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Re Study of food prices in the Caribbean Netherlands

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Dear Madam Speaker,

High transport costs, high electricity charges, the tax burden, supermarket margins and lack of competition are all given as significant factors with a decisive effect on food prices in the Caribbean Netherlands. But what really is the deciding factor for food prices in the Caribbean Netherlands? To answer this question I arranged for a study to be carried out into the price structure of 17 frequently used foods. The study was undertaken by the Ecorys research agency, in collaboration with the Curconsult consultancy firm. This letter is to inform your House about the results of this study and about subsequent steps. The result of the study is appended to this letter, while the letter itself deals with the background to the study, the integrated approach followed in the study, the setup and the results of the study and the subsequent steps.

Background

The islands of the Caribbean Netherlands have to contend with high prices for the daily necessities. This is demonstrated, for instance, by the reports of Statistics Netherlands (hereinafter CBS)¹ and the report by the Caribbean Netherlands evaluation committee (hereinafter: evaluation committee) entitled 'Associated for five years: Bonaire, Sint Eustatius, Saba and the European Netherlands', under the direction of Ms J.W.E. Spies.² The evaluation committee concluded that prices rose following the transition on 10 October 2010. In the Caribbean Netherlands, everyday shopping is expensive.

The evaluation committee's report and previous inquiries offer several possible causes for the high prices. Based on the information available, however, there is insufficient certainty about what the actual causes are. The absence of statistical information on the price structure is a particular sticking point in this regard. With good insight into the price structure, we can see whether the prices are not just high, but also whether specific measures can be taken in the chain in order to control the prices.

¹ CBS, Price level measurement, Caribbean Netherlands 2015

² Parliamentary papers 34300-IV, no. 59.

Pricing policy, including direct intervention in the prices in the Caribbean Netherlands using the set of instruments provided by the BES Prices Act, falls under the powers and responsibilities of the executive councils of the islands. The government helps the islands with issues in this area where it can. This commitment was also made in the government response to the evaluation committee's report.³ Without insight into what caused these high prices, it is difficult to take the right measures to curb those high prices. Without this insight the measures may miss their mark. Effective maximum prices, for example, can only be set using the BES Prices Act if it is clear that these maximum prices are above the economic operator's cost price. If this is not the case, there is a risk that the products will no longer be offered for sale. To prevent such unwanted effects, further study has been carried out in an attempt to ascertain the causes of the price level and the developments in prices since the transition in the Caribbean Netherlands. This should help the islands and central government with issues concerning pricing policy as well as curbing the prices of daily necessities.

Joint approach

The study came about in cooperation with the islands, and its setup was a joint enterprise. This included consultation about the specific products to be considered in the study, for instance. On completion, the study results were discussed and subsequent steps were considered.

Pricing policy may be seen as part of the broader issue of poverty reduction on the islands. Poverty has an income side and an expenditure side, pricing policy being part of the expenditure side. The study, and this government response, are not about the income side, but focus on the pricing policy on the expenditure side. Many other themes come together in pricing policy. For example, prices are affected by taxes and education can help to influence consumer spending patterns. To emphasise the broad and common interest this government response has been drawn up in close cooperation with Bonaire, Saba and Sint Eustatius.

Study setup

To gain as much possible insight into the price structure of daily necessities and to make the study as specific as possible, the study focuses on 17 foodstuffs and other daily necessities (see table 1). The selected items are frequently used products and were selected on the basis of information from the CBS and input from the islands.

³ Parliamentary papers 34300-IV, no. 59.

| | | | |
|-------------|---------------------------------------|----------------|---------------|
| Flour | Fresh fruit (oranges) | Long-life milk | Orange juice |
| White bread | Fresh vegetables (tomatoes) | Cheese | Mineral water |
| Biscuits | Fresh meat (chicken wings/drumsticks) | Soap | Nappies |
| White rice | Toilet paper | Corned beef | Toothpaste |
| Denim jeans | | | |

Table 1: List of selected products

The study started by creating an outline of the market situation on the islands. This outline considers where the products used for the study are purchased, how the products reach the islands and what the market for the sale of the products looks like. Second, the study examined general price developments and the price development of the 17 selected products. CBS data was used for this wherever possible. Then the study considered the price structure of the 17 products, which includes the following elements: cost, inter-regional transport costs, the wholesaler's gross margin, turnover tax, local transport costs, taxes (general expenditure tax and turnover tax) and the retailer's gross margin. An assessment was also made of the costs that an economic operator has to pay out of his gross margin (subdivided into pay costs, energy costs and other costs) and of the net profit. Finally, based on the price structure, Ecorys finally considered the effectiveness of a number of possible measures to curb the high prices, and it concluded with a number of recommendations on the basis of this analysis.

