



DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT
ECONOMIC AND SCIENTIFIC POLICY **A**

Economic and Monetary Affairs

Employment and Social Affairs

Environment, Public Health and Food Safety

Industry, Research and Energy

Internal Market and Consumer Protection



Competition in the Food Retail Sector

Study for the ECON Committee



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).

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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 CHAUVE	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
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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 Stora 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



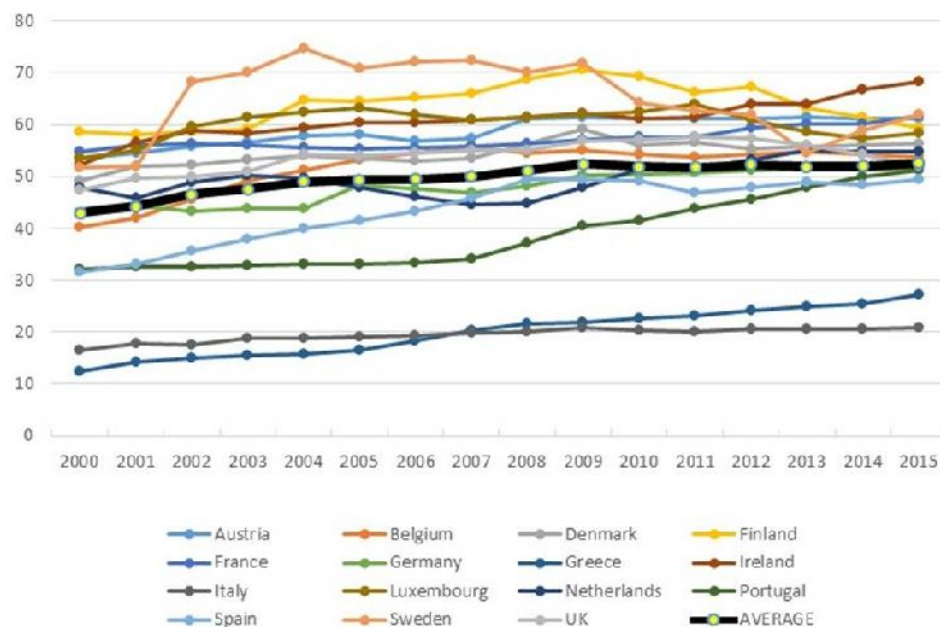
Key Questions

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?

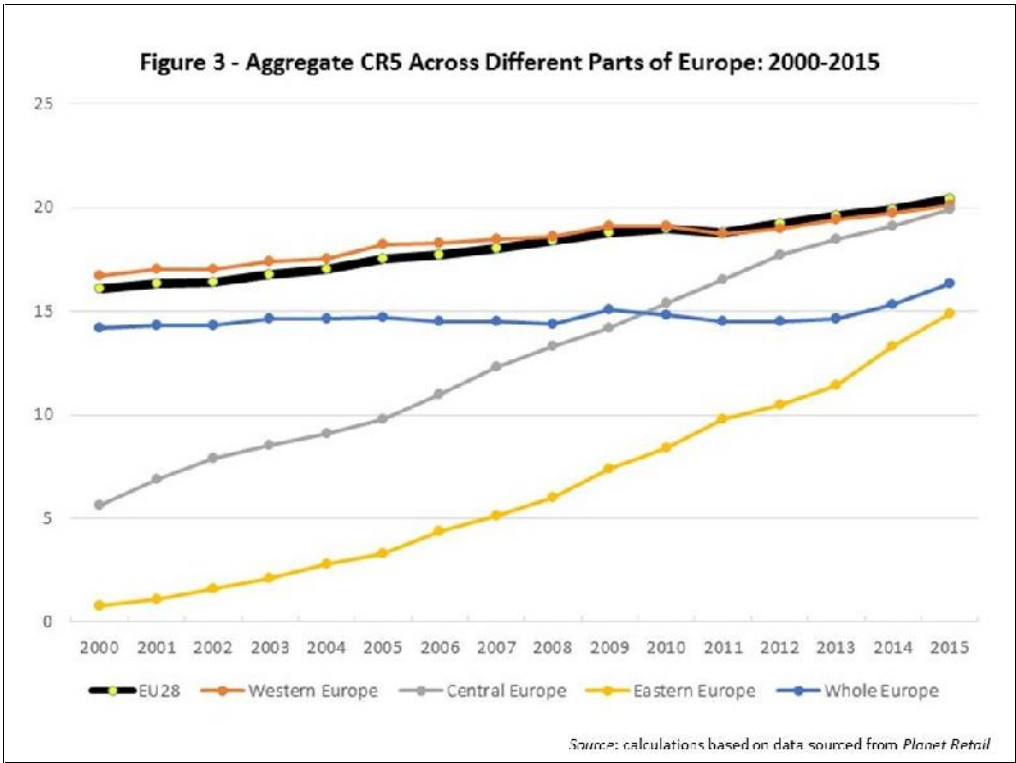
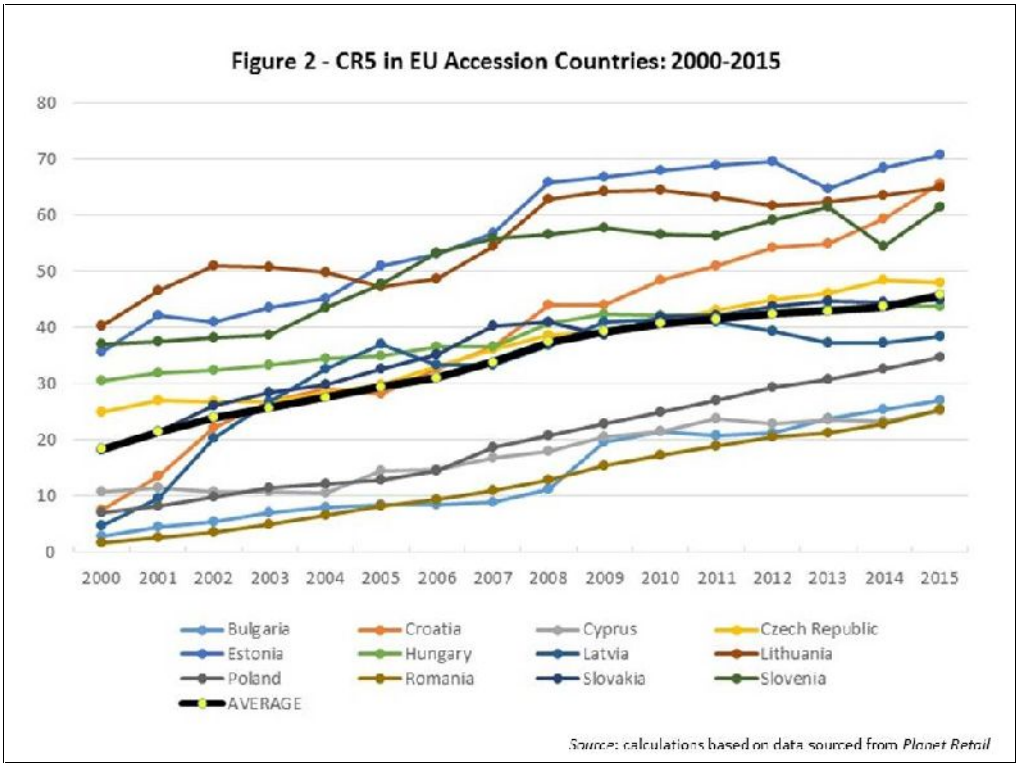
Retail Concentration: 2000-2015

