



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

Competition in the Food Retail Sector

Proceedings of the Workshop

BRUSSELS, 2 May 2016

STUDY

Abstract

Competition in the food retail sector is of high importance for European citizens in their daily life. Competition rules are enforced jointly by the European Commission but in practice also to a great deal by the national competition authorities. This workshop aims to give an overview on the current state of play, specific trends or developments and most imminent challenges. It will look i.a. at the following questions: Is competition working effectively? How does the market structure look like? How do prices develop from the producer to the shop? And, what are the consequences of further concentration by mergers of supermarkets?

This workshop and the respective document were prepared by the Policy Department A at the request of the Committee on Economic and Monetary Affairs (ECON).

This document was requested by the European Parliament's Committee on Economic and Monetary Affairs (ECON).

RESPONSIBLE ADMINISTRATORS

Stephanie HONNEFELDER
Doris KOLASSA

Policy Department A: Economic and Scientific Policy
European Parliament
B-1047 Brussels
E-mail: Poldep-Economy-Science@ep.europa.eu

EDITING ASSISTANT

Irene VERNACOTOLA

LINGUISTIC VERSION

Original: EN

ABOUT THE EDITOR

Policy departments provide in-house and external expertise to support EP committees and other parliamentary bodies in shaping legislation and exercising democratic scrutiny over EU internal policies.

To contact the Policy Department or to subscribe to its newsletter please write to:
Poldep-Economy-Science@ep.europa.eu

Manuscript completed in May 2016
© European Union, 2016

This document is available on the internet at:
www.europarl.europa.eu/supporting-analyses

The web stream of the event is available at:
<http://www.europarl.europa.eu/ep-live/de/committees/video?event=20160502-1600-COMMITTEE-ECON>

DISCLAIMER

The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament.

Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the publisher is given prior notice and sent a copy.

CONTENTS

1. PROGRAMME	4
2. CURRICULA VITAE OF THE SPEAKERS	5
3. CONTRIBUTIONS BY THE SPEAKERS	7
3.1. Paul DOBSON	7
3.2. Elena ARGENTESI	15
3.3. Jacques STEENBERGEN	23
3.4. Philippe CHAUVE	24
4. SUMMARY OF THE DISCUSSION	38
5. BACKGROUND	39
ANNEX: FOR FURTHER READING	40

1. PROGRAMME

DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICIES

WORKSHOP

WORKSHOP Competition in the Food Retail Sector

- Programme -

2 May 2016, 16.00 to 18.00hrs, European Parliament, Brussels

Room ASP 5G2; interpretation: EN, FR, DE, ES; public event with webstreaming

<http://www.europarl.europa.eu/ep-live/en/committees/video?event=20160502-1600-COMMITTEE-ECON>

16.00 - 16.05hrs

Welcome and Introduction: Markus FERBER, ECON Vice-Chair and Chair of the ECON Working Group on Competition Policy

16.05 - 17.55hrs

Introductory statements by expert speakers followed by a discussion with ECON Members

Paul DOBSON

Professor of Business Strategy and Public Policy, Head of Norwich Business School, University of East Anglia, UK

Elena ARGENTESI

Assistant Professor of Economics at the Department of Economics, University of Bologna and Senior Advisor at Lear, Laboratorio di economia, antitrust regolamentazione, Rome, Italy

Jacques STEENBERGEN

Professor em. and President of the Belgian Competition Authority, Brussels, Belgium

Philippe CHAUVÉ

Head of the Task Force Food, DG Competition, European Commission, Brussels

Possible issues to be discussed:

- What is the current state of competition in the field of food retail? Are there any specific trends or developments? What are the most imminent challenges?
 - What are buying alliances and what is their effect in practice?
 - Are food markets local? Is there any preference for national products?
- What kind of results does research deliver about market structure? (Studies, official sector enquiries, etc.)
- Is competition working effectively? Does the consumer benefit sufficiently?
- How do prices develop? Is there any fragmentation within the internal market or along national borders?
 - How do prices develop from the producer to prices in the shop?
- What are the consequences of mergers in the sector? On cost and prices? On the variety of choice?
- Is there any need for political intervention?

17.55 - 18.00hrs

Closing remarks by Markus FERBER, ECON Vice-Chair and Chair of the ECON Working Group on Competition Policy

2. CURRICULA VITAE OF THE SPEAKERS

Paul DOBSON

Paul Dobson is Professor of Business Strategy and Public Policy and Head of Norwich Business School at the University of East Anglia (UEA). He joined UEA in July 2010 having previously held the Storaïd Chair of Retailing and Chair of Competition Economics at Loughborough University since 1998. He is recognised as a leading international authority on pricing strategy, retail competition, and supply-chain relations. He has written extensively on these matters, advised numerous national and international organisations, regulatory authorities and major corporations, and provided regular commentary for a wide range of media. He is a member of the Centre for Competition Policy (CCP) at UEA and serves on the advisory board of the American Antitrust Institute based in Washington DC. For further details, see <https://www.uea.ac.uk/norwich-business-school/people/profile/p-dobson>.

Elena ARGENTESI

Elena Argentesi is tenured Assistant Professor of Economics at the Department of Economics of the University of Bologna and Senior Advisor at Lear. She earned a Ph.D. in Economics at the European University Institute with a thesis on an empirical analysis of two-sided markets. During her Ph.D., she spent a year as a visiting fellow at the IDEI in Toulouse. Her research interests and publications lie in the areas of industrial organization and competition policy, with a focus on empirical issues. She teaches Competition Economics both at the undergraduate and at the postgraduate level. She has done consultancy work as a technical expert for several public bodies, such as DG Competition and other competition agencies.

Jacques STEENBERGEN

Prof. Dr. Jacques Steenbergen is the President of the Belgian Competition Authority since its establishment as an independent authority in 2013. From 2007 to 2013 he was Director General of the Directorate General for competition in the Belgian Ministry of Economic Affairs. He teaches competition law at the University of Leuven since 1980. Before joining the competition authority, he was partner in the Brussels office of Allen & Overy, and he has been legal secretary to the President of the Court of Justice under the presidency of Prof. J. Mertens de Wilmars.

He is also member of the Bureau of the OECD Competition Committee, member of the board of editors and former editor-in-chief of the Dutch-Belgian European law review SEW, member of the scientific committee of the law review Concurrences, member and former president of the Board of the Stichting van het Koninklijk Conservatorium of Brussels (the foundation of the royal academy for music of Brussels), and honorary member of the Bar of Brussels (Nederlandse Orde van Advocaten bij de Balie te Brussel). He is a former member of the Brussels and Flemish Bar Councils.

He lectured or gave conferences and served as member of nomination committees or PhD examination committees in institutes and universities in Austria, Belgium, China, France, Hungary, Italy, the Netherlands, Poland, Romania, Spain, Switzerland, Turkey, the United Kingdom and the United States. He also spoke at conferences in Brazil, Cyprus, the Czech Republic, Germany, Greece, Japan, Luxembourg, Portugal, the Slovak Republic and Slovenia. He publishes regularly on EU and competition law.

He obtained a PhD at the KU Leuven with Prof. Dr. W. van Gerven on legal remedies and ailing industries (1978). He holds a masters degree in law from the KU Leuven (1972), and bachelor degrees or equivalent certificates in law, philosophy and economics from the University of Antwerp (UFSIA)(1969). He can be contacted at jacques.steenbergen@bma-abc.be.

Philippe CHAUVE

Philippe Chauve is the Head of the Food Task Force at the Directorate General for Competition of the European Commission. The Task Force is working on regulatory and antitrust issues in the food supply chain in Europe. This includes investigations of antitrust cases, the implementation of specific competition rules within the Common Agricultural Policy (concerning inter alia joint sales by farmers), the analysis of suppliers and retailers relationships. The Task Force delivered in particular in 2014 an unprecedented study on the impact of competition and other factors on choice and innovation in food products in Europe.

