

Sustainability and competition in agri-food

Pricing, competition law and transparency

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- Reasons for study
- Context
- Price transparency
- Evaluation framework

Reason for the study

■ Ministry of EL&I

- Purpose: sustainability of Dutch agriculture within 15 years
- Strategy: initiative by and agreements among businesses
- Government role: conditions for competition

■ Agribusiness

- No scope for investments and agreements

Reason for the study

Potential bottlenecks

■ Competition

- SER study: competition law is not an impediment for sustainability
- Case study shrimps
- Competition law is not transparent for businesses

■ Transparency

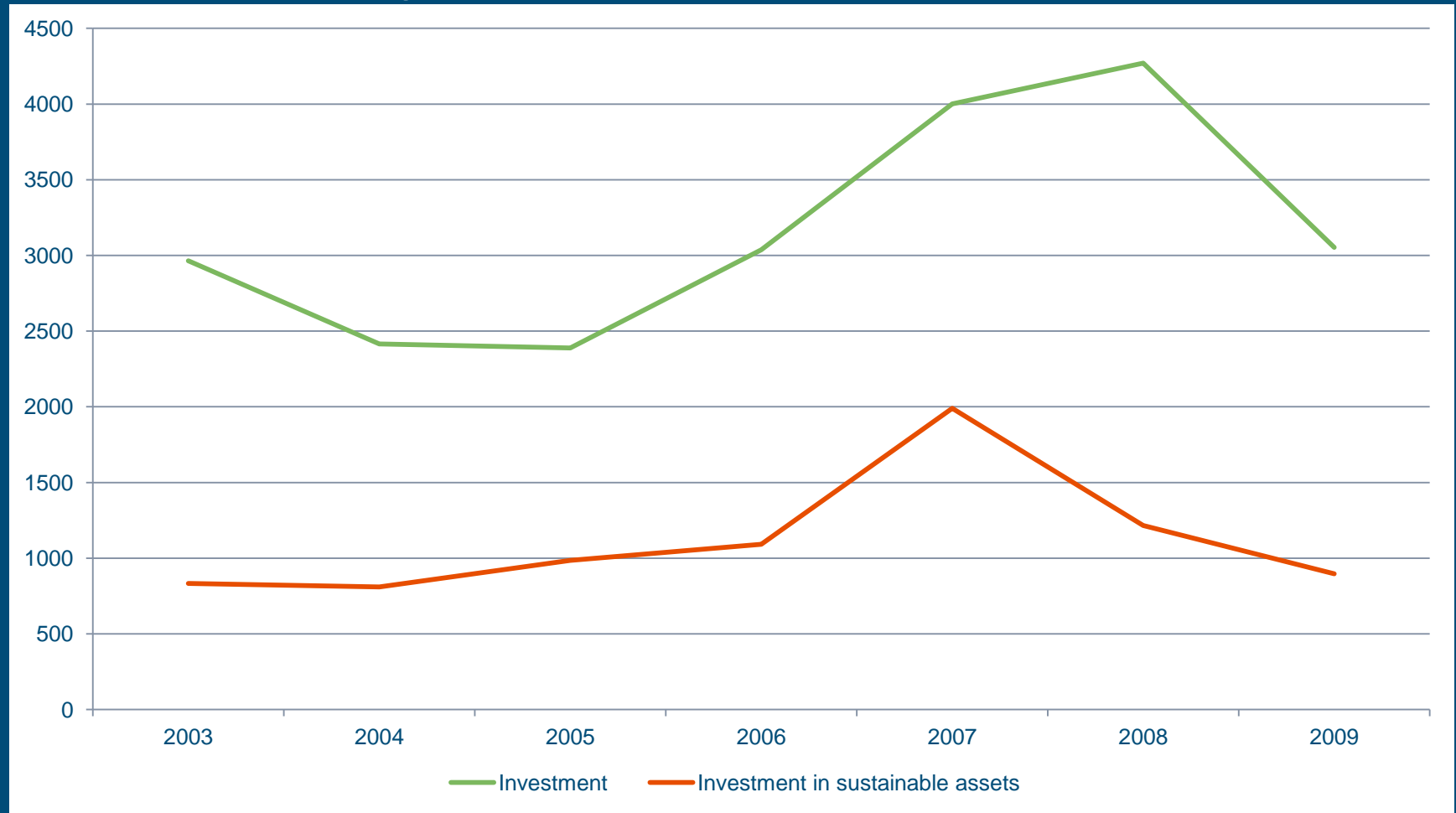
- Differences in price development within and among national supply chains
- Price monitor at EU level

