



Summary of the Swedish Competition Authority's inquiry into the food industry 2023–2024

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1 The report – a summary of several published analyses and reports

This report is a summary of the work carried out by the Swedish Competition Authority and researchers commissioned by the Authority as part of the comprehensive government-assigned inquiry into the food industry during 2023 and 2024. Throughout this work, the Swedish Competition Authority has gathered extensive data and compiled it into various analyses and reports. These have been published (in Sweden) on the Authority's website. For methodological questions, please refer to the respective analysis and report.

2 Summary of identified problems and suggestions

2.1 Lack of competition in the food supply chain

In light of the increasing food prices in 2022 and 2023 and within the context of a government-assigned inquiry the Swedish Competition Authority has conducted an investigation of competition in the food industry. An overall conclusion that the Swedish Competition Authority (the Competition Authority) can draw is that there are several competitions issues in the food industry. These can be explained by a high market concentration at several stages in the food supply chain, lock-ins and imbalances caused by contractual agreements and trade practices, and the existence of different types of entry barriers. This means that consumers pay more for many foods than they should, and that money does not always end up where it is needed to provide incentives for market entry, investment and increased production.

The Swedish retail grocery sector is concentrated with a few vertically integrated players with central wholesale operations. The presence of large players in a market is not necessarily bad or leads to higher prices. When there are economies of scale, large players can be more cost-effective and also have greater opportunities to push down purchase prices. Similarly, cooperation between different players can lead to more efficient distribution and logistics. However, effective competition is necessary for efficiency gains to be passed on to consumers in the form of lower retail prices

In recent years, the food industry has experienced a sharp rise in costs, including higher prices for essential inputs. Factors such as the coronavirus pandemic and Russia's invasion of Ukraine have contributed to increased prices for input goods. The Competition Authority's analysis reveals that these cost increases have been passed on to consumers to varying degrees in the form of higher consumer prices. Some players in the food value chain, particularly in the grocery retail sector, have managed to maintain the same percentage gross margins as before costs began rising sharply. As a result, higher costs have led to an increase in profit margins in Swedish kronor. The Competition Authority concludes that the price hikes do not appear to have stimulated increased production or significant market entry by new players at any stage of the food value chain. There are also no clear signs that alternative, cheaper products have been developed or introduced to consumers, which might have occurred if competition were functioning effectively.

2.2 What factors reduce competition?

2.2.1 High market concentration in several stages of the food supply chains

Several stages of the Swedish food supply chain are characterized by a high degree of market concentration, meaning that a few players collectively hold a large market share in specific markets and stages of the food supply chain. The Swedish grocery retail market is dominated by four players, Ica, Axfood, Coop, and Lidl, with extensive store networks and their own wholesale operations. A fifth player, City Gross, was recently acquired by Axfood. The food wholesale market on which the four largest players operate is considered national. However the retail grocery market, where stores and chains compete, is local. At the local level, market concentration can be even higher, and our investigation shows that in one-third of Sweden's 290 municipalities, there are only one or two established grocery retailers. Furthermore, there are no discount stores in 102 of Sweden's 290 municipalities, which means that about one million residents do not have access to a discount store in their municipality. The presence of discount stores has been shown in previous studies to lead to lower food prices in the local markets. The already concentrated grocery retail market has become even more concentrated in recent years through corporate acquisitions.

Market entry of new players could lead to increased competition and downward pressure on food prices. However, the Competition Authority's investigation has shown that the opportunities and incentives for a new nationwide grocery retailer to enter Sweden are limited, both as a result of the behaviour of different players established, market structures and Sweden's geography. A low probability of market entry contributes to the established grocery retailers being able to charge higher profit margins with a lower risk of losing customers to a new entrant.

The market concentration is also high in several sectors of the food manufacturing industry. Examples of markets that the Competition Authority has studied more closely include cooking oil, dairy products, eggs and chicken. The Competition Authority's assessment is that concentration in the food supply chain has increased over time and that there are relatively few examples of new players entering the markets.

2.2.2 Lock-in effects

The investigation has revealed that there are contractual restrictions and other forms of lock-ins at various stages of the food supply chain, making entry difficult and leading to less competitive and more rigid market structures. This has led to some players struggling to compete with their buyers or suppliers. In addition to long-

term contracts, lock-ins can occur due to the lack of alternative buyers or suppliers, effectively forcing companies to remain tied to a specific contractual partner.

Lock-ins include, among other things, long contract durations, as seen in examples between primary producers and food manufacturers. In several cases, the contracts also contain exclusive delivery obligations, where a primary producer is only allowed to sell their production to one buyer. Long-term contracts can hinder market entry on both sides. Long contracts, combined with the fact that primary producers typically have little influence over the price paid by the food manufacturer that also can result in prices that do not reflect demand in later stages of the food supply chain, thus reducing the incentives to increase primary production when shortages arise. For a primary producer, these long contracts, sometimes compounded by other factors, make it difficult in practice to subject their buyers to competition.

At the retail stage of the food supply chain, the grocery retailers ensure that own affiliated stores purchase goods from their own full-line wholesaler, which reduces the sales of other suppliers to stores outside this distribution channel. "That grocery retailers, directly or indirectly, through ancillary services and incentives, influence affiliated stores' purchases to their own wholesale operations can provide stores with advantages in the form of lower purchasing costs and simplified distribution, but at the same time leads to a more mutual product offering within the chain. It can also prevent innovative independent distribution and wholesaling companies from expanding and increase competitive pressure on the grocery retailers' wholesale operations. In addition, long-term contracts between grocery retail companies and affiliated stores and other strong lock-ins can hinder market entry and expansion opportunities both at the retail level and, indirectly, at the wholesale level.

Large parts of the Swedish grocery retail sector, including the three largest players—ICA, Axfood, and Coop—and their suppliers, have coordinated in a structured way regarding the timing of changes to product range in the retail sector. This coordination appears to differ from practices in other European countries. The Swedish coordination covers the timing of new product launches, new flavours or variants of existing products, packaging changes, and even product phase-outs. The stated purpose of the collaboration is to achieve an efficient launch process considering supply chain management and service levels. However, the Competition Authority notes that this collaboration somewhat hinders or limits both suppliers' and grocery retailers' ability to make independent decisions regarding the timing of new product launches or product variants. The number of times during the year when assortment changes occur according to the collaboration is limited and has decreased over time. For each product category, the timing is the same for all participating suppliers and retailers, which is known to all, including those who have opted out of the collaboration. This makes it easier for competitors in grocery retail and the food industry to anticipate each other's product launches. While this type of collaboration can lead to efficiency gains—potentially resulting in lower consumer prices if these savings are passed on to them. Nonetheless, the system can reduce

market competition and increases the risk of coordination or uniformity in other competitive aspects, such as pricing and product variety.

However, the Competition Authority, has not examined whether the various agreements and collaborations described above are compatible with the Competition Act's prohibition of anti-competitive agreements. The investigation has focused on the food industry as a whole and not on the supervision of the behaviour of individual players. In general, the various lock-ups that arise through agreements and collaborations are not necessarily anti-competitive or in conflict with the Swedish Competition Act. On the other hand, they can reinforce each other and together have negative effect on competition.

2.2.3 Imbalances in the food supply chain

The Competition Authority also notes that the factors mentioned above together with an imbalance in power between players both within and between the stages in the food supply chain, mean that in practice there are different 'rules of the game' for companies in the food supply chain. There are major differences in the influence that different contracting parties have over which agreements they can enter into and also how risk is distributed between the contracting parties. This can be considered an expression of market power for certain players. The fact that companies compete for market share by offering a better range of products, services and lower prices is what characterises a well-functioning market. However, a higher market share can allow a company to operate on a greater scale and use its market power to increase profits leading to higher consumer prices, and less profit for food manufacturers. This may in turn inhibit product development and improved production processes. Overall, the imbalances in power between companies in different stage of the food supply chain may lead to that the highest risk-taker does not receive the highest reward, which negatively affects the overall production efficiency in the food supply chain.

The Competition Authority's has identified a relatively high incidence of unbalanced agreements. The Swedish food supply chain is also affected by external factors, such as the weather and Sweden's geography, which have major impact on the supply of products. In some sectors, such as parts of the cereals sector, contractual models have emerged to enable the players to balance this risk, while in other sectors there is no similar contractual risk allocation.

One effect of the highly concentrated Swedish grocery retail market is that there are few sales channels for the food manufacturers. This makes it difficult for suppliers to expose their buyers to competition and there is also a high risk of losing large customers. The Competition Authority has noted that the agreements between the grocery retailers and the food manufacturers are characterised by short notice periods and a lack of volume commitments on the part of the grocery retailers, contrary to the previous stages in the food supply chain. At the same time, the food

manufacturers are required to deliver a very high proportion of what can be ordered under the contracts at short notice and at the risk of penalty. This may be regarded as an expression of the strong bargaining position of the grocery retailers vis-à-vis the food manufacturers and is an indication of imbalance in the food supply chain. However, it should be noted that the market power of grocery retailers varies in relation to different food manufacturers. Even in some parts of the food manufacturing industry, the markets are in many cases highly concentrated and dominated by a few players.

2.2.4 Lack of access to retail locations is a barrier to entry

Sweden's geography and low population density implies that, in parts of the country, there are natural barriers to entry and difficult for companies to expand in these areas. In addition, there are other barriers of entry that can be eliminated or at least mitigated.

Access to retail locations is vital for competition in the grocery retail sector. The Competition Authority has noted in its analysis that both municipalities and grocery retailers act in ways that make it unnecessarily difficult to establish new grocery stores. Municipal physical planning plays a significant role in the ability to access retail locations. The Competition Authority has therefore examined the conditions for grocery retailers to establish new stores, taking into account the municipalities' physical planning and land use.

There are also aspects of grocery retailers' own actions in securing store locations that could further limit access to both existing and new locations, potentially creating unnecessary barriers to the establishment of new stores and new players. For example, a grocery retailer may, through clauses in agreements with property owners or affiliated retailers, make it more difficult for competitors to open new stores or take over existing ones.

According to the Competition Authority, there is untapped potential for the establishment of new players with new concepts, such as low-cost concepts and greater diversification, which could challenge the existing dominant players. This, in turn, could increase competition and could lead to lower food prices for consumers. It is therefore important to improve the conditions for establishing grocery stores.

2.3 Recommendations to improve competition

The Competition Authority has identified a number of reasons why competition in the food supply chain is limited and, against this background, presented a number of recommendations to improve competition. The recommendations are aimed partly at lowering barriers to entry and partly at reducing lock-ins resulting from the

design of agreements. The recommendations can lower barriers to entry, reduce market concentration and increase competition between existing players.

2.3.1 Make it easier for grocery retailers to establish new stores

To create better conditions for grocery retailers to establish stores, the Competition Authority believes that measures are needed both in terms of municipal physical planning and the grocery retail sector's use of various restrictive contractual terms.

Municipal physical planning and land use

The Competition Authority has found that the provision in Chapter 2, Section 3 of the Planning and Building Act (2010:900), PBL, which states that physical planning shall promote effective competition plays a minor role in the municipalities' physical planning. Many municipalities have stated that the rule regarding effective competition is difficult to interpret and that it is also difficult to apply in practice. Moreover, it is also clear that the interpretation and application of the rule also varies between different municipalities which leads to lack of predictability which can hinder the establishment of new grocery stores.

The Competition Authority will therefore produce information material and guidance at national level aimed at supporting and guiding municipalities on how to promote effective competition in their physical planning. Information material will contain concrete descriptions and explanations of how effective competition in the grocery retail market can be promoted. In this work, the Swedish Competition Authority will inform and consult with the National Board of Housing, Building and Planning, which is responsible for the review of physical planning, about the problems identified in the sector inquiry and how authorities should interact to ensure that the municipalities' physical planning can promote effective competition.

In addition to the provision on effective competition, there are other parts of the planning process that, should be more predictable for the players who want to establish new grocery stores in the municipality. The Competition Authority also believes that the municipalities' investigations regarding amendments to zoning plan or so called 'detailed development plan' and building permit assessments, should be more standardised. Furthermore, many stakeholders have emphasised that there are often differences between the municipalities' assessments as to what constitutes a minor deviation from the detailed development plan. In this context, it should be emphasised that the starting point for a minor deviation or deviation in general is certainly linked to the detailed development plan itself, the plan provisions, the plan map and the plan description. Even taking this into account, the Competition Authority considers that the municipalities should ensure greater uniformity, both within and between municipalities, in terms of what can be considered a minor deviation from a zoning plan/detailed development plan. This applies in particular when the circumstances are relatively similar. Against this background, the Competition Authority will have a dialogue with the National Board of

Housing, Building and Planning on what has emerged from the investigation regarding these issues.

There is no requirement for municipalities to produce so-called retail policies, which is a strategic document how the retail sector should be developed in the municipality. Although grocery retailers that the Competition Authority has spoken with are generally favourable towards such policies, there have been instances where these policies have little significance or even hinder competition. In some municipalities, grocery retail companies view these policies as restrictive rather than supportive of grocery retail development and competition. Against this backdrop, the Competition Authority believes it would be helpful for municipalities – both those that already have a retail policy and those considering creating one – to have a general template to guide them in their work to develop such a plan. The Competition Authority will also bring to the attention of the National Board of Housing, Building, and Planning the need to develop new, clear guidelines on what a retail policy should generally cover and what municipalities should consider when creating such a policy.

