4.2. EU food market and concentration processes

Agriculture as a production industry is closely related to marketing activities which transform, transport and transfer food to the consumer. Additionally agriculture is served by a large number of industries which are supplying farm inputs.

Therefore, the great changes in concentration and specialisation occurring in agricultural systems are becoming more and more linked to other great transformations such as those occurring in retailing systems and food consumption.

The main aim of the agricultural policy has been “protecting” agricultural prices and incomes; from this side, the role of this policy is losing importance since agricultural incomes and prices are more and more dependent from the transactions developed with the other actors of the agrofood chain. Malassis has proposed to replace the agricultural policy with a broader one, named agrofood policy.

In the western societies, only about 20-25% of the average value of foodstuffs ends in the hands of the agricultural producers as value added. The other part is allocated to the other agents of the agro-food chain, mainly processing industries, retailers and public catering.

Despite western governments have put in place agricultural policies aimed at rising and giving stability to agricultural prices and incomes, agriculture has been loosing in terms of relative prices, in particular we record the following trends:

- substantial decrease of agricultural value added as proportion of Gross Domestic Product;
- declining values of the ratio of final agricultural production to food consumption;
- decreasing share of agricultural value added as a proportion of total agricultural and food industry value added.

These decreasing trends are not homogenous among the EU countries: some of them show quite a stable trend, UK, Germany, Netherlands, whilst others, notably Italy and Greece, see these negative trends accelerating only in the last decade.

In reality, a mix of other factors have had greater impact on agricultural relative prices and incomes: among these we have to count technological improvements, processes undergone in other segments of the agribusiness, and policies marked by a greater opening of the markets.

Actually, farmers economic decisions on what to produce and how to produce are more and more influenced by the signals coming from the processing industry and the retail sector. Food manufacturing industries and food retailer are clearly the price makers within the agrofood chain.

The liberalisation of markets, sanctioned by the Single Act in 1993 but started many years before, has facilitated the penetration of prominent multinationals in the internal markets of other Member States.

With this in mind, we can briefly look at which multinationals and which countries have benefited most from the liberalisation of european food markets.

The food sector in the European Union is characterised by significant concentration within both the industry producing foodstuffs and the retail industry selling those products on to final consumers.

As for the structure of food manufacturing, it is to remark that the concentration at the EU level is fairly high: on average, the 5 firm concentration ratio is 30%, with an increasing importance of the world's largest food multinationals. Four firms in particular – Unilever, Nestlè, Philip Morris and Danone – reappear frequently as the leaders in many individual product markets.

But recently, the most dynamic concentration processes have been observed in the food retail sector[1].

The most striking feature of EU food retail sector is that about 50 firms account for almost exactly half of the entire turnover of the EU food retail sector. The top 10 firms account for 27,4% of total EU retail food turnover, and the next 10 for a further 12,6%. Thus, the top 20 account for 40% of total EU food retail activity. The highest concentration ratios, top 5 firms, are to be found in Finland and Sweden, and lowest in Greece, Spain and Italy. In these three States, not only is concentration relatively low, but also even the largest firm has a limited market share (10% or less). These appear to be unconcentrated markets by any criterion, although recent merger activity suggests that the picture is changing in Spain.

The UK, France and Germany lie within the middle of the range. Perhaps most interestingly, there appear to have been significant increases in concentration in Portugal, Spain, Austria, Greece and the UK (EC-DG Competition, 2000).

As can be seen in table 4.2, firms from Germany, France and, to a lesser extent, the UK occupy all of the 17 top rankings. This reflects partly the size of the market in these large countries, but it is also a manifestation of significant cross border operations of some of these firms.

We assume that cross border activities improve the welfare of the country of the firm which penetrates in the external markets[2]. Adopting this point of view, we have to note that France gains both from the redistribution of transfers operated through the CAP and from the liberalisation of the european markets within the food sector. Germany is a net losers from the CAP, but gains from the outward activities operated by german firms in the retail food sector.

Cross border activity in EU food retail has increased in proportionate terms by over 50% from 1993 to 1996 (EC – DG Competition, 2000).

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1 An integrated and harmonised database which contains most of the key information on the structure of the retail food market and leading firms is published on the website of DG Competition: *europa.eu.int/comm/competition/publications/studies/bpifrs/chap07.pdf*

2 It is hard to evaluate the *effects* of a foreign direct investment on the welfare both of the origin country and destination country. In general, since the FDI implies, more or less, a high degree of control on resources situated in other countries; therefore, as primary effect, it should strengthen the international position of the firm and indirectly of the country of origin. Some say that the MNE has not to be linked to the country of origin. However, each multinational has a core management, situated in the "mother country", which includes the essential and proprietary skills of the firm itself. Furthermore, political tensions between countries arise when a firm from a country tries to take over firms in other countries Therefore, our general idea is that for each firm is still possible to identify a "mother country".

In table 4.3, we can see that the majority of outward activity in 1996 originated from Germany and France, with smaller magnitudes attributable to the Benelux countries, Austria and Denmark. Turning to the distribution across the host countries (inward), it is clear that the major recipients are the southern and smaller member states. Sweden and Finland stand alone, with no linkages, outwards or inwards. The market in these two countries tend to be dominated by local indigenous firms who, whilst large relative to the market, are quite small in absolute terms (EC-DG Competition, 2000).