Philippe Chauve has extensive experience in antitrust enforcement and merger procedures. Before heading the Task Force he was enforcing competition rules in the energy sector, where he carried out a sector inquiry and many antitrust and merger investigations and implemented unprecedented remedies (such as the first large scale divestiture of assets in European Antitrust History in the E.ON electricity cases). In earlier jobs he also negotiated trade agreements for goods and services in the WTO and between the EU and its trading partners.

3. CONTRIBUTIONS BY THE SPEAKERS

3.1. Paul DOBSON



Grocery Retailing Concentration and Competition in the European Union

Professor Paul Dobson
Head of Norwich Business School

Competition in the Food Retail Sector Workshop
Committee on Economic and Monetary Affairs
European Parliament
Brussels
2nd May 2016



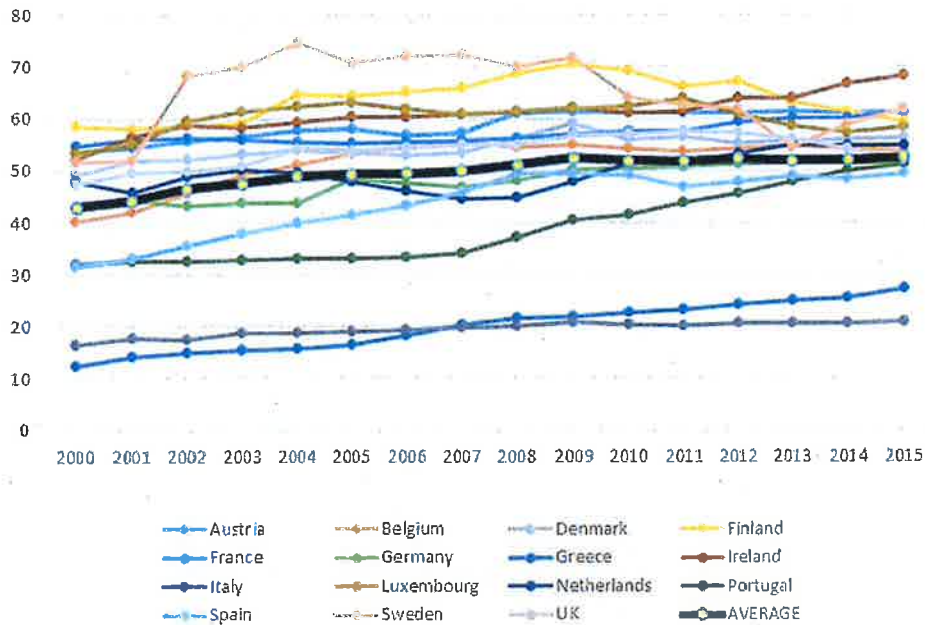
Key Questions

1. How is the grocery retailing sector developing in the EU?
2. What have been the main changes so far this century?
3. In what ways has grocery retailing developed differently across EU member states?
4. What is happening at the aggregate level in the EU?
5. Who are the leading players and how are they positioned?
6. Is price competition likely to intensify or become softer as the sector consolidates?
7. How should policymakers and regulators respond to rising retail concentration and consolidation?

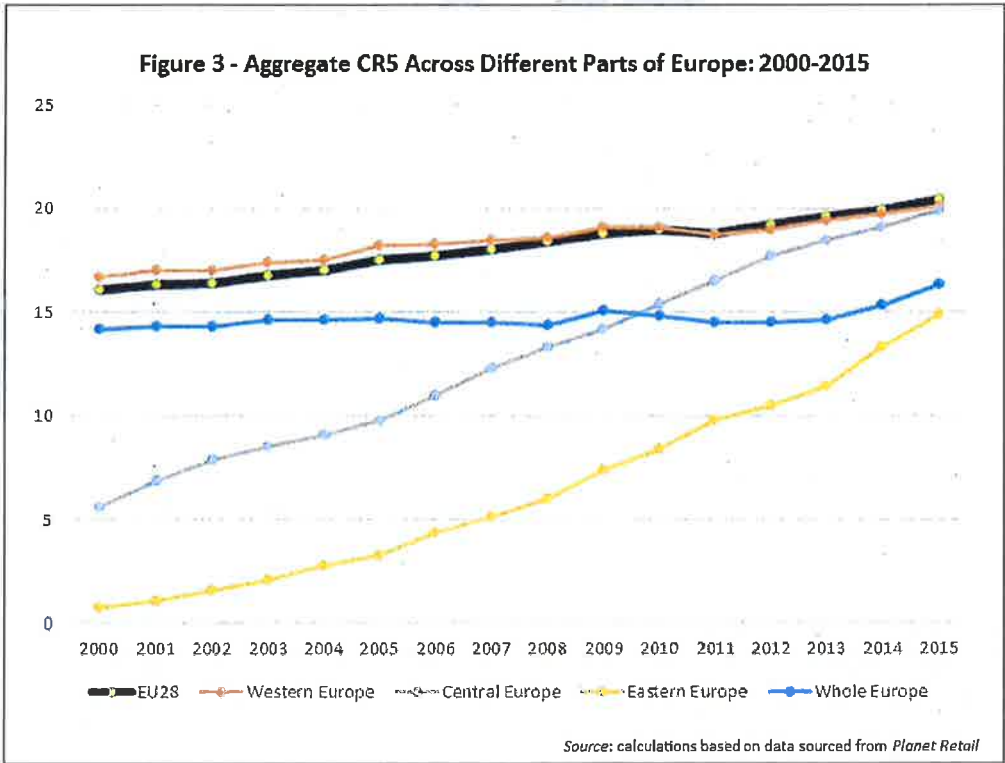
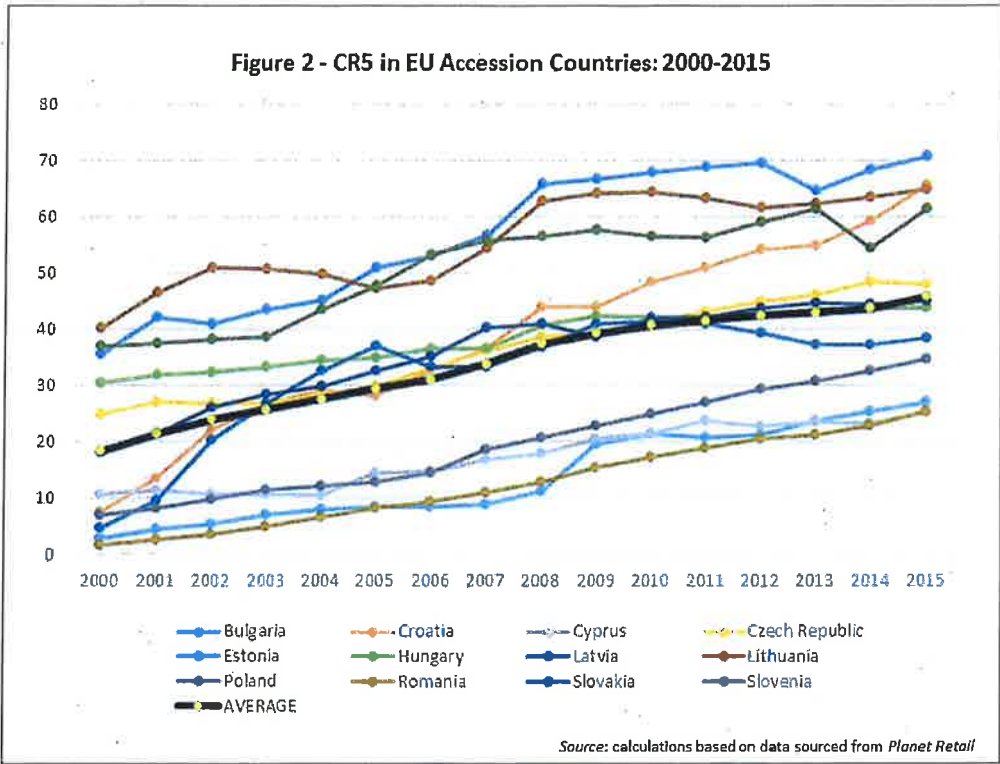
Retail Concentration: 2000-2015