- ❖ 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



Sources: 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

Sources: 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	59.7	17.1	-	10,274	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
Rewe Group	11.0	1.3	27.0	3,534	101	6,325	2.5	0.3	5.7
Lederc	-	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	24,517	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%)

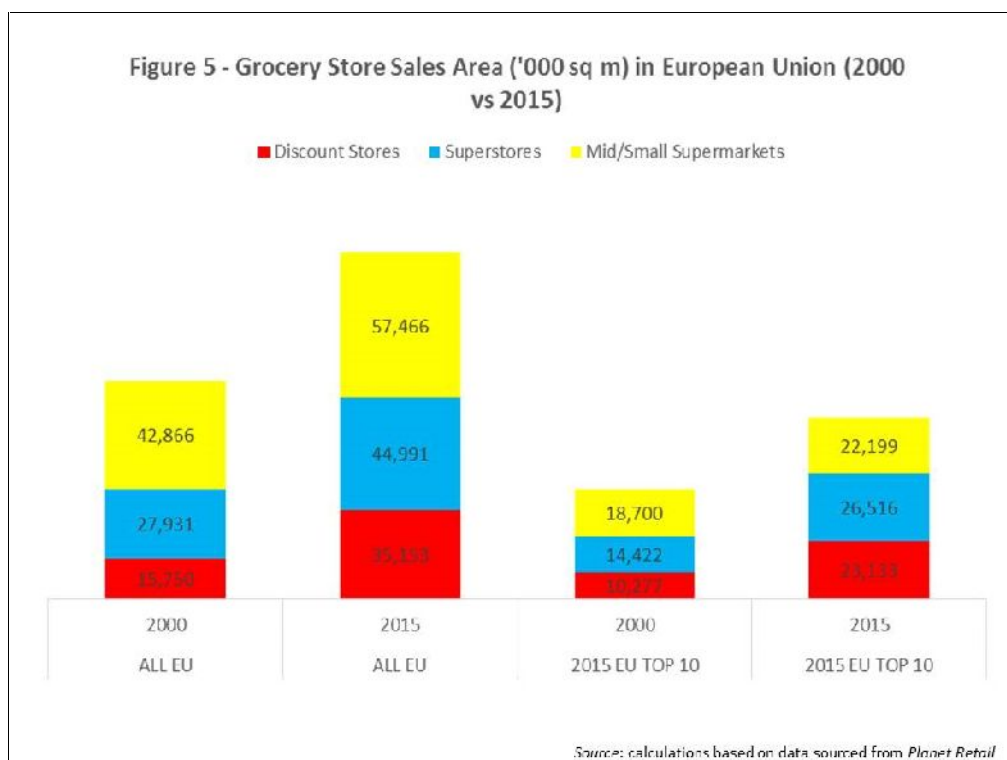
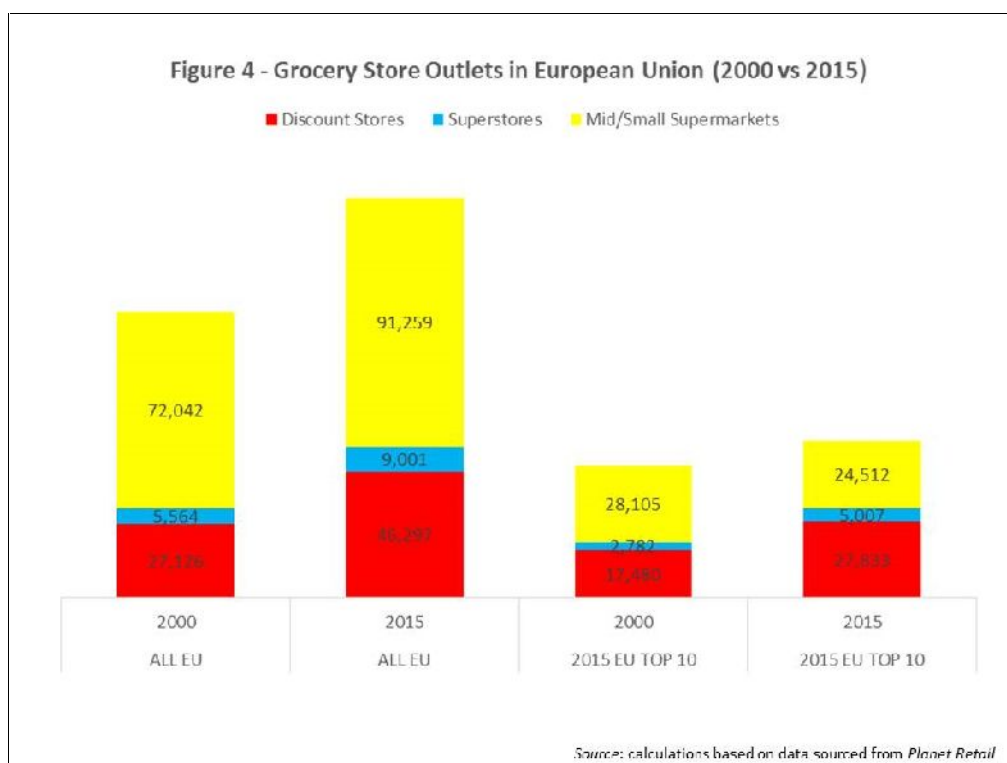
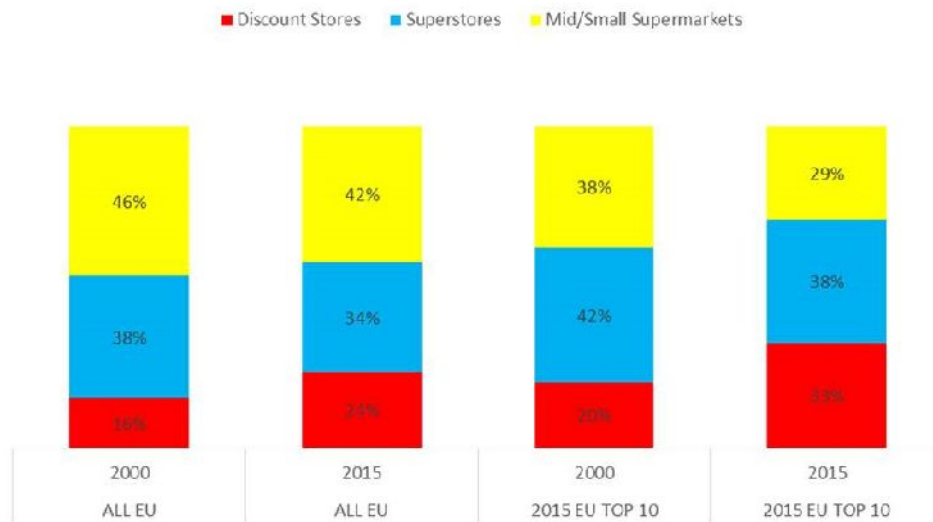