According to Chapter 4, Section 37 of the Planning and Building Act (PBL), a zoning plan may only impose detailed regulations on retail activities if there are reasons of significant importance. This provision allows municipalities, for example, to specify that grocery retail is not permitted within a particular zoning area according to the detail development plan. The Competition Authority notes that designating specific commercial purposes within zoning plans – particularly for retail trade – impacts competition in a municipality as it may restrict the establishment of new grocery stores. Based on findings from the investigation, the Competition Authority believes that Chapter 4, Section 37 of the PBL may not be applied as intended by several municipalities. Therefore, the Competition Authority suggests that the Government undertake an investigation of this provision, particularly concerning the retail trade category. Such a review should include a survey of how extensively and under what circumstances municipalities apply this provision. Additionally, an analysis should be conducted on the socio-economic and competitive impacts of applying this provision.

Another factor that affects the possibilities for establishing new grocery stores is access to land. Provided that the municipality owns suitable land for new grocery stores, municipalities may utilise land allocations, i.e. the process that takes place when municipal land is sold to a developer. Municipal land allocation can reduce entry barriers, increase the number of grocery stores and stimulate new market entries. Land allocation processes can usually be divided into two categories. Tender allocations, meaning that many developers have the chance to participate in the bidding procedure and direct allocations, where competition does not take place meaning that other developers are excluded from the process. Both methods have advantages and disadvantages. Regardless of the method, the Competition Authority believes that municipalities should increasingly take the existing competition in the grocery retail market into account when allocating land for the new grocery

stores. This may be particularly important in municipalities where market concentration is high or where certain types of players are not present in the local market.

Furthermore, it should be clear to grocery retailers and property developers who they should contact in the municipalities. In our report on store establishment, we have highlighted that the dialogue between municipalities and grocery retailers is inadequate, and that retailers often report that it is unclear who they should turn to in the municipality. The Competition Authority therefore urges municipalities to develop clear points of contact and efficient processes to facilitate the establishment of grocery stores in the municipalities.

The grocery retail sector's use of various types of restrictive contractual terms

The major grocery retailers in Sweden control a large share of existing stores and store locations, either through ownership or first-hand leases. Shorter lease terms between the large grocery companies and affiliated retailers, along with greater transparency on lease durations, could increase opportunities for new or competing retailers to enter the market by taking over existing locations or acquiring stand-alone or affiliated grocery stores. Provisions in grocery retailers' contracts with affiliated stores often prevent the retailer from fully transferring or selling their store, effectively locking these stores into a single grocery chain. Such provisions make it difficult for affiliated stores to switch to a competing grocery chain. Additionally, the establishment of new stores may be hindered by usage restrictions and restrictive clauses in the grocery retailers' agreements with third parties, such as property owners. Competition would likely improve if these restrictions were removed or at least mitigated.

Decisions on new store establishments are usually made at the wholesale level by grocery retail companies. These companies take into account the local customer base in a given area when planning new establishments and also choose the concept for the store location. As a result, existing chain-affiliated stores may effectively be shielded from competition if their grocery retail company opens new stores in the vicinity. Such strategic behaviour concerning new store establishments could pose a competition issue for companies owned by affiliated retailers if it allows these retailers to reduce local competition pressure among themselves. The Competition Authority encourages the industry to voluntarily review this issue and will inform the sector of the problems it has identified. The Competition Authority also does not rule out that this issue may be subject to its oversight, as noted below.

2.3.2 Increased flexibility for grocery retailers in terms of purchasing and product launches

The Competition Authority has identified several types of contractual clauses, collaborations, and trade practices that, in various ways, hinder players across the food supply chain from subjecting their suppliers or buyers to competition. This diminishes, to varying extents, the dynamics and unpredictability of competitor

behaviour that typically characterize a competitive market. As noted, not every contractual restriction is problematic on its own; however, their cumulative extent justifies action. Where market entry is unlikely or limited, it becomes even more crucial to protect competition among existing players.

The grocery retailers' wholesale and purchasing operations have expanded to include a wide range of supplementary services. These include among others store profiling, concept development and services to facilitate daily operations, such as ordering and pricing support systems. This, together with requirements and incentives in the form of discounts, assortment requirements and recommendations linked to purchases from the own wholesale operation, reinforces the stores' lock-in to the existing grocery retailer. This could hinder retailers' access to other suppliers, which may decrease competition at the store level, especially between stores within the same grocery chain. Competition from other suppliers could also lead to increased pressure on full-line wholesalers to sharpen their offerings. For suppliers and specialised wholesalers, increased access to the retail level may provide better conditions for entry and expansion. Smaller suppliers in particular would have greater opportunities to gradually scale up their operations, thereby exposing the full-line wholesalers to competition and lowering the barriers to entry for new retailers.

As noted above, not every cooperation, contractual clause, or commercial practice is necessarily anti-competitive and subject to intervention under existing competition rules. The Competition Authority also does not have any ongoing law enforcement investigations into purchasing cooperation or stores' ability to buy from suppliers other than their own wholesale operations. However, the various lock-in arrangements can reinforce each other, and, in the Competition Authority's view, greater opportunities for stores to buy directly from suppliers and other wholesalers outside the chain's own wholesale operations would be beneficial for competition.

The Competition Authority believes that increased flexibility regarding the aforementioned dates for product launches and other product range revisions in stores (the so-called 'time or trade windows') would be beneficial for competition at both the supplier and retail levels. However, it is ultimately up to the players themselves to assess whether the cooperation restricts competition and whether it can be justified by the existence of efficiency gains that benefit consumers and outweigh the potential negative effects. In a concentrated industry such as the food industry, it is essential that such assessments are made regularly, and that the industry can demonstrate that the efficiencies arising from the cooperation are sufficient to outweigh its competitive disadvantages. A limited number of opportunities for product range revisions could reduce competition. Furthermore, collaboration between competing companies always carries the risk of coordination, which could lead to reduced competition. The Competition Authority does not currently have an ongoing supervisory investigations into the cooperation on time or trade windows for product launches and other product range changes. However, the parties involved in the cooperation will be informed of the conclusions made by the authority.

2.3.3 Greater flexibility for primary producers in their relationships with food manufacturers"

A key finding of the investigation is that, in several sectors, it is common for primary producers to be locked into long-term contracts with a single buyer and that they rarely change buyers. Furthermore, the buyer typically has the greatest influence over the price paid to the primary producer for their goods. For primary producers, this means they cannot switch buyers, even if another offers better terms. This lack of flexibility discourages mobility within the food industry and makes it more difficult for new players to gain access to sufficient production volumes to justify entering the market. For example, in the dairy sector, primary producers are allowed to supply a certain proportion of their raw milk production to companies other than their own dairy cooperative. This arrangement promotes competition among dairies and lowers barriers to entry for new dairy companies. The Competition Authority believes that similar sales practices could be feasible in other concentrated primary production sectors, such as poultry and eggs, provided that the agreements between food manufacturers and primary producers are adjusted accordingly. This could lead to increased competition between processing companies and reduce market entry barriers at both the processing and primary production levels.

The Competition Authority has also identified certain contractual solutions in sectors such as the grain industry, where primary producers have the option to choose between different pricing models each year, based on their risk propensity. Additionally, some pricing models include elements where the primary producer can receive a portion of the food manufacturer's value added, depending on factors such as the relevant market price. When primary producers select a pricing model, the buyer can also be exposed to competition from other buyers. This results in increased control over the risks typically associated with primary production, while buyers are more frequently exposed to competition. This is generally positive for competition.

The issue of unbalanced contracts is not unique to Sweden. Several EU Member States have recognized the need to regulate them. In implementing the Unfair Trading Practices (UTP) Directive (The Act on Prohibition of improper trade methods between companies in the agricultural and food production) several Member States introduced national provisions with general clauses aimed at preventing problematic contractual terms in the food supply chain, going beyond the requirements of the Directive. In several investigations into unfair trading practices, the Competition Authority has observed terms that appear unbalanced between the contracting parties. For example, this can manifest in situations where the buyer, such as an egg packer, unilaterally decides how the price of eggs will be set and when it will be adjusted, without the supplier or primary producers having any opportunity to influence the price. There are also examples where the Competition Authority has received tips about agreements related to services that suppliers have

entered into with a grocery retailer, where the cost of the service does not necessarily correspond to the service provided. The analysis has also indicated that stricter rules may be needed in Sweden as well. The Competition Authority will review this issue and address it as part of its government inquiry into evaluating the Act of Unfair Trading Practices.

2.4 The Swedish Competition Authority's measures now and in the future

2.4.1 The Competition and Unfair Trading Practices Act

The Swedish Competition Authority is Sweden's administrative authority for competition issues. Our aim includes conducting supervision and providing support in the competition field. The authority is also the supervisory authority for the public procurement regulations and the Act on Unfair Trading practices (UTP) in the agricultural and food supply chain. Although public procurement affects the food supply chain through the food purchases made by the public sector, it is the Competition Act and Unfair Trading Practice that regulate how companies can operate within the food supply chain more broadly. Supervision under the Competition Act remains the most important tool available to the Swedish Competition Authority to eliminate and counteract serious competition issues. The prohibition of Unfair Trading Practices is central to strengthening the functioning of the food supply chain and thereby improving competition.

The Swedish Competition Authority, based on indications that emerged during the inquiry, has launched investigations under these regulations and currently has several ongoing supervisory investigations related to the food supply chain. These investigations focus on critical competition issues, such as product delisting when contracting parties fail to reach an agreement during negotiations, suspected coordination between suppliers regarding price changes to grocery retailers, and potential collusion on purchase and sale prices in the berry industry. The Competition Authority is also overseeing compliance with the commitments made by the large wholesaler Dagab following its acquisition of Bergendahl's wholesale business in 2021. These commitments were designed to address the Competition Authority's concerns about the worsening conditions for independent grocery retailers.

The Swedish Competition Authority, in its supervision of the Competition Act prioritises which of all tips and complaints should be investigated. The prioritisation policy does not identify specific industries and sharp price increases in a market is not per se a basis for prioritisation. The prioritisation policy that is used in the initial prioritisation, when we select which issues to investigate further. Various circumstances are then weighed against each other. Not all the factors that are considered in the prioritisation process must be fulfilled; this is evaluated on a case-by-case basis. Instead, the Swedish Competition Authority weighs up the benefits of an

intervention for a larger group of consumers and the social and economic importance of eliminating the competition restriction in question. The food supply chain is also a specific area that the Competition Authority has chosen to pay particular attention to in 2024. In light of the problems that have emerged during the inquiry, the Competition Authority will continue to focus on the food supply chain, both in its supervision under the Competition Act and under the Unfair Trading Practices Act. A particular focus is on the structure of cooperation in the grocery retail to ensure that it is not too far-reaching and that the benefits are passed on to consumers. This may lead to several new law enforcement investigations.

The inquiry has shown that there is reason to suspect that the barriers to establishment retail stores may restrict competition. The Swedish Competition Authority sees a need to prioritise an examination of agreements within the grocery retailers and chains in the first instance, but does not rule out an examination of the grocery retailers' agreements with third parties such as property owners.

Recognizing and intervening in anti-competitive price agreements between competitors will continue to be a priority task for the Swedish Competition Authority.

2.4.2 New competition tools may improve competition in some cases where intervention is not appropriate or can be achieved through supervision

In order to initiate an investigation under the Competition Act, it is necessary to demonstrate an infringement of one of the prohibitions in the Act. Investigatory actions under the Unfair Trading Practices Act requires evidence of a practice that constitutes a prohibited trade practice under the law. However, these laws cannot be used to address broader issues affecting entire markets or the structure of markets. In the Swedish Competition Authority's view, the inquiry has highlighted the need for new competition tools to address specific issues, such as certain types of contractual clauses that raise barriers to entry or reinforce structural problems that hinder market efficiency. The Swedish Competition Authority therefore welcomes the government's decision to appoint an inquiry to analyse and assess whether there is a need new broader competition tool.

2.4.3 Stricter enforcement of merger control regulations can counteract higher market concentration

In order to prevent increased market concentration that harms competition, the Competition Act contains rules requiring certain mergers and acquisitions to be notified to and investigated by the Swedish Competition Authority before they can be implemented. Several acquisitions in the food industry have been scrutinised over the years and in some cases it has not been possible to implement them at all or only after certain commitments from the involved companies.

However, there are certain limitations in the current Swedish regulatory framework. The Swedish Competition Authority can only intervene when a merger affects the entire country or a substantial part of it. In many sectors, such as grocery retail, the relevant market is local, and thus there are limited possibilities to intervene in acquisitions. As a result, acquisitions that reduce consumer choice in local markets may not be prevented. For example, in Denmark – where, as in most other European countries – the competition authority can intervene against mergers and acquisitions that have effects in local geographic markets, Salling Group’s acquisition of Aldi’s 13 Danish stores and 8 ongoing store projects was only approved after Salling Group (which includes the discount chain Netto) committed to selling a store in the city of Rødbyhavn and leasing a store in Stubbekøbing for six years.

The Competition Authority mainly investigate acquisitions involving companies with a specific minimum sales threshold which must then be notified to the Competition Authority before they can be carried out. In some cases, the Competition Authority can oblige companies to notify mergers and acquisitions that are not subject to notification, but this presupposes that the Competition Authority is made aware of them. In some countries, including Norway, companies in particularly vulnerable sectors can be required to inform the Norwegian Competition Authority of acquisitions, even if they are not notifiable, partly because smaller acquisitions can affect local competition. In Norway, this possibility has been used in the grocery retail grocery market and other markets.

