

Portuguese Competition Authority

Competition policy issues in the Portuguese food retail sector

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Competition policy issues in the Portuguese food retail sector

- 1. Anti-trust:** Impact of large retailing groups (LRG) on suppliers & consumers:
Buyer power (BP) & Pass-through (PT)
- 2. Merger control: Some cases**

NB: Small territory \Rightarrow No (record of) transportation issues

LRG: Anti-trust, BP, & PT

Cf. “Buyer power and pass-through of [LRG] in the Portuguese food sector”, J. Rodrigues, Working Paper No. 14, PCA, October 2006

Available in:

<http://www.autoridadedaconcorrenca.pt/en/publications/competition.asp>

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LRG in Portugal:

- 1985: Opening of 1st hypermarket
- Ever since,
 - a) ↑ final consumers' demand: ≈75% in 2005;
 - b) ↑ purchases in supply-side: >50% of total food purchases in 2005

LRG: Anti-trust, BP, & PT: Plan of the talk

a) LRG's market position:

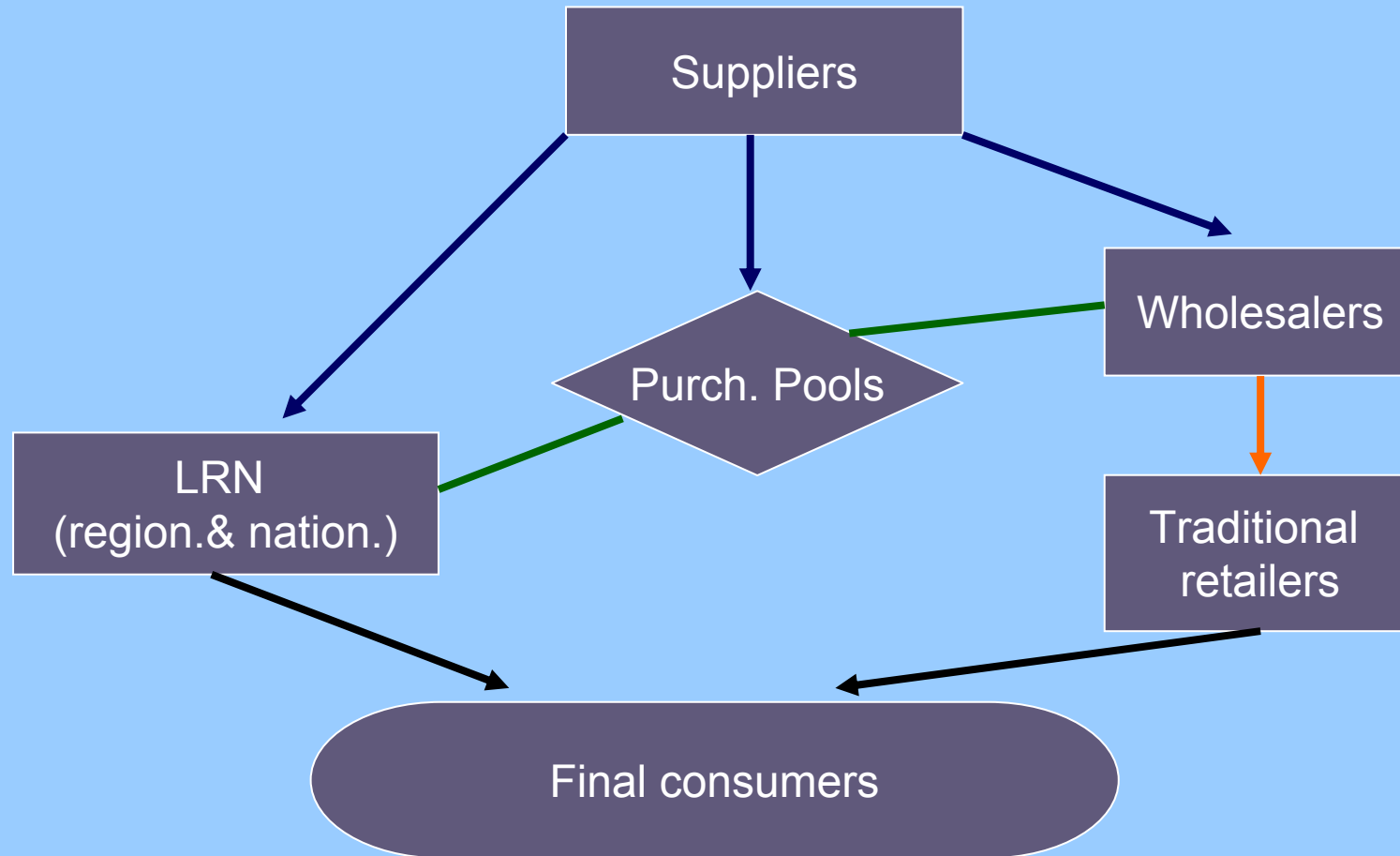
Upstream (purchases) &

Downstream (retail & wholesale)

b) Econometric findings on BP & PT

c) Concluding comments

Market(s) where LRG operate



Market structure

- Upstream: Competition among buyers, *i.e.* LRG, wholesalers, purchasing pools (of LRG &/or wholesalers), & other channels (*v.g.* HORECA)
 - Downstream:
 - a) Wholesalers → traditional retailers;
 - b) Retailers (LRG & traditional) → final consumers
- ⇒ Any case on LRG (anti-trust or merger) must consider the 2 sides of the market!

