



ROYAL NORWEGIAN
MINISTRY OF AGRICULTURE AND FOOD

Milk market regulations – new challenges in the food market?

Effects of stronger buying power in the Norwegian food sector

Ag policy in Norway – major instruments

- Ag Policy
- Tariffs (quotas and preferences)
 - - protected market for dairy, meat, grains etc.
 - - more open market in other areas
- Target price system – i.e. “target”, but also maximum price at point of first sale
- Market regulation by co-operatives (dairy, meat, grains), also responsible for obtaining target prices
- Farmers responsible for any regulation outlets, based on marketing levies paid by producers
- Competition Policy
- *“The King in Council shall (...) provide for the exemptions from Sections 10 and 11 that are necessary to implement agriculture and fisheries policies.”*

1980-ies - - the problem of big suppliers

Concerns:

- Dominant co-operatives have economical advantages through position as “market regulator”? (relative to other private industry)
- Several adjustments undertaken
- **1995:** One ultra dominant supplier (Tine – dairy) in a position to suppress the development of newcomers?
 - Lack of competition – negative effect on food prices, product development and food diversity.
- Competition on “equal and transparent terms” in the dairy sector was enforced by the Parliament in 1995/96.

Measures undertaken in Ag Policy

- Traditional obligations for Tine as market regulator:
 - - buy and collect milk from any milk producer in Norway
 - - sell milk to any milk buyer
- New requirements:
 - - supply milk to any dairy in Norway (but producers of liquid milk have to have some supply directly from farmers)
- Regulation and control of milk price when selling to other dairies
- Norway also operate a price differentiation system (self financed with levies and subsidies), ref Milk Marketing Boards in US
- Private, "independent" dairies pay a lower levy (3 Euro cent) or get a higher subsidy where the dairy co-operative is "dominant" in the Norwegian market



Present situation

- The dairy co-operative – Tine - is still rather “dominant” in most areas of dairy in Norway, however the market shares are significantly lower than in the 90-ies, especially in cheese
- No “milk crisis” in Norway – producer prices are stable
- The Norwegian meat co-operative is in “financial crisis”
- The grain co-operative has some internal problems
- The Norwegian co-operative within vegetables etc. “disappeared” in the late 90-ies and the sector is vertically integrated and controlled by the retailers (contract production)

From “*problem of big suppliers*” – to “*problem of buying powers*” ?

- From one major consumer co-operative + many small grocers...
- ... to 4 retailer groups controlling 99 % of the Norwegian consumer food market - - in 15 years...
 - One retailer group has a market share of 40 % (has a gross turnover of 5,8 billion Euro, which is higher than combined turnover of the three biggest suppliers...)
 - Within the HORECA market, the market share of one party is 85%.
- It is possible to earn money in the food market... - 3 owners of retailer groups are in “top ten” list of wealthiest persons in Norway
- Financial crisis – new impetus in the direction of:
 - Vertical integration
 - Buying or controlling industry, and expanding in private labels

What problems... (I)? - in principle

- Short term- challenge for farmers, industry and Ag Policy
- - Market signals from/to agriculture do not reach consumers
- - At all...? - In a varying degree...?
- - With a substantial time lag
- Ref experiences in the European Union (present "milk crisis"), case also in Norway
- "What if" – further vertical integration...
- - Present market organization in Norway should not work (ref. vegetables – (im)possible in...)
- - Should have other significant effects on Ag Policy

KOSTER MÆLSK

Gilde-produkter taper stort i mini-kjøttmatbørs

Av OYSTEIN LARSEN-KONSTETT og SVEN ARNE RUGGELAND

Bl du ha røkte kjøttbøtter uten å betale så mye som prisvarianten VG sjekket hvor mye du betaler for krisesammene driftens produkter.

Kjøttbøtterne hos Kiwi er 25 kroner billigere enn du er i midtjulestidene, og med First Price, har Gilde mer lønnet enn 20% for deres egen kjøttbøtte. Høyt er det når du ha for pakula-

2 har sjekket priser på en av Gilde og First-variantene i butikken og i påleggshyllene. Det er 28 enhetsvarer i de spragligste. En av de som er sjekket opp mot det billigste alternativet, kjødet i merkevare, Gilde er i momentet på de billigste varene hele 28 prosent billigere enn kjødet egne merker. På enkeltproduktene for varen ermeret i, og der der servelat er både hos og Rema resten tre ganger dyrt. En dross 30-40 prosent for billigere til a (som betyr Nordfjord kjøttprodukter) og First Price hos Kiwi med 120-130 er billig for Gilde merke. Den samme prisforskellen finner du også på skinken.

