Intergovernmental Group of Experts on Competition Law and Policy, Fifteenth Session

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Round Table on:

"Enforcement of competition policy in the food retail sector"

Contribution

By

An Renckens
Case Handler Food Task Force – DG Competition – European Commission

Competition policy in the food retail sector in the EU

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An Renckens

Case Handler Food Task Force – DG Competition – European Commission

1. Buyer power retailers vis-à-vis brand manufacturers

- Increase in overall retail concentration in the EU

- Increasing presence of buying alliances on the national and international scene

- Increasing market share and success of private label products

⇒ ***Are these trends damaging for competition (measured by prices and innovation) in the food sector?***

** Commission's modern retail study about choice and innovation in the food sector in Europe in the period 2004-2012*

** European Central Bank study on price differences in the euro area in the period 2009-2011*

Increased retail concentration (2004-2012): mixed picture in Europe

- **Retail concentration** (modern retail and traditional retail shops):

⇒ Overall ⬆ in Europe

⇒ Because: share of modern retail ⬆

- Concentration of **modern retail**:

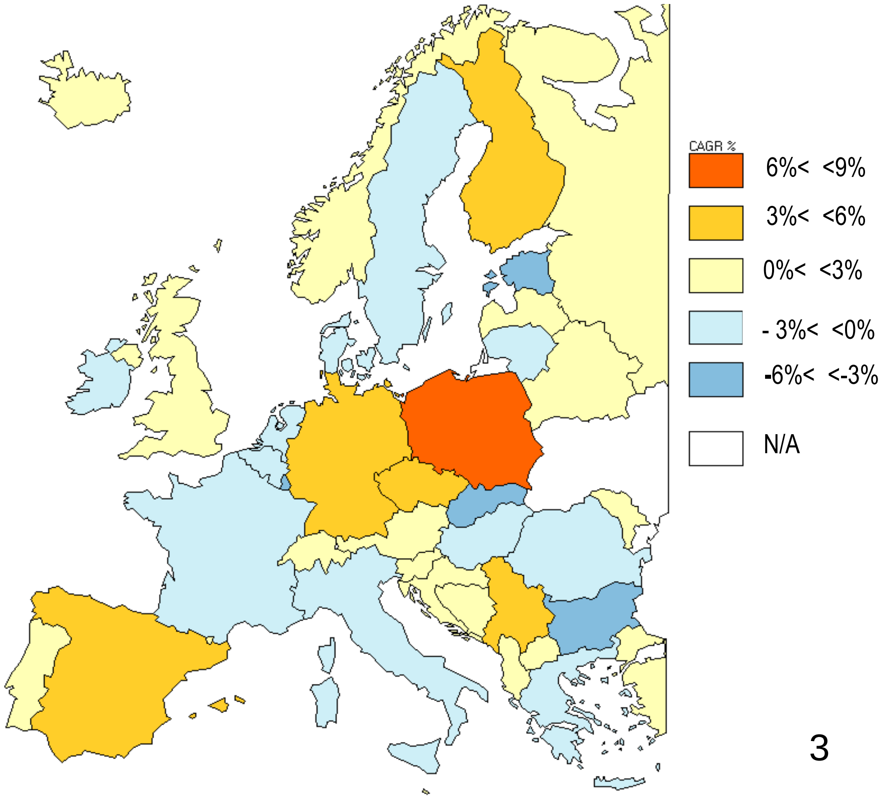
⇒ Mixed picture: ⬇ in a majority of EU Member States (16 out of 26 reviewed).

- **Findings Commission study**:

⇒ An increase in the relative concentration of retailers vis-à-vis their suppliers has a positive effect on innovation

Caveat!
The Commission study did not cover highly concentrated retail markets and some markets became more concentrated after 2012

Evolution of modern retail concentration across Europe (at national level)



European Commission

European Marketing Distribution

Retail buying alliances

- **Buying alliances are wide-spread and varied**
  - They exist at the EU level, at national level
  - They negotiate procurement conditions

- Buying alliances can create efficiencies (lower wholesale/transaction costs) that are passed on to consumers – provided that the downstream retail market is competitive

Caveat!
The Commission study did not cover highly concentrated retail markets

Findings Commission study:

More bargaining power for retailers (higher concentration) associated with more innovation

Caveat!
Increased presence of buying alliances (e.g. in France) made concentration at the wholesale demand level increase after 2012

Findings ECB study:

Higher retail concentration in the procurement market (including buyer groups) is associated with lower prices for the end consumer (welfare-enhancing)

Private label products

- ***Private label products = retailers' own brands***
  - Retailers have become competitors of big brand manufacturers
  - Private labels have become very popular in Europe over the last decade: consumers like them and their market share increased
  - Brand manufacturers are concerned about excessive information requests by retailers, the production of copy-cats and reduced incentives to innovate

Findings Commission study:

- The proportion of private labels in the product assortment in a shop and by product category appears to have a negative relationship with innovation

Follow-up on the Modern Retail Study

The study raised a lot of questions and the Commission is gathering further information on several topics:

- Is higher **retail concentration** also unproblematic in highly concentrated retail markets (e.g. Nordic countries)?

- **Buying alliances** have changed a lot in recent years, with retailers more easily and frequently changing membership, being part of several alliances, etc.

⇒ too much transparency about buying conditions among retailers?

- **Private labels** seem to be also innovative

⇒ what explains the study result that private label share increases would lead to less innovation?

European Commission

2. Buyer power retailers vis-à-vis farmers

- **Challenges of the EU agricultural sector**:
  - Consumers' increased demands regarding quality, choice, traceability,…
  - Atomisation and often unequal bargaining power
  - Competition from non-EU imports

- **Solutions -> sustainability and efficiency-enhancing rules:**
  - Long term solutions to increase sustainability and revenues of farmers
  - Increased competitiveness through vertical and horizontal integration in the food supply chain
  - Cooperation to increase bargaining power

- **Negative trend: increased protectionism in the EU**

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