Update on DG COMP's retail study and overview of "imbalances" in the food supply chain

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An Renckens
Member of the Food Task Force
DG Competition, European Commission

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(1) General trends and overview of imbalances in the food supply chain

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Trends and observations in the food supply chain

In 2008/2009: Concerns about <u>food prices</u> and pass-through of food commodity price changes in the chain

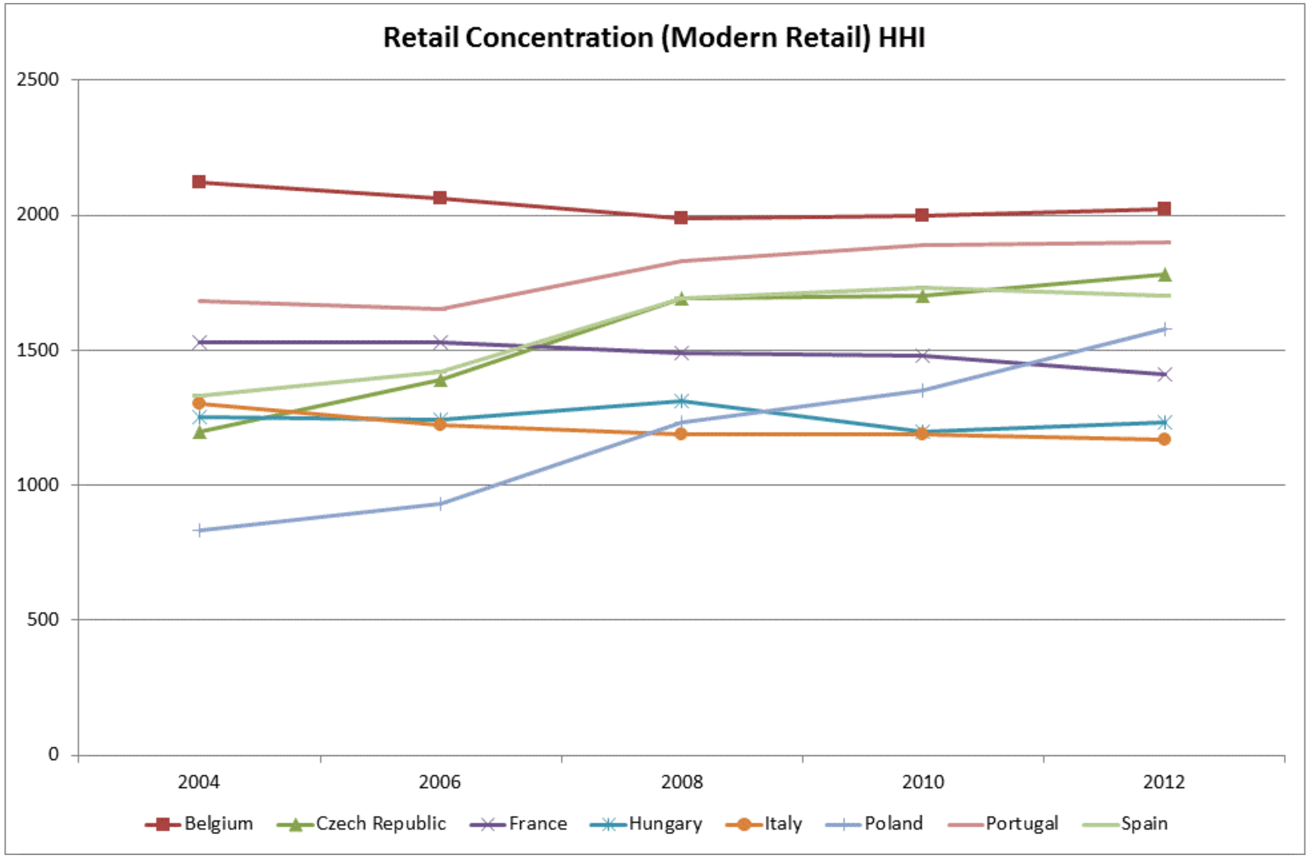
- ✓ Rising food prices and increased volatility in food commodity prices
- ✓ Asymmetric price transmission along the food supply chain