Figure 6 - Sales Composition by Main Grocery Store Type in European Union (2000 vs 2015)



Source: calculations based on data sourced from Planet Retail

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"

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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

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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)

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Introduction

- Issues in mergers in (grocery) retail markets:
 - Interplay between **local** and **national competition**
 - Increasing **local concentration**
 - **Buyer power**
- In grocery retailing not only price but other dimensions of competition are key, especially at the regional level
 - E.g., **variety of assortment**, service quality, ancillary services
- Studies on mergers in retail markets:
 - **Price effects:** Aguzzoni et al., 2016 (UK, books), Allain et al., 2015 (France, food); Hosken et al., 2015 (US, food)
 - **Non-price effects (variety)**
 - Effect of increased buyer power on variety (Inderst and Shaffer, 2007)
 - Post-merger **product repositioning** matters
 - Mixed **empirical evidence** on mergers & variety (almost none on retail markets)

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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**.

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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
- Plus: chain operating across the whole national territory
- Coop: smaller competitor
- Hard discounters (mainly Aldi and Lidl): entered the market starting from 2003

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

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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**

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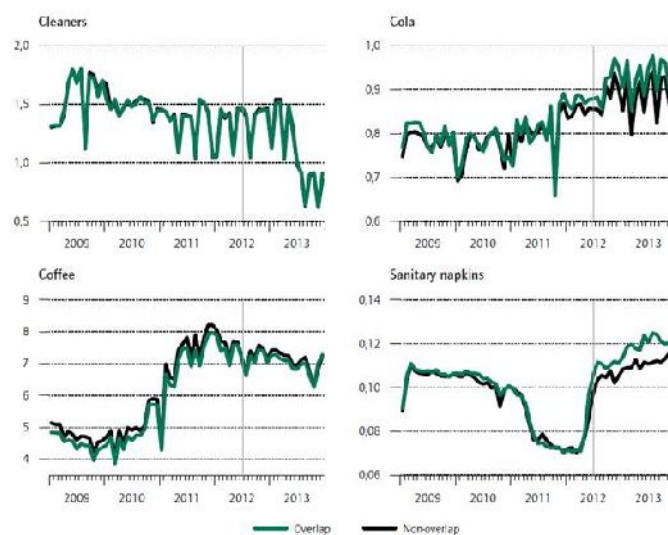
Empirical analysis