■ Context

- Investment and income in in agriculture
- 2009 NMa study
- Competition cases

Context

Investment Dutch agriculture



Context

Farm income



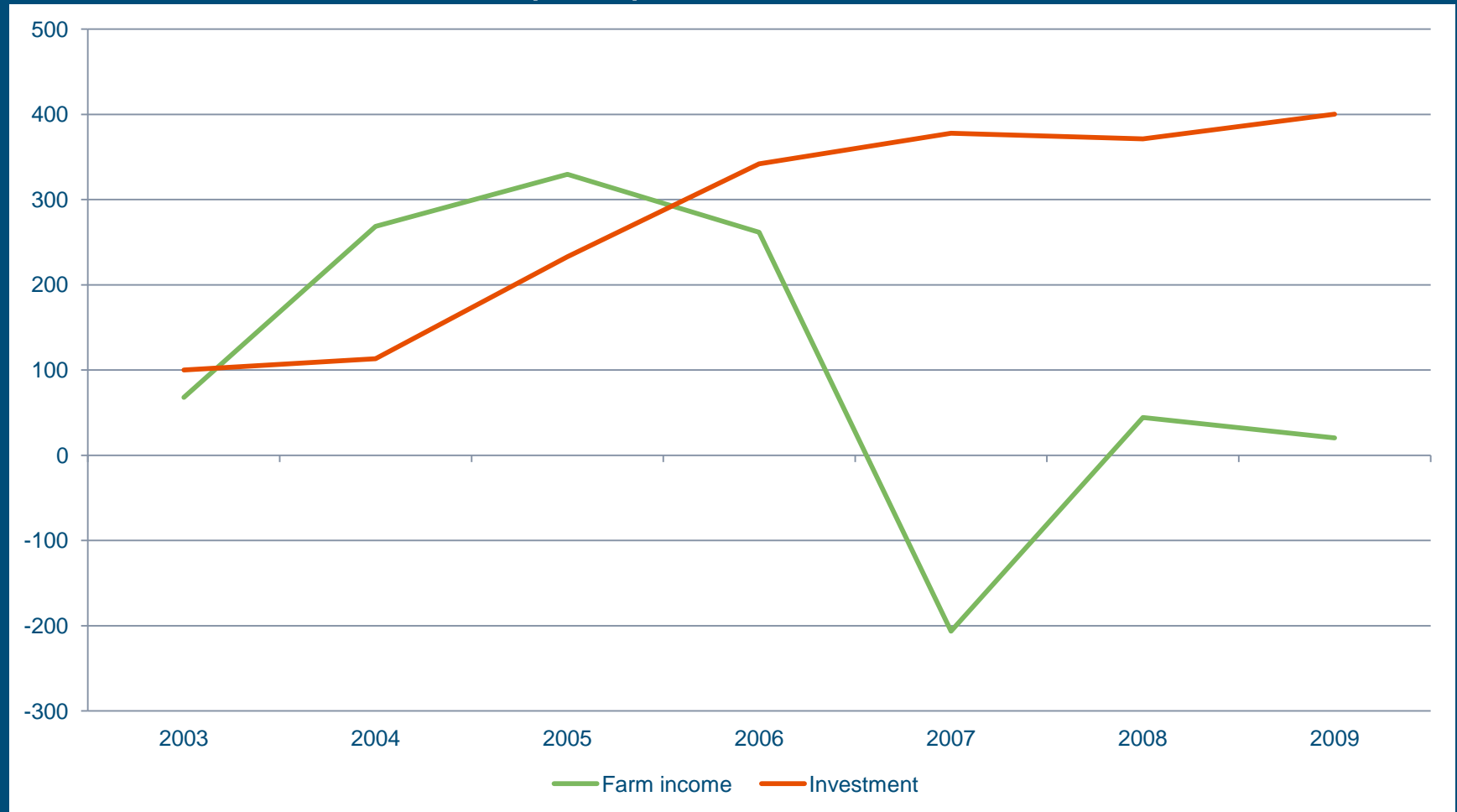
Context

Income and investment in dairy farming



Context

Income and investment in pork production



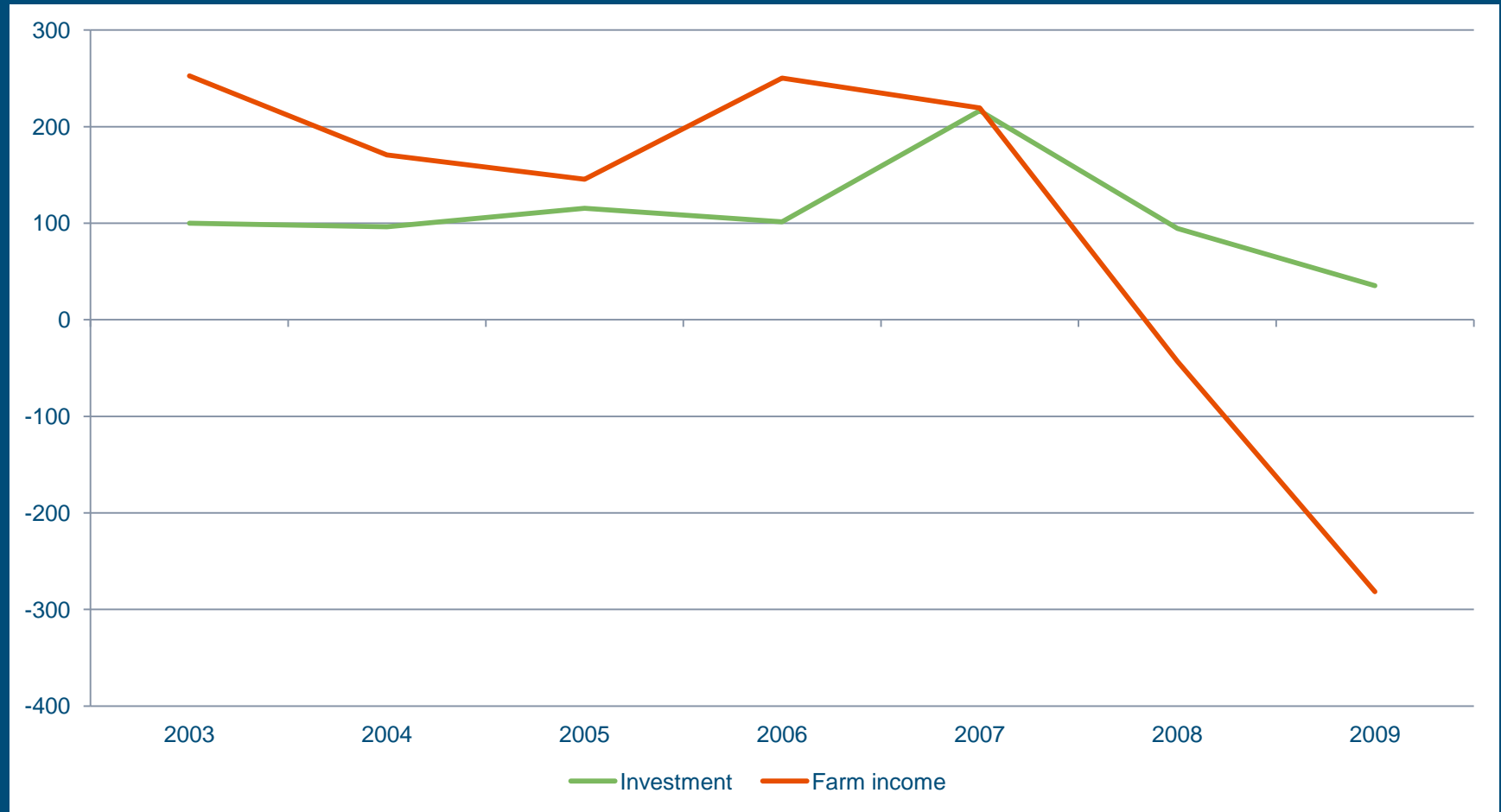
Context

Income and investment in poultry production



Context

Income and investment in greenhouse horticulture



Context

Summary

- Farm income constant
- Investment in sustainable assets grows, but investments required are substantial
- There is a weak negative relation between farm income and investment
- Investment probably depends on fiscal measures and subsidies