In previous reports regarding competition in the food supply chain, the Swedish Competition Authority has emphasized the need to review Swedish merger control rules in a manner similar to the Norwegian rules. In Norway, the Competition Authority can require companies in concentrated industries to notify the authority of all acquisitions they make, including minority acquisitions. If there are sufficient grounds, the authority can then review and intervene against the acquisition. In Norway, this obligation applies, among others, to large companies in the grocery retail, fuel, and energy sectors. The review has confirmed the need for such a provision, and the Swedish Competition Authority therefore welcomes the fact that the investigation into new competition tools will also address this issue.

The Swedish Competition Authority has also previously expressed the need for adjusted merger control rules in order to safeguard competition throughout Sweden. With the current merger control rules and the requirement for effects in a significant part of the country, the Swedish Competition Authority has limited possibilities to intervene against merger and acquisitions that only affect small local markets, even if the merger or acquisition would reduce competition in such a market. At present, for example, the Swedish Competition Authority cannot intervene against a merger that affects a town with only two grocery stores, even if they would be part of the same chain after the merger, which would mean that consumers would be completely deprived of choice. In the current circumstances, the Competition Authority can only protect the competitive conditions in a small town if it, together with others, constitutes a significant part of the country. Therefore, if

the Competition Authority is to be able to protect competition in all parts of the country, a change in the law is required. The inquiry has also confirmed that the need for such an adjustment is urgent.

2.4.4 Further analyses of competition in the food supply chain

Certain aspects of competition in the food supply chain could not be analysed in the inquiry into the food supply chain due to resource and time constraints.

One issue that has gained attention in recent years is the phenomenon of so-called 'shrinkflation', where packaging sizes are reduced while the product is sold at the same price. The Swedish Competition Authority has commissioned researchers to examine the factors driving shrinkflation and its impact on consumers' ability to compare products. The investigation is ongoing.

Swedish Competition Authority, as part of our commissioned research, will also investigate the grocery retail sector's use of various sales promotion activities, such as promotional prices, campaigns, and loyalty programs. There are indications of an increased focus on promotional pricing and marketing in the grocery retail market, and certain areas require deeper examination. One study could examine how these activities impact consumer behaviour, including consumers' ability to make rational choices and how grocery retailers compete with each other through promotional efforts. Another study could analyse the competitive conditions at different stages of the food supply chain. For example, during the investigation, food manufacturers reported that promotions negatively affect their profit margins, while grocery retailers are described as having almost full profit margins. Suppliers have also indicated that participating in promotional activities is essential for maintaining their market shares.

The Swedish Competition Authority will also publish a brief analysis of the profitability of companies in the food supply chain. More analyses and the report may be published during the year.

The fact that the grocery retailers have been able to defend their gross profit margins to a large extent and even increased their margins in Swedish kronor, indicates that price competition is weak. The Competition Authority will continue to monitor the development of margins to see if there are signs of improved competition now that inflation is lower.

3 The Swedish Competition Authority's investigation into the Food Industry: Background and Implementation

The sharp rise in food prices over the past three years has hit Swedish consumers hard. They have also contributed to high inflation. Food prices in Sweden started to rise at the end of 2021, and the pace of price increases accelerated in spring 2022, with food inflation reaching around 26 percent between February 2022 and March 2023. The rising food prices were due, among other things, to the effects of several successive crises, such as the coronavirus pandemic and Russia's war of invasion in Ukraine. The crises led to increased costs at several stages of the food supply chain. Other explanations include a weak Swedish krona.

In the spring of 2023, the Swedish Competition Authority could not rule out that some of the increased food prices were due to a lack of competition in the food supply chain. Considering this, the Competition Authority has therefore conducted a broad investigation of the entire food industry. The overall aim has been to analyse whether there is a lack of competition in the food supply chain that can explain some of the increase in food prices. The Competition Authority presents its analysis and assessment in this report and in other documents from the investigation.

The Swedish food industry is one of the largest industries in Sweden. The Competition Authority has therefore focused its investigation on parts of the food supply chain that are central to the functioning of various submarkets. The Competition Authority has examined price increases for products in the categories of pre-packaged meat, soft bread, fresh chicken, cooking oil, cheese, potatoes, butter, and eggs. Researchers, commissioned by the Competition Authority, have studied price changes for milk and centrally packed meat (pork and beef). The Competition Authority has also assigned researchers to examine the competition posed by private label products. Furthermore, the investigation has focused on the contractual structures in the sectors that, with the exception of pork and beef, deal with the aforementioned products. The Competition Authority has also examined competition in primary production

The investigation has also focused on the availability of store locations and the issue of market entry in grocery retail market. Additionally, the Competition Authority has investigated the establishment of grocery retail stores in Sweden and how municipalities physical planning can affect the establishment process. Furthermore, the Competition Authority has analysed the issue of product range revisions.

4 The Swedish food supply chain and increasing food prices

4.1 The Swedish food supply chain

Put simply, the food supply chain consists of three stages: primary producers (farmers), food manufacturers (processing companies, etc.) and the grocery retail sector, which in turn consists of purchasing and wholesaling and grocery retail stores. In addition to the grocery retail, there is also the restaurant and catering sector which sell food to consumers. According to statistics from Statistics Sweden, the food supply chain comprises 160 000 companies with 300 000 employees. The food supply chain can be divided into a number of sub-sectors and the food manufacturing industry, for example, is divided into 38 sub-sectors according to Statistics Sweden's business classification.

Figure 1 Stages in the Swedish food supply chain

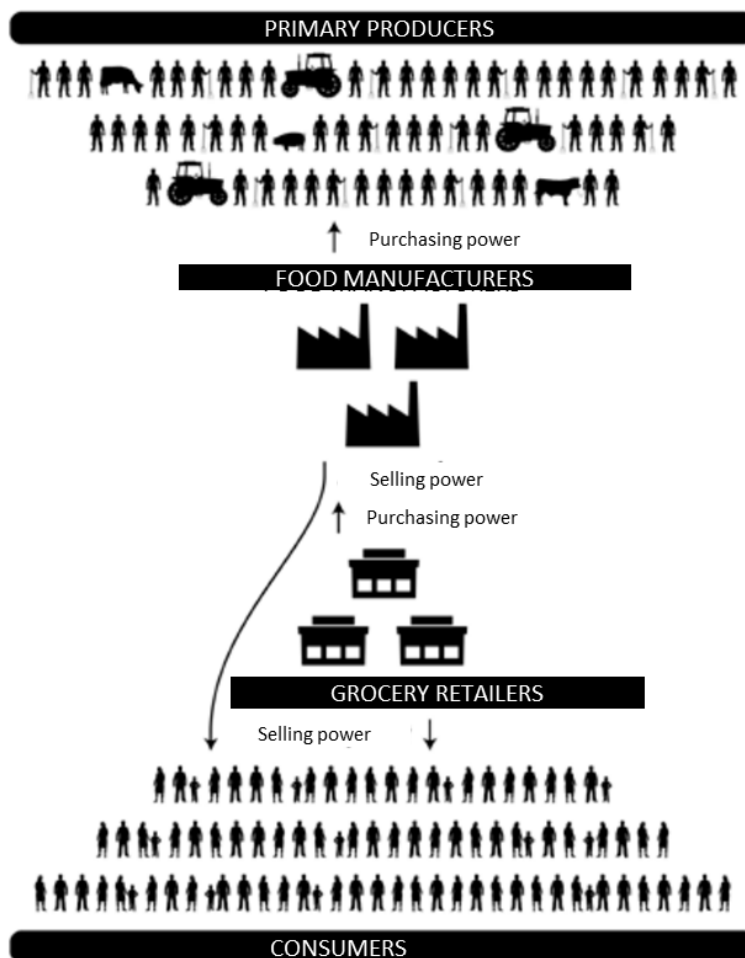


Illustration: Per Thornéus

Primary production consists mainly of many small companies, which together account for a large share of agricultural production. However, the degree of concentration has increased over the last 15 years in areas such as arable crop production, milk and pig production. Primary producers coordinate in some cases and there are, for example, two large agricultural cooperatives in Sweden that own and operate food manufacturing companies. Lantmännen is owned by 18,000 Swedish farmers and is engaged in several different types of activities, including the production of grain and meat-based products under different brands, such as Axa, Kungsörnen and Scan. Arla Foods a.m.b.a is a Danish-registered cooperative owned by approximately 8,000 dairy farmers in several countries, of which approximately 2,000 are Swedish. The cooperative owns, among other things, Arla Foods AB, which manufactures dairy products. Other cooperative businesses include Norrmejerier and Falköpings mejeri. There are also producer associations in the fruit and vegetable sector, such as the company Sydgrönt. Cooperatively affiliated farmers and members of producer associations primarily deliver their produce to the cooperative's own processing units.

The food manufacturing industry is the stage in the food supply chain where the main processing takes place. The Swedish food industry had a turnover of just over SEK 220 billion in 2022 (about 20, 5 billion Euro) and consists of many small companies and a few large ones, which create most of the economic value. Around 56 percent of net sales and 61 percent of the value added are created in companies with more than 250 employees. The goods manufactured by the food industry are mainly sold to the grocery retail industry. Other major sales channels are to the hotel and restaurants, public sector and exports. Once the goods have been manufactured, the food industry negotiates with grocery retailers and others on the range of products and purchase prices.

Sales in the grocery retail sector amounted to 330 billion Swedish kronor (28.4 billion Euros) in 2022. The grocery retail market is highly concentrated dominated by four grocery retail companies that have larger store networks and their own wholesale operations. The four players are Ica, Axfood, Coop and Lidl and they differ from each other. A fifth player is City Gross, which recently has been acquired by Axfood.

The grocery retail companies' wholesale and purchasing operations negotiate and conclude agreements with food manufacturers and suppliers regarding delivery and sales conditions. Ica's wholesale operations in the Ica Group are largely owned by the Ica retailers' association, which is the member organization for the various Ica retailers who own and operate the stores. Coop Sverige AB is owned by Kooperativa Förbundet, which in turn is owned by 28 consumer associations which own the grocery stores. Axfood is a listed company which, through its wholesale operations, Dagab, supplies goods to Axfood's retail chains Willys and Hemköp and independent retailers. Some of Hemköp stores are owned by Axfood others independent stores or run by franchisees. Axfood also operates 130 franchise stores across various brands. Lidl is fully integrated, i.e. the same company owns the

purchasing and wholesale operations as well as all retail stores. The grocery retailers' wholesale operations mainly sells only to their own stores, with the exception of Axfood which also sells to independent stores, see section 5.2.2.

Much of the food consumed in Sweden is imported from other countries. These can be agricultural products that are not produced in Sweden, such as bananas, coffee and cocoa, or products that are also produced in Sweden, such as fish, meat and dairy products. In 2022, Sweden exported food products worth 64 billion Swedish kronor (5.5 billion Euros) and imported food products worth 112 billion Swedish kronor (9.7 billion Euros).

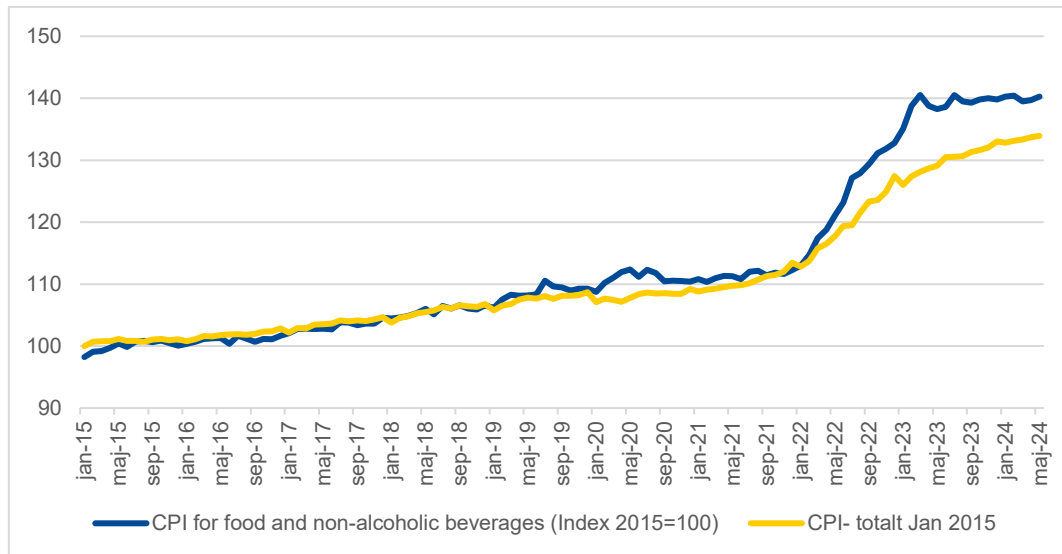
4.2 Historically high food price inflation in Sweden

While food price inflation had been moderate for some time, February 2022 marked the beginning of a series of historically rapid price increases in agricultural and food products at the consumer level. However, an analysis of these price hikes reveals that upstream food prices began to rise about a year earlier, in early 2021.

During this period, price increases were smaller and grocery retailers maintained their profit margins in Swedish kronor. The overall price increase was therefore not very significant. Following Russia's full-scale invasion of Ukraine in February 2022, prices of some inputs rose dramatically. As a result, suppliers raised their prices to retailers and retailers in turn raised prices to consumers. This led to very high price increases at the consumer level.