Anti-trust: Ex. Purchasing pooling agreements

- National Competition Law (NCL):
 - ❖ Art. 4: (horizontal & vertical) agreements
 - ❖ Art. 6: Abuse of dominance
 - ❖ Art. 7: Abuse of the state of economic dependency

- Purchasing pools eligible of EC CL:
 - ❖ Cumulated purchase share $\geq 15\%$
 - ❖ **Appreciable effect** on (upstream) competition and on respective downstream markets

- Ex.: UNIARME or Jerónimo Martins (JM) pool

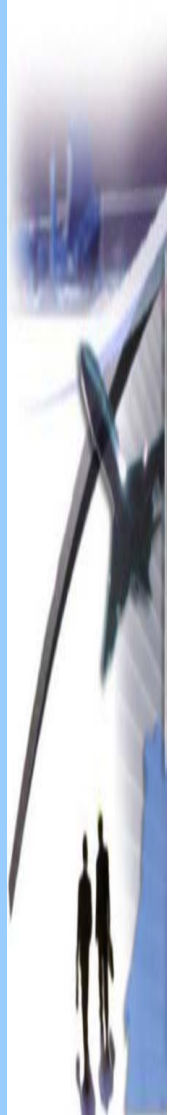
↑ **Market concentration of LRG:**

Upstream:

- Purchasing pools (JM pool)
- Fewer alternatives to suppliers?
- Suppliers' margin squeezing?

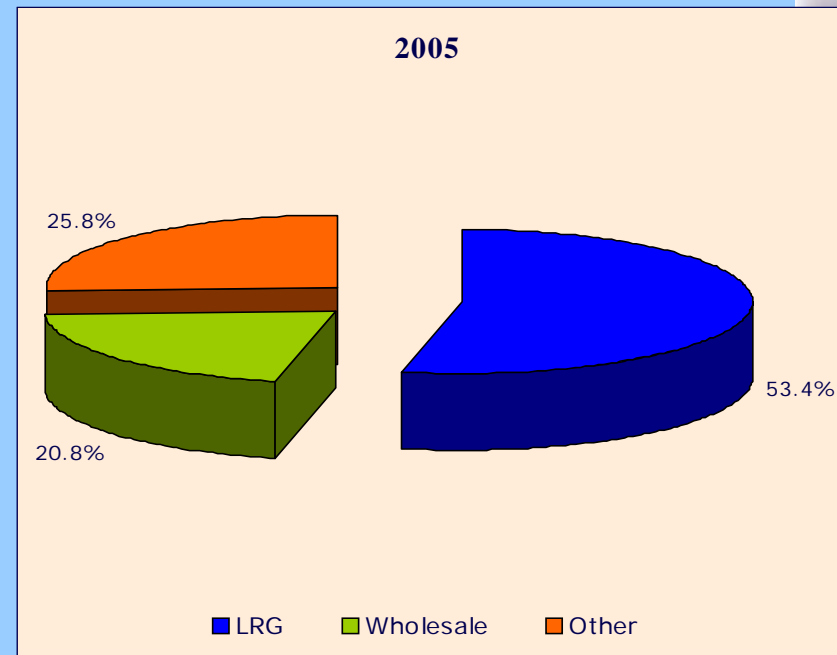
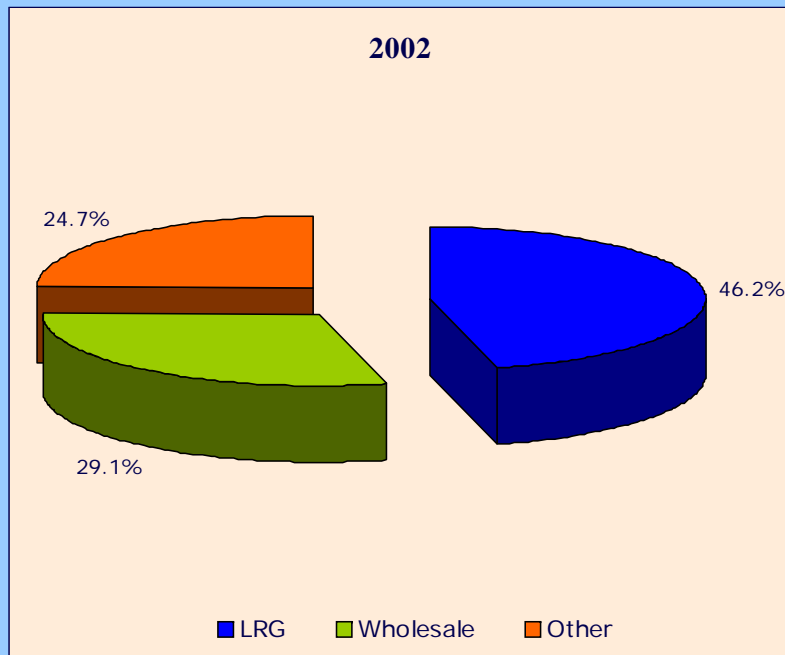
Downstream:

- Fall of traditional retailers?
- Impact on final consumers?



a) LRG & anti-trust: Upstream

Shares of major buyers in the overall market



⇒ LRG ↑ while wholesalers (& traditional retailers) ↓

a) LRG & anti-trust: Upstream

Table 1

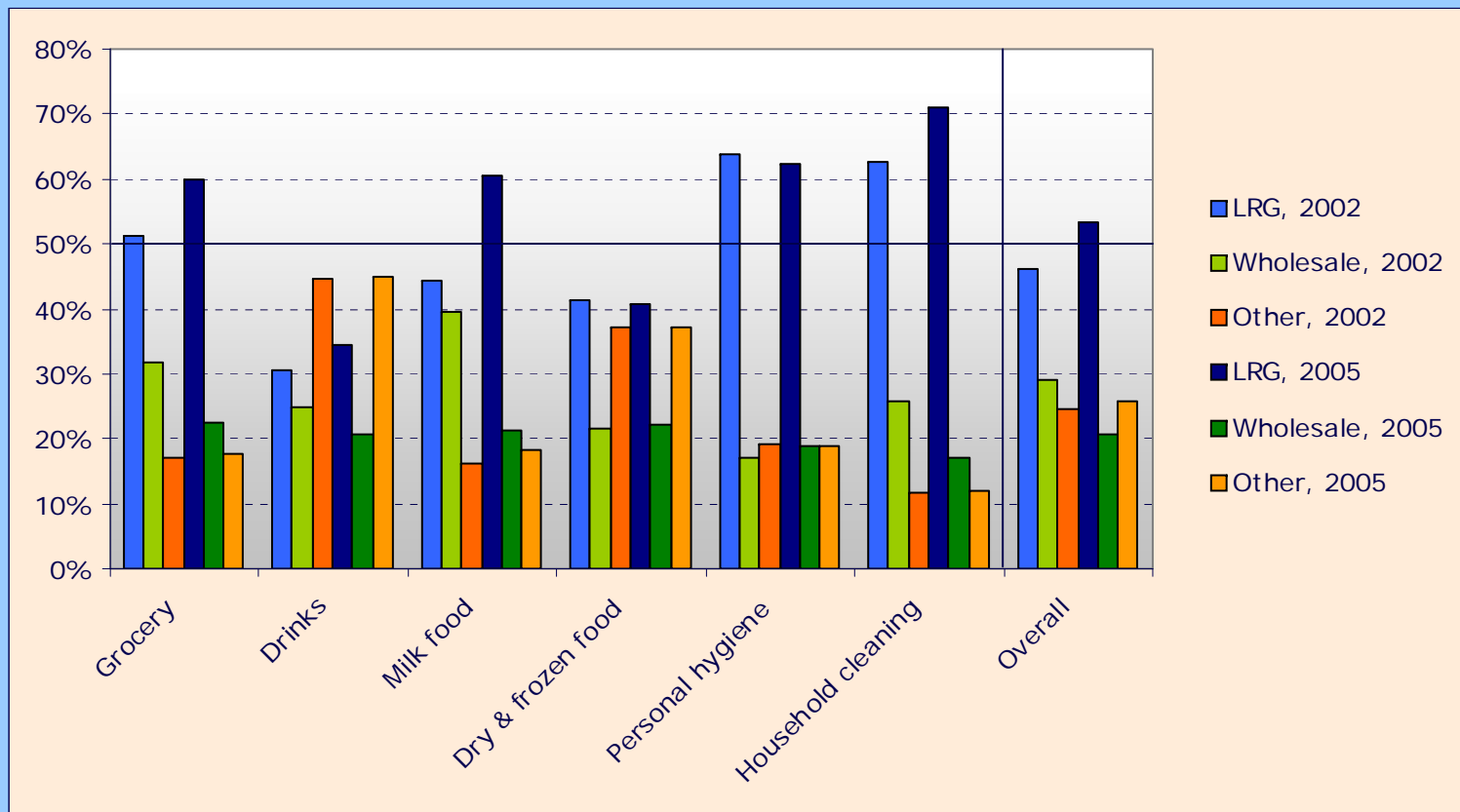
Structure of purchases in the Portuguese food sector, over the period 2002-2005

