Understanding Competition in Food Chains

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Summary of Main Points

- Major developments in the food chain around the world particularly the growth of retailing
- 'Convergence with differences'!
- Characteristics of these developments mean that understanding aspects of competitive behaviour (and the role of competition policy) will matter in securing the potential benefits and limiting the potentially harmful consequences of these developments

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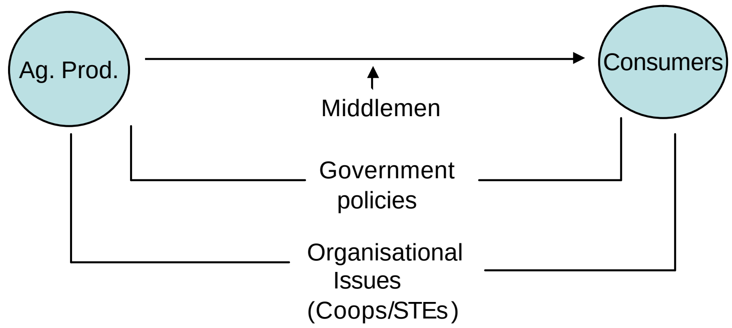
Most obvious aspects of competition in the food chain to note:

- Numbers versus behaviour
- Concerns about food security relate to both farmers and consumers
- How do changes and aspects of competition in the food chain affect each of these interests?

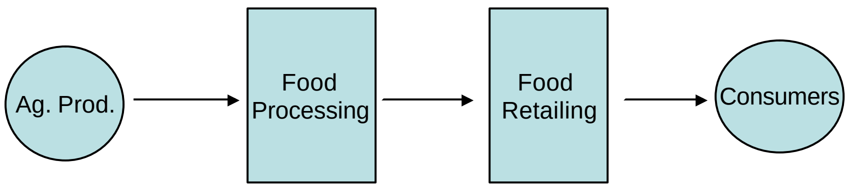
Issues for Research

- Horizontal and Vertical Issues: Ameliorating or Exacerbating Market Failure?
- Importance of Evidence for Specific Cases (i.e. countries, regions, industries)
- Broader Determinants of How Firms Compete-the Regulatory Environment
- Developments in the Food Sector: Price Shocks and Risk
- Static versus Dynamic Effects

A simple characterisation of “traditional” agricultural/food markets

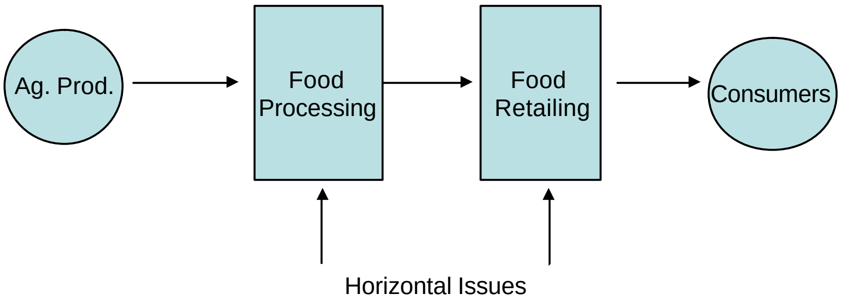


But with a Modernized Food Sector



A large part of the overall value of the food sector will relate to the intermediate and retailing stages

But what are the characteristics of this modernized food sector that make competition issues important?



Concentration in the European Food Manufacturing Sector
(Average Three Firm Concentration Ratios-CR3)

Country	Average CR3 (per cent)
Ireland	89
Norway	79
Finland	79
Sweden	69
Denmark	69
Italy	67
France	63
Spain	61
UK	56
Germany	55

Concentration in the EU Food Retailing Sector
(Five firm Concentration Ratios-CR5, %)

Country	CR5 Ratio
Austria	79
Belgium/Luxembourg	57
Denmark	78
Finland	96
France	67
Germany	75
Greece	59
Ireland	50
Italy	30
Netherlands	79
Portugal	52
Spain	38
Sweden	87
UK	67

The Growth of Retail and Increasing Concentration!

- In the UK and France, the CR5 increased by 7 percentage points over the 1990s
- ... in Germany, by 10 percentage points; Austria, 14 percentage points; Sweden, 24 percentage points

- Growing importance of supermarkets in many emerging/developing economies
- …in the 2000s, in Latin America, around 50-60% of retail food sales were accounted for by supermarkets
- …in East Asian countries, over 60%
- …in urban China, around 50%

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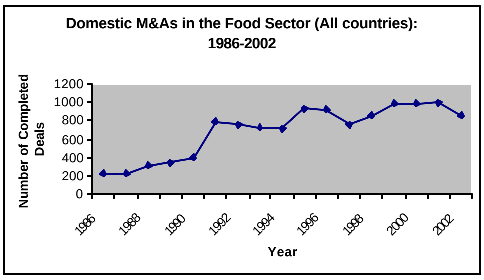
Increasing Consolidation



