



Agricultural Markets Task Force
Transparency in EU Agricultural Markets

**Submission from the Agriculture and Horticulture Development
Board (AHDB)**

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The AHDB

The Agriculture and Horticulture Development Board (AHDB) is a statutory levy board, funded by farmers, growers and others in the supply chain.

Its' purpose is to equip levy payers with independent, evidence-based information and tools to grow and become more competitive and sustainable.

AHDB raises levies from the meat and livestock sector (cattle, sheep and pigs) in England, horticulture, milk and potato sectors in Great Britain and the cereals and oilseeds sector in the UK.

The AHDB's remit covers 75% of total UK agricultural output.

The funds raised from each commodity sector are used only to the benefit of the sector from which they were raised. Levy is invested in a wide range of activities including R&D, marketing, exports and market intelligence.

Because the levy is statutory, AHDB is classified as a Non-Departmental Public Body and comes under the sponsorship of the Department for Environment, Food and Rural Affairs.

AHDB and volatility

The presence and longer term threat of volatility in agricultural markets and impact on farming incomes is a big risk facing the competitiveness and economic sustainability of the industry. As such a key strategic issue, the AHDB is seeking to offer leadership and catalyse innovation in relation to volatility management. As part of this strategic approach, AHDB launched its Volatility Forum in January 2016.

The objective of the AHDB Volatility Forum is to maintain a long-term focus on developing sustainable volatility management tools. This approach involves looking 'broad and deep' at possible mechanisms across six main themes:

1. Forward contracts
2. Formula pricing
3. Derivatives
4. Co-operation and integration
5. Strategic business
6. Government backed

A key part of the AHDB Volatility Forum will be to improve knowledge exchange between the industry, supply chain, allied industries, policy and academia.

Introduction – EU markets continue to evolve

Over the last 20 years EU agricultural markets have been on a journey towards greater market orientation. However, for markets to function well transparency is required to aid good decision making. For the businesses involved, change has and will continue to be inevitable with successful farm enterprises needing both production and business management skills to build competitiveness and cope with volatility.

In line with market evolution, the objectives of market information and statistics have also changed. In the era of market management, statistics helped inform the Commission on policy and decision making. Now though, information and statistics are required by farm businesses and the supply chain to make informed decisions.

Meeting the needs of a free market

To operate efficiently, fairly and transparently free markets need a good supply of robust, timely and credible information. This enables businesses, big and small, to be exposed to market signals so that they may make economic adjustments to their supply, usage or trade. Without this information, markets are operating in the dark, giving rise to severe volatility when supply shortfalls or gluts become a physical reality. Volatility is unavoidable in free markets, especially where there is a structural misalignment between supply and demand as is often the case in agricultural commodities given the nature of production cycles. Nonetheless, those with transparent, timely information can avoid the sharpest price swings that impact both farmers and the supply chain.

Free markets are likely to struggle to find a source of information that is truly independent and accessible to all in the market place – big and small. Government-industry partnerships play a critical role here to maintain transparency, independence and objectivity in information and ensure that maximum value for money is achieved.

EU agricultural markets are too big to fail

Based on USDA data for 2015, the EU accounted for over 25% of global milk production and over 20% of wheat output. The point of this is to demonstrate that what happens in the EU matters not just to the EU, but also to the functioning of the entire global food commodity complex. As a result, any transparency issues in EU markets can in fact lead to global supply and demand uncertainty so risking un-necessary global price volatility.

To the future – what will be required?

Commercial food and farming businesses will continue to evolve as EU agricultural commodity markets become freer. However, without credible and independent information these businesses risk operating in the dark with the uncertainty repelling new investment in the sector.

To support business decision making in the food chain, information under two broad themes is required. The first relates to physical supply and demand information of commodities and associated products, which includes timely and robust estimates of: production (and its components e.g. yield), stocks, trade, storage capacity and processing capacity to name a few.

The second area relates to price. Price has to be treated as the ‘language of supply and demand’, helping stimulate and regulate production and consumption. The success of a free market will almost certainly depend on the transparency of the price and how producers and consumers react to price signals. Reacting to price signals is a relatively new concept for EU

agriculture given the policy history, so helping businesses with this new skill set is likely to be important.

In addition to transparency, robust and independent price data is critical in helping farmers manage volatility. In the grain sector, the bulk, storable, and relatively generic nature of the commodities has enabled a proliferation of futures markets around the world and in Europe – based on physically deliverable mechanisms. Outside of grains and oilseeds though, these mechanisms struggle to establish. This is probably due to the perishable nature of many agricultural commodities – complicating delivery mechanisms. As a result the success of say a futures market, or indeed any formal pricing mechanism, will very likely need to be based upon settlement against very robust and transparent price data for specific commodity grades. Without robust, transparent and specific price data; innovation within supply chains on pricing is likely to be limited with a lot of price risk still being carried by the farmer.

Answers to the specific questions posed

- 1. What can be improved in setting standards and common frameworks in data collection in the EU? What can be improved in the role the European Commission and Member States have in the collection and dissemination of agricultural market data?***

AHDB Response

To improve transparency across the EU agricultural markets, having access to comparable, robust, and timely information is critical. It is therefore important that the EU uses common standards across Member States so direct comparisons can be made to inform decision making. Frameworks / standards should consider covering the following areas:

Metadata: To clearly define the underlying data for those collecting and using it.

Specification: This largely refers to price data, although could be applied to other sets. Total industry average prices are useful to identify broad trends, but have limited value beyond this, can lead to confusion and lack relevance to the individual user e.g. a farmer may not be able to understand how their price relates to the published price. To increase the value of price data and its usefulness in improving transparency, price data should be based on a consistent quality specification. The specification would refer to the commercial quality parameters for the commodity in question and reflect the main grade(s) of the market.

