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Competition in the Food Supply Chain – Contribution from Austria

- Session IV -

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More documentation related to this discussion can be found at: oe.cd/gfc24.

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Competition in the Food Supply Chain

- Contribution from Austria -

1. Introduction

1. The food supply chain represents a set of transactions ranging from the supply of inputs to farmers all the way through to the delivery of products to an individual consumer. The smooth operation and functioning of the food supply chain has been disrupted in recent years, various international crises have had a negative impact and questions have been raised, whether the last occurred inflation arises to some extent from market failures in the food supply chain or competition problems. The contribution focuses on the following aspects:

- Food industry;
- Food retail in stationary premises or online (wholesale excluded); and
- Agricultural production sector and intermediate input markets.

2. Market structure an chosen aspect in the food supply chain

2.1. Food retail sector

2.1.1. Market structure

2. The food retail sector in Austria is highly concentrated. The four biggest players in the sector generate around 91% of the total turnover. These market shares have practically remained unchanged for years. However, a high market concentration is usually linked to structural competition issues such as a higher risk of collusion between competitors and higher market entry barriers. The corresponding branch density in Austria is very high and therefore also the provided space per inhabitant. Private label products of food retailers can have both pro-competitive and anti-competitive effects; however they strengthen the power of retailers vis-à-vis branded foods manufacturers and can thus reinforce market entry barriers at the upstream level. The proportion of private label products of retailers sold in Austria has risen steadily in recent years and most recently amounted to 35.9% of total sales in 2022. This proportion is significantly higher for discounters in particular. In recent times, which have been characterized by high inflation, consumers have replaced branded products with cheaper private-label products. This development is particularly surprising as the generally cheaper private label products recorded higher price increases on average, than brand products in the course of the price trend. In terms of pricing policy, food retailers are largely free to decide at national level how, when and where price adjustments are made. Regionally listed items are a significant exception to the national pricing policy. Apart from these exceptions, the same current prices (i.e. normal prices without discounts) are generally set for the same products throughout Austria. This national pricing policy applies not only to stationary but also to online retail, which is why there are no price differences for the same product, regardless of whether it is purchased online or in-store. Logistics costs, which can vary substantially due to the topography of Austria are priced in nationally.

2.1.2. Market entry barriers

3. The market entry barriers for new food retailers are considered to be very high (e.g. high investment cost, oversaturation due to high branch density). For instance, more than 200 local retailers have closed down their corner shops since 2019, while the top four food retailers were able to open even more branches during the same period. However, market entry barriers are also of a regulatory and infrastructural nature, including the availability of land, zoning and development plans, building law requirements, the attitude of cities/municipalities towards the establishment of branches, traffic development and transport links, and the availability of labour. In addition, a large number of products are bundled in large stores resulting in contact-cost and timesaving for customers, which gives larger stores an advantage over smaller stores (all other things being equal).

2.1.3. Position and opinion of consumers

4. Consumers in Austria buy their food mainly from grocery stores in their living area, only a few order online. The three biggest players in the food retail sector are regarded as the main source of food for around 78% of the consumers surveyed. On average, they spend around EUR 135.00 per week on grocery shopping. For customers a wide choice of products/brands of food retailers (private label) seems far more important than a wide choice of branded products and they would prefer to find stable low prices instead of various confusing discounts and promotions. Almost 80% of consumers have a customer card branded from a food retailer, these are often necessary to obtain additional discounts. Due to confusing discounts and sometimes hidden or incomprehensible changes of prices, around 85% of customers would use price comparison sites if the use was free and shopping lists could be created/saved.

2.1.4. Unfair trading practices (UTPs) in the food chain

5. UTPs in the food supply chain deviate from good commercial conduct and are contrary to good faith and fair dealing. Imbalances between small and large operators in this sector make trade relations susceptible to the use of UTPs and farmers and small operators in the food supply chain often do not have sufficient bargaining power to defend themselves against them. This results in a special dependency of suppliers who therefore often accept business practices that are grossly detrimental to them and refrain from submitting complaints to the AFCA out of fear of reprisals (e.g. delisting).

6. AFCA's survey shows that around a third of all suppliers have been confronted with (i) the threat of being delisted or (ii) switching to a competitor and (iii) the threat of the introduction or extension of private labels by every ninth supplier, if price or condition demands are not accepted. In general, a large number of suppliers are confronted with UTPs, e.g. late payments, short notice cancellations of orders of perishable products, unilaterally changes of the terms of a supply agreement, etc.