	2002	2003	2004	2005
Market value (Mio €)	7.827,6	7.702,9	7.499,1	7.518,9
Major LRGs (%)	46,2	48,9	50,6	53,4
1 st + 2 nd (%)	25,2	23,9	23,9	24,9
3 rd + 4 th + 5 th (%)	17,0	19,4	20,6	21,3
Other (%)	4,0	5,6	6,1	7,2
Major Wholesale (%)	29,1	25,8	23,9	20,8
Other channels (%)	24,8	25,3	25,5	25,8
JM pool / 1 st LRG	2,100	1,772	1,671	1,052
JM pool / Major LRGs	0,638	0,527	0,482	0,304
HHI LRG + JM pool	1168	1013	968	677

Note: The HHI is computed on the basis of the cumulated purchases of all major LRG and the JM pool.

a) LRG & anti-trust: Upstream

Shares of major buyers across categories

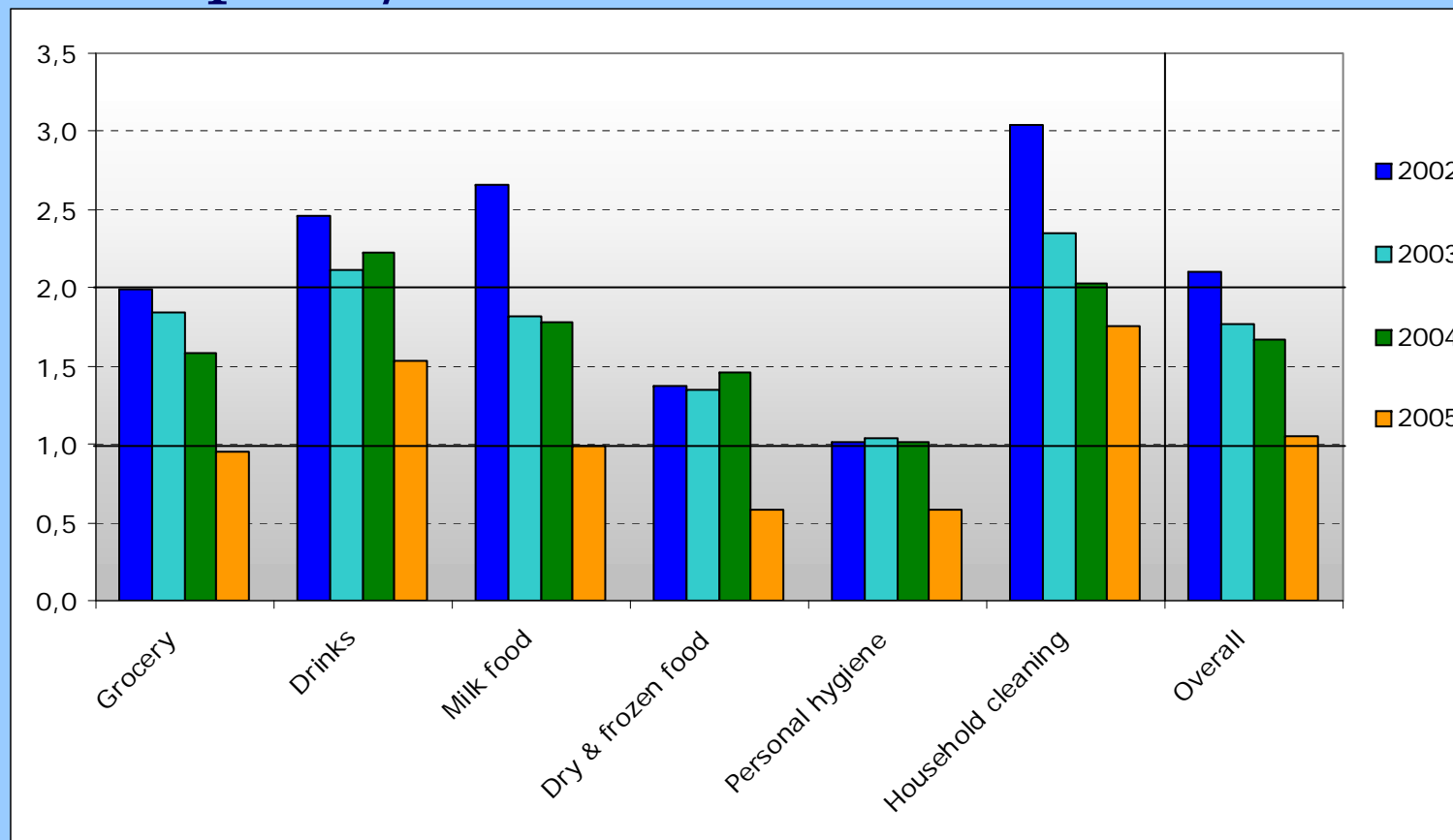


a) LRG & anti-trust: Upstream

- LRG ↑ overall and over some categories
⇒ Yet, NO fewer alternative to suppliers:
at least 8 LRG in Portugal: MC (Sonae), JM, Les Mousquetaires, Auchan, Carrefour, Leclerc, Lidl, and Tengelmann
- Moreover,
 - ↓ JM pool & w.r.t. to MC (2nd buyer)
 - Closing of the gap between LRG