Between January 2015 and February 2024, the Consumer Price Index (CPI) at the overall level and the corresponding index for food products followed each other relatively well. This changed in the spring of 2022, when the CPI for food products began to increase at a faster rate. In February 2022, the CPI for food products was 114.74. Just over two years later, in May 2024, the same CPI index for food had risen to 140.24. In other words, this represents a percentage increase of about 22 percent from February 2022 to May 2024.

Figure 2 Inflation for food and non-alcoholic beverages in Sweden 2015–2024



Source: Statistics Sweden, CPI for food and non-alcoholic beverages January 2015 to April 2024.

According to Statistics Sweden, food prices have not increased so much since the early 1950s. Statistics Sweden’s data show a sharp overall rise in food prices, though price trends vary across product groups and over time. Overall, price increases have been significant for products like vegetables, dairy products, and bread. The prices of typical imported goods have also risen between February 2022 and February 2023. For some imported goods, price and volume changes may be delayed as agreements on volume and prices are often made several months before delivery and may vary by season. Additionally, lead times can be lengthy, from the harvesting of a raw material to the availability of a finished product, especially when the raw material is sourced from outside Europe. Meanwhile, rapid price fluctuations are occurring for some imported vegetables.

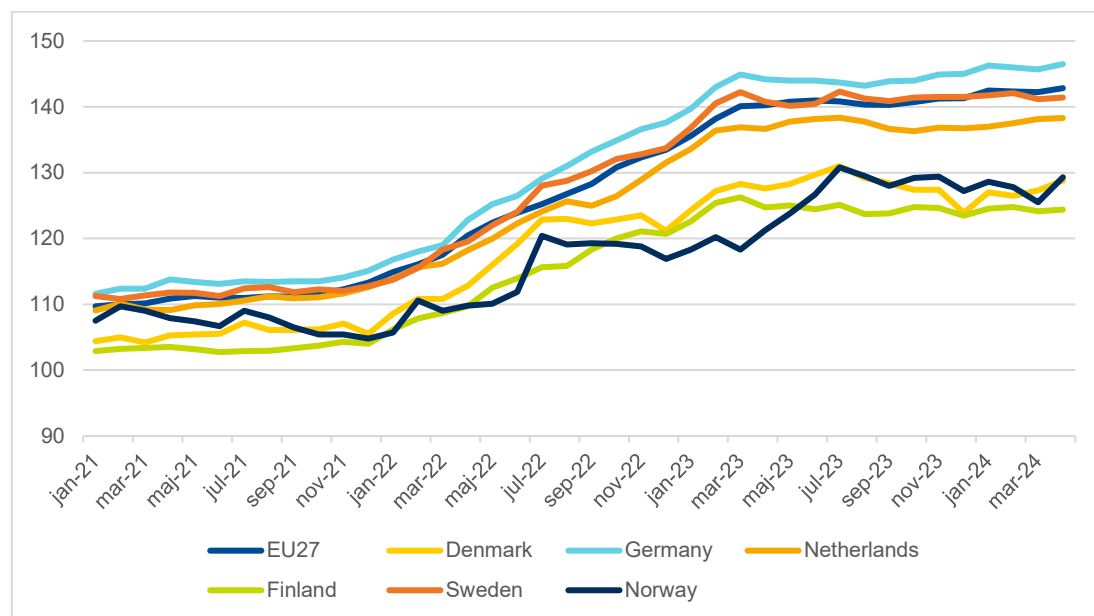
4.3 Food price inflation in several European countries

The high rate of food price increases is not unique to Sweden and has also occurred, to in other European countries. Data from the EU’s statistical office, Eurostat, shows that the price index for food and non-alcoholic beverages in the EU began rising from low levels around June 2021 (see Figure 3). Food prices in Sweden largely followed the average trend in the EU until the turn of the year 2022–2023.

The rate of price increase has varied somewhat between Denmark, Finland, Norway, and Sweden. Compared to Sweden, the rate of price increase in Denmark began to rise earlier but then levelled off at the end of summer 2022. From approximately the same time, the rate of price increase in Sweden has been the highest among these four countries. Overall, the rate of increases of prices in Sweden has followed the EU average, and in April 2024, the index was 141.43. From mid-2021 to mid-April 2023, Norway’s rate of price increase was lower than in Denmark,

Finland, and Sweden. After April 2023, Finland had the lowest index level compared to the other Nordic countries. Among the Nordic countries, Finland had the lowest rate of food price increases (124.80) in April 2024.

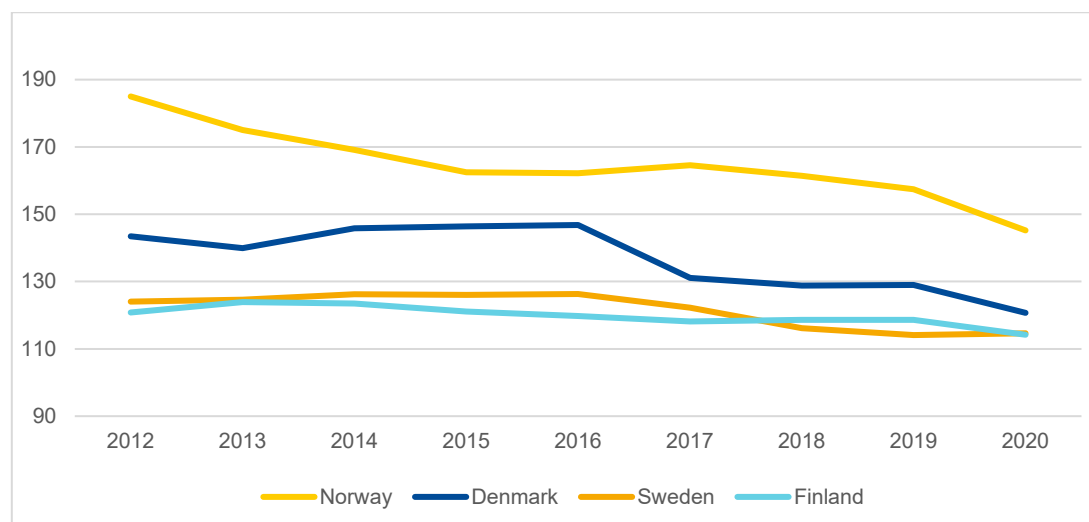
Figure 3 Price index, food and non-alcoholic beverages in the Nordic countries, the Netherlands, Germany and the EU27, January 2021 to April 2024, HICP



Source Eurostat, January 2021 to April 2024. The base year used for the index is 2015.

At the beginning of 2023, Sweden had the highest rate of food price inflation among the Nordic countries. However, compared to Denmark and Norway, the relative price level in relation to the EU average has previously been lower in Sweden. Between 2020 and 2022, there was also no significant difference in the price levels of Denmark, Finland, Norway, and Sweden compared to the EU average. This is illustrated in the diagram below.

Figure 4 Price Level Index in the Nordic countries January 2014 to April 2022, EU 27=100



Source: Eurostat.

5 Where did the money flow

The Competition Authority has examined the price trends for a total of nine product groups, which together account for approximately half of Swedes' food consumption measured in kilograms per capita. This analysis was conducted partly through price data from grocery retailers and partly through commissioned research. The Competition Authority has also analysed the profitability of food manufacturers and grocery retail companies.

5.1 The Swedish Competition Authority's study of seven different food product markets

The Competition Authority conducted a study to address the question of whether the rapid increases in food prices during 2022 and early 2023 could be partly explained by the retail grocery sector raising consumer prices beyond what was justified by increase in supplier prices. In the study, the Competition Authority focused on seven different food products. As part of the study, the Competition Authority collected price and cost data for the selected product categories from the four major grocery retailers. These product categories were soft bread, butter, cheese, eggs, fresh chicken, cooking oil, and potatoes. The Competition Authority also collected information from the grocery retail players on product-specific sales overheads and principles for allocating fixed costs to products.

The main finding of this study is that prices for these commodity groups rose more sharply and have stayed high for longer than was justified by the temporary steep increase in agricultural input prices in spring 2022. For example, the price of rapeseed, which spiked after Russia's full-scale invasion of Ukraine in February 2022, had returned to pre-invasion levels by June that year. The anticipated shortage was less severe than market participants had feared, so prices fell as quickly as they had risen – but not to consumers. More than two years later, consumer prices remain high.

As shown in the table below, the largest price increases occurred in the supply stage of the food supply chain, although the grocery retail stage also contributed to the overall price increases.

Table 1 Increase in supplier price in SEK per kilo (for cooking oil per litre)

Product	Increase in supplier price in SEK per kilo (for cooking oil per litre)	Increase in consumer price SEK per kilo (for cooking oil per litre)
Cooking butter	28	36
Bread	14	16
Egg	4	14
Chicken	26	39
Cooking oil	17	25
Potato	1,5	3
Cheese	34	48

In the analysis of price data of the seven product groups, which were largely affected by the temporary cost increases, the Authority found that prices rose more than was justified by increased supplier prices in 2022 and 2023. This can be explained partly by increased margins in Swedish kronor in grocery retail, and partly by a so-called 'rocket and feather effect'. The latter describes a situation where retailers raise prices quickly when the purchase price goes up but are slow to lower prices when costs fall.

For the seven product groups examined, there were several minor price increases from food producers in 2021. These increases in supplier prices were, on average, passed on to consumers by the grocery retailers, but the sector did not increase its profit margin in Swedish kronor. In the spring of 2022, two changes occurred with regard to margins. First, food manufacturers managed to negotiate significant price increases with the grocery retail sector, increases that were higher than what could be explained by the rise in input goods prices. However, this increase is partly justified by the fact that cost transfers from food manufacturers occur with a delay, meaning the price hikes partly compensate for earlier cost increases. In grocery retail, however, there is no delay in passing costs on to consumers. Retailers can raise consumer prices at any time, regardless of when supplier prices go up, and sometimes even before that happens. Furthermore, consumer prices increase by more than the increase in supplier prices. As a result, the consumer price hikes in 2022 were significantly larger than what could be justified by the actual rise in input goods prices.

For the seven product groups examined, it can also be concluded that the price increases in grocery retail during 2021 were a pure one-to-one cost transfer. If the price increased by one Swedish krona from the supplier, it was raised by one Swedish krona to the consumer, excluding value-added tax. In 2022, a change occurred in pricing, where prices to consumers began to increase by more than the increased cost from the suppliers. On average, the price increases allowed for an unchanged gross profit margin for the grocery retailers, meaning that the margin as a share of the price remained unchanged.

Thus, there are indications that the large price increases in 2022 and the continued high prices in 2023 are explained by the fact that both food manufacturing companies and grocery retailers raised prices more than can be explained by increased supplier input prices, in order to defend their respective gross profit margins.

The gross profit margins of grocery retailers have not decreased during the period when prices increased the most. This provides strong evidence that the grocery retailers increased their prices by more than was justified by higher input prices. In the example of butter, it can be seen that the supplier's price to the grocery retailers went up by 28 Swedish kronor (2.41 Euros) per kilogram. In a pure cost transfer, the price should also have increased by 28 Swedish kronor in the retail stage. However, the Competition Authority's analysis shows that the price increased by 36 Swedish kronor (3.1 Euros) in grocery retail sector. The grocery retailers thus first increase the price by the supplier's price increase, and then add its own profit percentage to the price increase.

The analysis therefore shows that external factors only can explain part of the actual price increases that have occurred in the grocery retail sector. Rather, the cost increases that have arisen at the producer level have been passed on to the grocery retailers, which in turn have been able to pass them on as a percentage to consumers. This 'interest-on-interest effect', whereby the grocery retailers have first been able to pass on the producers' price to consumers and then been able to defend its gross profit margins, has led to extensive increases in consumer prices in grocery stores and increases in consumer prices in stores and the grocery retailers' profit margins in Swedish kronor.

The Competition Authority's conclusion is that these effects at the consumer level – that prices have increased more than can be justified by increased costs at the manufacturing level – would not have arisen if competition had been better in the grocery retail market.

Most of the input shortages that arose from Russia's invasion of Ukraine have been resolved. The war is still ongoing, but various investments and imports from other countries have ended the dependence on inputs from Russia. As a result, the prices of these inputs have fallen. The rapid price increases and the rapid price reductions, as a result of investments and the entry of new players, show that the market dynamics at this stage have worked well.

However, the Competition Authority notes that despite the fact that these shortages have been resolved and the prices of input goods have fallen, consumer prices have remained high. The Competition Authority's conclusion is therefore that the downstream market dynamics have worked less well. Well-functioning market dynamics have relatively quickly resolved problems of shortages created by crises such as Russia's invasion of Ukraine. However, as the Competition Authority has observed, food prices in Sweden have remained high two years after these shortages have been resolved.

Inflation has acted as a magnifying glass, revealing the consequences of double marginalisation (“compound interest effects”) and strategic pricing by players with significant market power in the food supply chain. It has made already existing competition issues more visible.

The Competition Authority's main conclusion is that the grocery retailers have, to varying degrees and due to market power, been able to increase their profit margins in Swedish crowns by applying oligopolistic pricing strategies towards consumers. In practice, this means that for some goods the increased mark-up of the grocery retailers has been greater than can be justified by the increase in purchasing costs.

5.2 Commissioned research report on cost transfer for milk and packaged meat

In the fall of 2022, in connection with large food price increases, the Competition Authority commissioned researchers at Lund University to investigate the recent increase in food prices and competition in the food supply chain. The authors are responsible for the assessments and conclusions in the report.