Results and recommendations

The main results of the study are discussed below. A distinction is made here between Bonaire on the one hand and Saba and Sint Eustatius (Leeward Islands) on the other.

Bonaire

The study shows that food prices on Bonaire have risen by around 13% since the transition (see figure 1). Prices rose sharply, particularly in the initial period following the transition, but in recent years they have actually fallen slightly (see figure 4). In general, this is also true for the products that were studied. The prices of these products have also risen since the transition, with the increase being the greatest in the initial period for most products.

The analysis of the source of the products on Bonaire shows that there is hardly any domestic production, but that almost all the products are imported. Most of the products come from the US (Miami) or Europe. Curaçao plays an important role in the transport of the products. Either they are purchased from a wholesaler on Curaçao, or they are transferred there for transport to Bonaire. There is one provider for the transport between Curaçao and Bonaire and that is Don Andres. The products are then sold by different supermarkets on Bonaire. The island has a few large supermarkets and a many different smaller supermarkets.

Figure 2 contains the cost breakdown of the selected products, which suggests that the cost and the retailer's gross margin form the greatest part of the price. The transport costs and taxes only form a small part of the final selling price. Many products are also exempt from the general expenditure tax. Supermarkets must pay the costs of rent, wages and electricity, for example, out of their gross margin. Ecorys estimates that supermarkets spend around 17% of their gross margin (35% of the consumer price) on staff costs, 4% on electricity costs and 11% on other costs (accommodation costs, promotion, etc). Supermarkets retain around 4% of the final selling price as net profit.

The price structure for the selected products is fairly similar. While differences exist, the gross margin for perishable products for instance (vegetables and fruit) is higher than for non-perishable products. This can be explained by the fact that supermarkets throw perishable products away more often. The analysis of price developments since the transition shows that the difference in prices can mainly be explained by developments in the purchase price as a result of changes in world trade prices.

Ecorys finds that the prices vary significantly between supermarkets on Bonaire. At smaller supermarkets, prices are generally higher than they are larger ones. The small supermarkets are usually located in the more remote areas.

