

# Governance in the salmon value chain, perception of market power

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# Objective and Methods

- To analyse modes of governance in the salmon value chain according to the Global Value Chain Governance Framework (Gereffi *et al.*, 2005)
  - A focus is on identifying practices and structural elements where fairness is or could be an issue.
- Interviews with stakeholders across the salmon value chain
  - Is value distributed fairly to all actors? what are fair gross/net profit margin?
  - Who holds the power / how is the power exercised ?
  - Role of government / industry oversight groups ?
  - Do governance measures/policies support fairness and transparency across the value chain?
  - Levels of trust and collaboration between actors?

# Background: Unfair trading practices in food supply chains

- Directive (EU) 2019/633 on unfair trading practices in business-to-business relationships in the agricultural and food supply chain
  - Aims at **protecting weaker ‘suppliers’** primarily farmers, including their organisations (e.g cooperatives) against their buyers, as well as suppliers of agri-food products which are further downstream, such as **small and medium or certain mid-range enterprises**, such as manufacturers or distributors
- **The rules will ban:**
  - late payments for perishable food
  - last-minute cancellations
  - unilateral or retroactive changes to contracts
  - forcing the supplier to pay for the wastage of products
  - refusal of written contracts

## Unfair trading practices (UTP)

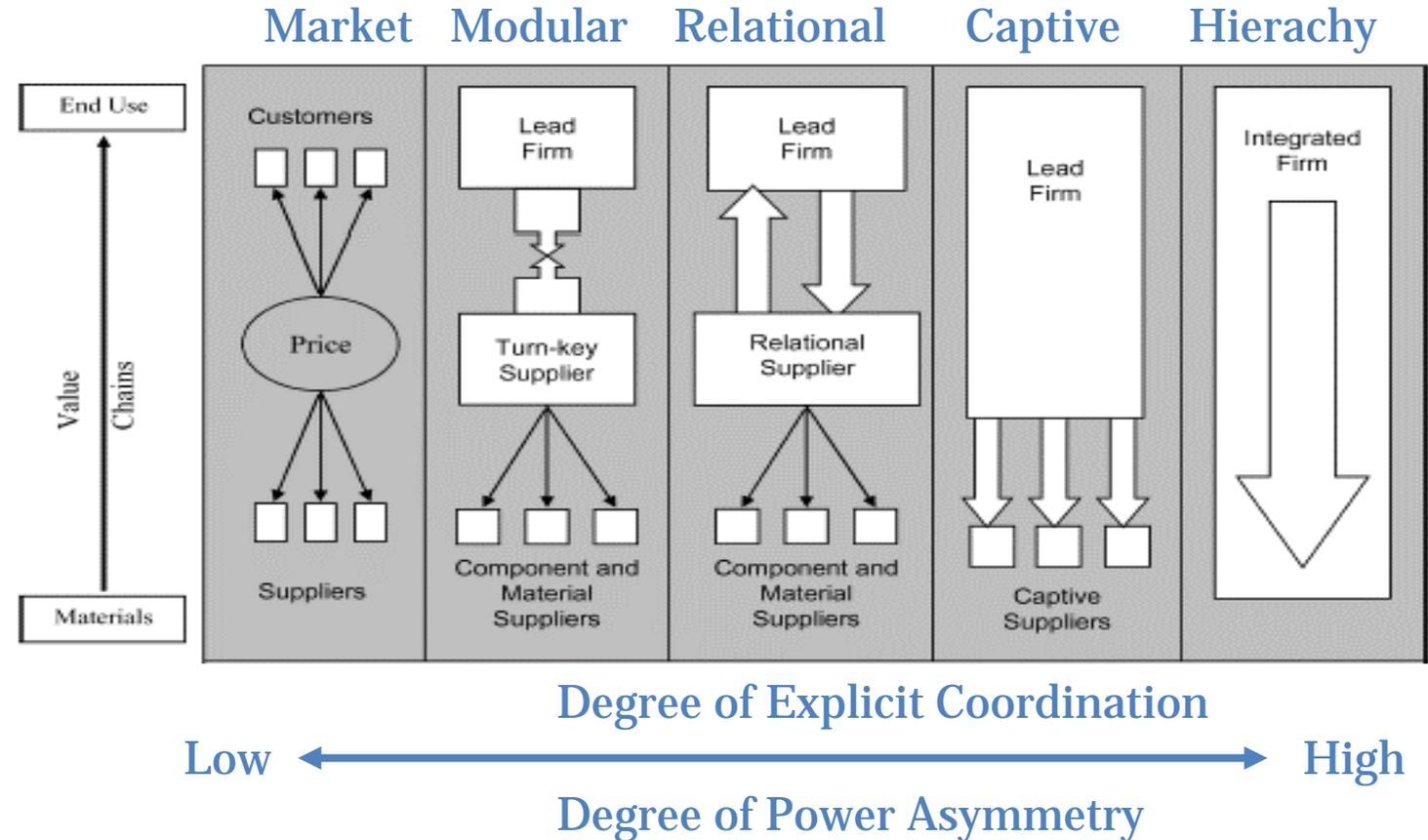
- “practices that *grossly deviate from good commercial conduct, be contrary to good faith and fair dealing and be unilaterally imposed by one trading partner on the other; impose an unjustified and disproportionate transfer of economic risk from one trading partner to another; or impose a significant imbalance of rights and obligations on one trading partner*” (European Parliament, 2019).
- Economic indicators of UTP e.g.
  - Profit margins and value distribution in the chain
  - Price transmission and Market power
  - Asymmetric price transmission can be an indication of market power and where market power is present there is a possibility for unfair trading practices as more powerful agents misuse their powerful position (Falkowski et al., 2017).