Context

2009 NMa study on food supply chain

- Price transmission in Dutch food supply chain
- Consumer prices are made up of costs of the respective links in the supply chain
- Concentration is substantial throughout the chain
- No profits due to concentration or price asymmetry

Context

Competition cases

- Shrimp quota
- FMD Compensation for milk producers
- Anaesthetics of pigs before castration
- Supply chain quality scheme for milk

Context

Competition cases

- Horizontal agreements (price, quota)
- Foreclosure
- Lack of evidence of sustainability achievements
- Competition law is no sustainability law

Context

Competition cases

- Reservations in informal statements may give rise to liability issues
- There are public solutions, but
- Ministry is looking for private solutions
- Free rider and external effects

Context

Counterexamples

- Certified and branded products
 - Organic produce
 - One star concept for meat
 - Volwaard chicken
 - Rondeel eggs

- Price transparency
 - Theory
 - Pricing in agri & food
 - Cases
 - Sustainability

Price transparency

- Search costs
- Exploiting asymmetric information
 - Less transactions, possibly no market
 - Low prices for suppliers, high prices for consumers
 - Price distribution

Price transparency

- Strategic behaviour
 - Collusion
- Pricing and information
 - Price mechanisms (auctions)
 - Role of market

Price transparency

Hypotheses

- Suppliers with high search costs receive relatively low prices
- When markets are not intransparent, the price distribution is wide
- Transparency may be beneficial, but also detrimental for competition
- Price mechanisms may achieve efficient price solutions in markets with a lack of transparency
- The winner of a tender may be expected to make a loss
- Differences in prices are an indispensable element of the market process

Price transparency

Why are transaction costs high for farmers?

- Price volatility
- Small amount of produce transacted per transaction
- Lack of knowledge about pricing
- Perishability
- Solution: use of intermediaries (cooperative, PO, wholesale trader)

Price transparency: Pricing in agri & food

	Frequency	Amount of produce per delivery	Involvement producer organisation	Price mechanism
Arable products	Once a year	Entire harvest	Yes	Tendering by PO
Apples & Pears	Once a year	Entire harvest	Yes	Tendering by PO
Vegetables	Continuous Once a year	Small amount Entire harvest	Yes No	Tendering by PO Contracts
Dairy	Continuous	Small amount	Yes	Tendering by PO
Eggs	Continuous	Small amount	No	Bargaining
Pigs	Regular	Small numbers	No	Bargaining
Poultry	A few times	Large numbers	No	Contracts
Veal	A few times	Large numbers	No	Contracts
Other cattle	Regular	Small numbers	No	Bargaining
Fish	Regular	Small amount	No	Dutch auction
Cut flowers	Continuous	Small amount	No	Dutch auction