The purpose of the assignment was to investigate whether the grocery retailers have raised prices more than is justified given increased costs (i.e. cost transfer) and, if so, how this has affected price competition between companies in the long term. The time period investigated extends from July 2020 to July 2023. A cut-off point set at February 2022 is used to clearly compare changes over time (a *before* and *after* perspective).

The research report focuses on two goods, centrally packaged meat and milk (drinking milk). In the sales of these two products, the range of private label goods is particularly widespread. Around 25 percent of all meat is assumed to be under the centrally packaged meat product category. This is due to the fact that the majority of meat sold is store-packed and there is no barcode data available to analyse. For milk, on the other hand, all milk sold in the major grocery retail chains is investigated. According to Statistics Sweden, between September 2021 and September 2022 the price increase for drinking milk was 23 percent between, while the price increase for meat in the same period was 19 percent. This differs from food as a whole, where the increase was around 16 percent. The phenomenon of “take the opportunity” is thus considered to be particularly interesting to investigate for centrally packaged meat and milk.

To analyse the goods, barcode data was purchased. Based on this data, it is possible to calculate and illustrate how volumes and prices have developed at the item level. Unlike the Competition Authority's investigation, the commissioned research report uses aggregated data for settlement prices, consumption and production price indices, and volumes sold. This aggregated data is sourced from Statistics Sweden (SCB) and the Swedish Board of Agriculture.

The results show that the sales volume of private label milk and branded milk were relatively similar at the beginning of 2020. However, since the spring of 2022, there has been a clear increase in the sales volume of private label milk, while the opposite trend has occurred for branded milk. Overall, the sales volume decreased by 8 percent after February 2022 compared to before. At the same time, milk prices have risen sharply in the following categories: lactose-free compared to regular milk, and private label milk compared to branded milk. In general, milk prices for private labels (both lactose-free and regular) have increased more than for branded milk. Overall, the researchers suggest that private label milk has gained a larger market share, as its share of sales volume increased from 38 percent at the start of the Ukraine war to 44 percent in mid-2023. This indicates that the price increase is likely to affect consumers who already chose private label milk because it was cheaper. In other words, the price increases in milk may have disproportionately impacted low-income consumers.

Unlike milk, the sales volume of private label and branded centre-packed meat follows each other well during the period and thus it is difficult to see any break in the trend. However, prices for private label meat increased more than branded meat, which is reflected in the final period by an increase of 23.9 percent and 18.5 percent respectively. This differs from milk, where there were discrepancies between private label products and branded products in both price and sales volume. Furthermore, a clear difference within the centrally packaged meat segment can be seen in both sales value and sales volume for low-priced meat and meat. For example, sales of low-priced meat increased by 14 percent, while those of 'ordinary' meat remained virtually constant over the period. The price of discounted meat also increased more than the price for private label products but also for centrally packaged meat in general. Overall, the market share of low-priced centrally packaged meat increased by 15 percent over the period. Thus, food price increases may have hit consumers who choose low-priced meat to save money.

The overall conclusion of the commissioned research report on cost transfer is that the results do not support the view that retailers “took the opportunity” to increase their profit margins. The researchers point out that this does not contradict the fact that margins increased for certain product groups such as milk. In addition, the researchers conclude that private label milk is sold to a greater extent, while the price of private label milk has increased more than that of branded milk. For centre-packed meat, the researchers show a similar pattern - that more consumers are choosing low-priced meat and that the price of low-priced meat has increased more than for private label meat and the entire centre-packed meat category. Given that in times of higher food prices, more and more consumers tend to choose cheaper food products, these price increases are likely to affect both consumers who then start shopping for other goods to save money and those consumers who already choose cheaper goods before the price increases.

An overview of the differences and similarities between the Competition Authority's analysis and the commissioned research report is presented in the table below.

Table 2 Summary of similarities and differences between the two reports on cost transfer

	Increasing food prices – where did the money flow? (Swedish Competition Authority, report 2024:3)	Rising food prices and changing competition (Swedish Competition Authority, Commissioned Research report 2024:3)
Data	Data from grocery sector players on supplier purchase prices, store prices, and consumer prices, along with information on sales overheads, for seven specific product groups, further broken down into 960 different items.	Purchased barcode data from Nielsen IQ regarding sales volumes:, sales value, the quantity of products sold during the specified four-week periods, information on origin, private label products and if environmental certification.
Other data sources	The Swedish Board of Agriculture (Jordbruksverket) Production Input Price Index, Settlement Prices, Food Consumption Per Capita, Production Price Index	Statistics Sweden (SCB) and the Swedish Board of Agriculture provide settlement prices, consumption and production price indices, and sold volumes
Time period	Week 1 2021–Week 19 2023	Week 29 2020–Week 28 2023
Goods	<ol style="list-style-type: none"> 1. Soft bread 2. Fresh chicken 3. Cooking butter 4. Cooking oil 5. Cheese 6. Potato 7. Egg 	<ol style="list-style-type: none"> 1. Centrally packed meat 2. Milk
Conclusions	Cost Transfer 1:1 in 2021 and Cost transfer 1:1.44 in March 2023	<p>There is no evidence that the price increases have given the grocery trade an opportunity to 'take the chance' to increase their margins. However, there may be some consideration regarding, for example, individual grocery chains or individual products. Increased price transmission is seen for milk and beef.</p> <p>The prices of milk and centrally packaged meat have increased both in Swedish kronor and percentage. Similar trends were also observed for volume of goods.</p>

6 Factors influencing competition in the food supply chain

In the previous chapter, circumstances indicating limited competition within the food supply chain were outlined. This chapter describes various behaviours and structures that affect competition.

6.1 Agreements between food manufacturers and their suppliers and buyers

The Competition Authority has investigated whether there are contractual structures that hinder effective competition in selected sectors of the food supply chain. The factors examined include conditions regarding what should be grown and raised, how prices are set and by whom, and the possibilities for price adjustments during the contract period. Other factors reviewed include issues related to production risk, volumes, contract durations, and delivery commitments.

The analysis has focused on food manufacturers across various sectors that purchase agricultural products directly from primary producers. These food manufacturers include, among others, egg packers, chicken slaughterhouses, dairies, grain traders, grain processors, potato packers, and fruit and vegetable wholesalers. In most cases, these are food manufacturing companies; however, some players resell the products without any processing. For consistency, all players are referred to as "food manufacturers" here, even though some may not engage in processing the products they buy and resell.

The Competition Authority notes that the agreements entered into by food manufacturers – both with their suppliers (primary producers) and with their main buyers (grocery retailers) – can contain terms that can lead to reduced competition. This is an overarching picture, and the functioning of competition varies across different sectors and there are areas where competition works better. In certain sectors, primary producers are locked into one or a few food manufacturer buyers for relatively long periods. These buyers often set the prices but may, in turn, have an obligation to accept all production from the primary producer. In the next stage in the supply chain, it is clear that there are typically no exclusive agreements, and prices are negotiated between the food manufacturers and wholesalers. It has also emerged that, despite the lack of explicit volume commitments or similar agreements, food manufacturers are, in practice, subject to extensive requirements to maintain a high level of service and deliver all ordered products.

6.1.1 Price negotiations

Primary producers have little to no influence over the prices of their products. This was confirmed by the Competition Authority's investigation into competition in the primary production sector, conducted in the spring of 2023. The investigation revealed that it is often the buyers of primary producers' products who set the prices. The investigation also highlights that primary producers bear most of the risk if something goes wrong. Price lists are typically prepared in advance, and primary producers may sometimes be involved in developing these lists. However, it is consistently the food manufacturers who, upon settling a delivery, assess the quality of the goods and determine the payment amount. Regarding pricing, it has been found that the prices set or negotiated with primary producers have the longest intervals for chicken and eggs. At the same time, adjustments according to agreements can occur without restrictions, at least for certain products. The price is influenced by various factors with some players more clearly following, for example, the feed price or another predetermined index. In the grain sector, there are various pricing models available to primary producers to help manage their risk. The grain sector is characterized by relatively transparent pricing.

Throughout this investigation, it has emerged that primary producers do not have an ongoing opportunity to initiate price negotiations. Instead, it is the buyers of the primary producers' products who control the adjustment of the price on which the payment to the primary producer is based. This means that a primary producer cannot influence its own pricing if an increase is needed due to rising costs, while buyers have more control over the price paid to the primary producer, particularly in the event of changes in the downstream market price. Consequently, the possibility of price adjustments in response to changes in the external environment is often asymmetric.

In terms of the right to initiate price negotiations between food manufacturers, such as poultry slaughterhouses, dairies, and egg packers, and grocery retailer companies, the situation differs from the relationship between primary producers and manufacturing companies. Typically, food manufacturers can announce price increases to grocery retailers, but this must be done with a relatively long notice period. Conversely, such notice requirements do not typically apply if the retailers want to initiate price negotiations with manufacturing companies. In that case, prices are negotiated directly between the parties. As a result, prices between food manufacturers and retailers remain valid until the next price announcement and subsequent negotiation. Prices, as well as details about discounts and bonuses, are rarely specified in the actual agreement but are instead included in various attachments. Additionally, agreements regarding marketing or promotional activities, such as campaigns, are regulated in separate agreements or attachments. The Competition Authority concludes that this collectively results in a relatively complex contractual structure, where factors other than the price negotiation itself have a significant impact on the final price.

6.1.2 Exclusivity and volume commitments

The investigation has revealed that, in several sectors, there are different types of exclusive arrangements between food manufacturers and primary producers, requiring that all or a certain portion of the primary production be delivered to a single buyer. Additionally, it has become evident that food manufacturers, due to the fear of losing purchase volumes, may feel practically constrained from selling to buyers other than the wholesalers of grocery retailers, even if exclusivity is not explicitly stated in the contracts. There seems to be a discrepancy between what is outlined in the written agreements and what actually occurs in practice. Since a large portion of sales often goes to the central wholesale operations of grocery retailers, the pressures that arise from this can limit the ability to supply other customers or deliver directly to stores. However, the analysis shows that there are differences between sectors.

Contractual exclusive and volume commitments from primary producers are more prevalent in the chicken, egg, and dairy sectors than in other areas investigated by the Competition Authority. For chicken and eggs, exclusive contracts mean that there is no opportunity to deliver to competing chicken slaughterhouses or egg packing facilities. However, egg producers may sell a small portion directly to consumers, known as “farm sales.” In the case of milk, Arla, the largest dairy cooperative, permits so-called split deliveries, allowing Swedish members to sell a portion of their milk production to buyers other than Arla. At the same time, it should be emphasized that there is typically a take-or-pay obligation for the food manufacturers, meaning that the primary producer is guaranteed a market for the entirety of their production of chicken, milk, or eggs. There are also examples where primary producers, according to the agreements, are required to purchase input goods, such as day-old chicks or feed, from the food manufacturer or from a supplier chosen by the food manufacturers. This reduces the primary producers' control over their own cost structure.

In general, chicken, eggs, and milk products are sold to a relatively high degree directly from manufacturers to grocery retailers. A review of the agreements between food manufacturers and their customers shows a consistent difference in terms of exclusivity and volume commitments compared to the agreements with primary producers. In the relationship between the food manufacturer and its private customers, the main rule is that there is no exclusivity, allowing buyers the freedom to purchase from any supplier they choose. However, public buyers are limited to the supplier that has been awarded the public contract according to the rules of public procurement. There are also, with the exception of promotional campaigns, no volume commitments. Instead, non-binding forecasts are common. Buyers also require suppliers to maintain a very high level of service for orders that can be placed with relatively short notice. Overall, this means that manufacturers seem to bear a significantly larger share of the volume risk than their buyers.

As noted in the Competition Authority's previous analysis of competition in primary production, a large part of Swedish food production is influenced by geographical conditions and possibly also by the relatively low population density. Practical and logistical factors often limit primary producers' opportunities to change buyers. Restrictions to improved competition in the manufacturer stage of these sectors could be attributed more to the market's conditions, such as its dependence on weather and the need for significant logistical efforts, than to the contractual structure or specific commitments from any party.

The Competition Authority further noted in its analysis of competition in primary production that organizing into cooperatives can strengthen producers' bargaining power, but it also carries the risk of inefficiency. Additionally, it may hinder entry into the manufacturing stage in the food supply chain if a significant portion of existing production is tied to a specific cooperative. Some associations have stated that they generally do not refuse new members within their geographic area. However, it is clear from most of their company constitutions and statutes that they reserve the right to do so if a new member would not be beneficial to the cooperative's finances.

In the dairy sector, exclusivity is not as prevalent as in, for example, the egg and poultry sectors. The dairy cooperatives examined require members to deliver at least 50–80 percent of their produced milk to the cooperative they are a member of. The remaining volume can be delivered by the primary producer to other dairies.

6.1.3 Duration and cancellation periods of the contracts

Contract terms and termination periods also differ across the sectors reviewed. Contracts between primary producers of chicken and eggs and the slaughterhouses or packing plants can last several years and often have very long termination periods. In the next stages of the food supply chain, contracts are typically open-ended agreements but with short termination periods. This means that food manufacturers can be bound by long-term contracts with their suppliers, while contracts with their buyers can be terminated by either party on short notice.

One effect of these long contracts is that a primary producer may not be able to switch to another buyer offering better terms for an extended period. The long contract durations effectively lock in primary producers, which can contribute to reduced competition among slaughterhouses or egg packing plants. Given that manufacturers usually set the price, this also means that primary producers rarely have the opportunity to negotiate competitively for the price they receive for their products. In crop production, however, the contractual structure usually involves transactions made on a harvest-by-harvest basis, providing relatively high flexibility for primary producers in certain sectors, such as potatoes, to switch buyers even later in a contract period.