## *Is value distributed fairly to all actors in the chain?*

- *„Most actors would say it isn't „Would like larger slice of the cake“ . Aquaculture business is perceived as successful and producers would strive to have best price. There is always going to be a question of imbalance“ (UK producer, March 2019)*
- *„Economic and organizational co-operation, competitive market, low entry cost for traders and wholesalers, and easy accessible price/ volume information. This gives few possibilities for players in the value chain to establish oligopoly or to 'skew' level of information [...] there is no significant difference in economic performance between small/medium sized companies compared to large entities. The best results are often among medium sized companies“ (Norwegian salmon business expert, Nov 2018)*
- *„ No, not at all the value is not distributed fairly! The aquaculture producers hold the power and press the price from the feed producers who are competing on the market“ (Norwegian feed producer, May 2019)*

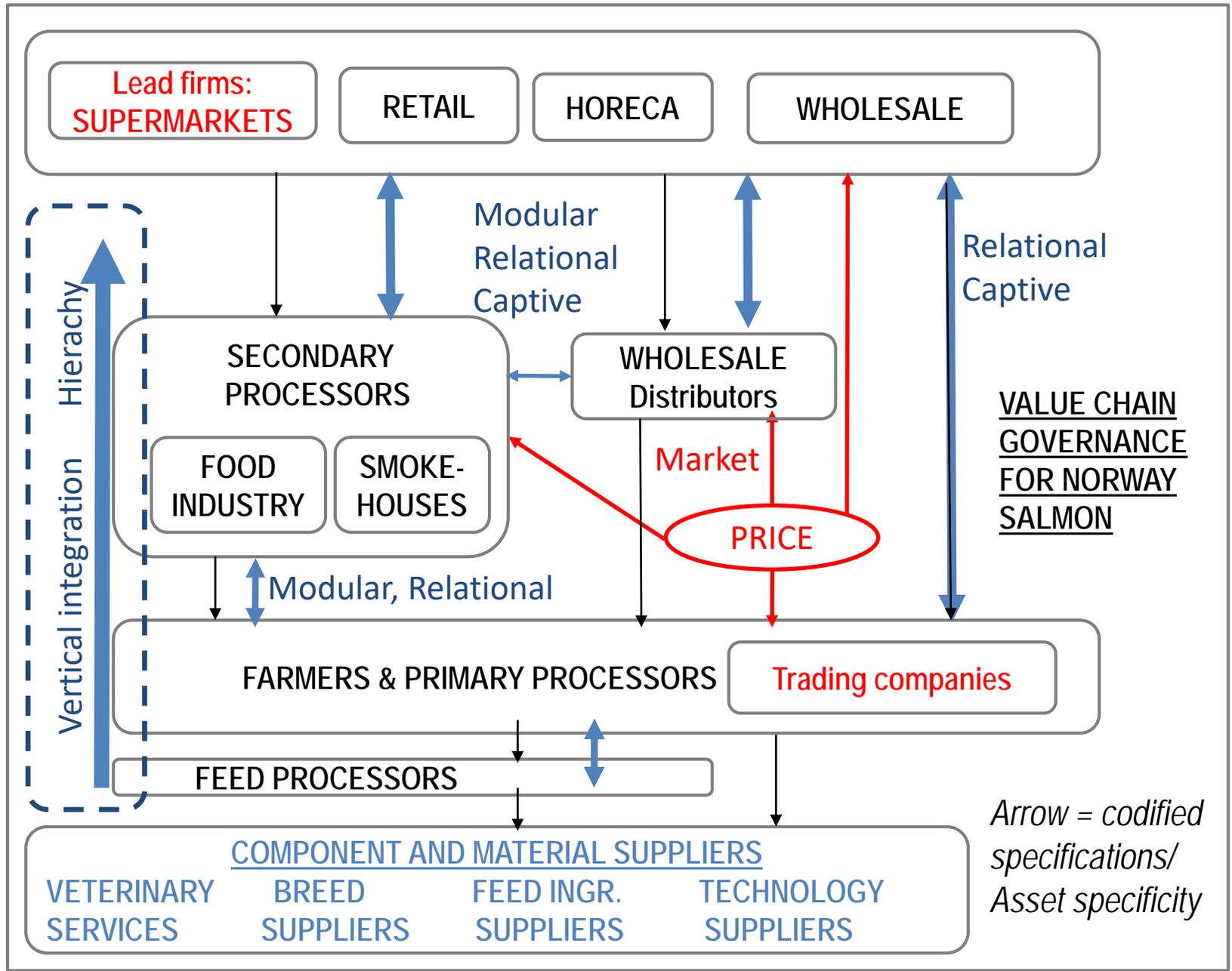
# Governance analysis - Global Value Chains Framework (Gereffi et al., 2005)

- The governance forms and interactions between buyer-supplier from farming to final product in retail can develop over time and can vary depending on demand and supplies, the market power (size of companies, vertical integration etc. ) and complexity of transactions