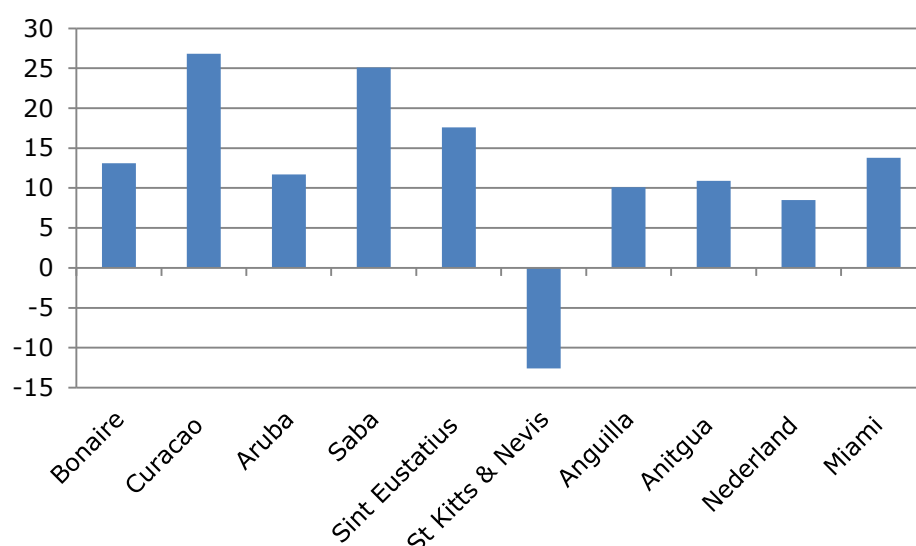


Figure 1: Change in CPI (Consumer Price Index) for food 2010 – 2016

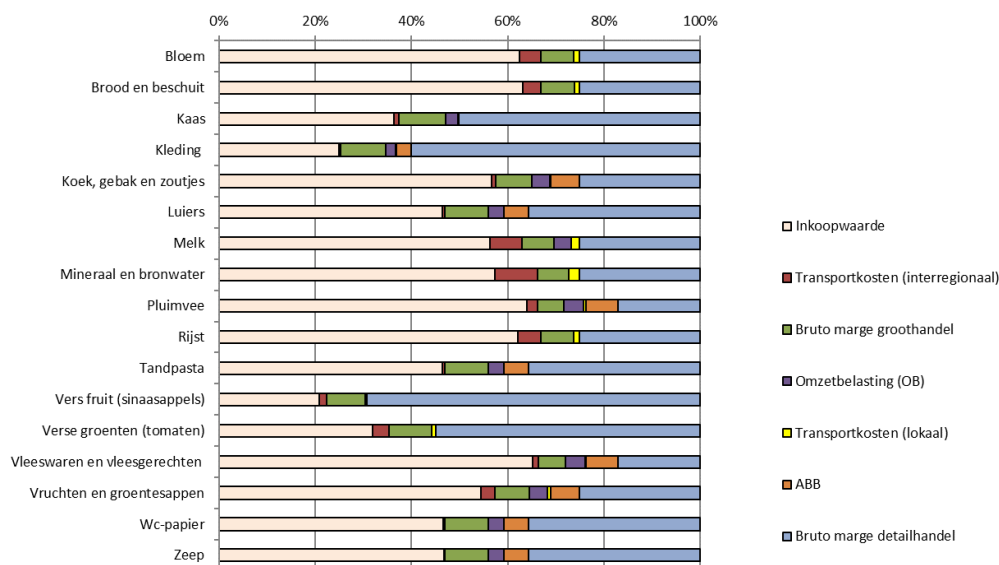


Figure 2: Cost breakdown of selected products in Bonaire

Saba and Sint Eustatius

Food prices on Saba have risen by around 25% since the transition (see figure 1). On Sint Eustatius, the rise is around 17%. As it did on Bonaire, the biggest rise on Saba and Sint Eustatius took place in the early years following the transition (see Figure 4). For most of the selected products, we can see a continuous rise in prices on both islands, with price development displaying an erratic pattern on both Saba and Sint Eustatius.

There is hardly any domestic production on Saba and Sint Eustatius either. Many of the imported products come from the US (Miami) and some come from Europe. The products are usually purchased from wholesalers on Sint Maarten and transported to the islands from there. Almost all of this transport is handled by a single carrier (Mutty's Pride). The analysis of the market for daily necessities shows that there are six supermarkets on Saba, three of which are large ones. There are 11 supermarkets on Sint Eustatius, one of which (Duggins) is far and away the largest.

The analysis of the cost breakdown of the selected products (see figure 3) reveals a similar picture to that on Bonaire. The cost and the retailer's gross margin form the greatest part of the price at which consumers can buy the product. Just like they do on Bonaire, supermarkets still have to pay different costs out of their gross margin, where the net profit is estimated at around 3% of the selling price on Saba and Sint Eustatius. The price structure of individual products is similar to that on Bonaire, as is the fact that price development can for the most part be explained by developments in the purchasing price.