- ❖ National level grocery retailing concentration has increased across the EU in past 15 years
- ❖ Slower rate of concentration growth in EU15 compared to newer accession EU states
- ❖ Tendency towards convergence, but some EU states remain relatively unconcentrated
- ❖ Aggregate concentration also pointing towards convergence for different parts of Europe
- ❖ Figures shown here use “CR5” (i.e. the 5-firm Concentration Ratio) for all grocery sales (so uses a very broad base)

Figure 1 - CR5 in EU15 Countries: 2000-2015



Source: calculations based on data sourced from Planet Retail



Top 10 Grocery Retailers in EU

- ❖ Top 10 membership relatively little changed from 2000 to 2015, but rankings have changed
- ❖ Schwarz Group replaced Carrefour as EU leading grocery retailer on grocery sales, operating in 25 EU states, leading in 4
- ❖ Strong growth of retailers operating discount stores, notably Schwarz and Aldi, but also Edeka and Rewe
- ❖ Significant international expansion by Schwarz and Aldi, but generally international consolidation by others in top 10
- ❖ Top 10 somewhat polarising between discount/small format retailers (Schwarz, Aldi, Edeka, Rewe, ITM) and large format operators (Tesco, Carrefour, Leclerc, Auchan, Sainsbury)

Grocery Market Shares of Top 10 Retailers in European Union: 2015 vs 2000

Ranking		Retailer Group	EU28 Aggregate Share %		National Leader Positions		Largest National Share %	
2015	2000		2015	2000	2015	2000	2015	2000
1	8=	Schwarz Group	5.4	1.8	4/25	0/13	17.1	5.9
2	3	Tesco	4.1	2.8	1/6	1/6	20.3	16.4
3	1	Carrefour	4.0	5.2	1/11	4/10	17.5	18.7
4	5	Aldi	3.5	2.5	0/14	0/9	12.5	9.5
5	6	Edeka	3.3	2.4	1/1	1/7	17.6	11.6
6	4	Rewe Group	2.9	2.6	1/9	1/11	24.4	21.0
7	11	Leclerc	2.2	1.7	0/6	0/6	13.9	9.6
8	2	ITM (Intermarché)	2.2	3.1	0/4	0/7	13.2	11.8
9	7	Auchan	2.0	1.9	0/8	0/7	7.3	7.2
10	8=	Sainsbury	2.0	1.8	0/1	0/1	11.5	11.2

Source: calculations based on data sourced from Planet Retail

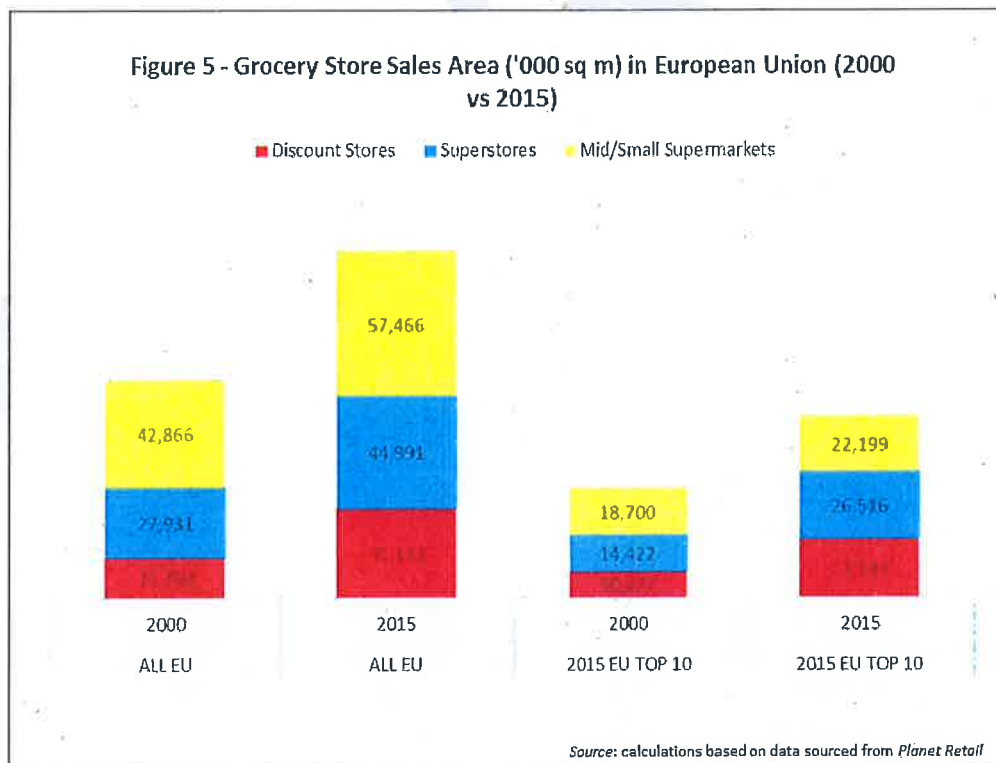
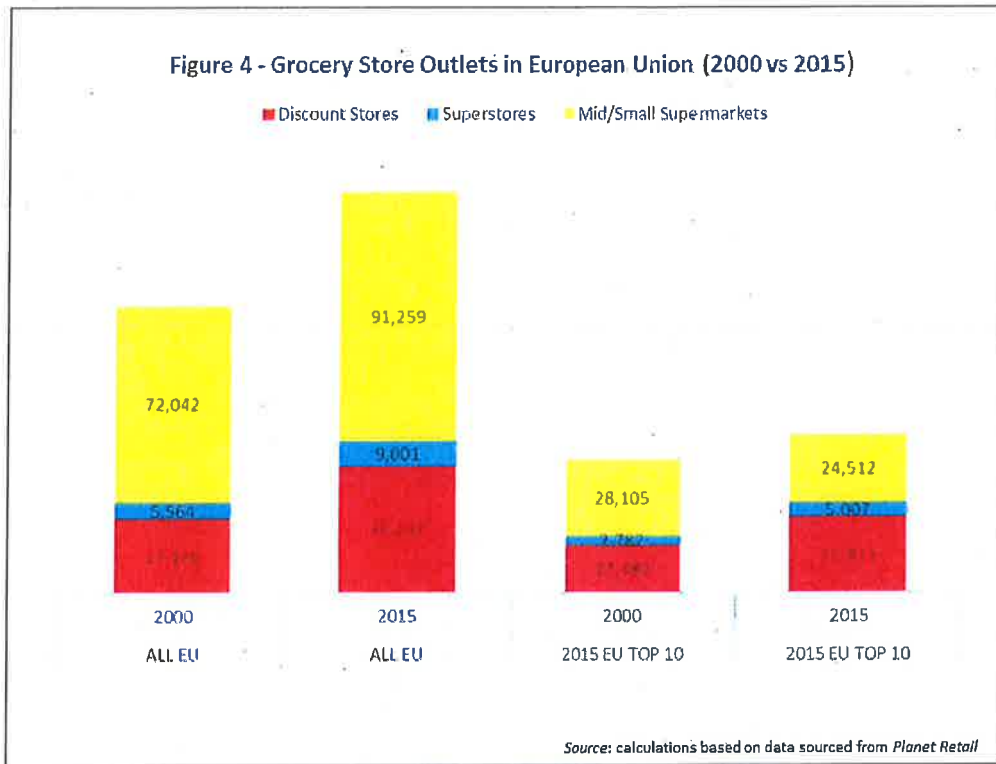
Store Type Composition for Top 10 Grocery Retailers in EU: 2015