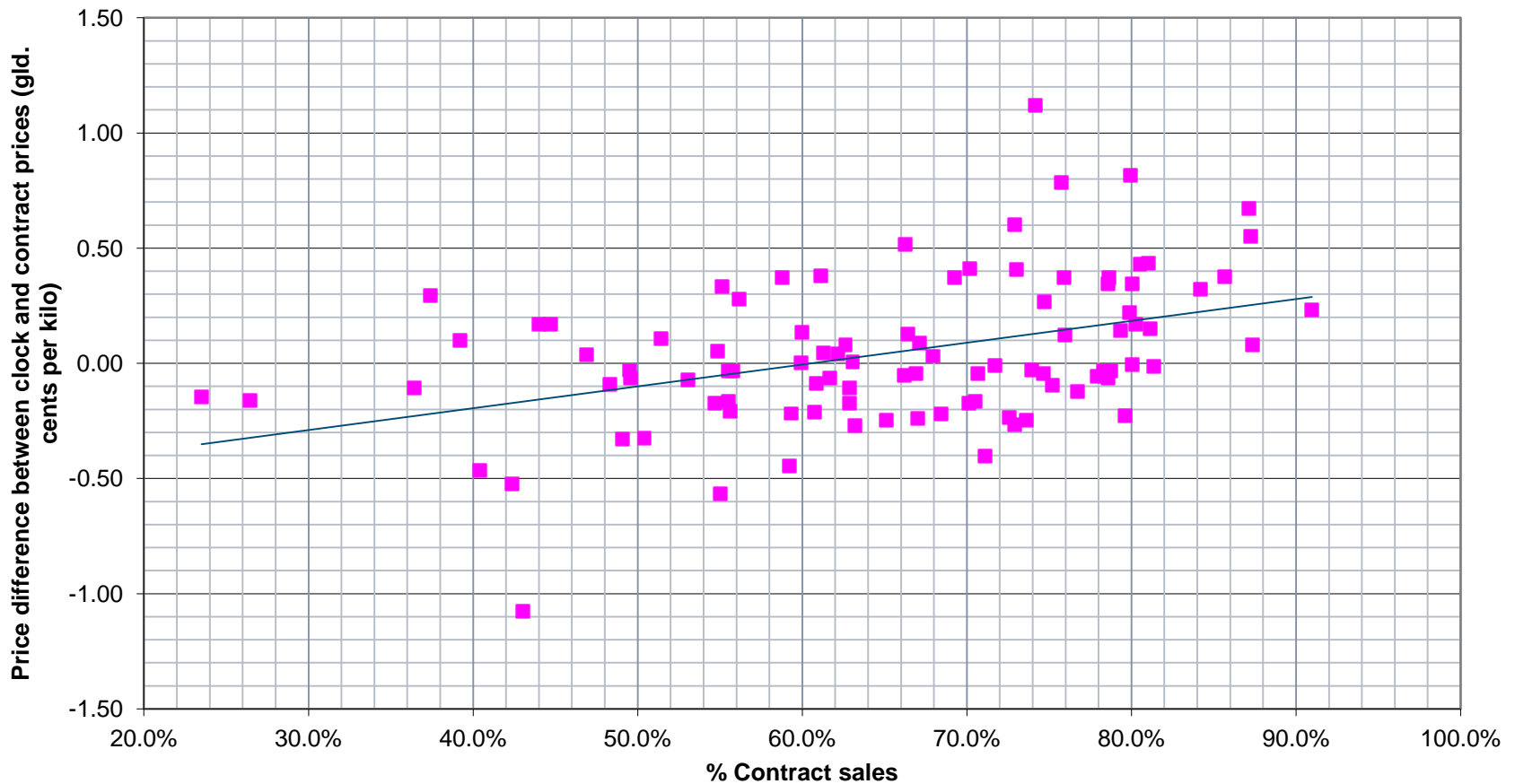
Price transparency

Changes in price mechanisms

- Demise of Dutch auction in fruits and vegetables
 - Rules of game are determined by customers
 - Principal-Agent-Relation between grower and PO
- Demise of cattle markets (sustainability)
- Less public price information
- Demand for price information
 - DCA
 - Fruit