- 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

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Price effects: Descriptive



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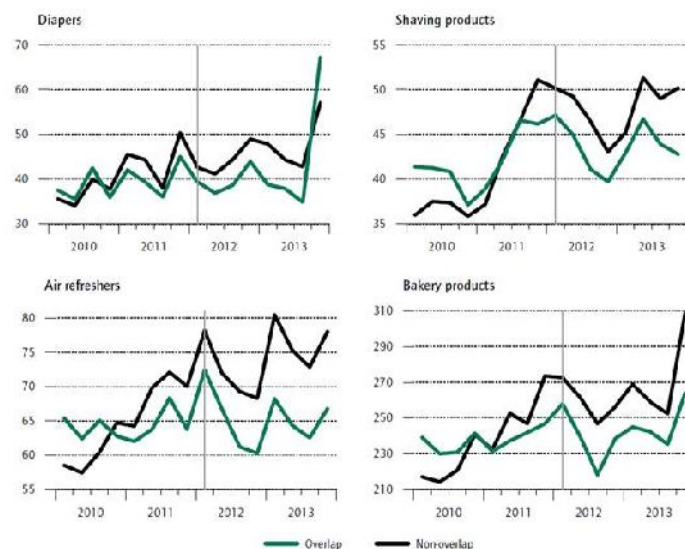
Price effects: Main findings

- **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


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Variety effects: Descriptive




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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

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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

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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

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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.

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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

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Thank you for your attention

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Selected references

- **Policy reports:**
 - 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 (E. Argentesi, P. Buccirosi, R. Cervone, T. Duso and A. Marrazzo) for the Dutch Authority for Consumers and Markets, 2015
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ALMA MATER STUDIORUM - UNIVERSITÀ DI BOLOGNA

3.3. Jacques STEENBERGEN



The food supply chain, the BCA perspective

*Prof. Em. Dr Jacques Steenbergen
President of the BCA*

European Parliament, LCON Committee, Workshop on Competition in the Food Supply Chain,
Brussels, 2 May 2016



Introduction

- NCAs and European Commission: one network,
- The food chain and competition law for NCAs (excl. state aid):
 - Cartels (art. 101 TFEU and national equivalent),
 - Abuse of dominance (art. 102 TFEU and national equivalent),
 - Merger control (Reg. 139/2004 and national equivalent),
 - AND for agriculture Reg. 1308/2013,
 - Enforcement / advocacy,
- Market structure: see presentation M. Chauve.



Belgian
Competition Authority

Agriculture

- The most problematic element in the chain,
- Very heterogeneous: from savvy operators on competitive world markets to S(M)Es that badly need coaching in transformation from old CAP into new world,
- Key is building a working relationship with main farmers' association(s) getting their support for clear don'ts by helping them clarify the space for do's and showing within well defined parameters empathy in times of crisis.



Belgian
Competition Authority

Agriculture (2)

- Main concern: crisis measures can only offer (micro) bubbles of oxygen hoping that within their inevitably short period of validity we help to create a climate that allows for serene discussions on effective structural measures. But will they be taken?



Price and price transmission

- Data mostly on gross margins and vary significantly between products.
- For crisis products:
 - producer net margins tend to be negative, retail margins modest and processor margins non-transparent,
 - Too much production (producers) and unsustainable consumer prices?



Price transmission and balance of power

- See presentation M. Chauve: retailers are not always the strongest party in negotiations, and even the largest multinationals may only be so for a few brands,
- Standard approach: best practices on fair trading standards, to work provided the imbalance is not excessive,
- They seem to offer adequate protection to all parties, provided the imbalance is not excessive.



Processing industry

- Net margins: non-transparent,
- Main concern: market fragmentation to maintain price differentiation.



Retail

- No evidence that margins for food are (at least on average) excessive,
- The development as green field starters of Aldi and Lidl and the impressive development of Colruyt shows that regulatory barriers to entry are seriously exaggerated,
- Barriers to exit (restructuring) have/had a much more negative impact on competition,
- Main concern: hub&spoke or similar anticompetitive arrangements that help to maintain price differences between Member States

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

Competition 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

Competition 2



1. Market Structure

Competition

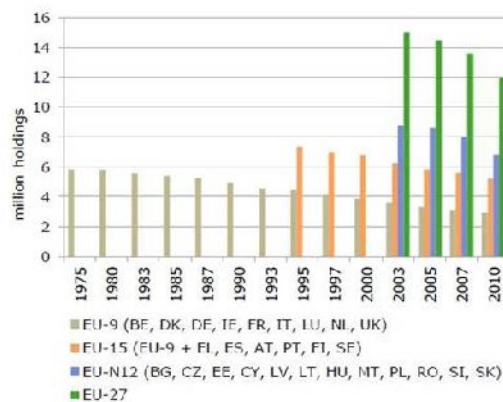
3



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



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

Competition

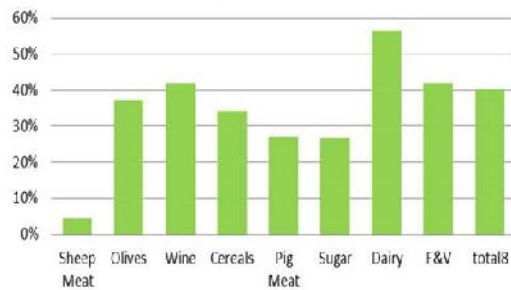
4



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



Commission

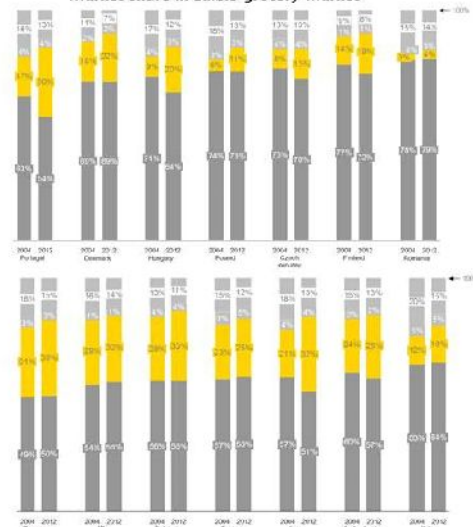
5



Manufacturing and processing (1)