6.2 Competition in the grocery retail market

6.2.1 Grocery retailers in Sweden

Market concentration in the grocery retail sector has long been high in Sweden. The major players have maintained a strong position for a long time, allowing them to develop large wholesale and logistics operations, as well as establish stores in competitive locations. Conducted interviews have shown that the ability to achieve sufficient sales and volumes within a reasonable timeframe is a prerequisite for profitable entry as a grocery wholesaler. The majority of the large grocery retailers' wholesale operations primarily supply only the stores within their own store network. Currently, competition among grocery retailers mainly manifests itself through competition for market shares at the store level.

In 2023, total sales among the largest players in the retail sector amounted to 315.4 billion Swedish kronor (27.2 billion Euro), with market shares distributed as follows: Ica (50.3 percent), Axfood (including Willys, Hemköp, Tempo, Eurocash, Matöppet) (20.5 percent), Coop (17.5 percent), Lidl (6.1 percent), City Gross (3.7 percent), and Matrebellerna (1 percent).

Independent retail stores have a very limited share of the grocery retail market. Several stores affiliated with the independent retail chain Matrebellerna have in recent years been acquired by other players, such as Coop, Willys, and City Gross, or have gone bankrupt. Many other independent retail stores have also joined the large grocery chains over the years.

Most existing retail grocery stores have, in various ways, a business relationship with one of the four largest players in the market and their purchasing and wholesale operations. All owner-operated stores belong to the same group as the grocery retailer's purchasing and wholesale operations. Affiliated stores are run by retailers who are closely tied to the grocery retailer's purchasing and wholesale operations through agreements. A retailer may have joined one of the large players' chains by being recruited to run a specific pre-established store. Alternatively, the retailer may have previously operated an independent grocery store and chosen to affiliate it with a chain.

6.2.2 The role of wholesalers

There are notable similarities in how large grocery retail companies manage their wholesale operations in Sweden. Their core activity is the efficient supply of goods to owned or affiliated stores. However, this activity has broadened to include a variety of ancillary services, such as marketing, concept development, CRM systems, IT services, and more. Additionally, grocery retail companies are also

involved in activities such as store establishment, retailer recruitment, property development, and property management.

Most existing retail stores have a strong business relationship with grocery retail companies through various forms of cooperation agreements. These agreements govern a range of issues between the parties, specifying several obligations for the retailer. These obligations include promoting the company's private label products, operating the store under a specific concept or store profile, and making the majority of product purchases from the grocery retail company's wholesale operations.

Several factors suggest that grocery retail companies hold significant influence over the purchasing decisions of affiliated and cooperative stores. One effect of this close collaboration is that it becomes increasingly challenging for affiliated retailers and consumer cooperatives to replace purchases from their full-range wholesaler with alternative supply channels. Retailers perceive business advantages in maintaining this collaboration, which explains why they make such a large portion of their purchases from their full-range wholesaler and avoid using two full-range wholesalers simultaneously. Competition between full-range wholesalers for store demand is therefore more indirect, relying on the broader competition among various grocery retail companies. Although it may be difficult for a store to replace its entire product supply from a full-range wholesaler with goods from individual suppliers, alternative purchasing channels and technological solutions exert a limited competitive pressure.

The investigation shows that large retail companies with their own full-range wholesale operations engage in practices that can weaken or limit competitive pressure from alternative purchasing channels. The market power of full-range wholesalers restricts competition from external suppliers, a situation that risks further deterioration. Retailers and consumer cooperatives are influenced through requirements and incentives in the form of discounts, assortment demands and recommendations, auto ordering, and pricing services to make purchases from the full-range wholesaler rather than from external suppliers.

Furthermore, terms and conditions combined with penalties in agreements between suppliers and full-range wholesalers, if challenging to meet, can lead suppliers to become restrictive in their product supply to other parties. There are also indications that full-range wholesalers exert pressure on suppliers. This suggests that full-range wholesalers are using the often asymmetric power dynamics in their favour to compel suppliers to limit their sales to other players, both within and outside the wholesaler's own retail chains.

As a result of Axfood-owned Dagab's acquisition of Bergendahls' wholesale operations, there is currently only one full-range wholesaler, Dagab, supplying independent stores. This leaves independent stores reliant on one full-range wholesaler that is vertically integrated with competing stores, which can create conflicts of interest

and risks of disadvantaging the independent stores. Dagab's acquisition of Bergendahls' wholesale operations was approved after Dagab made commitments to address the competition concerns identified by the Competition Authority during its merger control investigation.

Sustained exposure of full-line wholesalers to competition may increase pressure on them to enhance their offerings through price and competition on the merit, relying less on volume and infrastructure advantages. Improved conditions for alternative purchasing channels can yield numerous positive effects, both in the short and long term. For suppliers, enhanced access to the retail sector can create better opportunities for entry and expansion at both the supplier and wholesale levels. This may enable smaller suppliers to gradually scale up their operations more effectively.

Increased access to suppliers can also increase competition at the retail level. Such a change could lead to stores offering a more differentiated assortment, even within the same chain. The more differentiated the use of alternative purchasing sources, the greater the strategic uncertainty about each other's business decisions created between stores.

The grocery retail companies' pricing services and promotional offers also risk align the stores' product prices and dampening competition among them, especially within the same chain/concept.

6.2.3 Establishment of new grocery stores

For grocery retailers, identifying and securing competitive store locations is one of the most crucial strategic activities. By controlling competitive locations, grocery retailers can develop a stable network of stores over time. This can be achieved in several ways. When companies own store locations, these remain part of the store network as long as the chains choose to retain them. Alternatively, the grocery retail companies can sign primary lease agreements with property owners for grocery stores. These premises can be used by owned or cooperative stores or leased out to affiliated stores.

Grocery retailers may also have the option to take over a store location, even if the current store owner has previously held the lease, through clauses that grant the retailer a right of first refusal on the business, including the lease for the store. This may reduce the mobility of existing store locations between grocery retailers. Additionally, grocery retailers can influence competition through strategic location decisions, such as selecting specific store concepts. It has also been noted that these companies are increasingly owning or signing primary leases for stores associated with concepts that typically involve larger stores. These larger stores often have higher sales than smaller stores, such as convenience or rural stores, and may therefore hold greater strategic importance.

The grocery retail company may also be able to take over the store location even when the affiliated retailer has previously held it, for example, through clauses giving them the right of first refusal for the business of which the lease of the store location is a part. This may reduce mobility between competing grocery retailers for existing store locations. Grocery retail companies can also influence competition through strategic actions, such as selecting specific store concepts. It has also emerged that grocery retailers increasingly own or hold primary leases for stores belonging to concepts that typically feature larger stores. These larger stores often generate higher sales than smaller stores, which are usually convenience or rural stores, and may therefore hold greater strategic importance.

In addition to securing store locations for their own network, grocery retail companies can also prevent store locations from being used by competitors. In some cases, these companies develop the area around their stores or own premises adjacent to them. In such situations, grocery retail companies have an interest in bringing in other types of stores as tenants, such as pharmacies or Systembolaget (the state-owned alcohol retail monopoly), which can increase customer traffic to their own store, while competing grocery stores are not prioritized as tenants.

Grocery retail companies may also own undeveloped land. In some countries, a strategy known as 'land banking' has been identified as a potential way to exclude competitors. Land banking refers to the ownership of undeveloped land or properties that are not used for the company's own grocery business and for which there are no immediate plans for development. When grocery companies acquire undeveloped land or properties with the intention of preventing competitors from establishing themselves in those locations, it serves as a strategic move to reduce competition.

Grocery retailers may also attempt to control who establishes themselves in a particular area through usage rights restrictions or restrictive clauses in lease agreements. The Competition Authority has not found indications that such restrictions are widespread within grocery retail market. However, such practices may be more prevalent in strategic locations and, when they occur, can have significant impacts on the affected local markets.

The Competition Authority concludes that access to competitive store locations is a crucial factor for entry and expansion in the grocery retail market. The number of available locations is also limited by municipalities' application of the Planning and Building Act and land allocation, i.e. the process that takes place when municipal land is sold to a developer. The strategic efforts of grocery retailers to secure store locations risk further limiting access to both existing and new store locations.

How much resources are needed to start a grocery retail operations

As part of an ongoing investigation into the profitability of companies within the food supply chain, the Competition Authority has examined the costs associated with entering the Swedish grocery market and competing with established players. Additionally, the Authority has estimated the total cash flow of Lidl, which entered the Swedish market by opening its first store in 2003.

Lidl's total investments during its 20 years of operation in Sweden have amounted to 11.3 billion Swedish kronor. These investments have been partially financed by cash flow from operations, but primarily through around 7 billion Swedish kronor in owner's capital contributions. Although Lidl's operations have generated positive cash flow, the total result after financial items over the entire 20-year period shows a loss of approximately 3 billion Swedish kronor.

These figures can be compared with Axfood's retail chain Willys AB. During the same period, Willys' cash flow from operations amounted to 22.8 billion Swedish kronor, of which 5.5 billion Swedish kronor was used for investments.

A cautious conclusion is therefore that it is costly for a new grocery retailer to enter the Swedish grocery market. A company wishing to enter needs to have the resources to establish stores, operate unprofitable stores, and the resources to absorb losses over an extended period.

6.2.4 The high market concentration in the grocery retail market leads to lock-ins

The Swedish grocery retail market is highly concentrated. A small number of vertically integrated players with central wholesale operations have maintained a strong position, allowing them to build logistics and purchasing capabilities and establish stores in competitive locations. Thus, the independent retailers account for a small share of total retail sales. Over time, market concentration has increased, partly due to acquisitions. With one exception, the wholesale operations of the major grocery retailers supply only the stores within their own network. There is thus no independent full-range wholesaler. As a result, independent stores are reliant on a full-range wholesaler that is vertically integrated with competing stores, creating potential conflicts of interest and risks that the independent stores may be disadvantaged. The core business of these players is to efficiently supply goods to their owned or affiliated stores. However, this activity has expanded to include a wide range of ancillary services, which can direct the stores' purchasing to the grocery retailer's wholesale operations

Contractual provisions often include restrictions on how an individual retailer can operate its business. In most cases, a retailer affiliated with a grocery retail company cannot sell its business to a third party without the company's consent or without first offering the company the opportunity to purchase it. In some instances, the

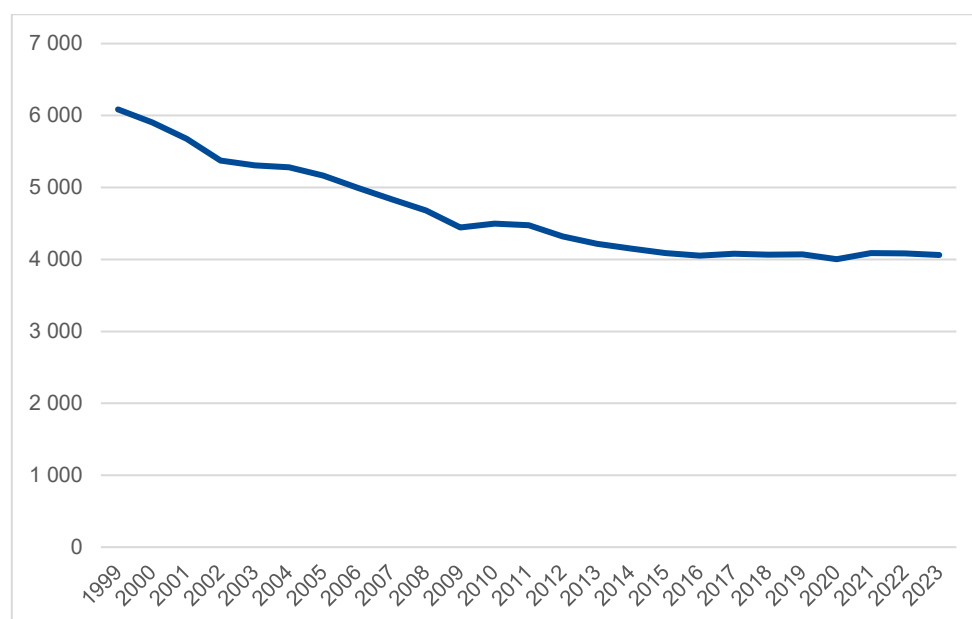
grocery retail company also has the right to buy back shares of the business if it is sold to a third party. This can lead to market stagnation and make it difficult for affiliated stores to switch to other grocery retail companies or chains, which may reduce competition.

Grocery retailers, while securing store locations, can also prevent these spaces from being used by competing grocery businesses.

6.3 Grocery retail stores in Sweden

The number of grocery retail stores in Sweden has decreased over time, with the most significant decline occurring between 1998 and 2012, when the number dropped from approximately 6,200 to around 4,200. Since then, the number of stores has remained relatively stable at around 4,200. It is important to note that, in addition to stores operated by grocery retail companies, this total also includes about 2,000 smaller stores that sell a limited range of food products, such as 7-Eleven and Pressbyrån.

Figure 5 Number of stores selling food in Sweden



In 2022, there were approximately 3,200 grocery stores in Sweden. Grocery retailers have various store concepts or formats that differ in size, design, product offerings, as well as their focus on different consumer groups and store ownership structures. Below is a brief description of the largest players and their concepts.