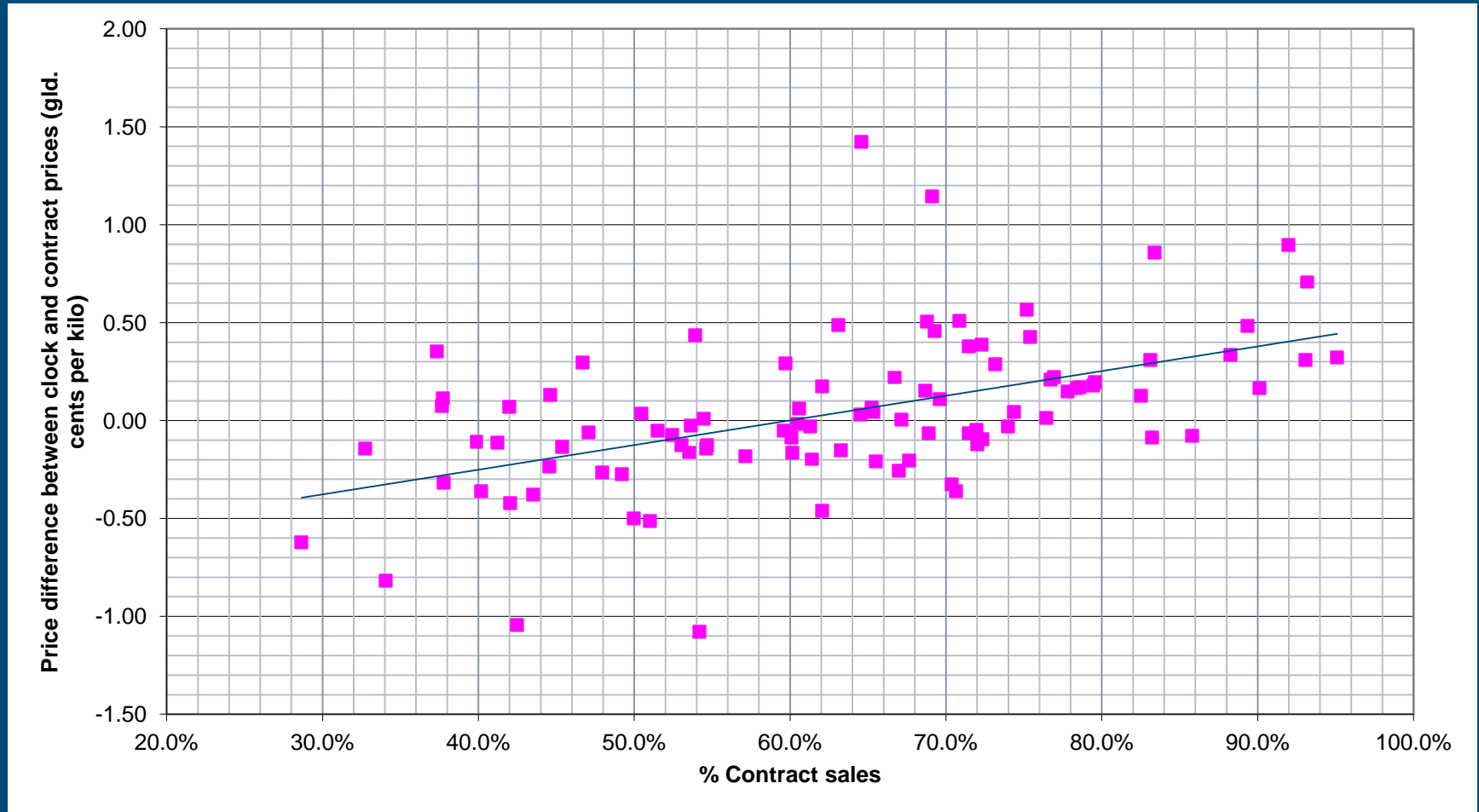
Price transparency

Contract versus spot market prices for chicory



Price transparency

Contract versus spot market prices for chicory



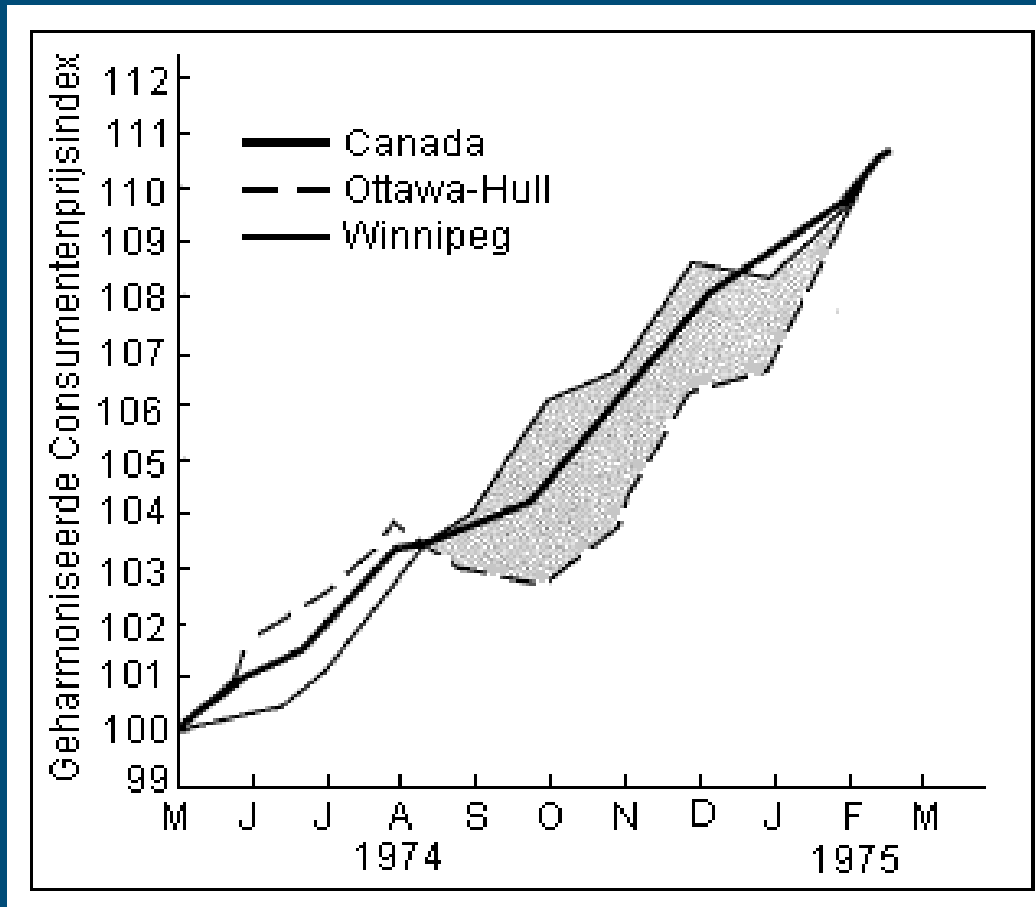
Price transparency

More price information in Canadian food retail

- More price information on food prices in Ottawa
- Comparison with control city Winnipeg
- Results for Ottawa
 - Prices fall
 - Less variation in prices
 - More consumers switching from one retailer to another
 - Growth of market share of Top 4 supermarket chains
 - Growth of market share of discounters

Price transparency

More price information in Canadian food retail



Price transparency

Collusion: British tractor case

- UK Agricultural Tractor Registration Exchange
 - Information shared on name of producer, brand, series number, agent, location of buyer
 - Ability to monitor all imports and individual sales in the UK
 - Little scope to deviate from cartel rules
 - Classical cartel case

Price transparency

The Greenery – A dominant firm in a transparent world

- Dominant firm: 80% market share in 1995
- Minimum prices for a week
 - Excess supply
 - The Greenery was undercut by its rivals
 - The burden of excess supply was for The Greenery
- Difference in average returns and grower prices
- Transparency
 - Competition knew The Greenery's prices
 - Principal-Agent-Problem with own growers