Wienerpølser fra Gilde er 10-15 prosent dyrere enn andre produkter fra kjøtt og merkevare. Det er så du ha flintstekt på grillen er Rema Nordfjord til 30,00 kroner billigere, og kraver på sin side 90,00 er for sin merkevare i samme kjødet.

Prisene er gjennomgått valgt utvalgte av Rema til. De oppgitte prisene er kilo. Paknings størrelse varierer noe. Oversikten er som pris, ikke størrelse på forskjellige produktene, og er bestilt inn 4. juni.



Nordfjord røket kjøttbøtte



Gilde røket kjøttbøtte



Nordfjord wienerpølse



Gilde wienerpølse



Nordfjord kjøttbøtte



Gilde kjøttbøtte



First Price 10 pk. egg



First Price 12 pk. egg

På grillen	Gilde/First	Eget varemerke (FVM)
Grillpølser	34,80	26,67
Grillpølser, kylling	32,17	26,90
Grillpølser, kylling	69,80	50,00
Østegrill	85,90	62,50
Sommerkoteletter, fersk	67,70	55,70
Sommerkoteletter, røkt	84,90	59,90
Ytrefilet, storfe	195,00	199,00
Entrecote, storfe	189,80	189,00
Marinert fløistek	89,90	59,90
Totalt sum	849,97	729,57

Middag	Gilde/First	Eget varemerke (FVM)
Wienerpølser	54,80	34,90
Wienerpølser	56,90	33,19
Kjøttdeig, kylling fersk	67,25	49,86
Kjøttpølse, røkt	47,71	30,00

bitstrimler	224,00	192,50
Bitstrimler	224,90	179,90
Strimlet svinekjøtt	139,00	98,00
Totalt sum	754,70	602,50

Pålegg/egg	Gilde/First	Eget varemerke (FVM)
Serelat	123,30	50,00
Serelat	116,00	49,60
Skinke, kokt	220,00	133,30
Skinke, kokt	232,67	91,60
Kalkunpålegg	248,00	240,00
Fenalar, oppskåret	576,00	470,90
Salami	226,70	165,00
Salami	226,00	99,60
Leverpostei, grov	114,70	102,70
Egg, 12-pakning	34,80	33,90
Egg, 12-pakning	34,34	26,72
Totalt sum	2162,51	1463,32

Varemerke/kjede	Så mye dyrere er Gilde
Rema, Nordfjord	30 %
Kiwi, First Price	20 %
Rema, Solvinge	40 %
Rema, Nordfjord	37 %
Rema, Nordfjord	22 %
Kiwi, First Price	42 %
Rema, Nordfjord	BILLIGST -2 %
Rema, Nordfjord	0 %
Kiwi, First Price	50 %

Rema, Nordfjord	57 %
Kiwi, First Price	71 %
Kiwi, First Price	35 %
Rema, Nordfjord	59 %
Totalt sum	110 %
Rema, Nordfjord	67 %
Kiwi, First Price	67 %
Rema, Nordfjord	50 %
Kiwi, First Price	87 %
Rema, Nordfjord	39 %
Kiwi, First Price	47 %
Rema, Nordfjord	14 %

Rema, Nordfjord	32 %
Kiwi, First Price	20 %
Rema, Nordfjord	16 %
Kiwi, First Price	25 %
Rema, Nordfjord	42 %

Rema, Nordfjord	146 %
Kiwi, First Price	154 %
Rema, Nordfjord	85 %
Kiwi, First Price	154 %
Rema, Solvinge	3 %
Rema, Stranda	22 %
Rema, Nordfjord	38 %
Kiwi, Dansk type	27 %
Rema, Solvinge	12 %
Rema, Solvinge	3 %
Kiwi, First Price (18 pkn)	29 %



Nordfjord Serelat



Gilde Serelat



First Price kokt skinke



Gilde kokt skinke



First Price kyllingfilet



Private labels are in general priced 25- 40 % lower than comparable products – how is that possible...?

Konkurrerer mot seg selv

Av ANR BRANDVOLD
 tura skylder på billikonkurrerer, men s av dem bruker turs eget kjøtt.

hundene som velger billige konkurrerer.
 - Det er lavprisgjennomtallet som gjelder nå. Vi har ønsket prisene i takt med markedet, men har ikke klart å kutte kostnadene tilsvarende, sier konsernsjef Geir Olav Opheim.