More recently: Concerns about buyer-supplier relationships in the chain and the impact of retailers' practices on investment in <u>choice and innovation</u>

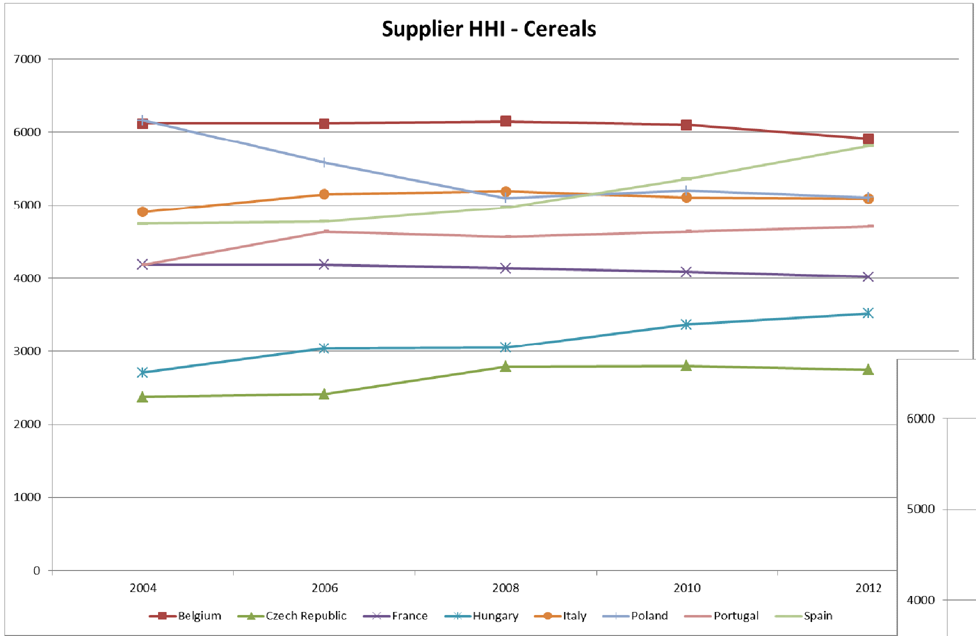
- ✓ Concerns about increased concentration of big retail chains and international food manufacturers
- ✓ While many SMEs are active in the food sector and the primary level of the food supply chain remains fragmented
- ✓ And these imbalances would lead to competition violations and unfair trading practices (UTPs), having an impact on choice and innovation in the long run

Retail concentration (HHI at national level)

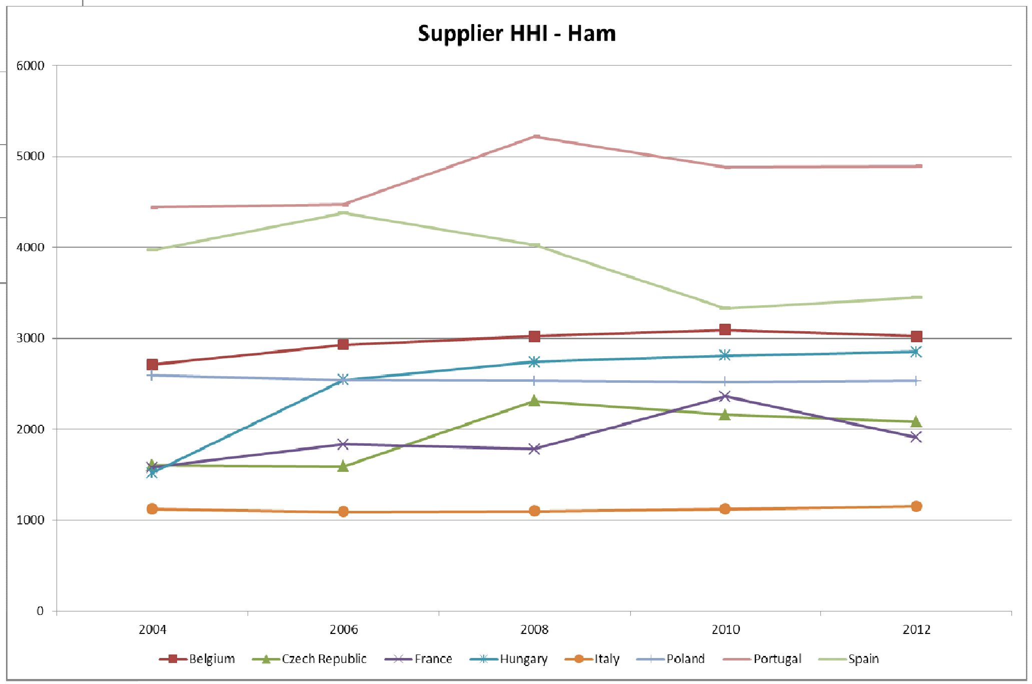
HHI = measure of concentration based on the sum of squared market shares ϵ [0; 10,000]