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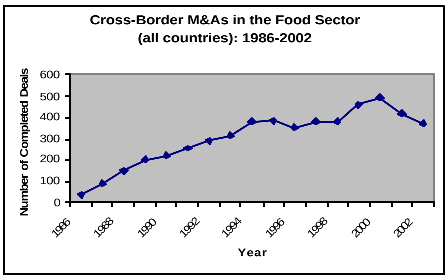
Internationalisation via M&A



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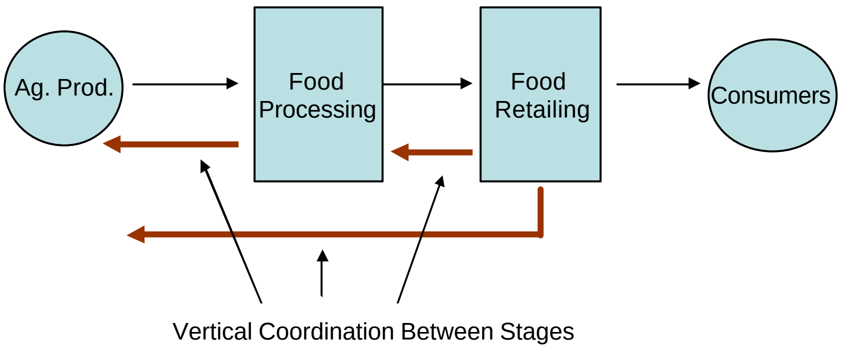

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“Face Value” Issues!

- Increasing consolidation at different stages of the food chain potentially give rise to “successive market power”
- As organised retail chains grow, impact on unorganised retail sector
- Small number of large participants (e.g. at the retail end)-higher prices for consumers/lower prices for farmers?
- The horizontal aspects need to be treated in parallel with the vertical issues

Aspects of vertical coordination that matter!

On the Positive Side:

- Overall efficiency in the food chain (logistics, standards, technology, procurement and management issues)
- Deals with 'hold-up' issues
- May deal with successive market power
- Relieve factor market constraints

And Potential Concerns:

- 'Contract incompleteness'
- Bargaining power of retailers
- 'Waterbed' effect-impact of the unorganised or traditional retail sector
- Interests of consumers versus farmers

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- Some evidence:

….there is considerable evidence that food prices are lower as the retail sector grows

…. in some countries (e.g. the UK), concerns that concentration in food retailing benefitted consumers but potentially harmful to suppliers

- Evidence of impact of retailing in emerging economies

…lower food prices in organised retail compared with traditional retailers

…evidence across many different settings that returns to farmers are higher when linked to retail chains compared with traditional distribution

…other benefits (standards, investment, employment)

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Lessons

- Need to understand behaviour and not just focus on the number of firms
- In terms of the overall competition issues that arise in the food chain, need to understand horizontal and vertical issues
- Need case-specific evidence
- Is the experience in developed countries different from that in emerging economies?

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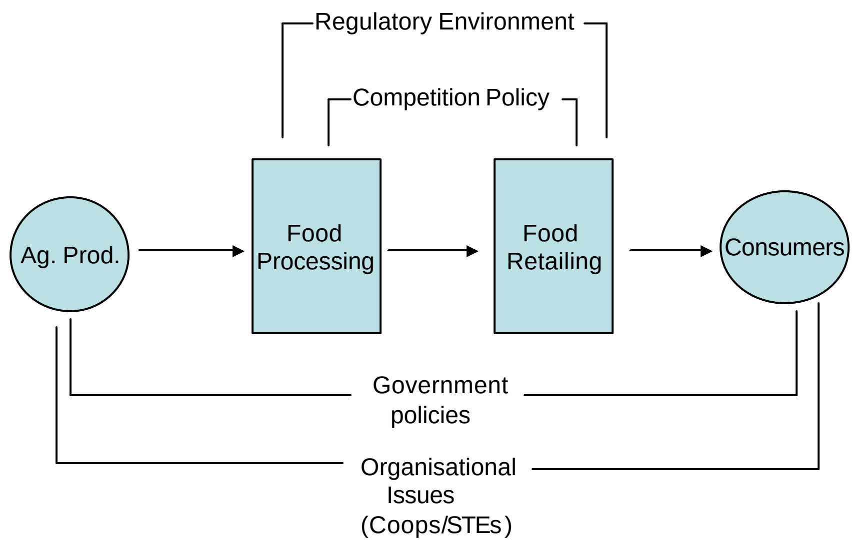

Harnessing Positive and Dealing With Negative Effects

- Role for Competition Policy
- Buyer Power

(Codes of Conduct: UK, Argentina, elsewhere in Latin America)

- The Broader Regulatory Environment
- Pro-active Initiatives

(cooperatives, cash & carry, support for traditional distribution)

A Broader Agenda: Food Security and Competition in the Food Chain

- Impact of Commodity Price Shocks
- Price Transmission throughout the Food Chain
- Competition, Vertical Coordination and Risk

  -how do the dynamics of prices relate to the characteristics of the food chain?
  -who bears the risk?

- Static versus dynamic effects-do developments in the food chain promote innovation?