- Ica Sweden AB operates 1,300 retail stores and is the dominant grocery retailer in Sweden. Its operations are carried out in collaboration with independent Ica retailers, who own and manage their own stores and have the flexibility to adjust their offerings, to some degree, to meet the needs of local customers. Ica's

operations also include wholesale, store development, purchasing, logistics, IT, and marketing. Ica Sweden manages and runs four distinct retail brands or store formats. Ica Maxi, hypermarkets; Ica Kvantum, larger supermarkets; Ica Supermarket; supermarkets, and Ica Nära, which consists of small convenience stores.

- Axfood AB operates several chain brands, including Hemköp, Handlarn, Matöppet, Tempo, and discount concepts Willys, Willys Hemma and Eurocash, which primarily serves Norwegian customers in stores near the Norwegian border. In 2022, Axfood had approximately 830 grocery stores. Axfood's largest brands in terms of sales are Hemköp and Willys. In 2022, Axfood owned all 234 Willys stores and 66 of the 202 Hemköp stores, with the remainder being retailer-owned. Axfood also operates 130 franchise stores across various brands. Dagab, Axfood's wholesale division, is responsible for assortment, purchasing, and logistics, and is the only full-range wholesaler open to independent retailers.
- Coop Sweden AB is a consumer co-operative grocery retailer in Sweden, organized under Kooperativa Förbundet (KF), with approximately 820 stores across the country. Coop is owned by 3.8 million members of 26 local consumer associations. Coop Sweden AB manage the wholesale operations, marketing, and services for the stores, which are owned and operated by the local consumer organizations or their franchisees. Coop operates under the brands Coop, supermarkets, Stora Coop, hypermarkets, and X-tra. X-tra is a discount concept, where most of the stores were acquired from the Danish grocery company Netto in 2019 when Netto exited the Swedish market.
- Lidl Sweden KB is the Swedish branch of the German grocery retailer Lidl. Lidl opened its first store in Sweden in September 2003. By 2023, the company had expanded to 205 stores. Lidl operates as a discount retailer, primarily with standardized store formats.
- City Gross AB is a retail chain and is focused on a hypermarket concept. In 2022, the number of stores was 42. City Gross was owned by Bergendahls (90.1 percent) and Axfood (9.9 percent). However, in 2024 Axfood acquired City Gross Bergendahl.

In addition, there are independent grocery retailers, with 'Den Svenska Matrebellerna' being the largest, consisting of 23 stores that have come together in a shared wholesale and purchasing operations.

6.3.1 Consumer behaviour is affected by the possibility to choose competing stores

An essential condition for effective competition in the grocery retail market is that consumers can compare prices and quality across different stores, rather than being limited to a single retailer or chain. Another key factor is that consumers have access to multiple grocery stores within a reasonable distance from their homes. However, this is not always the case in Sweden. The Competition Authority has found that in 99 out of the country's 290 municipalities, only one or two grocery retailers are present, affecting around 1 million people, or 10 percent of the population. Consequently, the availability of competing grocery stores is often much more limited in rural areas compared to larger cities.

Table 3 Number of grocery retailers per municipality, 2022

Number of retail players	Number of municipalities	Percentage of all municipalities	Population	Percentage of population
1	8	3 %	68 477	1 %
2	91	31 %	928 178	9 %
3	72	25 %	1 377 874	13 %
4	86	30 %	4 115 798	39 %
5	33	11 %	4 031 229	38 %

Source: Data from the grocery retailers and the Competition Authority's calculation.

6.3.2 Consumer mobility has increased

At the same time, there are clear signs that consumer mobility has increased in recent years due to rising food prices. Additionally, there is an ongoing shift, with consumers increasingly choosing discount stores and hypermarkets over traditional grocery and neighbourhood stores.

The fact that consumers are increasingly visiting multiple stores is further confirmed by a survey commissioned by the Swedish Consumer Agency, published in the autumn of 2023. The survey reveals that nine out of ten respondents who had purchased groceries in the past month had bought food products from at least two stores. Six out of ten respondents had shopped in at least three stores and 27 percent of respondents in at least four different stores in the past month. The fact that consumers often visit more stores is also confirmed by market participants in interviews conducted by the Competition Authority.

The conclusion drawn from the surveys conducted or reviewed by the Competition Authority is that consumer mobility is on the rise, and consumers have become more proactive in choosing their grocery stores, which could improve competition. However, to promote further progress in this area, conditions for grocery retailers to establish new stores should be facilitated, and barriers to entry in local markets should be lowered.

6.3.3 How is competition in the grocery retail market affected by municipal planning efforts?

The Competition Authority has, as part of the inquiry, examined how the municipalities' physical planning affect competition in the grocery retail sector and determine the conditions for establishing new grocery stores. In a previous analysis conducted in the summer of 2023, the Competition Authority found that grocery retailers generally perceive municipalities as lacking sufficient understanding of how the grocery retail sector work and what the demand for grocery retail is within their municipality. Additionally, arbitrary interpretations of the Planning and Building Act (PBL) within municipalities are seen to hinder competition. In response, the Competition Authority followed up with a study of the municipalities in the autumn of 2023 and spring of 2024, focusing on the impact of municipal physical planning on store establishment and competition. This involved interviewing 20 municipalities about their perspective on physical planning, establishment of new grocery stores and competition. A survey of all municipalities in Sweden was also conducted with a selection of questions related to physical planning. A total of 172 municipalities responded to the survey, resulting in a response rate of just over 59 percent.

Since 2008, Chapter 2, Section 3(4) of the Planning and Building Act (PBL) has included a provision stating that municipalities must consider promoting economic growth and ensuring effective competition in their physical planning. Effective competition is considered one of the most important factors (according to our interviews with grocery retail companies) for enabling new players to establish grocery stores in the market. However, our conclusion from the interviews with municipalities and survey responses is that this provision currently plays a subordinate role in municipal physical planning. While municipalities are aware of the rule, its actual application varies between them. Another conclusion from the investigation is that in some detailed development plans/zoning plans, municipalities permit the establishment of retail stores but not grocery stores, which, according to grocery retail companies, inhibits effective competition. Under the Planning and Building Act (PBL), municipalities can restrict grocery sales by allowing only retail stores in certain areas. Grocery retailers argue that this distorts competition, as many retail stores also sell groceries, and they believe this restriction in detailed development plans should be removed.

The National Board of Housing, Building, and Planning also believes that good competitive conditions, particularly in retail, lead to a greater and more varied supply of goods and lower prices. Providing different types of premises and land for various activities and businesses creates a foundation for increased supply, which can, in turn, lead to more effective competition. Sustainable economic growth can benefit from a denser, more mixed-use structure where different businesses support each other in fostering favourable competition.

6.3.4 Absence of grocery retailers in one third of municipalities

According to the Competition Authority, the absence of various grocery sector actors in one-third of the country's municipalities, and the lack of discount concepts in another third, restricts competition and limits consumer choice, particularly in rural areas. Consumers' ability to exert pressure on grocery retailers through their store choices and purchasing behaviour can be limited and a potential lock-in if the second closest store belongs to the same retailer. The analysis shows that 428 grocery stores in Sweden, or about 11 percent of all full-range grocery stores, are located where the closest competing store belongs to the same grocery retailer.

6.4 The system of simultaneous product launches and range revisions affects competition

The product range is a key competitive factor in grocery retail. The selection of goods offered by a grocery store influences where consumers choose to shop, which in turn impacts competition between different stores and retail chains. Additionally, the product range affects competition among food manufacturers. For a food manufacturer, the ability to introduce new and innovative products in grocery retail can help capture market share from competitors, ultimately offering consumers a broader and higher-quality selection of products.

Since the system of product range revision (ECR Trade Windows), in Swedish grocery retail, directly impacts competition the Competition Authority has carried on a detailed study of this system. The study was primarily based on information collected from major players in the grocery sector, including suppliers, grocery retailers, independent stores, and trade organizations. This information was gathered through a questionnaire and interviews. Additionally, the Competition Authority has requested information (EFI) from other European competition authorities regarding how product range revision systems operate in the grocery retail market in their respective countries.

In the Swedish grocery retail market, the vast majority of new product launches and product range revisions follow recommendations for common "trade windows" or revision dates. These guidelines are developed through ECR Sweden, a collaboration between grocery suppliers and Swedish grocery retailers. The trade window guidelines include a timetable with administrative procedures for various product categories. The timetable specifies, for example, how many weeks in advance a supplier must send product information to grocery retailers before a planned launch or revision, when grocery retailers must submit a listing notice to the supplier, and when complete, quality-assured product information must be ready. Product launches and revisions occur simultaneously for all parties involved within each product category. Currently, there are two or three trade windows per year for each product category.

Our analysis indicates that the system of common trade windows for new launches and product range revisions in the grocery sector is a Swedish phenomenon. None of the European competition authorities that responded to the Competition Authority's questions have confirmed any knowledge of such a system in their respective countries.

The Competition Authority can conclude that a substantial portion of the Swedish grocery retail sector's product range falls under the trade window recommendations, and that compliance with these guidelines is high. Most players in the grocery sector are generally satisfied with the trade window system, though some suppliers would prefer additional time windows each year. A few specific grocery retailers have also expressed interest in having more trade windows.

Since players in the grocery retail sector generally seem satisfied with the trade window system, it is reasonable to assume that it effectively optimises product supply and generates benefits for both suppliers and retailers. However, the fact that these players consider the system efficient does not necessarily mean that it also favours competition or benefits consumers. The survey reveals that coordination on trade windows may include anti-competitive elements, as it restricts suppliers and retailers from launching new products or implementing product revisions throughout the year. Launches and revisions for each product category are set to specific times that apply to all participants, limiting the ability and incentives of these players to act independently and thus fully compete with each other.

The few number of product range revisions per year also gives the grocery retail players an opportunity to exercise market power over suppliers. The Competition Authority's supervision of unfair trading practices has, for example, revealed that suppliers and grocery retailers have not been able to agree on the price when adjusting the packaging size of the supplier's products. This meant that the products were not listed and that the supplier had to wait until the next trade time window, i.e. a relatively long time, before the opportunity for listing arose again.

The Competition Authority's investigation of various aspects of the food supply chain indicates that there are structures which, individually or collectively, inhibit effective competition. In a broader context, the coordination of time trade windows for product range revisions may also contribute to rigidities in the market structure of the food industry. Without the cooperation on time trade windows, each player would likely have stronger incentives to independently streamline the launch process.

6.5 The grocery retailers' private label products

The Competition Authority has investigated private label products (private labels) effect on competition on several occasions and has found that private labels have both positive and negative effects on competition in the food supply chain. Among the advantages emphasised is that private label products can stimulate price competition and competition on the merit. Private label products can also affect bargaining positions between grocery retailers and food manufacturers, which mean that that is less profitable for the manufacturer to produce private labels than branded products. Disadvantages highlighted are that private label products can dampen innovation and product development, which can lead to a more uniform product range. The share of private label products has increased over time, but differ between different product categories.

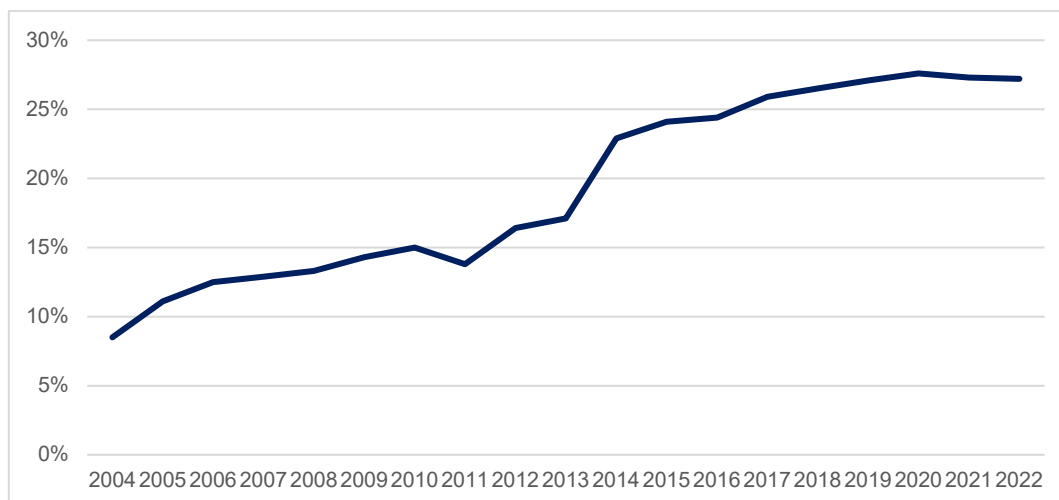
Table 4 Private label products – percentage of total sales, a sample of products, 2018–2021

	2018	2019	2020	2021
High percentage of private label				
Fish	45,7	46,3	46,6	46,1
Fruit	42,4	44,2	43,7	45,3
Vegetables	41,4	43,7	44,0	44,4
Meat	37,5	38,9	38,4	38,0
Low percentage of private label				
Mineral water, soft drinks, juices	10,6	10,3	12,6	11,9
Non-alcoholic drinks	10,2	9,8	11,2	10,5
Sugar, jam, honey, chocolate and confectionery	7,9	8,2	9,2	9,3
Coffee, tea and chocolate drinks	9,1	8,3	7,6	7,0

Source: Statistics Sweden.

The share of private label products has increased by more than 300 percent between 2004 and 2022. In recent years, the focus has been on low-cost and standard products, while premium private label products have taken a back seat. Consumers with less disposable income often turn to private label food products, which tend to be priced lower than branded products, and this behaviour seems to be further fuelled by high food prices in the wake of inflation.