Table 4.3 Cross-border operations by Member State in 1996 (bn ECUs)

	dom	*in*	*out*
Austria	4,1	6,7	1,1
Belgium	10,7	2,2	0,6
Denmark	8,76	1	0,7
Finland	10,6		
France	92,9	4,6	16,1
Germany	107	0,2	22,5
Greece	2,3	0,8	
Ireland	2,9	1	
Italy	14,2	6	
Netherlands	10,6	2,9	2,6
Portugal	1,7	3,8	
Spain	4,5	13,5	
Sweden	15,5		
UK	49,3	1,9	1
Total	*335,1*	*44,5*	*44,5*

Note: “dom” (for domestic) indicates the turnover in Member State i of firms originating from member state i; “in” indicates turnover in i of firms from other Member States; “out” indicates turnover of firms originating from i in other Member States.

Source: *DG Competition website - europa.eu.int/comm/competition/publications/studies/bpifrs/chap07.pdf*

As yet, there are no US and still less Japanese or Korean multinationals moving into the area (EC-DG Competition, 2000).

The southern member states are becoming the main destinations of cross-border activities operated by the main european MNEs; actually, in these countries, concentration is discernibly lower, but for Portugal and Spain change has been particularly rapid in recent years, partly as the result of expansion by leading firms from Germany and France. The same situation has been occurred also in Italy, but it seems mainly concentrated in Northern Italy (EC-DG Competition, 2000).

Table 4.2 The 1996 EU Retail Market Share Matrix: turnover of the top 20 firms in the EU food retail market (bn ECUs)

			A	BL	D	FIN	FRA	GER	GRE	IRE	IT	N	P	SP	SW	UK	TOTAL
	Firms	origin															
1	Rewe	GER	3.5				0.1	21								0.5	25.1
2	Metro	GER	0.9		0.3		2	16	0.3		1.5	1.2	0.7	0.7			23.6
3	Aldi	GER	1.5	1.2	0.5		1	17				1.1				0.8	23.1
4	Promodes	FRA					16		0.2		1.3		0.3	5.1			22.9
5	Edeka	GER			0.2			20									20.2
6	Carrefour	FRA					16				0.5		0.3	3.7			20.5
7	Intermarche	FRA		0.2			19							0.1			19.3
8	Auchan	FRA					15				0.4		1	2.7			19.1
9	Tesco	UK								1						16.0	17.0
10	Leclerc	FRA					16						0.1	0.1			16.2
11	Tengelmann	GER	0.7					13			0.7	0.6		0.1			15.1
12	Sainsbury	UK														12.0	12.0
13	Lidl & Scharw	GER					1.2	9.6			0.5			0.3		0.3	11.9
14	Casino	FRA					10										10.0
15	Spar Handels	GER						9									9.0
16	ASDA	UK														8.5	8.5
17	Safeway	UK														8.1	8.1
18	Ahold	N										6.6	1.4				8.0
19	Copp Italia	IT									6.7						6.7
20	ICA	SW													6.5		6.5

Source: *DG Competition website - europa.eu.int/comm/competition/publications/studies/bpifrs/chap07.pdf*

Appendix 4.A: List of regions considered in table 4.1

B	Vlaams Gewest, Région Wallonne
DK	Denmark
D	Baden-Württemberg, Bayern, Berlin, Brandenburg, Bremen, Hamburg, Hessen, Mecklenburg-Vorpommern, Niedersachsen, Nordrhein-Westfalen, Rheinland-Pfalz, Saarland, Sachsen
	Sachsen-Anhalt, Schleswig-Holstein, Thüringen
G	Greece
SP	Galicia, Principado de Asturias, Cantabria, Pais Vasco, Comunidad Foral de Navarra, La Rioja, Aragón, Comunidad de Madrid, Castilla y León, Castilla-la Mancha, Extremadura, Cataluña, Comunidad Valenciana, Baleares, Andalucia, Murcia, Ceuta y Melilla (ES), Canarias (ES)
FR	Île de France, Champagne-Ardenne, Picardie, Haute-Normandie, Centre, Basse-Normandie, Bourgogne, Nord - Pas-de-Calais, Lorraine, Alsace, Franche-Comté, Pays de la Loire, Bretagne, Poitou-Charentes, Aquitaine, Midi-Pyrénées, Limousin, Rhône-Alpes, Auvergne, Languedoc-Roussillon, Provence-Alpes-Côte d'Azur, Corse
IRE	Ireland
I	Piemonte, Valle d'Aosta, Liguria, Lombardia, Trentino-Alto Adige, Veneto, Friuli-Venezia Giulia, Emilia-Romagna, Toscana, Umbria, Marche, Lazio, Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicilia, Sardegna
L	Luxembourg
N	Noord-Nederland, Oost-Nederland, West-Nederland, Zuid-Nederland
A	Austria
P	Norte, Centro (P), Lisboa e Vale do Tejo, Alentejo, Algarve, Açores (PT), Madeira (PT)
FIN	Finland
SW	Stockholm, Östra Mellansverige, Sydsverige, Norra Mellansverige, Mellersta Norrland, Övre Norrland
UK	North East, North West (including Merseyside), Yorkshire and The Humber, East Midlands, West Midlands, Eastern, London, South East, South West, Wales, Scotland, Northern Ireland