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**Who are the captains of the
global value chains of food,
and can we regulate them ?**

**BIG FOOD – Global concentration in
the value added chains of food - Impacts
to sustainability**

Policy matters !

- ❖ Food is a special thing
- ❖ Anyway necessary for everybody
- ❖ Everybody is an expert in food
(retailing)

Generally:

**fairly more than sufficient on earth
but at the same time there is hunger for
millions (of children)**

**It's distribution stupid! It's power in the
global value chain stupid!**

Global commodity chain (GCC) food:

**Agricultural input industries (machines,
seed, fertilizer..)**

Agriculture

(Wholesale retailing, logistics)

Food processing

(Wholesale retailing, logistics)

Retailing

Consumers

Is the consumer the captain of the global value chains of food?

Globalization of capital in food processing industries already since longer times (Nestle, Unilever..)

In the nineties also in food retailing:

- ❖ Wal-Mart entered Europe
- ❖ European food chains advancing on the US-market - in the important region of the north-east 3 of the 4 biggest chains are “European”
- ❖ Much investments in emerging markets (Latin America, East Asia) – sharp competition
- ❖ Capture of many Central and East European food retailing markets

Consequences of globalization of food retailing:

- „Store war“
- Global concentration – SME decreasing
- Wal-Mart 2001 world biggest enterprise (according to turnover)
- Price pressure on agriculture (traditional) and food processing industry (new)
- New intensity of agribusiness with implications like BSE

New developments in the global value chain of food in the nineties:

Further concentration in the food processing industries and food retailing on the European level:

Some reasons:

- Single market
- integration
- currency union
- decreasing company costs of mobility and transport

- Thatcher already in the eighties went ahead at the deregulation of spatial planning, so the oligopolization was driven strongly by new outlet locations in Great Britain.¹

Policy matters !

¹ Poole R., Clarke G. P. and Clarke D. B. (2000): Growth, Concentration and Regulation in European Food Retailing, European Urban and Regional Studies, pp. 167-186, p. 168

Power shift from production to retailing

„The trend towards a global food system has traditionally been led by global food manufacturers with ‘local’ retailers in each country serving a passive and cooperative role as shopkeepers for manufacturer’s branded products.

*Today, however, retailers are going global. Moreover, the **increase in retail concentration and power in distribution channels is fundamentally altering retailer-manufacturer relations.**”²*

² Cotterill R.W. (1999): Continuing Concentration in Food Industries Globally: Strategic Challenges to an Unstable Status Quo, Food Marketing Policy Center Research Report No. 49, University of Connecticut p. 1

Power shift from production to retailing by new information technology:

- (Scanner and other information technologies now gives market information advantage to retailing
- Global procurement
- By Electronic Data Interchange (EDI): realisation of Just In Time“- principles
- worldwide auctions, bidding...
and
- Wholesale retailing and logistics are integrated more and more into retailing
- Longer preservation by more chemicals
- New types of shopping facilities (hypermarkets, supercentres...)

Conflicts *and* cooperation between food processing and retailing oligopolies

Retailing companies dominates relations by:

- fees for listing of products
- pressure on prices
- increasing share of own labels
(Even Unilever, Nestle, Danone, PepsiCo had to accept producing own labels)
-

“Monopolistic competition”

- *product differentiation*
- *advertisement*
- *barriers of entry*

“ The available evidence clearly points to advertising-created product differentiation as the major barrier to entry in food manufacturing. Indirect evidence confirms that entry barriers are substantial in some industries. ”³

³ Connor J. M., Rogers R. T., Marion B. W., Mueller W., F. (1985): The Food Manufacturing Industries, Lexington, p. 1

Very different situations in Europe

- large discounts Germany
- high concentration ratios in the north and west of Europe
- low concentration in (Mid and Southern) Italy (permission for greenfield outlets were very difficult for a long time) and Greece

Policy matters !

Situation in the US:

- ✓ Strong food processing oligopolies
- ✓ Regional oligopolies in Retailing
- ✓ **Retailing capital by regulation was not able for operating nationwide for almost the whole last century**

Policy matters !

- ✓ Since some years EU-chains are entering US and rising of Wal-Mart new tendencies to nationwide operating

Institutions *matter*

Institutional economists can be very glad: the development of retailing in different countries cannot be explained without **specific** institutions (norms, behaviour, laws...) **and regimes of regulation.**

Also the very giant had to learn this: **Walmart** did not accept national institutions like unions and shopping behaviour – So they finally **had to retreat from Germany and South Korea** – after big losses, and they fight very hard in Japan, Carrefour already abandoned there.

And since some months unions had to be accepted by Walmart (!) in China!

Action matters!