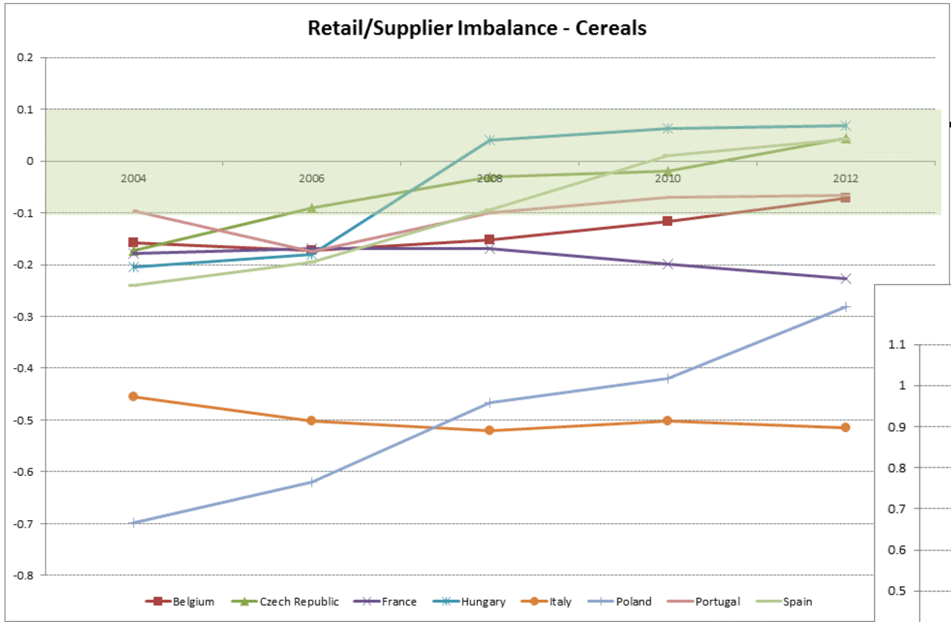
Supplier concentration (HHI at national level)



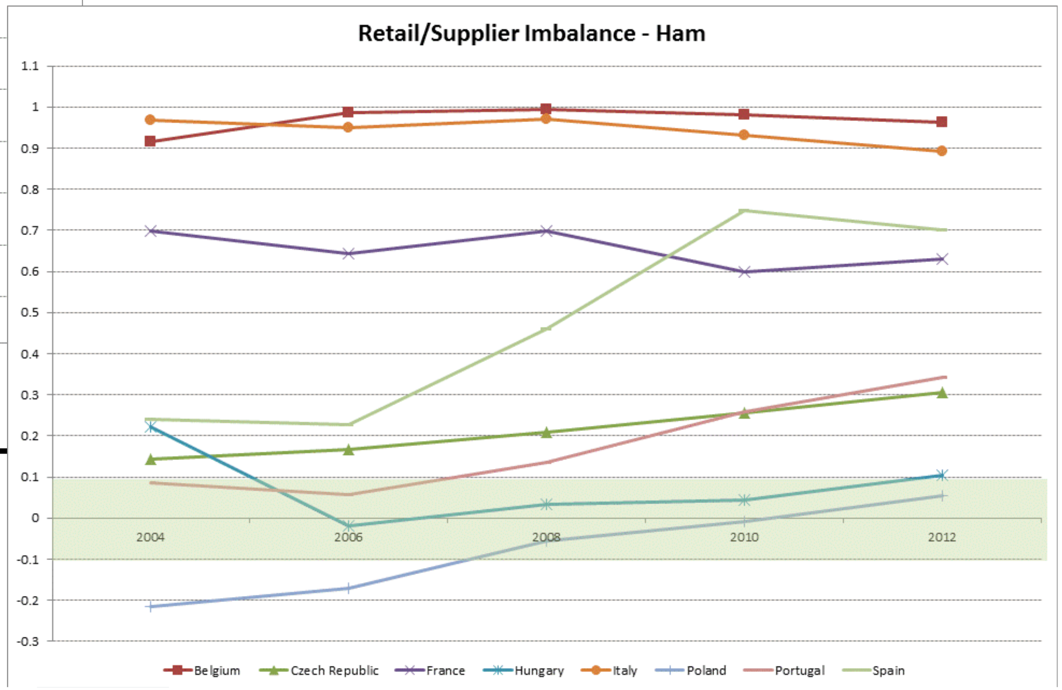
Supplier concentration is generally higher for cereals than for ham, but differences between MS