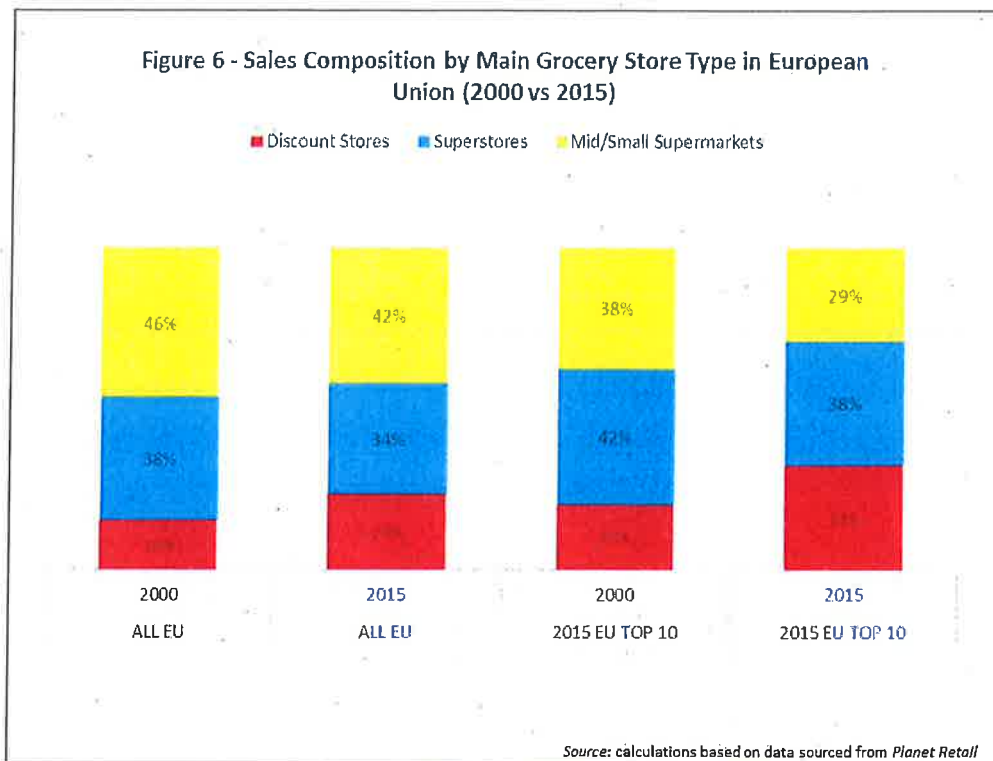
Retailer Group	Sales £bn			Number of Outlets			Sales Area m ² (mn)		
	Discount Stores	Super-stores	Mid/Small Supmks	Discount Stores	Super-stores	Mid/Small Supmks	Discount Stores	Super-stores	Mid/Small Supmks
Schwarz Group	59.2	17.1	-	10,224	1,218	-	9.7	4.8	-
Tesco	-	40.3	5.9	-	1,105	742	-	5.1	0.9
Carrefour	1.7	26.7	25.0	814	701	6,302	0.6	5.4	4.5
Aldi	49.4	-	-	8,123	-	-	6.4	-	-
Edeka	14.2	4.8	26.0	4,820	316	5,985	3.6	1.4	5.1
Rewa Group	11.0	1.3	27.0	3,534	101	6,325	2.5	0.3	5.7
Leclerc	-	27.6	1.8	-	589	165	-	3.2	0.2
ITM (Intermarché)	0.9	3.6	24.5	305	125	2,194	0.2	0.5	3.4
Auchan	-	19.2	7.9	-	478	2,572	-	4.3	2.1
Sainsbury	0.03	19.6	3.6	13	374	227	0.0	1.6	0.3
All EU RETAILERS	179.7	259.5	322.5	46,297	9,001	91,259	35.2	45.0	57.5
TOP 10 Sum Total	136.4	160.3	121.6	27,833	5,007	24,512	23.1	26.5	22.2
TOP 10 EU Share %	76	62	38	60	56	27	66	59	39

Source: calculations based on data sourced from Planet Retail

Changes in Grocery Store Composition

- ✦ Rapid growth in discount stores and hyper/super-stores (>2500m²) over past 15 years across EU
- ✦ Slower growth of small-format grocery stores, and reduced number of such outlets operated by Top 10 EU retailers
- ✦ Doubling of floor space operated by discount stores in EU over past 15 years
- ✦ By 2015, discount stores accounted for a third of sales for EU Top 10 retailers and a quarter for all grocery retailers in EU
- ✦ But, largest proportion of sales for Top 10 still came from super-stores (38%) and for all EU retailers from small stores (42%)





Regional Concentration and Prices

- ✦ EY (2014) report for EC shows increased product and service choice and innovation as the EU retail sector has matured
- ✦ However, what happens to price competition as market concentration increases and the sector consolidates?
- ✦ Important ECB study by Ciapanna & Rondinelli (2014) on nine Euro-area countries shows higher prices associated with higher retail concentration at the regional level
- ✦ However, C&R find buyer group concentration can lower prices (suggesting possible countervailing power effect)
- ✦ C&R study has broad range of product categories and regional markets but limited to one year snapshot (2010)

Retail Mergers and Prices

- ❖ C&R (2014) study points to a concern that higher concentration can be associated with higher prices, so should authorities block concentrating retail mergers?
- ❖ Some before/after studies have shown that retail mergers have raised prices post-merger (e.g. for US and for France)
- ❖ However, Chakraborty et al (2014) on Safeway/Morrisons merger in the UK shows how price competition can intensify post-merger, so much has to do with the circumstances
- ❖ Conclusion: Retail mergers should continue to be considered carefully on a case-by-case basis, but pricing reputation might be an important consideration



Further reading

Chakraborty, Dobson, Seaton & Waterson (2015), "Pricing in Inflationary Times: The Penny Drops," *Journal of Monetary Economics*, 76, 71-86.

Chakraborty, Dobson, Seaton & Waterson (2014), "Market Consolidation and Pricing Developments in Grocery Retailing: A Case Study"

http://www.worldscientific.com/doi/suppl/10.1142/9228/suppl_file/9228_chap01.pdf

Dobson & Chakraborty (2014), "How Do National Brands And Store Brands Compete?" CCP Working Paper 14-7 <http://competitionpolicy.ac.uk/publications/working-papers>

Ciapanna & Rondinelli (2014), "Retail Market Structure and Consumer Prices in the Euro Area," ECB Paper 1744, <https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1744.en.pdf>

Bronnenberg & Ellickson (2015), "Adolescence and the Path to Maturity in Global Retail," *Journal of Economic Perspectives*, 29(4), 113-134.

EY (2014), *The economic impact of modern retail on choice and innovation in the EU food sector*, report for European Commission DG Comp

Hosken, Olson & Smith (2012), "Do Retail Mergers Affect Competition? Evidence from Grocery Retailing," FTC Working Paper 313.

Allain, Chambolle, Turolla & Villas-Boas (2015), "The Impact of Retail Mergers on Food Prices: Evidence from France," <https://escholarship.org/uc/item/30t981mm#page-1>

3.2. **Elena ARGENTESI**




Mergers in the food retail sector: Price and non-price effects


Elena Argentesi
University of Bologna

Workshop on *'Competition in the Food Retail Sector'*
Brussels, 2 May 2016

ALMA MATER STUDIORUM - UNIVERSITA DI BOLOGNA



Our study



Mergers in the Dutch grocery sector: an ex-post evaluation

Assessing the effects on price and non-price dimensions of competition

A report prepared by Lear for the ACM
14th October 2015

The authors of this report are:
Elena Argentesi (University of Bologna)
Paolo Buccirosi (Lear)
Roberto Cervone (Lear)
Tomaso Duso (DIW Berlin)
Alessia Marrazzo (Lear)

ALMA MATER STUDIORUM - UNIVERSITA DI BOLOGNA



Introduction

- Issues in mergers in (grocery) retail markets:
 - Interplay between **local** and **national competition**
 - Increasing **local concentration**
 - **Buyer power**
- Studies on **price effects** of mergers in retail markets
 - Aguzzoni et al., 2016 (UK, books), Allain et al., 2015 (France, food); Hosken et al., 2015 (US, food)
- Studies on **non-price effects** of mergers:
 - Effect of increased buyer power on variety
 - Post-merger **product repositioning** matters
 - Mixed **empirical evidence** on mergers & variety (almost none on retail markets)



The merger

- We analyze the effect on **prices** and on **variety** of a merger between two major Dutch **full-service grocery chains** operating across the country: **Jumbo** and **C1000** (February 2012)
 - Last of a series of mergers that took place in this industry between 2000 and 2012
 - In the report we also assess the cumulative effect of the last three mergers; in this presentation we focus on the analysis of the Jumbo/C1000 merger
- The Dutch competition authority (ACM):
 - Identified potentially **problematic areas** where the chains competed door-to-door and had joint **market share >50%**
 - Cleared the merger conditionally on the **divestiture of 18 stores** in these areas
- Our main result: the merger **did not affect prices but it reduced variety**.