a) LRG & anti-trust: Upstream

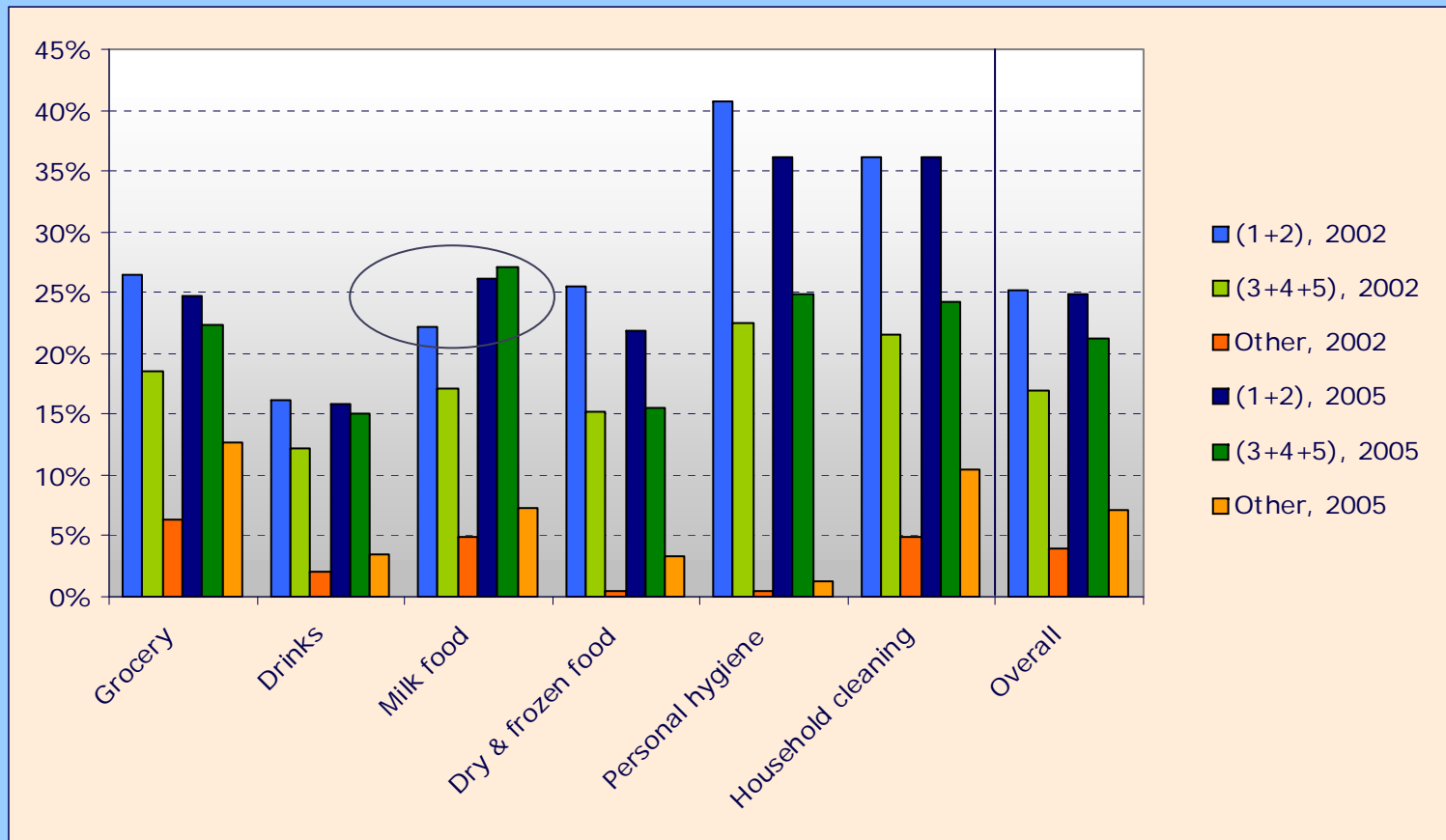
Closing of the gap between 1st 2 buyers:
JM pool / MC