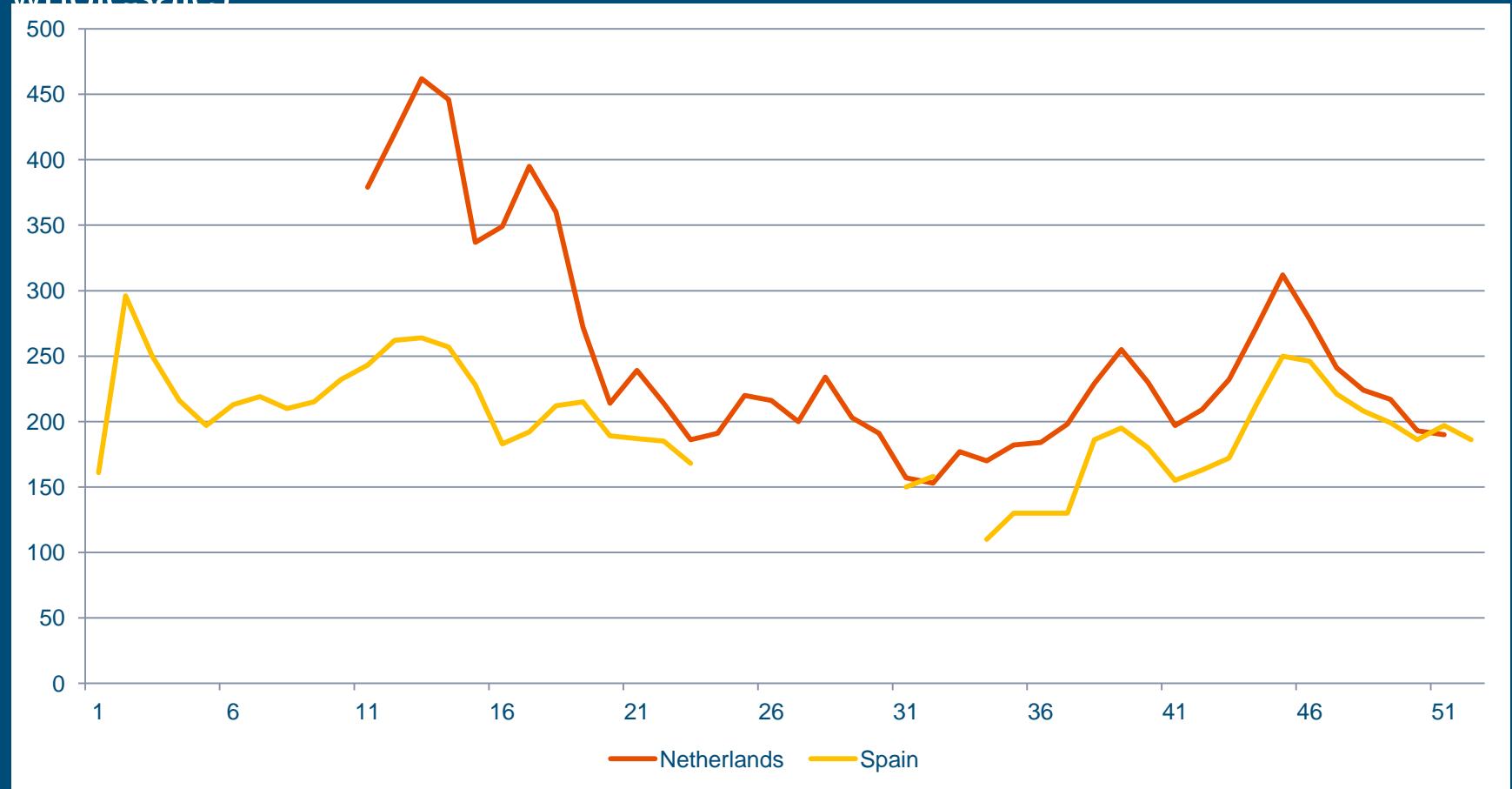
Price transparency

Auctions

- Incentive to indicate willingness-to-pay
- Bids are used to influence
 - Probability that one wins the bid
 - The price to be paid
- You can design an auction such that
 - Bidders indicate willingness-to-pay / willingness-to-sell;
 - Allocation is efficient; and/or
 - Revenues are maximized / Purchases are minimized
- Pricing can be efficient, even if there is a lack of transparency

Pricing and sustainability

Willingness-to-pay for red sweet pepper (70mm, 2007, German wholesale)



- Evaluation framework
 - Issues to be addressed

Evaluation framework

■ Evaluation framework

- Is there a lack of transparency?
- What is the nature of the transparency problem?
- What measures might for the government take?

Evaluation framework

Is there a lack of price transparency?

■ Complaints

- EC: Differences in price reactions throughout EU

■ Search costs

■ Market characteristics

- Tied-up suppliers
- Switching costs: in theory, relation-specific investments
- Reputation: herhaalopdrachten

Evaluation framework

What is the nature of the transparency problem?

- Access
- Understanding
- Reliability
- Comparability

Conclusion

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