The Dutch food retail market

Main players:

- Albert Heijn (AH): market leader
- **Jumbo**: full service supermarket
- **C1000**: full service supermarket → combined national market share: **20-30%**
 - C1000 and Jumbo were already part of a buying alliance (Bijeen) before the merger
- Hard discounters (mainly Aldi and Lidl): entered the market starting from 2003
- Coop: smaller competitor

Merger assessment exercises require a deep knowledge of the market and of its players' business strategy.

ALMA MATER STUDIORUM - UNIVERSITÀ DI BOLOGNA



Data

- We evaluate the effect of the merger on **prices** and on **variety**:
 - 1. Prices** (monthly, 2009-2013)
 - **11 product categories** (coffee, cola, cleaners, diapers, fresh milk, frikandels, mayonnaise, olive oil, sanitary napkins, shampoo, and toilet paper)
 - For each category, we have two **A-brand SKUs** and one **private-label SKU**
 - 2. Variety** (quarterly, 2010-2013):
 - **depth of assortment** in each store (number of SKUs for **125 product categories**)
- We analyze the effect of the merger on a sample of **171 stores**, both **merging parties'** and **competitors'** (Albert Heijn and Coop), controlling for the strength of **discounters**

ALMA MATER STUDIORUM - UNIVERSITÀ DI BOLOGNA



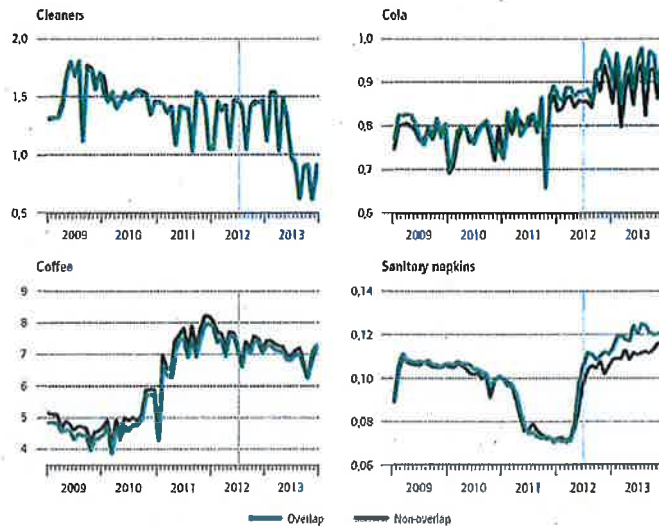
Empirical analysis

- How do we quantify the effect of the merger on prices and variety?
- Potential anti-competitive effects are likely to be stronger in local markets where both **merging parties directly competed** before the merger (**overlap areas**)
- We compare the evolution of prices and variety in the overlap areas with the evolution in areas where **only one chain was present** pre-merger (**non-overlap areas**)
- Evidence of a **local component** in strategic decisions on prices and variety
 - **Prices:** some but limited variation (e.g. discount variability)
 - **Variety/Assortment:** main strategic dimension for local competition

ALMA MATER STUDIORUM - UNIVERSITA' DI BOLOGNA



Price effects: Descriptive



ALMA MATER STUDIORUM - UNIVERSITA' DI BOLOGNA

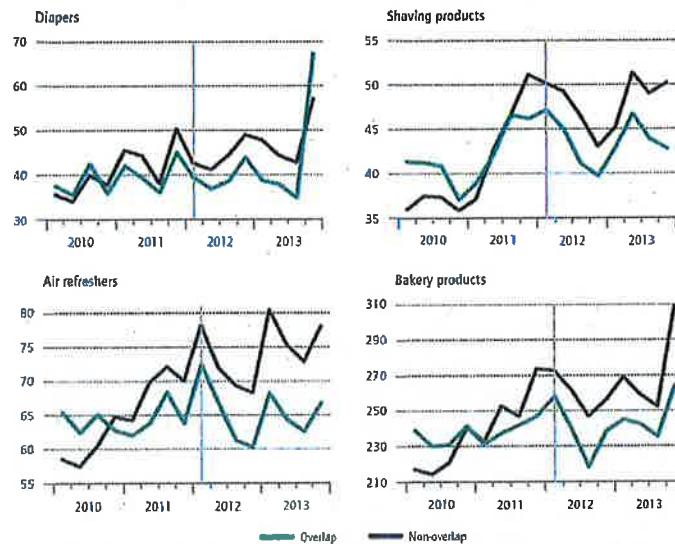



Price effects: Main findings

- **No significant average effect** of the merger both for merging firms and competitors
- **No evidence of price effects** along any dimension of **heterogeneity**:
 - Areas where C1000 stores were not rebranded after merger
 - Very concentrated markets
 - Areas where divestitures took place
- Results are robust to dropping **3-month** and **6-month** windows around the merger date



Variety effects: Descriptive






Variety effects: Quantitative evidence

(Dep. Var.: Variety)	Merging parties	Competitors
Post	1.881** (0.791)	1.311 (0.799)
Overlap	6.717*** (0.660)	-3.707*** (0.862)
Post × overlap	-3.842*** (0.790)	0.624** (0.277)
Observations	166,531	64,691
R-squared	0.867	0.942
Other controls	YES	YES
Fixed Effects	Category × Insignia	Category × Insignia

ALMA MATER STUDIORUM - UNIVERSITÀ DI BOLOGNA

- 
- ## Variety effects: Main findings
- On average, the merger **negatively affected** the level of the **merging parties'** product variety (-4.3%)
 - This effect is only **partly outweighed** by an **increase in competitors' variety** (+0.66%)
 - These average effects are strongly driven by areas where there was **no rebranding** of the target (C1000)
 - C1000 strongly decreased assortment, while Jumbo slightly increased it
 - Albert Heijn increased assortment
 - Our interpretation: **product repositioning** to avoid cannibalization
- ALMA MATER STUDIORUM - UNIVERSITÀ DI BOLOGNA



Variety effects: Additional results

- The negative effects of the merger on variety are particularly severe in areas where **concentration is high**:
 - All chains (Jumbo, C1000, AH) **significantly reduce their assortment**
 - Evidence of anti-competitive effects?
- **Weaker effects** in areas where a **divestiture** took place
 - Slight increase for merging parties, but strong decrease for competitors
- Results are robust to dropping 3- and 6-month windows around the merger date and seasonal products from the sample



Conclusions

- Our study shows that the Jumbo/C1000 merger:
 - **did not affect prices**
 - caused a **reduction** in the average depth of **assortment**, notwithstanding the remedies imposed by the competition authority
 - The reduction in variety was particularly strong in areas where concentration was high and where stores were not rebranded
- Not enough information to understand changes in the composition of assortment, nor how consumers evaluate a change in assortment
 - Potential cost savings were not passed on to consumers in terms of lower prices.



