

# Food Traceability Systems: Impact on Trade Margins along the Food Supply Chain

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## Executive Summary

In the last decade, food markets have experienced high media coverage of food outbreaks, which have created incentive for a change in consumer behaviour (Verbeke, 2005). For instance, in Europe, food outbreaks in beef industry have lead to the lost in consumer confidence in food safety and quality (Roosen, et al., 2003). Taking this into account, governments have changed the regulatory framework for food traceability. Food traceability is defined as the ability to trace and follow food, feed and ingredients through the supply chain, including production, processing and distributions stages (EC/178, 2002). In this research, we examine the impact of the introduction of mandatory traceability regulation in trade margins along the food supply chain. We apply an ARCH model to test changes in legal requirements on food traceability in the European Union using monthly butter and cheese price series.

Consistently with the literature, we find non linear and asymmetric price movement behaviour along the supply chain. In addition, we have evidence that regulatory changes have significantly impacted trade margins. However, the regulatory effect in margins would depend, at least, on the type of product and stage in the supply chain (retail wholesale different to wholesale farm). Considering that the last two years have seen a period of high commodity price volatility, for both products (butter and cheese), we find that oil price explains variability of retail-wholesale margin and retail-wholesale margin fluctuation explains variability of wholesale-farm. Finally, we find evidence that changes in food traceability regulation have not been translated into more stable prices since the commodity effect has been stronger.

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