Imbalance between retailers and suppliers

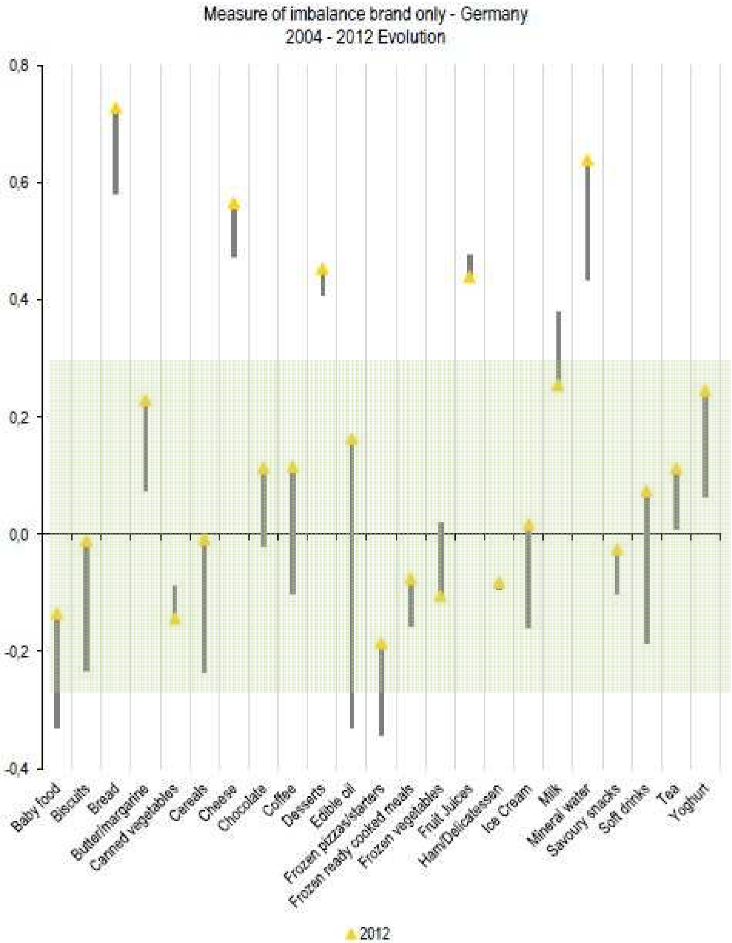


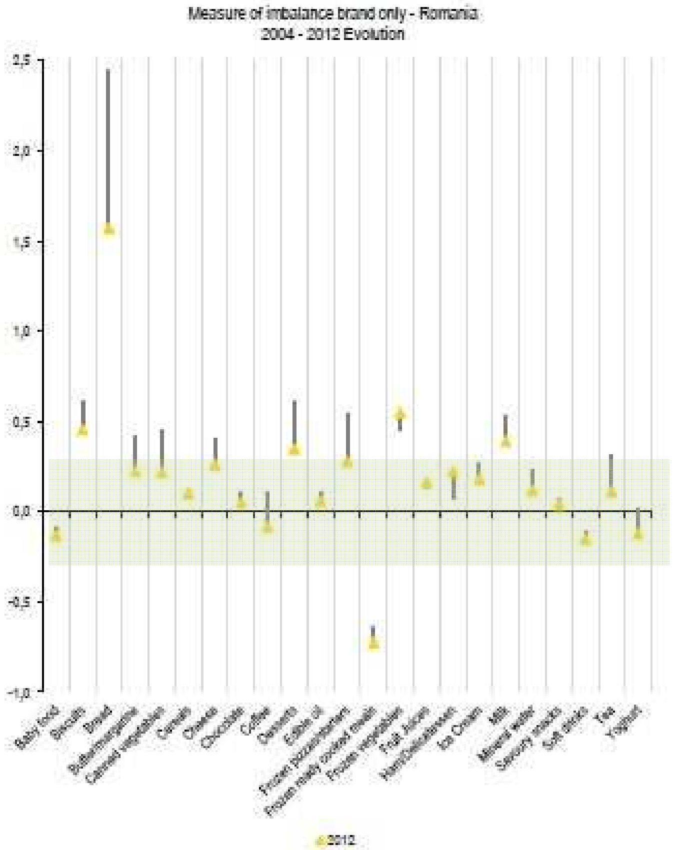
Cereals: the supply side of the market is in general more concentrated than the retail side



Ham: the retail side of the market is in general more concentrated than the supply side

Measure of Imbalance between retailers and suppliers (based on HHI at national level)





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(2) Retail study DG COMP

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WHY? 2 main objectives retail study

Objective 1:

Providing economic input to the discussion on unfair trading practices (UTPs)

Cf. Green paper and Impact Assessment on UTPs initiated early 2013:

- ✓ Main arguments about the effects of UTPs :

  Is this true?

  - ✓ Capacity to invest and innovate affected through UTPs => detrimental effect on choice and innovation
  - ✓ Single Market affected through existence of fragmented national rules => detrimental effect on cross-border sourcing and distribution

Objective 2:

Answer the calls of the Parliament to **check** if **competition** is working in the retail sector in Europe

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WHAT? Subject of retail study

- ✓ Analysis of the evolution of **choice and innovation** at <u>local</u> level
- ✓ Analysis of the potential **drivers** of choice and innovation at <u>local and national</u> level:
  - ✓ Concentration related factors: retail concentration (at national and consumer catchment area level), supplier concentration, ratio of both (measure of imbalance in bargaining power and scope for UTPs)