Autoridade da Concorrência

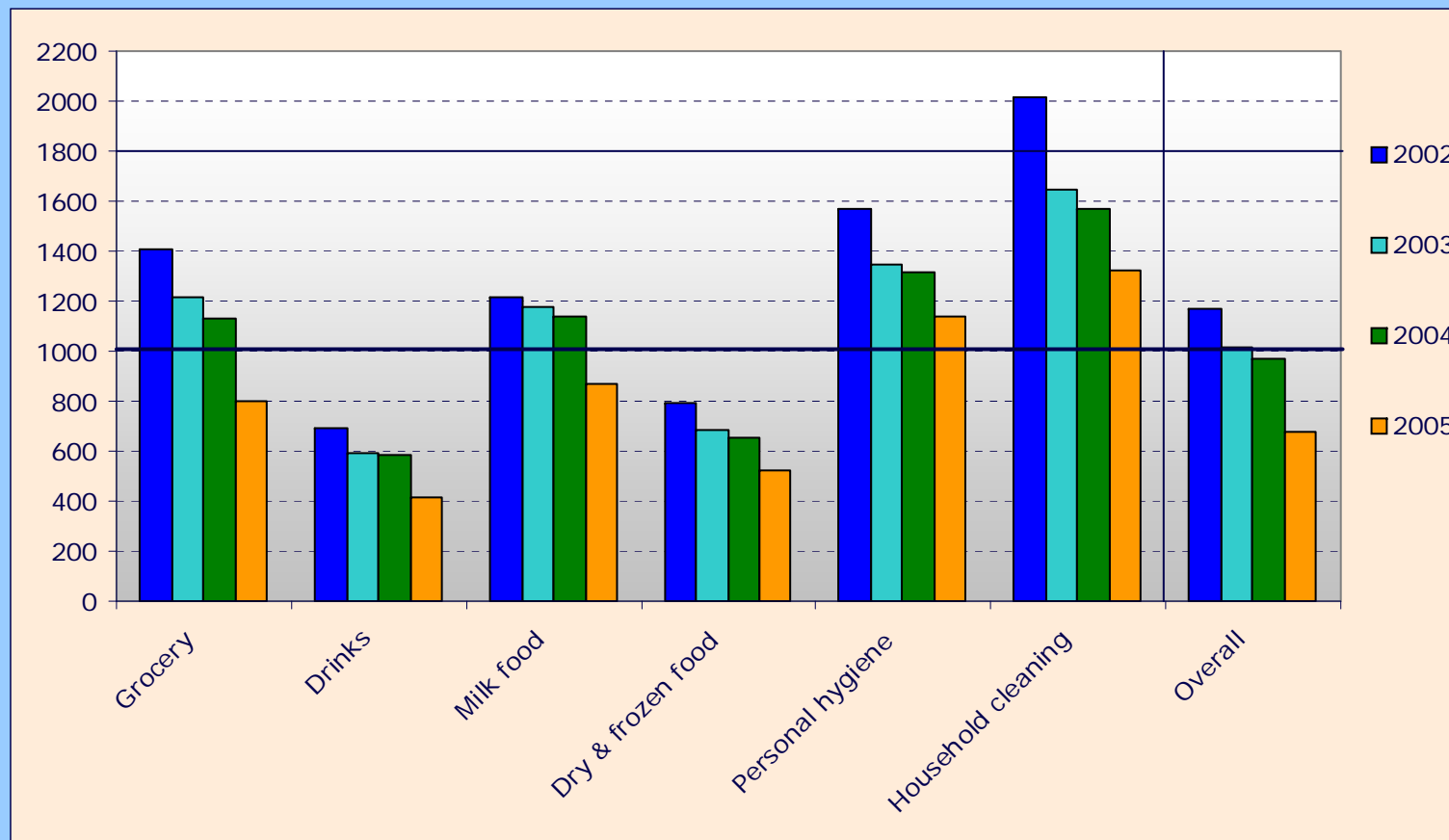
a) LRG & anti-trust: Upstream

Closing of the gap between LRG



a) LRG & anti-trust: Upstream

Substantial ↓ HHI [LRG + JM pool] purchases



Autoridade da Concorrência

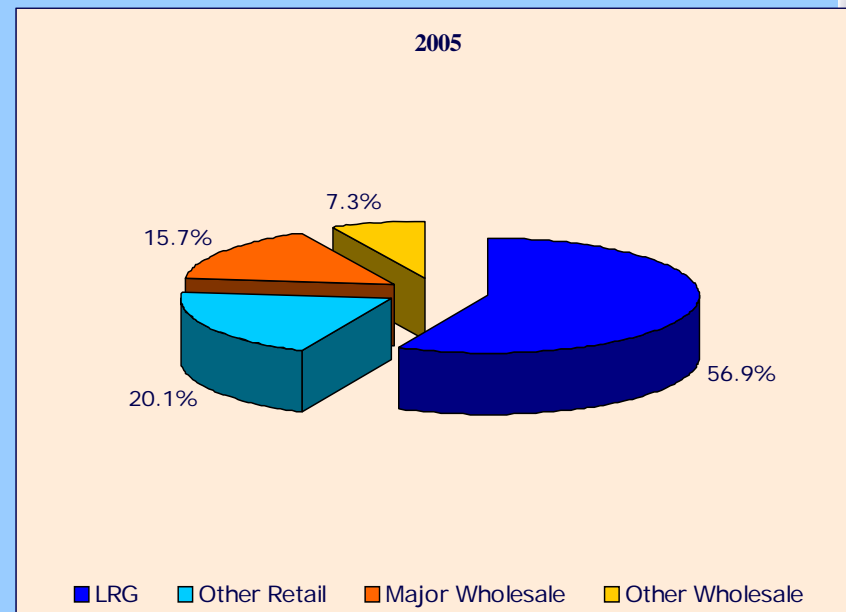
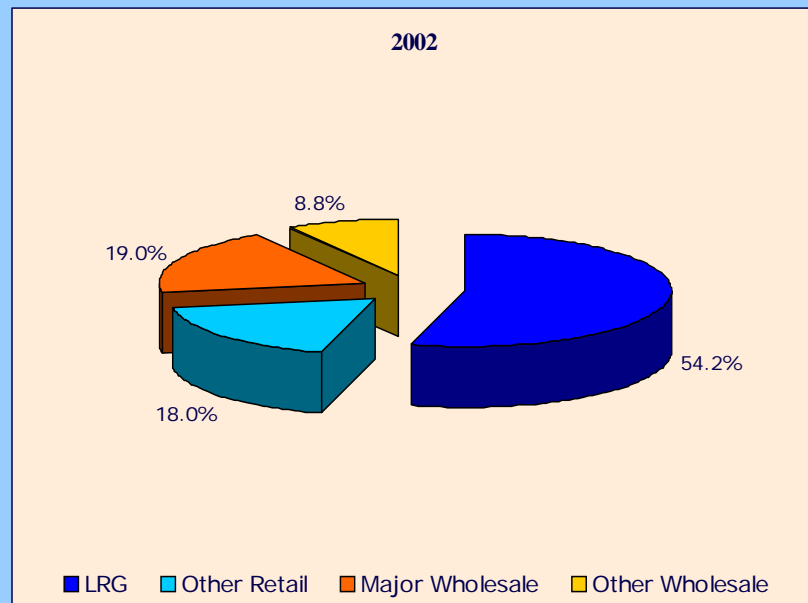
a) LRG & anti-trust: Upstream

Summing up,

- ↑ total share of LRG on purchases, BUT
 - ✓ Several (8) LRG in the market;
 - ✓ Closing of the gap between LRG & between 1st 2 buyers, JM pool & MC;
 - ✓ Substantial ↓ of HHI (LRG + JM pool) < 1000, the 1000 concentrated market's threshold
- ⇒ No likely harm to competition or suppliers!

