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

<u>Concerns:</u>

- Dominant co-operatives have economical advantages through position as "market regulator"? (relative to other private industry)
- Several adjustments undertaken

- **<u>1995</u>**: One <u>ultra</u> 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 <u>*"equal and transparent terms"*</u> in the dairy sector was enforced by the Parliament in 1995/96.

Measures undertaken in Ag Policy

- Traditional obligations for Tine as market regulator:
- \- <u>buy and collect</u> milk from any milk producer in Norway
- \- <u>sell</u> milk to any milk buyer
- <u>New requirements:</u>
- \- <u>supply</u> 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

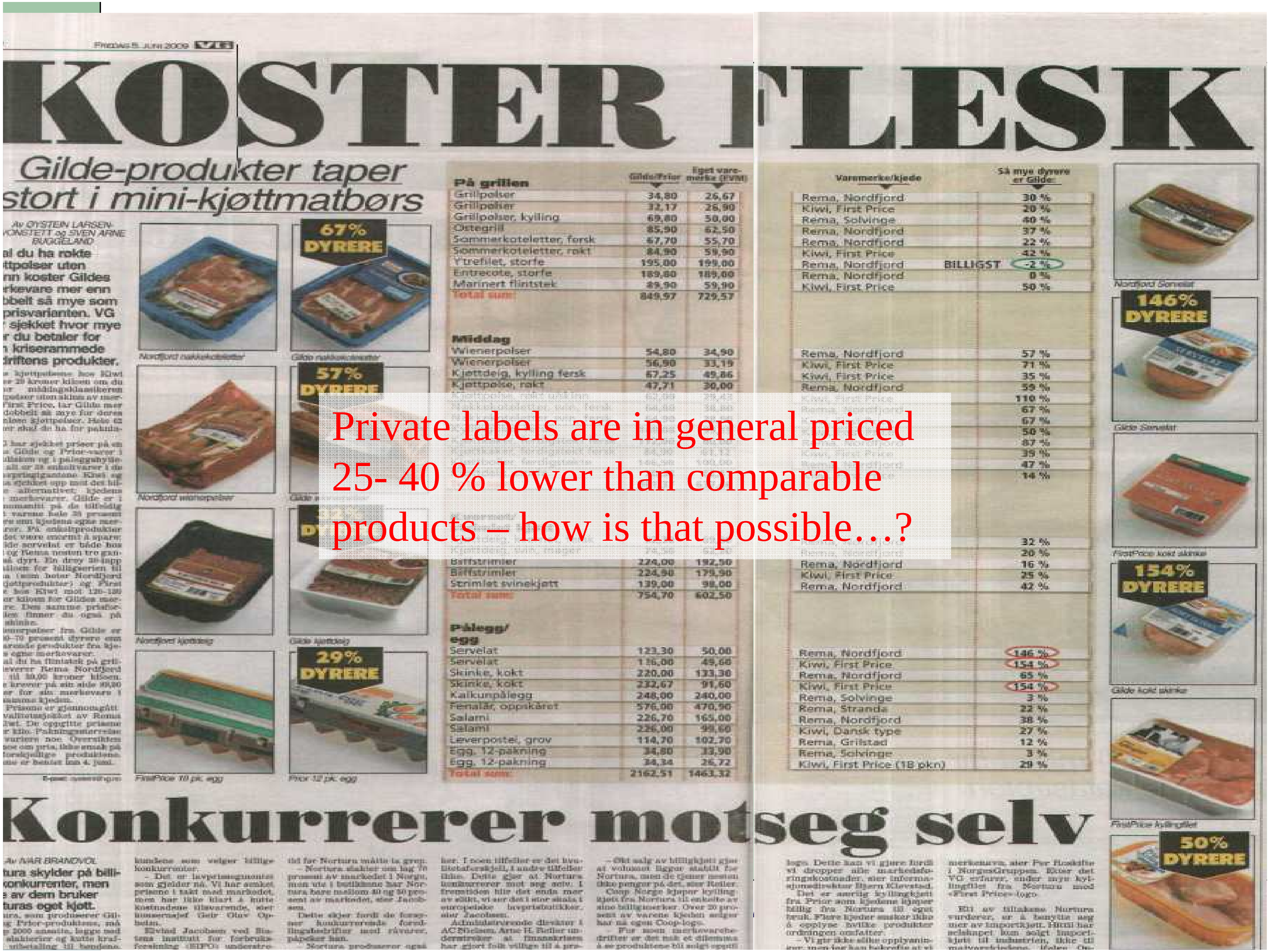
- <u>Short term</u>- challenge for farmers, industry and Ag Policy

- - 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 FLESK

Gilde-produkter taper stort i mini-kjøttmatbørs

På grillen	Gilde/Prior	Eget varemerke (EVM)	Varemerke/kjede	Så mye dyrere er Gilde:
Grillpølser	34,80	26,67	Rema, Nordfjord	30 %
Grillpølser	32,17	26,90	Kiwi, First Price	20 %
Grillpølser, kylling	69,80	50,00	Rema, Solvinge	40 %
Ostegrill	85,90	62,50	Rema, Nordfjord	37 %
Sommerkoteletter, fersk	67,70	55,70	Rema, Nordfjord	22 %
Sommerkoteletter, røkt	84,90	59,90	Kiwi, First Price	42 %
Ytrefilet, storfe	195,00	199,00	Rema, Nordfjord BILLIGST	-2 %
Entrecote, storfe	189,80	189,00	Rema, Nordfjord	0 %
Marinert flintstek	89,90	59,90	Kiwi, First Price	50 %
Total sum:	849,97	729,57		
Middag				
Wienerpølser	54,80	34,90	Rema, Nordfjord	57 %
Wienerpølser	56,90	33,19	Kiwi, First Price	71 %
Kjøttdeig, kylling fersk	67,25	49,86	Kiwi, First Price	35 %
Kjøttpølse, røkt	47,71	30,00	Rema, Nordfjord	59 %
Biffstrimler	224,00	192,50	Rema, Nordfjord	16 %
Biffstrimler	224,90	179,90	Kiwi, First Price	25 %
Strimlet svinekjøtt	139,00	98,00	Rema, Nordfjord	42 %
Total sum:	754,70	602,50		
Pålegg/egg				
Servelat	123,30	50,00	Rema, Nordfjord	146 %
Servelat	126,00	49,60	Kiwi, First Price	154 %
Skinke, kokt	220,00	133,30	Rema, Nordfjord	65 %
Skinke, kokt	232,67	91,60	Kiwi, First Price	154 %
Kalkunpålegg	248,00	240,00	Rema, Solvinge	3 %
Fenalår, oppskåret	576,00	470,90	Rema, Stranda	22 %
Salami	226,70	165,00	Rema, Nordfjord	38 %
Salami	226,00	99,60	Kiwi, Dansk type	27 %
Leverpostei, grov	114,70	102,70	Rema, Grilstad	12 %
Egg, 12-pakning	34,80	33,90	Rema, Solvinge	3 %
Egg, 12-pakning	34,34	26,72	Kiwi, First Price (18 pkn)	29 %
Total sum:	2162,51	1463,32		

Konkurrerer motseg selv

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

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!!