

A Study of the Industrial Profile, Production Structure, Marketing Channels and Trading System of the Domestic Agricultural and Livestock Product Industries

1. Background of study

The domestic agricultural operations are mainly small-scale family farms and, as a consequence, the owners' are in lack of the ability to negotiate prices with distributors and retailers. Besides, farmers and consumers often wonder whether there are so-called "worms" who manipulate prices during the various marketing stages to earn the spread. For this reason, it is necessary to conduct a thorough investigation to understand the industrial profile, production structure, marketing channels and trading system of the agricultural and livestock product industries to find out whether there are abnormal price fluctuations or price manipulations in agricultural and livestock products. With such knowledge, the Fair Trade Commission (hereinafter referred to as "the FTC") will be able to enhance cooperation with agricultural authorities based on the foundation of statutory duties of different entities in order to take appropriate measures to meet the expectations of the public that the FTC can respond to and handle cases associated with agricultural and livestock product prices on time.

2. Methods and process of study

In this study, cases involving agricultural and livestock products that the FTC handled in the past are examined to have a picture of the industrial profile, production structure, marketing channels and trading system of the agricultural and livestock product industries. By understanding the marketing channel and transaction model of agricultural and livestock products, the FTC will be able to respond in time and handle cases involving product price fluctuations in the future. A FTC commissioned industrial investigation report conducted by an institute on the industrial profile of garlic industry and problems encountered is reviewed and the opinions of scholars as well as the agricultural authorities are also consolidated in order to analyze issues related to the Fair Trade Law and the likely solutions for the FTC's reference when handling cases associated with agricultural and livestock products in the future.

3. Main suggestions

(1) Suggestions for the FTC:

- A. Emergent situations, such as serious disasters or severe epidemics, will cause short-term agricultural and livestock product supply-demand imbalances. At this time, investigations conducted by the FTC on related businesses may deter illegal practices and stabilize commodity prices to a certain extent. However, the market prices should still be determined by the selling and buying parties according to their supply-demand relations. Even if external factors will lead to malfunction of market mechanism, it would be the agricultural authorities' responsibilities to make production-marketing adjustments to agricultural and livestock products. As the competition authority, the FTC should focus on investigating and sanctioning illegal practices (such as exclusionary abuse or concerted pricing by monopolistic enterprises) resulted from structural factors in an industry.
- B. As the agreed conclusion at the Consultation Meeting on Monopolization and Manipulation of Agricultural Product Prices between the FTC and the Council of Agriculture, the two agencies have already coordinated and divided duties in

investigation of agricultural product monopolization and price manipulation cases in relation to Article 6 of the Agricultural Products Market Transaction Act. Meanwhile, it is specified that, measures taken by related businesses or industrial groups to respond to 24 production and marketing adjustment measures executed by agricultural authorities would be excluded from the application of the Fair Trade Law. Based on the conclusion of the consultation meeting, the FTC should continue to further cooperation with agricultural authorities.

(2) Suggestions for agricultural authorities:

- A. Production and marketing policy that includes market orientation and planned production: The demand in the market of each main agricultural product should be investigated to identify the reasonable average demand domestically. Then, the growing area or the number of livestock to raise in each production period should be decided accordingly to prevent imbalances of periodic agricultural product supply-demand.
- B. Reduction of and marketing spread: Marketing channels should be shortened and marketing performance and efficiency should be enhanced to lower marketing costs.
- C. Establishment of an open, transparent and updated agricultural product transaction information network: An agricultural product transaction information network that includes farm markets, retail markets, etc. should be established and publicized to make information of transactions in the upstream, midstream and downstream markets more open, transparent and updated.
- D. Promotion of the agricultural product cold chain system: Establishing a complete cold chain system can not only reduce the rate of spoilage during transportation but also maintain product quality and increase transportation efficiency. Adoption of cold chain warehousing to store agricultural products preliminarily or temporarily can effectively stabilize the supply quantities of agricultural products, help slow down supply-demand imbalances in the market and maintain the prices of agricultural products.
- E. Reduction of intervention in free competition in the market: As set forth in Article 21 of the Agricultural Products Market Transaction Act, the first wholesaler transaction of agricultural products must be conducted in the local wholesale market. It restricts the transaction activities of farmers. Meanwhile, in practice, transactions in agricultural products markets are not restricted by the regulation. Therefore, it is suggested that the Council of Agriculture should review the necessity of the provision in Article 21 of the Agricultural Products Market Transaction Act.