  - ✓ Other factors: shop type, shop size, private label penetration, socio-demographic variables, economic growth/crisis,…

HOW? Type of analysis

1. **Descriptive statistics**
   - ➢ Factual description of how choice and innovation have been evolving over time
   - ➢ Factual description of how the drivers of choice and innovation have been evolving over time

2. **Econometric analysis**
   - ➢ To identify a possible relationship between the evolution of choice and innovation and their drivers
   - ➢ To identify the most relevant factors that could explain the evolution of choice and innovation

3. **Case studies**
   - ➢ To complement the quantitative/econometric analysis:
     - ✓ Analysis of some bulk fresh products (fruit and vegetables, meat)
     - ✓ Analysis of products close to the agricultural level of the food supply chain (milk, cheese, olive oil)

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HOW? Data

- ✓ **Main characteristics** of the data for the econometric analysis:
  - ✓ Long time period: **8 years**: 2004-2012
  - ✓ **Representative sample** of Member States to draw meaningful results for the EU:
    - ✓ main constraint = availability of data at the disaggregated level
  - ✓ **More than 20 product categories** covering the whole food spectrum: e.g. some fresh dairy products, some fresh non-dairy (other than bulk) products, some savoury and sweet grocery, some savoury and sweet frozen products etc.

- ✓ **Main data sources**:
  - ✓ **Specialised sources** for products, supplier and shop information: Nielsen, Euromonitor, Planet Retail, Mintel
  - ✓ **General statistics**: Eurostat, OECD

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To be continued…