# Characteristics of salmon value chain

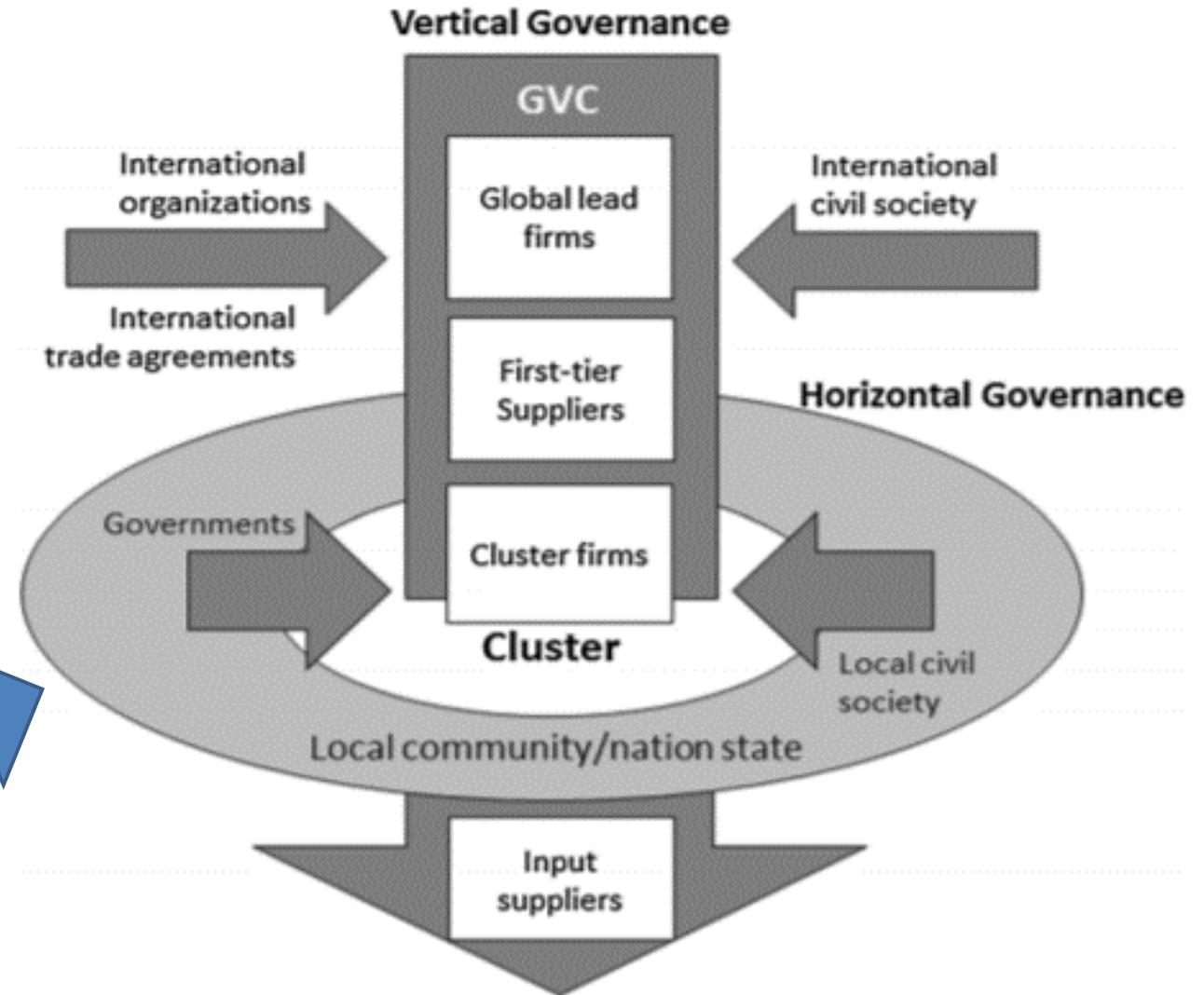
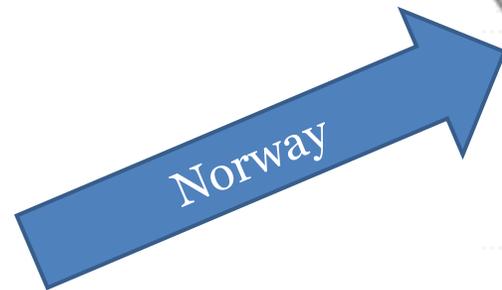
- The salmon value chain is **producer driven** – large vertically integrated aquaculture companies have the power in the chain and a strong bargaining power against **supermarkets** the **lead firms**
- **Commodity / Codified specifications** according to standards (e.g. ASC) / Transaction simplified
- Inter-firm relations of producers and buyers is characterized by **free market exchanges** where products are sold on **spot market**
- There is a trend of **long term contracts** in particular between large integrated companies and retail or large secondary processors
- Demand is more than supplies, producers are getting good margins
- Fairness? Secondary producers “stuck in the middle”
- High salmon prices have been explained by increased cost of production
- Fairness? Investigations (EU and US) on potential price coordination in order to sustain and possibly increase prices of Norwegian Atlantic salmon



The governance structure has developed over time from market to hierarchies where the organization of transactions and asset specificity has been influenced by structural changes, including horizontal and vertical integration as well as the concentration of supermarkets.