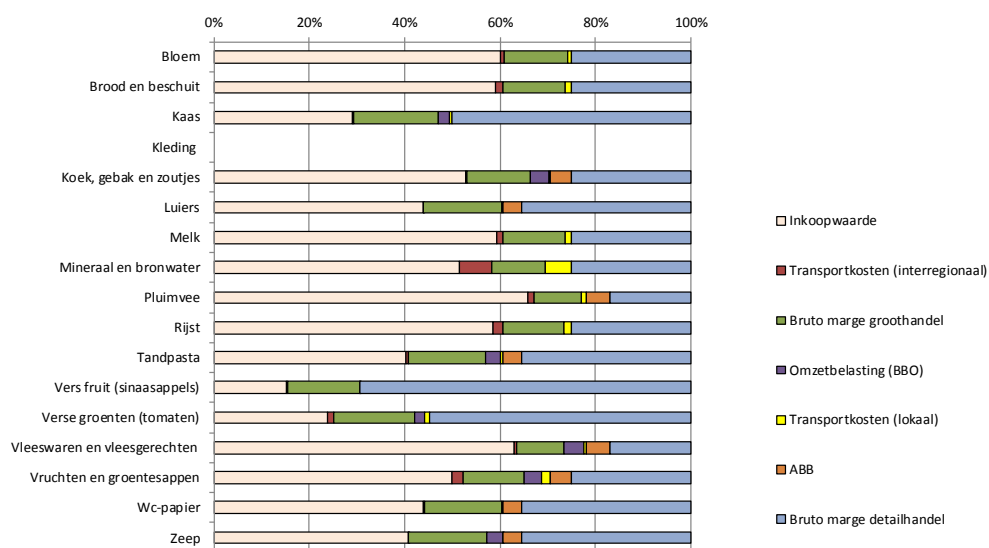


Figure 3: Cost breakdown of selected products on Saba and Sint Eustatius

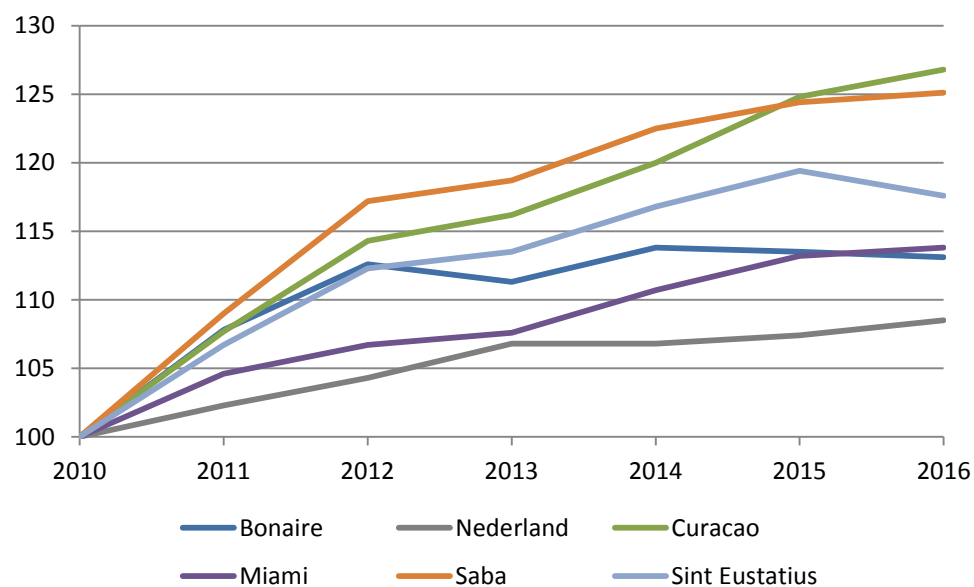


Figure 4: Development of Food CPI 2010 – 2016 (2010 = 100)

Exploded myths

The results of the study fail to provide sufficient clarity with regards to the price structure. The factors regularly mentioned, such as transport costs, electricity costs, tax burden and supermarket margins, all appear to form a relatively limited

part of the prices. The suggestion that these frequently mentioned factors are a major cause for the high prices therefore does not seem to be correct.

Ecorys used these findings to look at the effectiveness of a number of possible measures. It considered the impact on prices and the feasibility. On the basis of this analysis, measures that according to Ecorys are not effective in curbing the high prices include direct regulation of the prices through the BES Prices Act and competition policy. According to the study, supermarkets do not have exceptionally high margins. At the same time there are relatively many supermarkets on all three islands, which limits the scope for large margins. Both price regulation and competition policy are also difficult to put into practice because they need constant supervision. Another intervention that is not considered effective is curbing transport costs since they only form a limited part of the total price at which consumers buy the product.

Recommendations

Ecorys concludes that the following measures are effective and recommends exploring them further:

1. Breathing new life into a voluntary system of maximum prices on Bonaire and Saba and exploring a voluntary system on Sint Eustatius, all of this in combination with making the prices in the different supermarkets more transparent.
2. Taking a critical look at the current interpretation of general expenditure tax, with the exemption from it being broadened to some daily necessities that are currently not yet exempt.
3. Continuing to invest in domestic agricultural production of basic foodstuffs, through subsidies or the provision of land, for instance.
4. Exploring whether government purchasing power can be used to bring about lower prices on Saba and Sint Eustatius. Ecorys also recommends making expertise available to economic operators in order to increase their purchasing knowledge.
5. Reviewing the business establishment policy on Bonaire, so that the executive council can make policy for how many supermarkets it wants and where.
6. Provide budget information on the islands to create price awareness.
7. Public transport on Bonaire. In this way people without their own transport can access the cheaper supermarkets.

Subsequent steps

The greatest part of the price is determined by the cost. A rapid, substantial and permanent reduction in food prices therefore does not seem feasible, as a large part of the purchase price is determined by global market prices – the price of food and oil being the main factors in this. This does not mean, however, that there are no options for curbing the high prices, but we have to be realistic about the degree to which the measures will impact the final consumer price. It is also possible to arrange for consumers to benefit more from the price differences between supermarkets. The study shows that such indirect measures appear more

effective in influencing the prices than direct intervention (such as the executive councils regulating the prices through the BES Prices Act).