There are no invincible giants

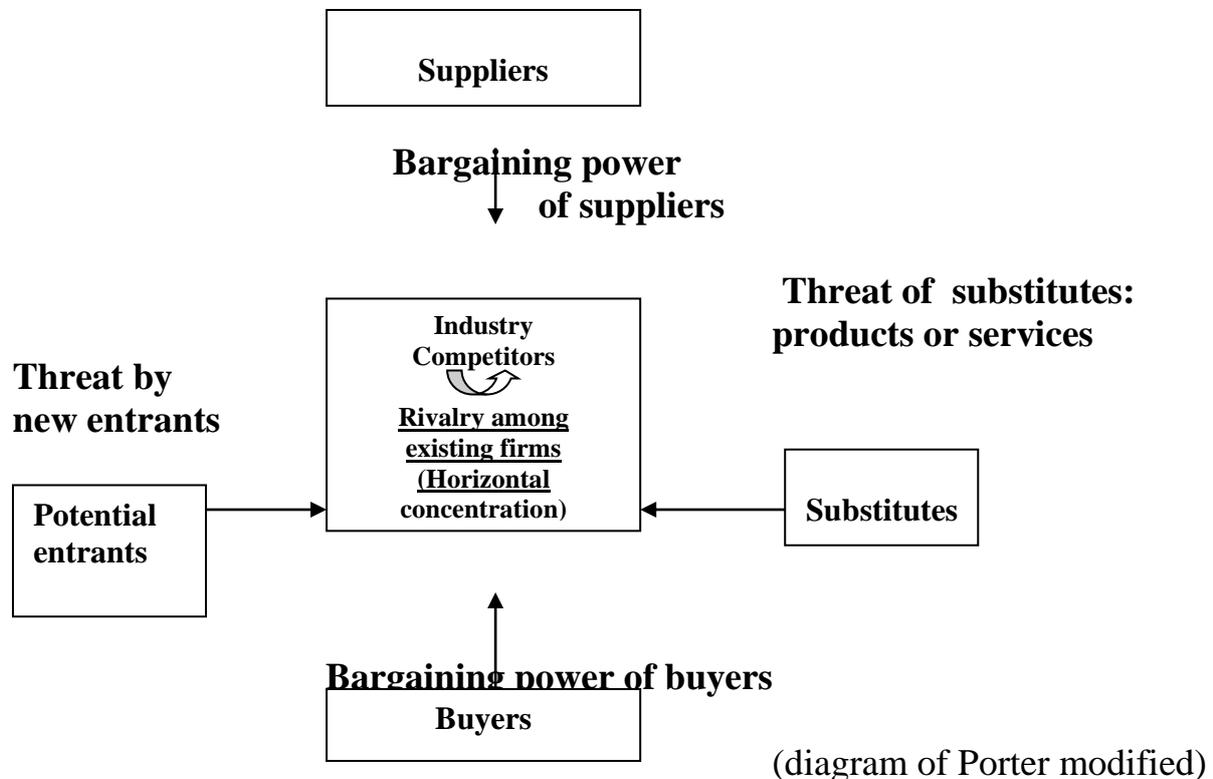
Generally **economies of scale and economies of scope** can be seen to a certain threshold and have two different implications: they can be the basis for more **rationalization** in economy and society. But when properties are not controlled democratically this also can be the basis of power, **domination** and barriers for innovation.

In the theoretical-empirical literature – sometimes – we find elements of vertical market power – referred to as “**buyer power**”, “**buyer/seller/supplier concentration**”, and “**vertical organization**”.

Porter⁴ outlined a rough concept of variables of market concentration: the commonly used horizontal concentration is added by vertical concentration (bargaining power of suppliers on the one side and buyers on the other side), the potential of entrants, and the possibilities of substitutions:

⁴ Porter, M. E. (1998, 1st ed. 1980): *Competitive Strategy - Techniques for Analyzing Industries and Competitors*, The Free Press, New York

For a systemic concept of (vertical) market power:



I modified and refined this systemic concept of market power, I operationalized it and did some empirical work⁵:

The point is: not only the measure of horizontal concentration of the industry is controlling for the performance of industries but also proxies for the potential of entrants and the possibilities of substitutions, and the concentration in up-stream and down-stream industries, and also the performance (profitability) in these industries.

So horizontal concentration is classified as an important special case of concentration.

⁵ Baum Josef (2004): Vertical Market Power - The relevance of up-stream and down-stream concentration to the performance of industries with special regard to Austrian data. Vienna (In German)

concentration & power → less sustainability

- Less diversity
- Less possibility for regional decisions, less regional value added cycles
- Less *basic* innovation: Market power against more innovative SME
- More global transport + energy use (global optimization under non-sustainable circumstances)
- Big food processing firms are promoters of genetically modified food (“costsaving”)
- Pressure to less concentrated sectors (agriculture) and SME to consolidate
- Global unification (of tastes, products, processes) within the traditional paradigm

Where we can regulate:

- GMO
- Pesticides
- Full transport costs (integrating external costs)
- No exceptions for kerosene

- Tight region planning for outlet centres
- Progressive taxation of land use
- Opening hours
- Competition policy
- Freedom of organization for unions
- International minimum wage