Policy implications

- Important to look also at **non-price effects** of mergers in retail markets
 - Variety (product assortment) is a key competitive variable at the local level
- In order to understand how retail mergers affect **consumer choice**, information about the **composition of assortment** is useful:
 - Type of products (e.g. high/low quality range, niche/top-selling products)
 - Private labels/branded goods
 - Number of suppliers

ALMA MATER STUDIORUM - UNIVERSITA DI BOLOGNA



ALMA MATER STUDIORUM
UNIVERSITA DI BOLOGNA

Thank you for your attention

Elena Argentesi

elena.argentesi@unibo.it

<https://sites.google.com/site/elenaargentesi/>

ALMA MATER STUDIORUM - UNIVERSITA DI BOLOGNA

3.3. Jacques STEENBERGEN

[presentation to be inserted]

DRAFT

3.4 Philippe CHAUVE



Competition issues in the food supply chain

ECON Committee, Workshop on competition in the food supply chain


Brussels, 02 May 2016

Philippe Chauve
Head of the Food Task Force
DG Competition
European Commission

The views expressed in this presentation are personal and do not commit the European Commission




1



The presentation will address some of the key competition issues in the food supply chain

- Market structure
- Price transmission
- The impact of modern retail on consumer welfare
- Operators segmenting the internal market
- (if there is time) Buying alliances


There are of course other issues



2

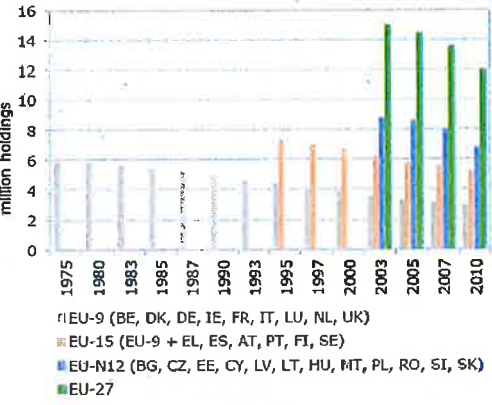

1. Market Structure

3


Agriculture (1)

- The agricultural sector is highly fragmented
- The number of holdings in Europe has decreased over time since the 1980s
- There were 10.8 million holdings across the EU-27 countries in 2013
- 40% of the holdings have a very limited activity (yearly output < 2000€)
- About 9.5 million employed


Graph 1 Number of EU holdings since 1975



Year	EU-9	EU-15	EU-N12	EU-27
1975	5.5	0	0	0
1980	5.5	0	0	0
1983	5.5	0	0	0
1985	5.5	0	0	0
1987	5.5	0	0	0
1990	5.5	0	0	0
1993	5.5	0	0	0
1995	5.5	1.5	0	0
1997	5.5	1.5	0	0
2000	5.5	1.5	0	0
2003	5.5	1.5	3.5	5.5
2005	5.5	1.5	3.5	5.5
2007	5.5	1.5	3.5	5.5
2010	5.5	1.5	3.5	5.5

Source: Eurostat, FSS ([historical results](#); online data codes: [ef_ov_kvaa](#) and [ef_kvaaeg](#)).

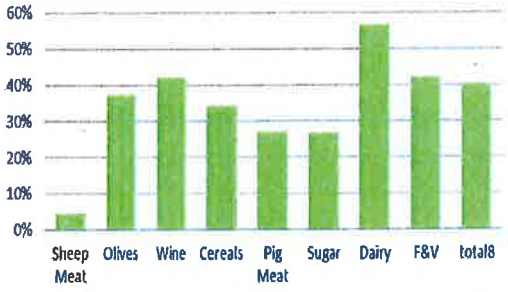
4




Agriculture (2)

- Competition law permits farmers to form producer cooperatives that improve efficiency
- In most cases cooperatives have low market shares and the agricultural level is the least concentrated in the chain
- A few large cooperatives have reached dominant positions and a few have been found to abuse their position (dairy)


Market share of cooperatives, total EU, per sector, 2010



Sector	Market Share (%)
Sheep Meat	~5
Olives	~38
Wine	~42
Cereals	~35
Pig Meat	~28
Sugar	~28
Dairy	~58
F&V	~42
total8	~40



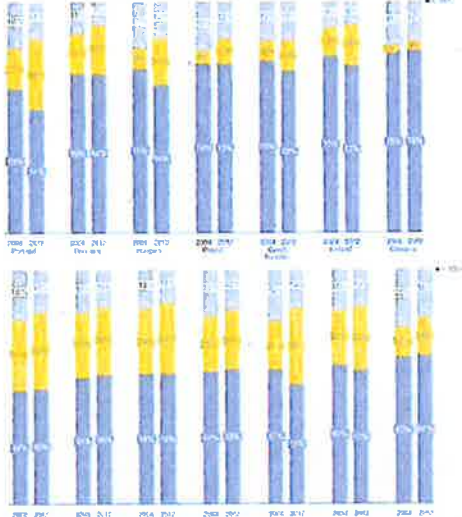
5




Manufacturing and processing (1)

- 289 000 companies (2012)
- 4.2 million employed (2013)
- 15% of EU manufacturing
- Manufacturing and processing sector is made up of "national brands" (including international brands), private labels, "other producers" (local brands, artisanal producers)
- National brands have the largest market share (50%-80%)
- SMEs: 49.6% of turnover%, 63.3% of employment

Market share in edible grocery market





6

Manufacturing and processing (2)

- Concentration of top 3 suppliers varies between MS and product, from low (green) to high (red)

Product Category	FR	DE	IT	ES	PL	UK	NL	BE	SE	FI	DK	LV	LT	EE	Average
Baby food	80%	80%	80%	78%	80%	79%	77%	72%	81%	82%	79%	64%	64%	78%	79%
Coffee	24%	64%	71%	42%	60%	72%	72%	70%	69%	50%	63%	59%	70%	42%	60%
Cereals	42%	57%	54%	71%	63%	47%	72%	42%	61%	60%	64%	51%	51%	44%	58%
Yoghurt	77%	81%	75%	83%	61%	41%	70%	50%	49%	60%	67%	55%	65%	34%	58%
Ice Cream	88%	57%	54%	49%	50%	60%	60%	62%	55%	57%	67%	44%	60%	47%	56%
Soups/sauces	56%	59%	55%	49%	40%	40%	60%	49%	42%	57%	60%	55%	50%	41%	50%
Tea	70%	61%	59%	39%	55%	53%	50%	61%	47%	40%	54%	55%	60%	44%	55%
Cocoa/cake	47%	53%	63%	71%	39%	43%	45%	49%	50%	63%	49%	67%	47%	41%	54%
Manufactured	70%	68%	57%	60%	43%	61%	72%	30%	50%	50%	51%	51%	49%	34%	52%
Biscuits	72%	42%	34%	60%	60%	43%	57%	60%	39%	51%	40%	38%	40%	41%	51%
Chocolate/candies	61%	77%	48%	47%	30%	57%	40%	33%	47%	43%	50%	31%	32%	39%	50%
Flour/pasta/dumplings	44%	49%	23%	54%	56%	53%	53%	60%	49%	43%	40%	31%	24%	51%	49%
Flour/ready-cooked meats	50%	54%	64%	61%	47%	40%	51%	50%	56%	57%	40%	30%	37%	30%	44%
Sauces/sauces	53%	51%	60%	49%	47%	50%	43%	43%	60%	31%	45%	44%	40%	40%	48%
Wine	82%	66%	45%	30%	54%	43%	42%	40%	30%	41%	51%	34%	30%	31%	40%
Fruit Juices	57%	52%	54%	40%	64%	30%	44%	43%	33%	50%	47%	30%	30%	34%	43%
Alcohol	67%	77%	39%	23%	30%	45%	20%	43%	40%	50%	43%	33%	40%	17%	43%
Espresso?	84%	24%	51%	46%	50%	42%	40%	50%	60%	34%	47%	28%	20%	15%	40%
Frozen/vegetables	84%	82%	71%	47%	45%	41%	35%	30%	41%	46%	23%	47%	23%	42%	50%
Onions	77%	64%	50%	40%	40%	47%	42%	52%	40%	31%	41%	34%	29%	20%	38%
Canned vegetables	88%	54%	44%	47%	64%	57%	41%	34%	38%	51%	40%	33%	24%	24%	37%
Jam	52%	41%	34%	11%	14%	4%	2%	41%	24%	5%	4%	51%	17%	19%	32%
Other	55%	41%	21%	22%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Average	57%	54%	52%	51%	51%	49%	40%	47%	46%	45%	43%	41%	42%	32%	47%