Below we consider the follow-up actions that central government and the executive councils will be taking together, before the end of the year. In discussing the actions a distinction is made between actions that will have an effect in the short term and actions that will have an effect in the long term.

Short term

Voluntary maximum prices

On Bonaire the executive council and a number of supermarkets have agreed to sell at least one product out of 36 frequently purchased products at an agreed maximum price (BonKompri system). This system is not currently working as well as it could be, as the parties do not feel bound by the agreements. The executive council will therefore breathe new life into the system. On Saba, the executive council has agreed with a number of supermarkets to set maximum prices for a number of basic products. This agreement will be further continued and expanded. As yet, there is no voluntary system on Sint Eustatius. Unlike compulsory maximum prices, voluntary maximum prices do not carry the risk of goods no longer being sold because the maximum price is below the cost price. It can also be decided by agreement or by supermarkets themselves to have lower margins on or engage in cross-subsidisation of a number of important foodstuffs. The executive council will therefore explore the options for a voluntary system here. The government will support all three islands in exploring, setting up and expanding a system of voluntary prices in combination with the publication of price comparisons.

Price comparison

The study shows that there are price differences between the different supermarkets on all three islands. To benefit from these price differences, a consumer must know where the product is cheapest. This can be achieved through the creation of price transparency, which includes comparing prices of a number of frequently purchased products. The price comparison can then be published in the newspaper, on the internet or on the radio. Information could then be given for particular target groups (for example, families with young children) about where they can shop most cheaply if they buy all their products from one supermarket. The government will carry out the periodic price comparison or arrange for it to be done in conjunction with the public bodies.

General expenditure tax

The researchers have also recommended taking a further critical look at the list of products that are exempt from general expenditure tax. Essentials that do not currently benefit from the exemption could possibly be exempted (such as chicken and nappies). This will be considered by the government within the regular tax plan cycle.

Long term

Consumer awareness

To make consumers more aware of what they are buying, an effort will be put into creating greater consumer awareness. The government will combine the activities that the different ministries already carry out in this area so that they can be better coordinated with each other. For example, this could include education and information on how to deal with money, as is available in the European Netherlands through the Money Wise platform. When consumers start buying with greater awareness, supermarkets will have greater incentive to offer products for sale at a lower price.

Business establishment policy

The options for revising the BES Business Establishment Act will be considered in conjunction with the executive councils. It is important to shape any revision so that a good balance is created between effectiveness of business establishment policy and the associated administrative burden for both economic operators and the executive councils. Existing options are already under consideration.

Public transport link

When consumers know how much a product costs at every supermarket, they must be able to have the choice to buy these products. On Bonaire in particular this can be a problem because of the distances involved. The residents of more remote areas – Rincon in particular – are not always able to go to the bigger and often cheaper supermarkets in Kralendijk. The government will therefore offer its expertise to the Bonaire executive council to explore the options for a simple, affordable public transport system on the island, which serves both the remote areas and the Kaya Industria in Kralendijk, where most of the large supermarkets are located.

Local production

Finally, with the (financial) support from the government, the executive councils will continue working on encouraging the local agricultural production of daily necessities (vegetables and fruit). Because of the small scale and the costs associated with local production, it will have little to no impact on the price of food. Furthermore, some locally produced products will be more expensive than imported products. Local production does, however, reduce the dependence on imports. Reducing this dependence may be important in case weather conditions prevent the carrier from reaching the islands, there is a sharp fall in the supply on the world market or in case of political instability in the region. Local production also stimulates employment. Part of this approach is encouraging self-production in schools (for example by investing in glasshouses), so that children become more aware of a healthy diet and develop an interest in agriculture and horticulture at a young age.

The recommendation that Ecorys makes about joint purchasing will not be taken up. Purchasing by supermarkets is an individual responsibility. Some

supermarkets already purchase jointly, others do not appear willing to do so. No (compulsory) role has been set aside in this for the executive councils and/or central government. Joint purchasing by or with local government is not realistic. Local government or central government would then have to serve as a kind of intermediary for the supermarkets in buying daily necessities and this is not the task of government.

In conclusion

The situation in the Caribbean Netherlands cannot be compared to that in the European Netherlands. Supermarkets in the Caribbean Netherlands, and their customers, are unable to benefit from economies of scale, where their counterparts in the European Netherlands can. The government and the executive councils are aware that putting the above actions into effect is a challenge, and one that is best faced together. The government and the executive councils are taking up the challenge, with the expectation that the actions will contribute to greater price awareness, lower prices and the reduction of poverty on the islands.