Etvid Jacobson ved Biotona institutt for forbruksforskning (BIFPO) understreker for Nortura måtte ta grep.
 - Nortura slakter oss lag 70 prosent av markedet i Norge, men ute i butikken har Nortura bare mellom 40 og 50 prosent av markedet, sier Jacobson.

Dette skjer fordi de leverer konkurrerende ferdiglagde produkter med råvarer, påpeker han.
 - Nortura produserer også

- Det salg av billigkjøtt gjør at volumet ligger stabilt for Nortura, men de gir oss samme ikke penger på det, sier Heller.
 Coop Norge kjøper kyllingkjøtt fra Nortura til omtrent 20 prosent av varens kjøstpris selger han på egen Coop-lags.
 - For noen næringsvekslerdrifter er det nok et dilemma å se produktene bli solgt opp til

laga. Dette kan vi gjøre fordi vi dropper alle markedsføringskostnader, sier informasjonssjefen Bjørn Kleivestad.
 Det er nemlig kjøttkjøtt fra First som kjødet kjøper billig fra Nortura til eget bruk. First kjøper smaker ikke å opplyse hvilke produkter ordningen omfatter.
 - Vi gir ikke slike opplysninger, men kan ha bakgrunn til

merkevare, sier Per Hovde i Norgesgruppen. Etter det VG erfarer, ender mye kjøttfillet fra Nortura med «First Price»-logo.

Et av tiltakene Nortura vurderer, er å benytte seg mer av innkjøpt kjøtt. Hittil har selskapet kun solgt innkjøpt til industrien, ikke til matvarebutikken. (Elev. Du

What problems... (II)? - the issue of transparency

- Do prices for private labels – reflect cost of production and the quality of the product - or is cross subsidies used to influence single markets?
- Are cross subsidies used to sell private labels with zero profit or under cost - in competition with products that follow normal price formation?
- Private label production give retailers information that normally is not exchanged between competitors (private label versus private brand)
- The systems for pricing the products are really not transparent: ref bonus systems, joint marketing, discounts systems, portfolio agreements etc.
 - How to identify misuse on single markets when the negotiations are on a portfolio basis - sum estimated up to 1 billion Euro

What problems... (III)?

- possible negative effects of new imbalances

The buying powers influence over the food market, industry, agricultural production and farmers may:

- Obviously lead to lower profits in production and industry
- Which should lead to lower ability for the industry to innovate (private labels are usually "copies")
- Which may lead to less diversity in the food market
- And in the end...? With higher prices for consumers – and higher profits for retailers...
- You may probably trust them – they know what they are aiming at...(?)

Analysis of power and control in the Norwegian food sector

- Initiative of the Minister of Agriculture and Food
- To be further discussed

Outline of possible mandate for a committee:

- Secure the consumers a diversity of food at prices that reflect quality and cost of production.
- Secure transparency and public view to enable satisfactory and adequate control of the sector.
- Secure that the political goals for the food sector may be obtained.

Outline of a possible mandate (II)

Mapping and evaluation:

- Of the state of affairs and development in the Norwegian food sector with an emphasis on the increasing market power held by the retailers.
- Of market shares of the retail groups in different geographical areas and in different markets (grocery, Horeca, institutions and convenience etc.).
- Of the retailers tools of power and influence of the value chain of foods.
- Significance and effects of vertical integration form the retail chains.
- International comparison.

Discuss and propose - possible adjustments in political tools

- Based on: -Increased transparency and knowledge of the hidden dynamics behind pricing and product diversity.
- Vertical integration and private labels challenge our perception of buying power.
- Might buying power in an oligopoly be a threat to a sensible balance in bargain power ?
- If so – how to adjust negative effects of a dominating buying power?
- By (new) legal measures and/or new legal practise?
- Discipline for both parties in the market.

Possible tools...

- Price monitoring – we have (some) price monitoring in Norway. May have some effect – from time to time...
- We do not have net price information for the transaction of consumer ready products between industry and retailers

- Margin monitoring – and control?
- - We do have experience in Norway in margin control in industry (dairy). Huge complexity (volume, price, discounts, joint marketing etc., volume of milk per product, milk fat – in/out, cost and cost structure)
- - We do have experience with total monitoring of margins (meat products). Even bigger complexity...
- Enforcement of legal instruments versus vertical integration...?
- Enforcement in the direction of net pricing, where certain discount systems are prohibited? Will increase transparency and possibilities for control
- “Code of practise”??

Many questions - few answers...

- That's why we need further analysis and discussion.
- Norway follow with great interest work undertaken in the European Union and in the High Level Group.
- Norway will – eventually – be happy to contribute!!