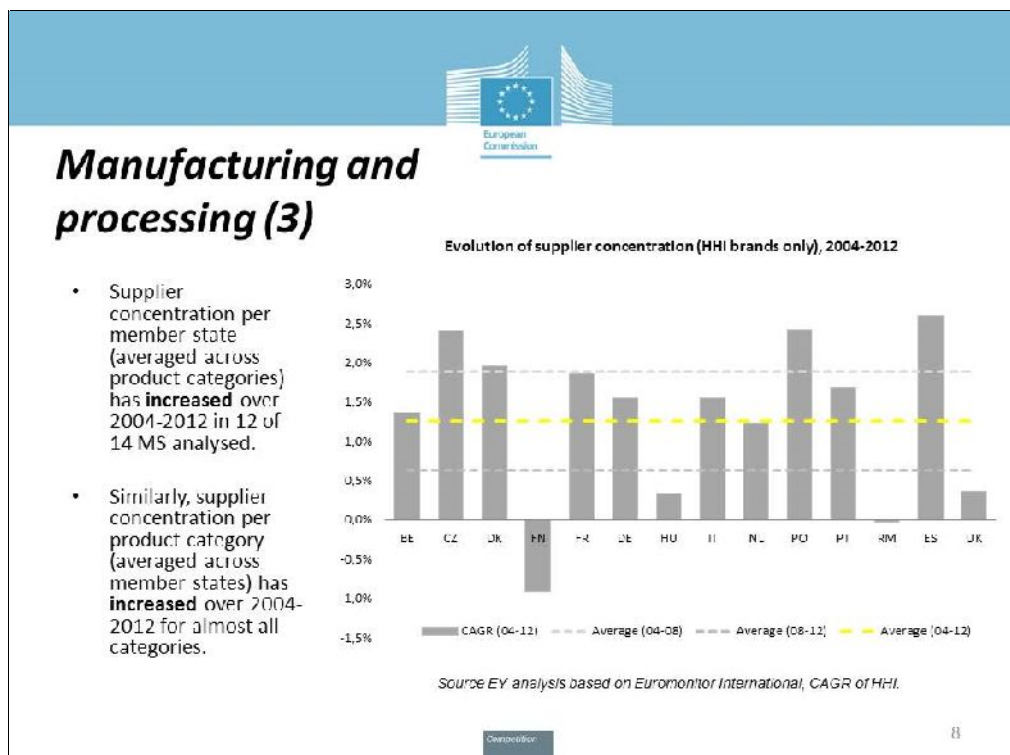
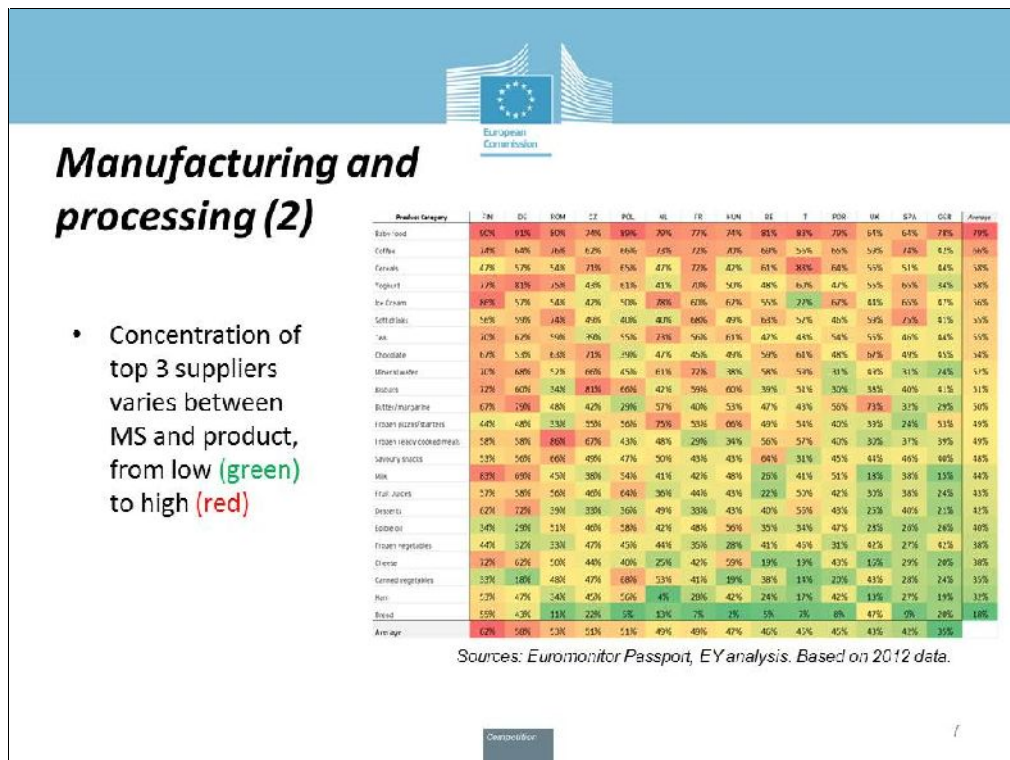
- 289 000 companies (2012)
- 4.2 million employed (2013)
- 15% of EU manufacturing
- Manufacturing and processing sector is made up of "national brands" (including international brands), private labels, "other producers" (local brands, artisanal producers)
- National brands have the largest market share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