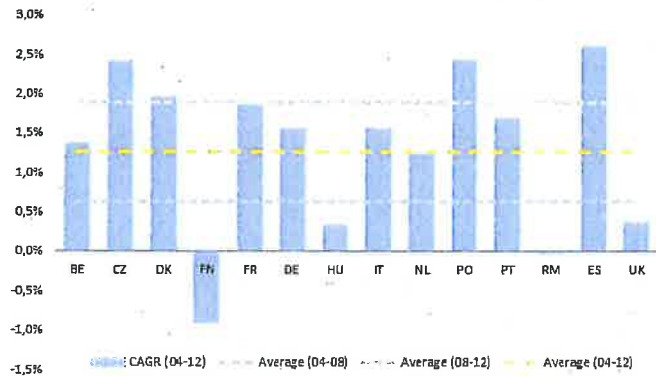
Sources: Euromonitor Passport, EY analysis. Based on 2012 data.

7

Manufacturing and processing (3)

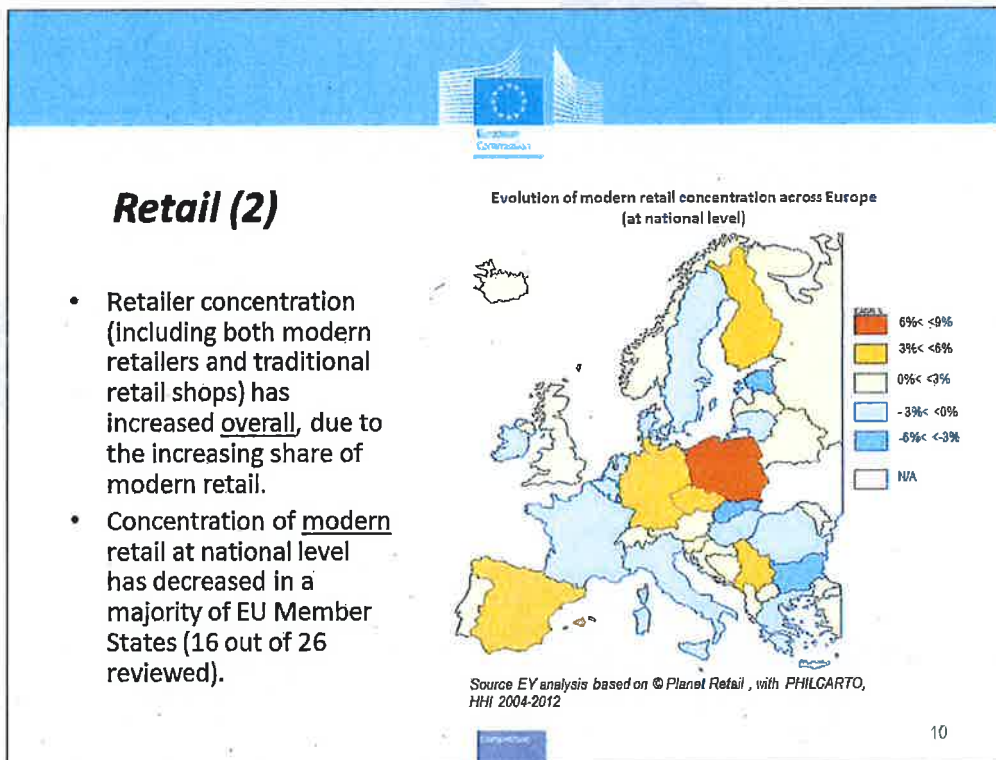
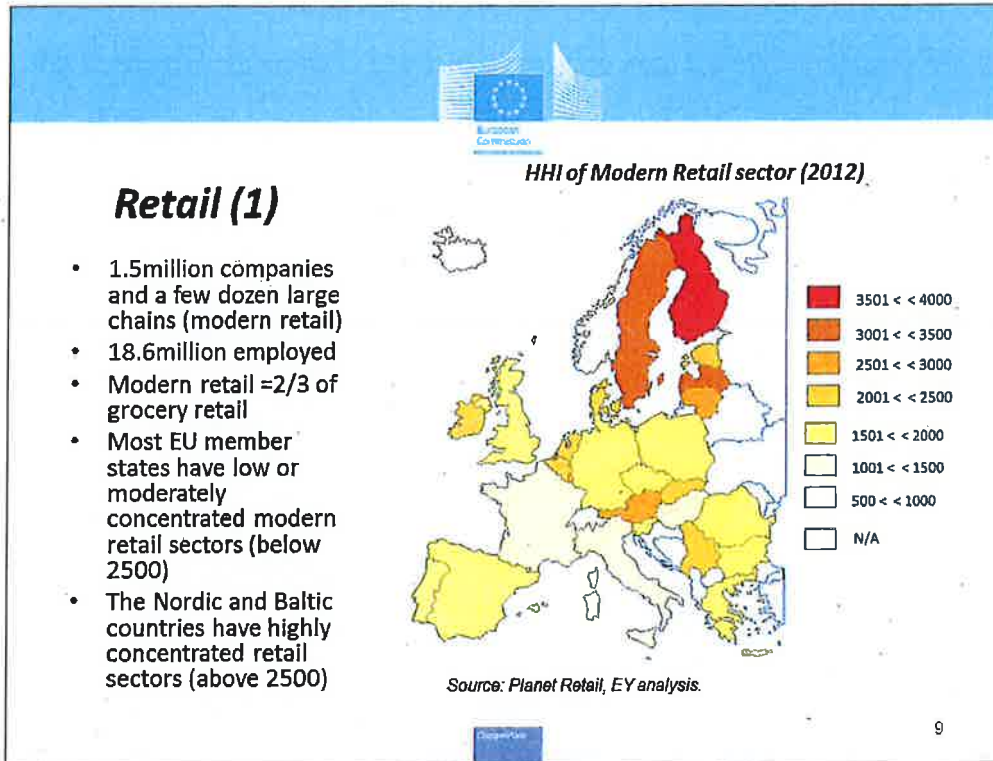
- Supplier concentration per member state (averaged across product categories) has **increased** over 2004-2012 in 12 of 14 MS analysed.
- Similarly, supplier concentration per product category (averaged across member states) has **increased** over 2004-2012 for almost all categories.


Evolution of supplier concentration (HHI brands only), 2004-2012



Source EY analysis based on Euromonitor International, CAGR of HHI.

8

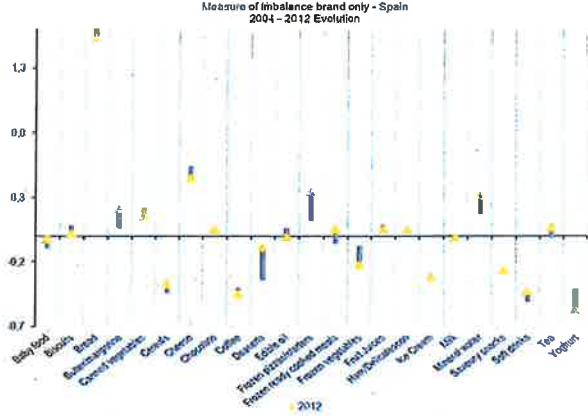





Imbalances between retailers and suppliers

- The ratio of concentration of retailers and brand suppliers varies per state and per category
- The retail side of the market is not always the more concentrated side. In a sample of 14MS and 23 categories there were as many situations where suppliers were stronger than retailers.

Measure of imbalance brand only - Spain
2004 - 2012 Evolution



Sources: Euromonitor Passport, EY analysis. Based on 2012 data.




