GOVERNANCE AND PERCEIVED POWER IN THE SALMON VALUE CHAIN

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VALUMICS - Understanding food value chains and network dynamics

20 participating organisations
18 European partners from 13 countries,
2 Asian partners, China and Vietnam
EU Grant of 6 million EURO
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Objective

• To provide tools and approaches to enable decision makers in food value chains to evaluate the impact of strategic and operational policies aimed at enhancing fairness, integrity, resilience in future scenarios of sustainable food value chains

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Content

1. Review of existing literature and documentary sources
   • **Case studies**: Functioning of food value chains and **policies** aimed at enhancing fairness, integrity, sustainability and resilience

2. Governance analysis in the salmon value chain

3. Interviews with stakeholders across the salmon value chain
   • Assess the perception of market power and fair value distribution
   • Identify practices and structural elements where fairness (opportunistic behaviour) could be an issue
Valumics case study: Farmed salmon—Norway to EU

- Mapping of supply, value and decision chains
- Environmental and Social LCA
- Governance analysis
- Market power
- Profitability, Price transmission
- Distribution of value added
- Logistics modelling
- Risk and resilience assessment
- Agent based model to capture agents' behaviours and the impacts of their decisions
- Policy interventions and future scenarios 2050

VALUMICS case studies:
- Wheat to bread,
- Dairy cows to milk,
- Beef cattle to steak,
- Tomato to canned tomatoes
- **Farmed salmon to fillets**
Policy interventions towards fairer food supply chains

Increasing concerns of opportunistic behaviours and information asymmetry in food value chains having consequences on the fair value distribution along the chain

- **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** (e.g. manufacturers or distributors)

- Commission (DG Agri) proposes **Market transparency**
  - lack of information on market developments from processors and retailers
  - **Price transparency** is made mandatory along FVCs

- 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
Part 2 Governance

• Governance of food value chains focuses upon inter-firm relationships and the information asymmetries and power relations between the firms (including unfair trading practices) and how this impacts upon the distribution of value along the chain.

• Salmon governance structure fitted to well known GVC governance frameworks
  – Global Value Chain (GVC) Governance Framework (Gereffi et al., 2005)
  – Combined GVC and cluster governance (Gereffi and Lee, 2016)
  – Hybrids organisation and governance framework (Menard 2017)
Global Value Chains Governance Framework

- Governance has been classified by Gereffi et al. (2005) in five main typologies that stem from the degree of participation to the decision process of the different stakeholders and inter-firm relations.

Classification criteria
- complexity of transactions,
- ability to codify transactions,
- capabilities in the supply-base
Global Value Chain Governance Framework (Gereffi et al 2005)

- Concentration and mergers
- Producer driven value chain
- Supermarkets are lead firms

- Range of inter-firm relationships from markets to hierarchy, where relational and captive structures can be identified

- Free market exchanges where products are sold on spot market

- A trend of long term contracts in particular between large vertically integrated companies and retail or large secondary processors.

Arrow = codified specifications/Asset specificity
Global value chain vertical governance and horizontal cluster governance
Gereffi and Lee (2016)

- Economic and Social Upgrading in Global Value Chains and Industrial Clusters
- The governance is influenced by network governance, contracting and informal relationships

Governance analysis

Vertical governance
- Global salmon value chain
- Global lead firms Supermarkets
- First tier suppliers Secondary processors
- Cluster firms Aquaculture Primary processors Traders

Horizontal governance
- National, regional & municipal governments
- Local communities /Norway
- Social license to operate
- Environmental regulation

International organisations (e.g. ILO) International trade agreements
International civil society (e.g. NGOs)

CSR & Standards (e.g. ASC) 3rd party certification
Hybrid organisation and governance

New form of governance

- economic co-ordination of supply chains - as part of hybrid institutions
- “complex organizational forms where many stakeholders are performing jointly tasks that neither the market nor the individual firm can achieve” (Carbone, 2017).

Complex governance

- a firm (or a network of firms) could partially produce in-house (or distribute through its own outlets), outsource other parts of its activity through contracts with specific firms, and possibly use spot markets, all at the same time.

Menard (2017) proposed a framework that combines transaction cost and relational contracts models to capture the variety of governance forms.
Part 3. Perceptions of fairness in the salmon value chain

Expert interviews - questions:

- **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?
- Levels of trust and collaboration between actors?
  - Do governance measures/policies support fairness and transparency across the value chain?
  - Occurrences of **unfair trading practices / opportunistic behavior**
Stakeholder’s perception: Is value distributed fairly?

• „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)

• Secondary processors are „stuck in the middle“ of the chain, and are reliant on farmers / primary processors or wholesalers for raw materials where they buy on the spot market. They are vulnerable when prices on the spot market are high and have little influence to negotiate the price with retailers, who normally operate at a fixed margin. (Norwegian aquaculture expert, May 2019)
Increasing price explained by increased cost of production

Average export price of fresh whole salmon from Norway from 2008 to 2018 (in NOK per kilogram)
Source: Authors own calculation based on data from Statistic Norway
Volatile prices

- Salmon price has historically been very volatile similar to other food commodity.
- Influenced by biological uncertainties.
- Constrains on stable supplies and consequently influence the price.
Unfair trading practices - Opportunistic behaviours?

The main risk here is price volatility

- Volatile prices at spot market vs long term contracts at fixed price
- Do exogenous risks trigger agents to shift negative consequences onto other supply chain actors?
- Price fixing allegations against Norwegian producers

“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 may misuse their powerful position” (Falkowski et al., 2017)
Final remarks

Price is one of the most important factors that will increase a supplier’s perception of fairness.

Demand is more than supply and trade has been favorable for the aquaculture producers.

Supermarkets are lead companies - large companies are favored by the retailers.

Market led hybrid form of governance

- Third party assessment and certification links state, market and community
- Vertical and horizontal integration

How will the governance structure evolve in the future?

- Global / market led
- Regional / state led
- Local / civil society led
References

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THANK YOU

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David Barling and Jennifer Gresham

Further information see:
Aquaculture Europe Magazine Sept 2019
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