Protocols, methodology and quality: To ensure that common standards and frameworks adhered to, data should be collected to published protocols and methodology. Within this, policies on error management should also be included. In addition, users of the data should be able to clearly identify the robustness of the data e.g. survey Vs census and sample size.

Timeliness: Notwithstanding the importance of robustness and quality, data timeliness is important to fast moving commodity markets. For example, publication of supply and demand estimates towards the end of /after the season in question is of limited use to improving market transparency.

In terms of data collection and dissemination, the EU Commission and Member states play important role, which could be improved as summarised below:

EU Commission role improvement:

- Setting and monitoring of standards: To ensure data is comparable and robust, common standards are important. Also, to ensure consistency over time, monitoring the collection and analysis of data is important.
- Intuitive central data platform: To allow maximum uptake of EU data, it must be easily accessible from a central hub/database. This enables transparency to increase and removes the barriers to access for participants.
- Originator of best practice: If standards are to be common and continuous improvement put in place, there needs to be a source of best practice and a forum to share it across Member States.
- Cost Benefit Analysis (CBA): To help justify the use of public money and help identify data priorities across the EU, it is important to assess value for money by considering costs versus benefits delivered. Also, as data becomes more consistent and detailed, its value is likely to increase markedly, so it's important that this value increase is recognised.

Member State role improvement:

- Interface between the domestic market place and Commission – two way flow of information: In general terms, the Member State government department / agency responsible for data collection is likely to be better connected to the data sample and those using the data. As such, the Member State is in an ideal position to facilitate the flow of information between, sources, users and the Commission on:
 - Improvements e.g. where are the data 'gaps'
 - Identifying the value of specific data
 - Sharing best practice on collection and analysis from across the EU
- Identifying what the data priorities are for the Member State on a commodity-by-commodity basis.

2. What can be improved in the data on agricultural markets? Is it relevant?

- a. Which sectors are most in need of market transparency?***
- b. Which data should be collected and disseminated?***
- c. At which levels of the food chain should data be collected?***
- d. Is the level of product disaggregation satisfactory taking into account cost-benefit ratios of mandatory data collection***

AHDB Response

On the continued path from managed to free markets, most EU agricultural markets are in need of better transparency. The storable, bulk and relatively generic nature of grains and oilseeds has enabled real-time futures pricing platforms to establish around the world. This has led to price transparency, but issues remain in understanding of supply and demand levels to a satisfactory level. For other sectors i.e. livestock and dairy the complexity of the market and perishability of the commodities makes the viability of say futures market more challenging. As a result, the role of independent, specific and robust physical price data is important.

In terms of what data should be collected and disseminated, the following list provides a priority summary:

- Robust and specific price data: This is important in making price signals to farmers and the supply chain as transparent as possible. As well as aiding transparency, robust price data allows innovation to occur in the field of volatility management. In the most formal sense, credible and robust price data can be used to cash-settle futures markets for commodities such as dairy that are less suited to a physical delivery mechanism. At the micro-level, robust and independent price data would help supply chains co-operate more via the use of longer-term pricing formula, allowing better management of volatility whilst maintaining a competitive supply chain.
- Supply information - Stocks, production (inc. pre-requisites e.g. livestock numbers, yield) and imports (from intra and extra EU): This data is critical for producers and consumers to assess the supply situation and minimise the risk of the EU and global markets being hit by last minute supply shocks, leading to violent movements in price.
- Demand information - Stocks, domestic consumption and exports (from intra and extra EU).
- Current data is largely focussed on the agricultural commodities. Value could be added if more information was available on the products of these commodities e.g. cheese, flour and indeed what processing capacity is available.
- Input cost data: Little information is publically available on the costs of animal feed, fertiliser and crop protection products. Such information, would offer farmers and co-ops useful benchmarks and also help inform integrated supply chain agreements e.g. cost-based supply contracts.

Farm level data is the most common data collected and the most efficient point of collection is at the point of amalgamation e.g. buyer, processor, abattoir. Success depends on having good protocols in place, giving rise to timely and robust data. This is best delegated to an independent body within a Member State to maintain relevance and independence.

Whilst most of the focus on improving transparency appears to be farm level based, there is likely to be value in information from further up the supply chain. For example:

- Animal carcass utilisation
- Product wholesale e.g. cheese prices
- Processing capacity
- Trade
- Stocks
- Storage capacity

There is opportunity to provide more detailed information, beyond the current aggregates on offer, whilst at the same time delivering value. Whilst the current aggregated information is useful in identifying general trends, more detailed information, would be of higher value to improving market transparency and in helping farmers / supply chains better manage volatility. It is important that the higher value of this information is accounted for when making cost-benefit calculations.

3. *What specific policy support is needed to improve the use of market information (directly and indirectly) by farmers (targeted training, advisory network)?*

EU farm businesses either passively or actively are continuing to evolve from supplying managed to free markets. This clearly requires a new set of management skills and in the UK, we hope to add to the knowledge in this area via the work of the AHDB Volatility Forum, as well as wider AHDB activity.

Market advice provided on a commercial / co-operative basis appears to becoming more readily available, but the appetite of primary producers and processors to engage with it is likely to be variable. One avenue to explore may be support mechanisms that motivate continuous professional development (CPD) for business skills. This could encourage a better awareness, ability and attitude towards market information use by famers. In the UK, peer-to-peer learning via the AHDB Monitor Farm network and discussion groups is a key route.