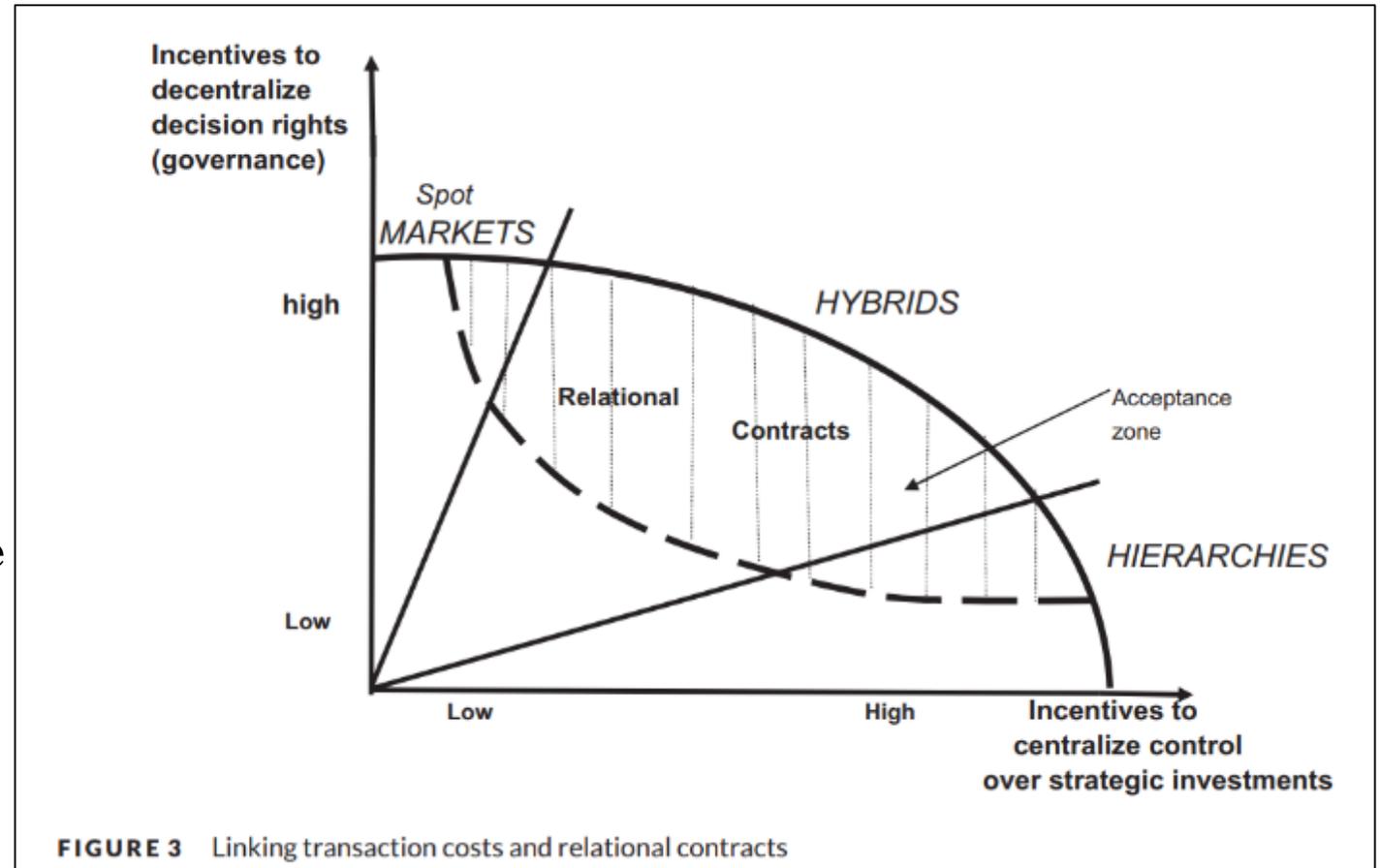
# GVC AND CLUSTER GOVERNANCE

- An extended GVC governance form as suggested by Gereffi & Lee (2016) is relevant to describe the governance structure of the salmon aquaculture value chain, where GVC and cluster governance is combined



# Hybrids organisation and governance

- Menard (2017) proposed a framework that combines **transaction cost and relational contracts models** to capture the variety of governance forms
- Salmon chain governance structure is best described as **“hybrid”** where the governance and inter-firm relationships are characterized by a range of forms from **markets to hierarchy**, where **modular, relational and captive** structures can be identified



# Regulatory impacts, certifications and hybrid governance forms

- Strong **environmental regulations** with focus on sustainability (Aquaculture Act and Traffic-light system)
- “*The development of **third party assessment and certification** of fisheries and aquaculture has provided new forms of governance in sectors that were traditionally dominated by state based regulation. Emerging market based approaches are driven by shareholder expectations as well as commitment to corporate social responsibility, whereas community engagement is increasingly centered on the questions of **social license to operate**. Third party assessment and certification links state, market and community into an interesting and challenging **hybrid form of governance**” (Vince & Haward, 2017).*

# References

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Food Systems Dynamics

# THANK YOU

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SINTEF OCEANS



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