards
- Nil use of contracts
- Limited access to credit
- Payment difficulties (out of area for auctions)
- Limited logistic efficiency (Unnecessary movement of products)

2. Imperfect competition in the modern distribution channels:

- There is a reduced group of large buyers. Large buyers have transformed themselves from resellers of products made by others into firms that go out to find direct suppliers for the products they want to sell the consumers. Large buyers are increasingly participating in product development, branding, supplier selection and distribution. It is what supermarkets buy, how they organise their supply chains and how they define and respond to consumer trends that give them competitive advantages.

- On the other hand, there is a large group of producers that face onerous contractual relationships on suppliers. There is evidence of large buyer practices that indicate sustained pressure on suppliers. Such pressure is observed through the use of list charges, shelf-space fees, retroactive discounts on goods already sold, exclusive supply obligations, etc. In addition, there is also evidence that retailers with higher market shares are able to obtain lower prices from suppliers than retailers with low market shares (Dobson, 2002).
Thus, under imperfect competition the price formation, transmission and transparency are affected by the levels of concentration. The supply chain funnel in Mexico indicates the levels of concentration at different points in the food value chain which create a market failure.

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

a) Price volatility

Price volatility in the Mexican food sector is affected by the high volatile prices observed in the international markets over the last years. International corn prices in 2011 were affected by the US debt problems. International corn prices are transmitted to the Mexican corn prices.

![Weekly prices of corn in Mexico and corn and sorghum in the US](image1)

*Source: Adapted from Reuters and GCMA*

![Corn prices in CBOT](image2)

*Source: Adapted from Reuters*
b) Price levels

In real terms, price levels in 2011 are higher than previous years. One possible explanation for the current year high prices of food is the decreasing levels of stocks. World corn stock to use ratio in 2011 is as low as the levels reached during the early seventies.

For the year 2011 some analysts predict that world prices will continue to be high as biofuels demand will keep up shortening the stock levels.

World corn production will continue growing, but such growth shall not be as fast as the world demand. Replenishing stock levels will require higher levels of production; however, such levels may not be achieved under uncertain weather conditions in the US (Mexico’s major world corn supplier).

c) Price formation

Nowadays, the lack of standardised parameters in the quality of fruits and vegetables in Mexico is the main hurdle to follow and investigate price formation and changes. Limited food price information promotes high speculation for producers and buyers and therefore high price volatility.
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? These should include new working groups, new statistical units and special government offices and how they are administratively set up and operate.


Note:

The **Mexican Consumer Price Index** is an economic indicator that measures the variations of a representative basket of goods and services in Mexico throughout time. For its construction, there is a continuous collection of the prices of specific items that form 315 homogeneous product categories of goods and services. Each month around 235 thousand prices of these specific items are recorded to calculate the price variations. An important component of this index is food. Agricultural products include fruits and vegetables and farm-related goods (including cattle products and eggs).
IV. Are there non-governmental institutions which are involved in the same activities? Please include trade unions, cooperatives, consumer groups or business associations

Supermarkets

Major supermarkets’ customer service major goal is to offer low prices. They seem to be interested in revealing quality standards of food products in order to establish an efficient system of price monitoring.

Transnational corporations


- They analyse the effectiveness of different strategies to fix prices and the impact that prices have on sales.
- Nielsen also investigates seasonal food prices.
- Starting from the total costs paid by the consumer, the Nielsen Company in Mexico studied the shares received by the intermediaries and by the producers.

Commercial and development banks

Mexican rural development banks (FIRA [http://www.fira.gob.mx/Nd/index.jsp](http://www.fira.gob.mx/Nd/index.jsp) and Financiera Rural [http://www.financierarural.gob.mx/Paginas/Financieraruralini.aspx](http://www.financierarural.gob.mx/Paginas/Financieraruralini.aspx)) display timely information on national prices on their Internet sites and monitor prices changes of major Mexican crops for agriculture and livestock.

Peasant unions

The major peasant union in Mexico (Confereración Nacional Campesina “National Confederation of Peasant Unions”) 8th objective is to “look for remunerative prices”; and therefore, this union closely monitors food prices. [http://www.cnc.org.mx/](http://www.cnc.org.mx/)

Wholesale markets

V. Please describe briefly statistical and analytical activities undertaken on a regular or ad hoc basis? Please include special studies and research projects, databases development, statistical analyses and other relevant activities.

In 2010, The Undersecretary of Agribusinesses of the Mexican Ministry of Agriculture created The Food and Economic Unit and the Food and Logistics Research Unit. [http://www.sagarpa.gob.mx/agronegocios/Estudios/Paginas/estudios.aspx](http://www.sagarpa.gob.mx/agronegocios/Estudios/Paginas/estudios.aspx)

**The Food and Economic Research Unit** publishes the following documents:

- *Juncture analysis of market agricultural prices*: This is a monthly report and analysis of national and international market prices, production and international trade for major crops.
- *Macroeconomic bulletin*: This is a monthly time series analysis of major macroeconomic variables and its impact on the primary sector.
- *Long term perspectives of the Mexican agricultural sector 2011-2020*: This is an annual analysis that shows supply and demand forecasts of white and yellow corn, soft and hard wheat, sorghum, rice, cotton, sugar cane and sugar. In addition, this long term analysis provides economic forecasts of supply and demand of beef, pork, poultry and milk.

Every two months, the Food and Economic Research Unit organizes group discussions and seminars with specialists of the agricultural sector for a fundamental analysis on price formation and transmission.

**The Food and Logistics Research Unit** develops the following project:

Ever since we consider food price increase develops between food production and retail sales, we started to investigate the features and performance of economic agents in the middle of the value chain. The Food and Economic Unit at the Undersecretary of Agribusinesses of the Mexican Ministry of Agriculture has undertaken a ground-breaking census of centres of food storage, sorting and packing (EECAR 2011).

EECAR 2011 is a field work of 784 polls. A group of pollsters will identify and visit all the centres of food storage, sorting and packing (CFSSP) in the Mexican states in order to obtain and gather specific information about:

a) **Infrastructure**: the size of the centre, available equipment, managerial and workforce structure.

b) **Operations management**: food supply, distribution and sales. Storage, sorting and packing capacity. Distribution channels and target markets, owners and key customers.

c) **General management**: income, costs and expenses, tax administration, government subsidies and finance.

EECAR 2011 main food sectors are: fruits and vegetables, meats and fish.

EECAR’s 2011 field work of 784 polls represent an estimated 70 per cent of total centres of food storage, sorting and packing. There are 36 questions per survey.