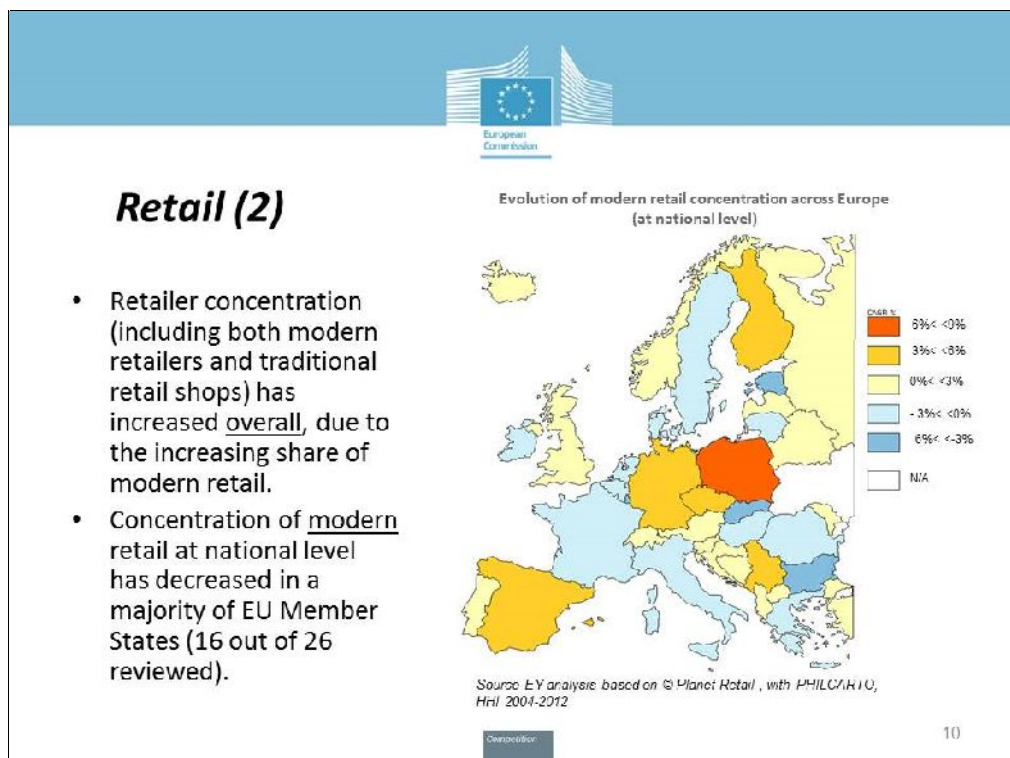
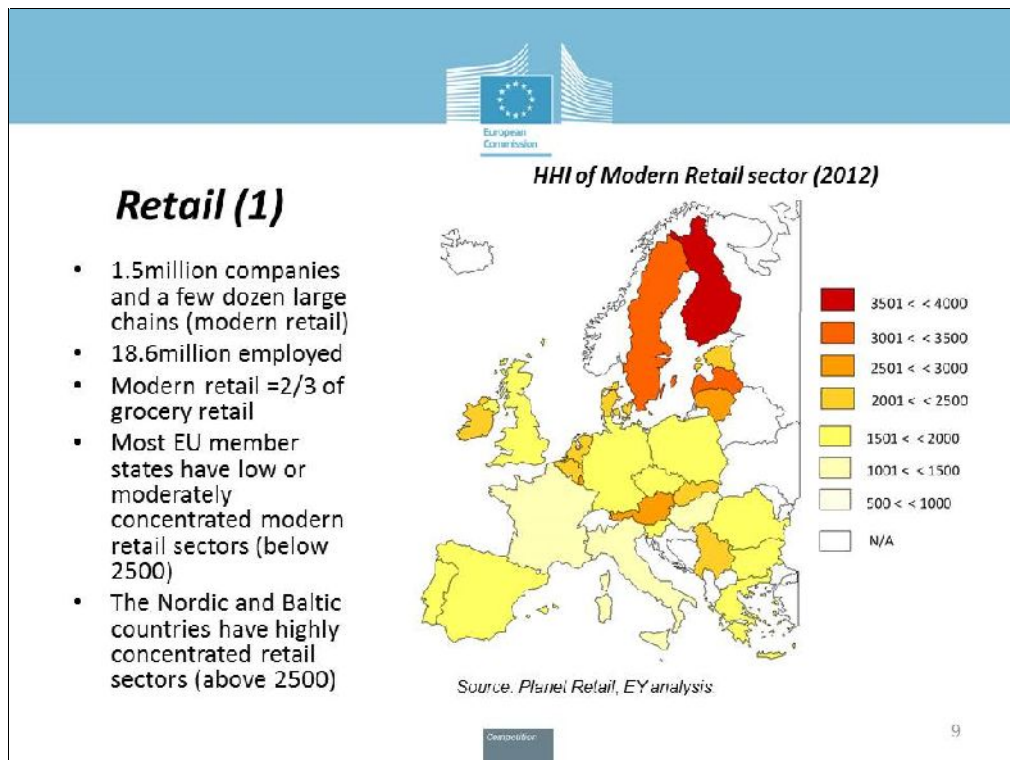
Market share in edible grocery market



Commission

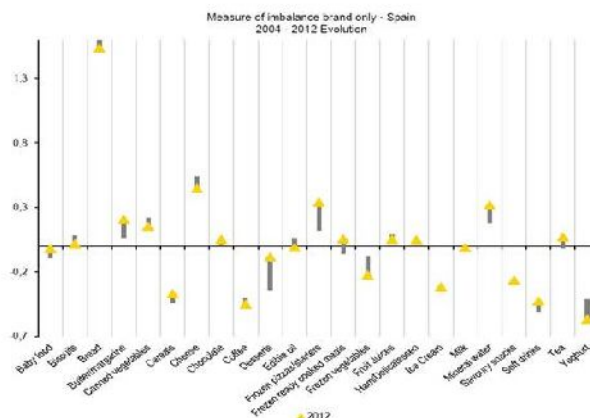
6





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.