11



2. Price transmission



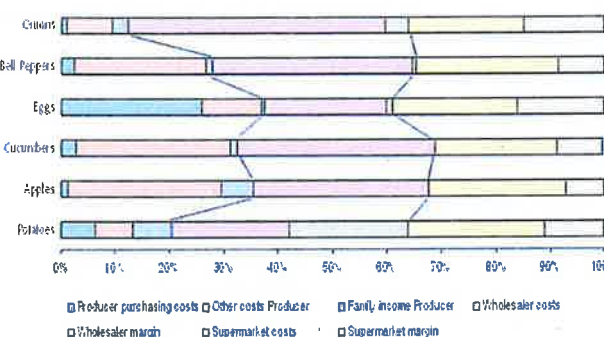
12


European Commission

The Dutch NCA analysis 2005-2008


- Agricultural production costs are lower than wholesaler or retailer costs for most products (in absolute terms).
- The purchasing costs of the producer are limited (except for eggs). Other producer costs are more substantial.
- Margins (as proportion of total costs at a given level) are lowest for wholesalers, they are highest for producers or retailers depending on the product => it is not always the retailer who has the highest margins.

Cost price structure (as % of the consumer price)



The two vertical lines show the prices (as % of the consumer price) at producer level and wholesaler level, respectively.

13

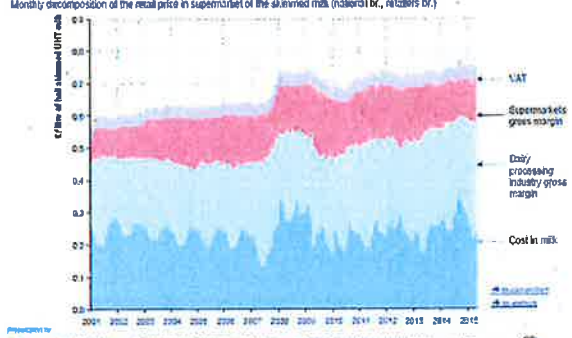

European Commission

Evidence from the French dairy sector

- Retailing is the smallest component of the final price, at around 10-15%.
- Dairy processing is the biggest component of the final price of skimmed milk, accounting for around 30-40%.
- Farmgate prices show the most volatility. However this volatility tends to be absorbed by processors.

Results in dairy food chain / decomposition retail price : skimmed milk

Monthly decomposition of the retail price in supermarket of the skimmed milk (national br., retailers br.)



Source: FranceAgriMer, "Observatoire de la formation des prix et des marges des produits alimentaires", Presentation for Farm Europe, 22 July 2015.

14



3. The impacts of modern retail on consumer welfare

15



Consumer welfare in the food supply chain

- Two projects shed light
 - European Commission "modern retail study" on choice and innovation in food in Europe in the period 2004-2012
 - European Central Bank study on food prices in the period 2009-2011


16



The Commission study on the EU retail sector

- **Motivation for the study:**
 - *Complaints* at national and EU level argue that large retailers impose detrimental conditions on food suppliers (food manufacturers and farmers) and that this reduces their means to invest, thereby decreasing choice and innovation.
 - *Nobody really checked such negative long term effects* of retailers' practices on consumer welfare
- **Objective of the study: deliver quantitative evidence**
 - Provide facts about the evolution of concentration at the different levels of the supply chain
 - Identify the possible (positive and negative) drivers of choice and innovation: concentration factors, imbalances, economic environment, socio-demographics, shop characteristics, shop opening, etc
- **Method of the study**
 - Construction of a comprehensive database on a representative sample for the EU, containing more than 100 local areas in 7 MS: encompassing various degrees of local retail concentration, supplier concentration and imbalances between retailers and suppliers at national level.
 - Detailed data on choice and innovation on retailers' shelves, more than 100,000 different products, covering 23 product categories, 2004-2012;
 - Econometric analysis: drivers of choice and innovation in the EU modern food retail sector.

17



Results: What drives choice and innovation?

(note: result of econometrics in moderately concentrated national retail markets)

- Positive drivers:
 - The *opening of a new shop* in local consumer shopping areas
 - The *expansion of modern retail outlets* in terms of floor space
 - The *size of the product category*
 - For innovation: An *increase in the relative wholesale concentration of retailers vis-à-vis their suppliers*
- Negative drivers:
 - The *economic environment* since 2008, measured by the local unemployment rates and local GDP/capita
 - For innovation: higher levels of *supplier (wholesale) concentration (at national level)*
 - For innovation: The proportion of *private labels* in the product assortment, measured as the proportion of PL products in EANs and new EANs by shop and product category.

18


European Commission

European Central Bank work on market structure and prices

The European Central Bank carried out a project on consumer prices (as part of its work to understand inflation mechanisms). They have published several studies using a comprehensive AC Nielsen scanner dataset covering 9 member States across 45 food product categories over 2009-2011. The studies look at differences in price levels across the Euro Area and their drivers.



After controlling for income levels, VAT, unemployment, population density and business cycle, the studies find significant impacts of concentration and competition on prices:

- **Downstream retail competition (i.e. lower local retail concentration) is associated with lower prices for the end consumer**
- **Higher retail concentration in the procurement market (including buyer groups) is associated with lower prices for the end consumer (welfare-enhancing).**
- **Concentration of suppliers has a large impact on price differentials across EU countries – lower concentration of suppliers is associated with lower prices.**

 19


European Commission

4. Operators segmenting the internal market

 20



Operators segmenting the internal market

- **Price differences between Member States:**
 - can be explained by objective market differences,
 - can be the result of business practices: where is it a problem?
- **Agreements between operators to restrict imports**
 - Commission investigation into agreements of National association of French vegetable producers with French retailers in 2015: closed after agreement was denounced
 - Commission currently looking into agreements to restrict imports of milk and meat in France: ongoing

Competition

21



5. Buyer alliances

Competition

22



Buying alliances are varied

- Buying alliances exist at the EU level to negotiate some aspects of procurement. They have evolved in recent years (membership, scope).
- National buying alliances also exist, usually to negotiate most procurement conditions (assortments, prices).
 - Cooperative types: in many MS
 - Larger/smaller partners: DE, IT
 - Large similar partners: FR







Main European buying alliances

23



Pro-competitive effects of buying alliances

- Buying alliances can create efficiencies (lower wholesale/transaction costs) that are passed on to consumers – provided that the downstream retail market is competitive.
- The ECB study discussed above found that concentration of retailers at procurement level (including national buyer alliances) is associated with lower consumer prices.
- The Commission's Modern Retail Study found that a higher concentration of retailers vis-a-vis their suppliers is associated with more innovation on shop shelves.

24


European Commission

Competition concerns over buying alliances

- Efficiencies from buying alliance may not be passed on if there is insufficient competition downstream:
 - Italian NCA investigated buying alliance *Centrale Italiana*, which controlled more than 40% of many local markets. Found that the group restricted the ability of weaker suppliers to compete and restriction in competition between retailers through commonalities in costs.
 - Norwegian NCA investigated proposed alliance between ICA and Norgesgruppen, which hold joint shares of more than 60% in many local markets. Found that the alliance was unlikely to pass on any cost savings and it may further restrict competition downstream.
- French NCA published an opinion on buying alliances in 2014, in which it noted risks of exchange of information and symmetry of purchasing conditions that could lead to coordination in downstream markets.

Also, can buying alliances negatively affect suppliers? 25


European Commission

Thank you for your attention!



26



Useful links

- **ECN report on competition enforcement in the food supply chain (2012):**
http://ec.europa.eu/competition/ecn/food_report_en.pdf
- **DG Competition study, "The economic impact of modern retail on choice and innovation in the EU food sector" (October 2014):**
http://ec.europa.eu/competition/sectors/agriculture/retail_study_report_en.pdf
- **European Central Bank, "Retail market structure and consumer prices in the Euro Area" (December 2014):** <http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1744.en.pdf>
- **See also European Central Bank, "Within- and cross-country price dispersion in the Euro Area" (November 2014):**
<http://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1742.en.pdf>

4. SUMMARY OF THE DISCUSSION

To be inserted after the workshop.

DRAFT