a) LRG & anti-trust: Downstream

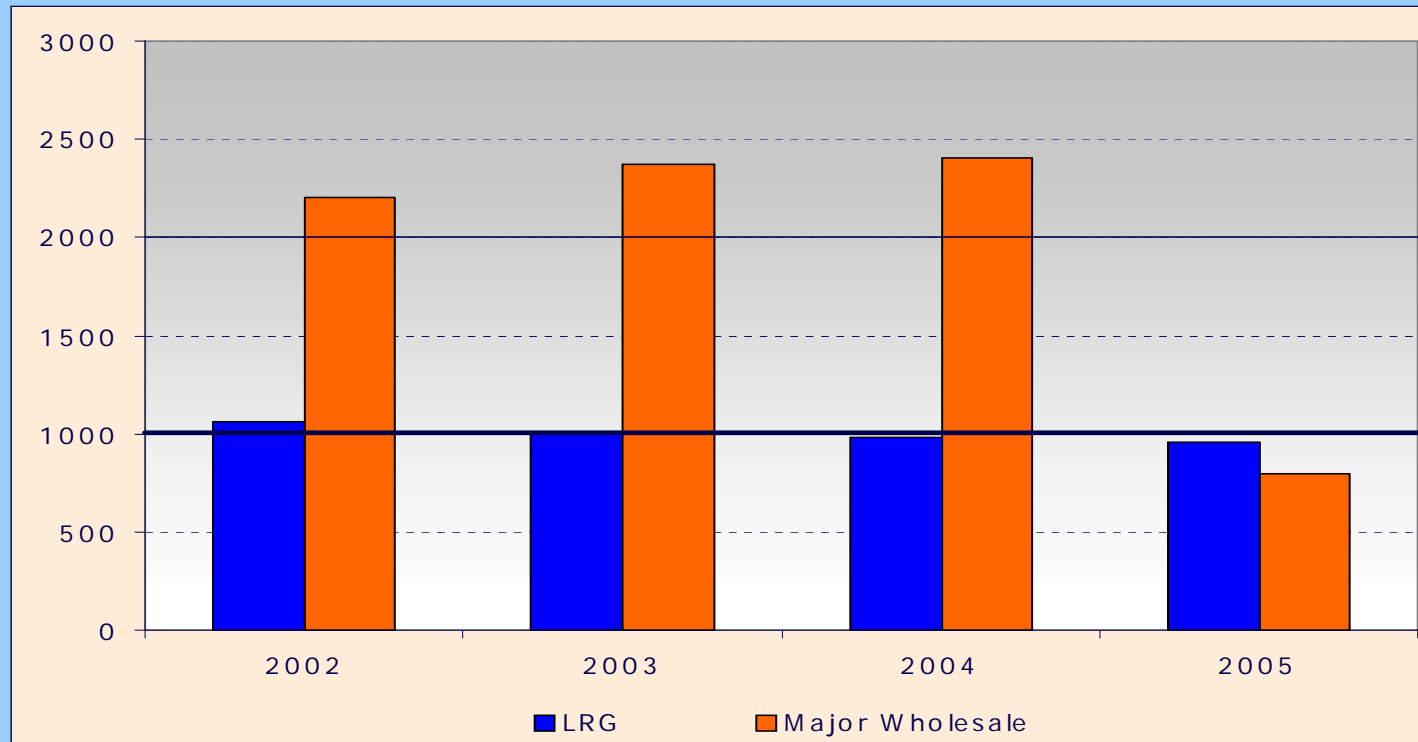
Cumulated retailing and wholesale



⇒ LRG ↑ over wholesalers

a) LRG & anti-trust: Downstream

HHI of LRG (retail) *vs.* HHI of major wholesale



2004-05: Exit from JM pool of its 2nd associate, the wholesaler UNIMARK!

a) LRG & anti-trust: Downstream

In particular,

Table 2

Structure of retail sales over the period 2002-2005

	2002	2003	2004	2005
Market value (Mio €)	10.482	10.716	10.632	11.304
Major LRGs (%)	75,0	74,4	74,2	73,9
1 st + 2 nd (%)	38,4	36,3	34,0	31,4
3 rd + 4 th + 5 th (%)	29,1	30,3	31,7	30,9
Other (%)	7,5	7,8	8,5	11,6
$(1^{\text{st}} + 2^{\text{nd}}) / (3^{\text{rd}} + 4^{\text{th}} + 5^{\text{th}})$	0,756	0,835	0,932	0,984
HHI Major LRGs	1061	1005	980	956
Other retailers (%)	25,0	25,6	25,8	26,1

Note: The HHI is computed on the basis of the major LRG's sales shares in this market.

a) LRG & anti-trust: Downstream

Summing up,

- Tendency ↓ wholesale (& traditional retailers)
- Tendency to ↑ LRG, though
- Closing of the gap between LRG, &
- Evidence of low HHI over the 2 market streams

⇒ No likely harm to competition

⇒ No likely harm to final consumers (PT ?)

b) LRG: Econometrics of BP & PT

Findings compatible with structure:

- LRG dispose of a \uparrow BP (\uparrow concentration in the supplying market) but with no likely harm to suppliers;
- They PT to final consumers the gains they get from that BP; &
- Sell at lower prices than national trade

c) LRG: Concluding comments I

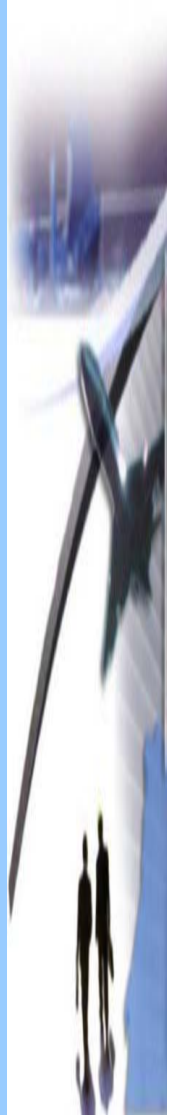
- Existence of BP, but
 - No likely harm to competition
 - No likely harm to consumer welfare
- Why?
 - Fairly degree of competition among LRG
 - Despite ↓ wholesale & traditional sector,
 - Yet, legal barriers to entry up to March/04!

c) LRG: Concluding comments II: Scope for competition policy

- Multi-product nature of LRG
- ⇒ Difficult to prove the “appreciable effect on competition” &/or the existence of dominance (Arts. 6 & 7)
- No evidence of “dominance”,
- Though “Dominance” may require a + refined product-specific analysis (*v.g.* Gohin & Guyomard, 2000)

Further research

- Product-specific analysis & “dominance”
- White brand products
- Hard discount chains (Lidl & Tengelmann)
- Franchise-type groups (ITMI & Leclerc)
- + recent data to track down effect of new entry legislation!



End of Part I

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