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

Competitor

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2. Price transmission

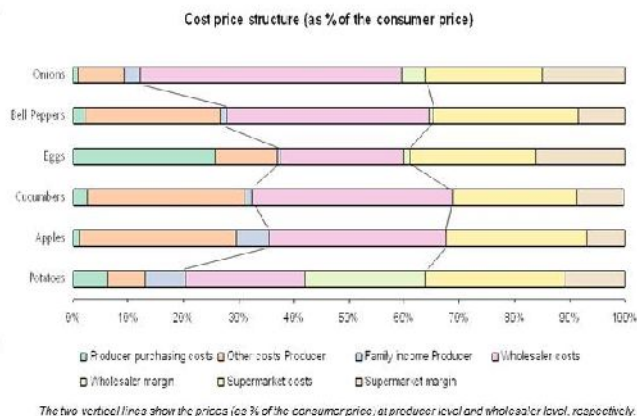
Competition

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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.



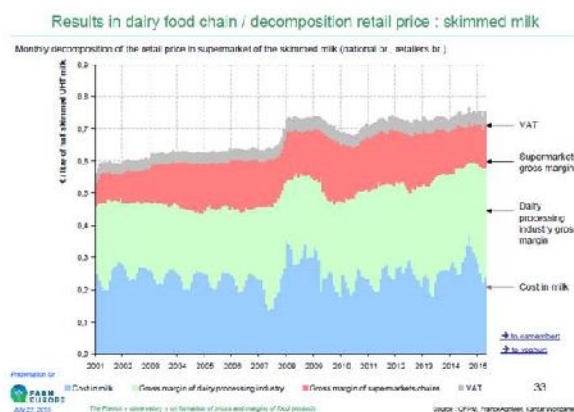
Continuation

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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.



Continuation

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3. The impacts of modern retail on consumer welfare

Competition

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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

Competition

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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.

Commission

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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.

Commission

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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.**

Competition

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4. Operators segmenting the internal market

Competition

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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

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5. Buyer alliances

Competition

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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

ams
creating synergy

ALDIS

EMD

COOPERNIC

CORE

Main European buying alliances

Competition

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.

Competition

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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?

Competition

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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>

Competition

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4. SUMMARY OF THE DISCUSSION

After thanking the four experts for the presentation of their introductory remarks, Markus FERBER (Member of ECON) started the discussion by asking about the practical effects of buying alliances and whether competition was effective enough to let the consumer benefit sufficiently. Luke FLANAGAN (Member of AGRI) added that, in his perception, the public did not seem to have profited adequately from buying alliances and he would like to know whether the participating companies themselves experienced advantages from entering into those alliances.

Jacques STEENBERGEN used the example of Delhaize to explain that even though the supermarket tried to follow a high quality strategy, it nonetheless took great effort in developing its choice in low cost products to meet consumers' wishes. Philippe CHAUVE pointed out that a buying alliance can obtain better prices and offers and be beneficial for consumers if there is enough competition for the consumer at the local level. In this context, Philippe CHAUVE made reference to the studies conducted by the ECB which showed that consumers benefit most from low prices when there was strong competition between different supermarket chains. However some national buying alliances were made between supermarket chains that were the main retail competitors at the local level and they did not pass advantages to their customers. As a result competition authorities intervened to dissolve such alliances (e.g. in Italy). The increasing power of buying alliances and the increasing concentration of retailers overall led to a new question, i.e. whether this led to less product innovation. Philippe CHAUVE noted that the study commissioned by the Commission in 2014 had not found that concentration had led to less innovation. He noted however the most concentrated national markets require more analysis in that regard and that the study triggered work on the impact of penetration of private labels on innovation. Philippe CHAUVE also recalled the important role played by consumers in the market: in order to benefit from competition, consumers must continue to shop around and search for the best offers also between different supermarket chains. Paul DOBSON emphasized that international buying alliances were very volatile. Their structures were not stable and members were often swapping. As regards consumer benefit, he raised the question if too much choice could be counterproductive and explained that also other parameters, such as non-misleading prices and well-informed consumers led to a participation of the advantages of competition.

Markus FERBER discussed whether the development of prices or the variety of product choice was the more significant criterion to assess the effectiveness of competition. He made reference to the fact that most food markets were local and that recently food products were also sold online. This raised the question whether significant changes to the market structure were expected by this rather new way of distribution by dealers like Amazon. Jacques STEENBERGEN mentioned the existing great variety of shops – from small neighbourhood shops to hypermarkets - and the importance to safeguard sufficient choice between shops for consumers regarding their main shopping needs. He also pointed at the variety of clients, such as those who used online platforms to save time, or the ageing population who liked to frequent neighbourhood shops and were not so familiar with the internet. Philippe CHAUVE emphasized the need to define and differentiate between the relevant markets at different levels in the chain to understand the structure of the market. Broadly speaking, the sales of agricultural raw products by farmers to wholesalers are local or national depending on the product (rarely European), the sales of processed products from manufacturers to retailers are essentially national and the sales of retailers to the final consumers are essentially local. This shows that supermarkets are both acting at national level for their purchases and at local level for their sales. Online shopping has remained rather limited so far: they seem to face several hurdles such the weight of goods compared to their value, transport fees and possibly consumers' expectations. Elena ARGENTESI explained how choice in local markets was

measured. On the criteria of effective competition Paul DOBSON added that the purpose why consumers shop should be taken into account. Whereas for a weekly 'large trolley' shopping exercise 'value for money' is essential, for a more spontaneous 'basket-shopping', parameters like convenience or service play a more important role. Those two kinds of shopping do not necessarily substitute for each other. With regard to online food retailing, he differentiated between dealers with both a physical presence and an online distribution network using 'dark stores' for picking and packing, against pure-internet retailers that have no physical contact with customers like Amazon and which - for the time being - rely mainly on dry grocery. The latter, in his view, will continue to operate in a niche business still for quite some time.