2.2. Food industry sector

2.2.1. Market structure

7. In Austria, there is a very large diversity of producers, characterised by a high degree of heterogeneity (a few large producers account for a large proportion of turnover between the different product categories). However, individual product groups are also highly concentrated, e.g. soups, frozen fish, soluble bean coffee, etc. A distinction must be made between manufacturers of branded goods and of private label products, with individual producers producing both under their own brand (branded goods) and under the

brands of food retailers (private label). Price transparency in trade relations between the food industry and the retail sector is highly asymmetric. The retailers as customers are fully informed about purchase prices, cost structure and profit situation of their suppliers, on the contrary, suppliers only have low knowledge of the selling prices of competing suppliers in the food industry.

8. All product groups in the food industry sector were affected by price increases, with no exceptions, the retail prices for private label products rose more strongly than those of branded products. There was no systematic increase in margins of companies in the food industry sector and thus no increase in profits. Overall, there was no indication that companies had tried to increase their trade margins during the inquiry period amidst rising and high inflation.

2.2.2. "Austria" price mark-up

9. In an ideal European Single Market, prices for identical products should be approximately the same in different Member States under similar conditions. AFCA found and was able to prove that there are also different food price levels within the EU internal market, especially between Austria and Germany. Net selling prices to consumers in Austria are 10-15% higher than in Germany and at the same time, due to multinational manufacturers' county-specific pricing strategies the net purchase prices for food retailers in Austria are 10-15% higher than in Germany. This mainly concerns products from international manufacturers.

2.3. Agricultural production sector and intermediate input markets

10. The intermediate input markets for the agricultural production and the food industry overlap largely. There are also some special risks given, which need to be considered. These are in particular energy markets (especially electricity, gas and fuels), commodity markets, packaging material (e.g. cardboard, plastic or glass), fertilisers and plant health, feed and animal health, financing costs/markets, labour costs, insurance costs and shortage of supply due to weather/climate or unsound supply chains (e.g. geopolitical conflicts, frost, drought, rain, floods, etc.). The biggest cost factor is the purchase of goods on those intermediate input markets, but also the use and availability of agricultural land. In terms of use, the production of food is in competition with, e.g. the production of pharmaceuticals, animal feed, fuel/energy, etc., which sometimes give rise to higher profits. Agriculture has always had an important role to play in securing food supplies for the population in the medium and long term. In 2020 there were 110,781 farms with the purpose of cultivating agricultural land and/or keeping animal livestock counted. Families ran the majority of farms on part-time base, four out of five workers being family members. Since 2010 the number of farms decreased by 21%, while the average utilized agricultural area per farm (arable land, house and farmland, cultivated gardens, permanent crops, permanent grassland) increased by about 25.5% over this period. Although there is a steady trend towards fewer and larger holdings in Austrian agriculture, it can still be described as small-scaled. However, the concentration is increasing steadily.

11. The pricing of agricultural products in Austria is highly dependent on the prevailing competition and the import and export of such products. These are therefore caught between (i) the level of exports relative to domestic production, (ii) the level of imports relative to total domestic consumption and (iii) the ratio of trade flows to domestic production. Consequently, it can be assumed that while international prices are of varying importance for different product groups, they tend to have a strong influence on price formation in Austria, regardless of the prices to be paid in Austria on the intermediate input

markets. Farmers are therefore highly dependent on international price developments when negotiating their own prices. The increase of profitability in the agricultural production sector was strong in 2022, slightly above the 10-year average from 2012 to 2021.

3. Recommendations

1. In accordance with the results, the AFCA is proposing the following recommendations, which it believes would have a positive impact on competition in the food market and therefore benefits for consumers:

- Implementation of the measures set forth in AFCA's focus paper on price comparison sites[1] to increase price transparency for consumers in the food retail sector: In particular every food retailer operating an online shop – at best from a certain size, even independently of operating an online shop – could be obliged to make the products offered accessible to a qualified public under certain conditions via an application programming interface. Furthermore, legal parameters should be defined in order to give price comparison sites the opportunity to set up on a long-term basis.
- Strengthening of the internal market and involvement of the European Commission to deal with varying retail prices in EU Member States owing to food groups' country-based strategies.
- Enhancing and strengthening consumer protection.
- Tightening of laws to enforce UTP.
- Legal security for suppliers through use of the written form.
- Tightening of laws to enforce competition measures based on sector inquiries.

[1] Price comparison platforms in the sector of food industry (bwb.gv.at).