5. BACKGROUND

The food retail sector is a field of concern for all citizens. Price level and selection of food available in shops and supermarkets influence the way we nourish ourselves. The state and intensity of competition in this area is thus an important issue not only for consumers but also for the companies offering the products to the end-customer.

In recent years changes in consumers' preferences as well as developments in distribution and concentration processes between supermarkets have taken place. In response, several studies have examined the level of competition in the retail food sector¹.

In practice, competition rules in the EU are predominantly enforced by national competition authorities. For instance in the Netherlands, three supermarket mergers took place between 2009 and 2012². In Germany, just recently a supermarket merger in food retail was cleared by the minister³. Also a large Belgian food retailer was bought by a Dutch competitor⁴. Questions of concentration of supply in certain geographical areas, the development of price levels and the variety of consumer choice have to be looked at. Even the European Central Bank had a specific look into the development of grocery prices⁵.

In the European Parliament certain issues of the food sector have been discussed as well⁶. The Committee on Internal Market and Consumer Protection (IMCO) is preparing an own-initiative report⁷ in response to the European Commission Communication on 'Tackling unfair trading practices in the business-to-business food supply chain'⁸. The Agricultural and Rural Development Committee (AGRI) has issued an opinion in regard to this report.

This workshop aimed to give an overview about the current state of competition and its challenges in the sector of food retail.

¹ See for instance European Commission, The economic impact of modern retail on choice and innovation in the EU food sector, <http://ec.europa.eu/competition/publications/KD0214955ENN.pdf>; answers to consultation on this study, http://ec.europa.eu/competition/sectors/agriculture/modern_retail_study_consultation_responses.zip; Bundeskartellamt sector inquiry http://www.bundeskartellamt.de/Sektoruntersuchung_LEH.pdf%3F__blob%3DpublicationFile%26v%3D7.

² See <https://www.acm.nl/en/publications/publication/15083/Supermarkets-have-not-become-more-expensive-following-mergers/>.

³ See <http://www.lexology.com/library/detail.aspx?g=2379856c-84cc-4f13-b6cc-cc0f546df7fb>; http://www.bundeskartellamt.de/SharedDocs/Entscheidung/EN/Fallberichte/Fusionskontrolle/2015/B2-96-14.pdf?__blob=publicationFile&v=2.

⁴ See press release http://www.belgiancompetition.be/sites/default/files/content/download/files/20160315_press_release_06_bca.pdf.

⁵ See https://www.ecb.europa.eu/pub/pdf/other/art01_eb201501.en.pdf.

⁶ See background documents to accompany this dossier: Workshop proceedings [http://www.europarl.europa.eu/RegData/etudes/STUD/2015/563438/IPOL_STU\(2015\)563438_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2015/563438/IPOL_STU(2015)563438_EN.pdf); and Briefing Paper [http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/563430/IPOL_BRI\(2015\)563430_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/563430/IPOL_BRI(2015)563430_EN.pdf).

⁷ See procedure file [http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=&reference=2015/2065\(INI\)](http://www.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=&reference=2015/2065(INI)).

⁸ COM(2014) 472 final of 15.7.2014, see http://ec.europa.eu/internal_market/retail/docs/140715-communication_en.pdf.

ANNEX: FOR FURTHER READING

- Argentesi, Elena, Buccirosi, Paolo, Cervone, Roberto, Duso, Tomaso, Marrazzo, Alessia, Mergers in the Dutch Grocery Sector: An ex-post Evaluation, Lear Laboratorio di economia, antitrust, regolamentazione, Rome, October 2015; http://www.learlab.com/pdf/lear_ex_post_merger_evaluation_final_29_1450283460.pdf.
- Belgische Mededingingsautoriteit / Autorité belge de la Concurrence (Belgian Competition Authority), Press release of 15 march 2016 explaining the authorisation of the Ahold/Delhaize merger http://www.belgiancompetition.be/sites/default/files/content/download/files/20160315_press_release_06_bca.pdf; decision (in NL) <http://www.belgiancompetition.be/en/decisions/16-cc-10-ahold-delhaize>.
- Bundeskartellamt (Germany), Sektoruntersuchung Lebensmitteleinzelhandel, Darstellung und Analyse der Strukturen und des Beschaffungsverhaltens auf den Märkten des Lebensmitteleinzelhandels in Deutschland, September 2014; http://www.bundeskartellamt.de/Sektoruntersuchung_LEH.pdf%3F_blob%3Dpublicati onFile%26v%3D7.
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- European Commission, Answers to the consultation on the study 'The economic impact of modern retail on choice and innovation in the EU food sector'; http://ec.europa.eu/competition/sectors/agriculture/modern_retail_study_consultation_responses.zip.
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- Monopolkommission (Germany), Zusammenschlussvorhaben der Edeka Zentrale AG & Co. KG mit der Kaiser's Tengelmann GmbH Sondergutachten Nr. 70; http://www.monopolkommission.de/images/PDF/SG/s70_volltext.pdf.
- United Nations Conference on Trade and Development (UNCTAD), Discussion Paper on 'Competition Issues in the Food Chain: Possible Measures to Address Buyer Power in the Retail Sector', September 2014; http://unctad.org/meetings/en/Contribution/tdb61_c01_UNCTAD.pdf.

WORKSHOP



POLICY DEPARTMENT
ECONOMIC AND SCIENTIFIC POLICY **A**

Competition in the Food Retail Sector



DATE

2 MAY 2016

TIME

16:00 - 18:00

ROOM

**ALTIERO SPINELLI
5G2**

Committee on Economic and Monetary Affairs (ECON)

Participants needing a badge must register providing their name, full address, date of birth, nationality and passport or ID number by 28 April 2016
to: guy.tachelet@europarl.europa.eu

NOTES

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

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