Figure 6 Private labels' share of grocery sales 2004–2022



Source: Statistics Sweden (2022) and Statistics Sweden (2023).

The Competition Authority has conducted its own comparative analysis of, among other things, profit margins for similar branded and private label products and whether the prices of private label products have increased more than the prices of branded products. The Competition Authority has also commissioned researchers to analyse private label products effect on competition and innovation in the grocery retail market.

The Competition Authority has observed on several occasions that private label products can drive down prices in the supply chain, resulting in lower prices for consumers. However, the Authority has also highlighted certain risks associated with the redistribution of margins from suppliers to grocery retailers. One potential risk is that this could reduce investment in product development and range expansion, which, in turn, may lead to fewer product choices for consumers in the long term. This issue has not been addressed in the current analysis, and further research is needed to draw definitive conclusions.

6.5.1 Commissioned research on the grocery retailers' private label products

In July 2023, the Competition Authority commissioned researchers to examine how private label products affect competition in the grocery market. The assignment resulted in a report.

The aim of the report was to use private label products as a basis for identifying and analysing issues relating to competition such as the effect on prices, the balance of power in the food supply chain, and product development and innovation. To shed light on price changes of private label products, the researchers focused on three products: cornflakes, Falu sausage (a traditional Swedish product found in many different meals) and vegetable bouillon.

The researchers conducted some 25 interviews with, among others, representatives from the supplier side, the retail side (Axfood, Coop and Ica) and with representatives of industry associations. To get a picture of how private label products are marketed, the researchers also collected data in-store and via groceries flyers. In addition, barcode data was purchased from Nielsen for the three products between October 2020 (week 41) and November 2023 (week 44).

The role of grocery retailers includes, among other things, staging customer meetings, setting prices and determining their own product range. The researchers argue that grocery retailers compete mainly through these three elements. This is also the case for private label products. While private label products sales have increased more than threefold since the turn of the millennium, the strategic role of private labels products in grocery retailing has become increasingly important.

By examining 147 different flyers, the researchers show that the branded products corresponds to the majority of products featured in the flyers (over 90 percent). Generally, the food companies pay themselves to get their products in the flyers with the aim of attracting (often with discounts) more consumers to buy their products. Once in the store, consumers (who intended to buy branded products) may still choose private label products, given that they tend to be cheaper. This means that advertising costs for private label products can be minimized, and thus, the cost savings can create opportunities for other investments.

The researchers analysed at the placement of products on the shelves of the three products in 16 stores. The analysis indicates that, in many cases, private label products are displayed to a greater extent than their market shares justify. No clear and systematic differences could be identified between rural and urban areas. The private labelled share of Falu sausage on store shelves was between 47 and 55 percent. For cornflakes, on the other hand, private labels' shares are higher, around 65–78 percent. Vegetable bouillon has the lowest percentage private label of the three products studied, where it varies between 24 and 37 percent, except for one case where the percentage of private label is 57 percent. These market shares were compared with the product category's market share according to Statistics Sweden's data. The comparison shows that the private label products' share for all products for the three players exceeds Statistics Sweden's estimated market shares for private label products (in several cases it is almost twice as much).

The researchers' analysis of product prices reveals that, at an aggregate level, prices have increased for both private label and branded products. However, private label products have experienced higher price increases than branded ones. Additionally, Falu sausage shows greater price fluctuations than cornflakes and vegetable bouillon, likely due to discounted prices. From 2020 to 2023, the price gap between branded and private label products widened for cornflakes, remained steady for vegetable bouillon, and decreased for Falu sausage. Therefore, the researchers conclude that relative price increases between branded and private label products likely vary by product.

The interviews for the report also covered attitudes toward trade windows for new product launches and assortment revisions in the grocery retail sector. Food manufacturers claim that grocery retailers copy branded products, while grocery retailers assert that the opposite is true. Manufacturers claim that grocery retailers are copying branded products, while the grocery retailers state that it is the other way round. The launch of new products is described as an opportunity for grocery retailers to understand the market demands and then copy successful products. On the other hand, grocery retailers argue that it takes about one year to develop a private label product and therefore there is a weak temporal link between a new launch of a new branded product and a possible copying of the product. The food manufacturers also criticise the grocery retailers for sometimes ignoring the negotiated trade windows, which is reflected in the fact that private label products are launched outside the negotiated trade windows. In addition, the food manufacturers describe that retailers are quick to deregister branded products that do not sell well, but that the same is not true for their own private label products.

Furthermore, the researchers examined the grocery retailers' loyalty programs, where customers also receive discounts on private label products. However, in the interviews, the grocery retailers explained that discounts on private label products are secondary to two other factors: customizing offerings and being able to fund campaigns within the loyalty programs.

The researchers also describe what they call 'private label products and the dual role of grocery retailers', i.e. grocery retailers act both as customers and as competitors to their suppliers. This gives grocery retailers an advantage when deciding the range of products, where to sell certain products, how to sell them, and what price should be set on the product. In the report, the researchers point out that in addition to selling their products in stores as branded products, the food manufacturers can also be producers of private label products. The products are then manufactured by the branded products manufacturers but sold under private labels.

In summary, the researchers conclude that it is difficult to determine whether the disadvantages of private labels outweigh the advantages and vice versa. Private label products can both increase and decrease competition between different grocery retailers and suppliers.

7 International overview – measures and market studies undertaken by other competition authorities in response to higher grocery prices

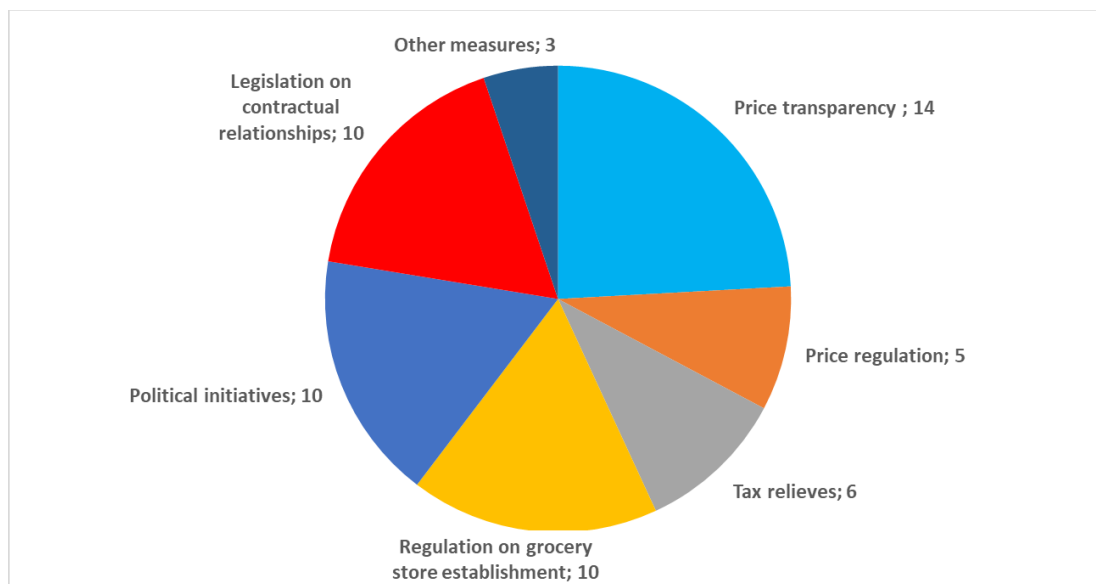
In several European countries, as in Sweden, concerns have been raised about high food price and what should be done about them. Various measures such as price caps, price monitoring and voluntary commitments from grocery retailers have been discussed and implemented. In this chapter, measures in different countries will be discussed and compared.

The overview presented here outlines a wide range of analyses, recommendations from competition authorities, and measures that have been implemented. Some measures involve reducing or eliminating VAT, while others focus on supporting target groups most affected by high energy and food prices. Additional initiatives specifically target the food supply chain or the grocery retail sector. The international overview primarily focuses on post-coronavirus measures related to the increase in food prices. However, it does not cover measures addressing unfair trading practices under the UTP Directive or support for certain businesses in the food supply chain, including farms and rural enterprises. Examples from EU Member States, Iceland, Norway, New Zealand, and the United States are included.

7.1 Measures

In this international overview, the Competition Authority has chosen to categorise the various measures taken by authorities and governments, focusing on food prices increases, into seven different categories.

Figure 7 Measures identified in the Swedish Competition Authority's international overview, categorized by type



Source: The Swedish Competition Authority's international overview of the EU, Iceland, Norway and New Zealand. The work on unfair trading practices based on the UTP Directive and support for companies in the food chain, including agricultural companies and rural companies, is not part of the overview.

7.1.1 Price control and tax incentives

In response to rising food prices, some Member States of the EU have taken measures with a direct impact on food prices. This has been done in different ways. Croatia and Hungary introduced a direct price cap on selected food and household items, while Greece, limited profit margins for certain products in the food supply chain.

Other Member States, such as Poland, Portugal, Spain and the Czech Republic, introduced tax relief in the form of abolished or reduced VAT on selected food and household products in order to influence consumer prices. An evaluation of the measure taken in Portugal has shown that this has led to food price reductions.

7.1.2 Political initiatives

Some other Member States have tried to influence the price of food and household products by concluding agreements with players in the food supply chain. At the beginning of 2024, the Maltese government concluded an agreement with grocery retailers and food importers on price stability for 15 key food categories. The French government signed an agreement with 75 producers to reduce their prices when commodity prices fall. In Portugal, a similar agreement was signed when VAT was removed from a number of key food products. In France, from July 2024, grocery stores will also have to display information on the phenomenon of 'shrink inflation'.

In the United Kingdom, in 2022, *the Groceries Code Adjudicator* has developed 'seven golden rules' for grocery retailers to deal with requests from food manufacturers to increase prices. The outcome of such requests is not addressed by the industry's code of conduct; instead, the aim was to remind retailers of positive examples to follow in these situations.

In New Zealand, the Competition Authority recommended that the two major grocery retailers voluntarily offer supply of goods to their competitors, at the same terms, to create better conditions for competition at the retail level. However, the government decided to take a stronger approach than the Competition Authority and announced that it may mandate such supply of goods if it is not done voluntarily. The two major retailers have since stated that they have opened up sales to competitors.

7.1.3 Regulations on the establishment of new grocery stores

The Competition Authority has previously emphasised that regulations governing the establishment of new grocery stores can act as an obstacle to effective competition in the grocery retail market. As part of its report on store establishment, the Competition Authority conducted an international survey of measures and reforms to the regulatory framework for retail store establishment. Through its network of competition authorities within the EU, the Competition Authority was able to inquire about the regulations governing the establishment of new grocery stores in different Member States. A key question was whether there were examples of both effective and ineffective regulations that had either hindered the establishment of retail stores or contributed to higher market concentration.

Most Member States have recognised that regulations on the establishment of stores can act as a barrier to entry. For example, the competition authorities in Denmark, Finland and Ireland have recommended that size restrictions on grocery stores should be revised or removed. These recommendations were followed by changes in their respective regulations. In Finland, requirements for municipalities to take competition into account have also been included in regulations governing land use.

7.1.4 Contractual regulation

Some countries have also implemented bans on agreements and contract clauses that restrict competitors' ability to enter the market. Such agreements were observed in Norway, the United Kingdom, and New Zealand, and bans on these practices have been imposed in all three countries since their discovery.

New Zealand has introduced a regulation to prevent the two major grocery retailers from exploiting their relative market power when purchasing from suppliers. The purpose of the regulation is to reduce their ability to transfer costs and risks onto the suppliers.

The Norwegian government is considering a ban on differences in purchase prices to different retailers. The proposed rules against price discrimination would apply to suppliers and wholesalers with relatively high market power. However, the Norwegian Competition Authority has criticised the non-discrimination proposal arguing that it would not help small players or contribute to improved competition. In Lithuania, protection against unfair trading practices has been strengthened by no longer allowing retailers to demand that suppliers deliver the full quantity of goods ordered if the supplier notifies them within one day that they cannot fulfil the requested amount.

7.1.5 Price transparency

Measures to increase price transparency have been initiated or are under consideration in 13 EU Member States. In Belgium, Denmark, and Ireland, data has been collected to allow authorities to process information. In Latvia, the Central Statistical Bureau of Latvia hosts a publicly accessible price database for agricultural products. France and Spain already have research centres that publish reports on food prices and margins within the food supply chain.

Bulgaria and Portugal have introduced public platforms for monitoring prices across the entire food supply chain for select food products. Additionally, countries like Greece, Hungary, and Romania now offer platforms designed for end consumers, allowing them to compare prices and track trends. According to the Hungarian Competition Authority, the tool has contributed to a reduction in food prices. In Iceland, the government has launched a "grocery portal" that enables consumers to track prices for certain goods in grocery stores, observe price trends over time, and make inter-store comparisons. These price monitoring platforms are typically managed by central ministries, including competition authorities and other government departments. In Iceland, for example, the portal was created through a collaboration between the Ministry of Culture and Trade and the Centre for Trade Research. The scope of these platforms varies across countries, with different numbers of products and players.

New Zealand has introduced requirements similar to those already in place in the EU for the labelling of prices per unit of quantity (e.g. Swedish kronor per kilogram). France requires specific labelling of reduced-price goods in stores.

In Finland, proposals for the development of cost indices have been made. In Austria, recommendations have been made in Austria for the establishment of price comparison websites, with the suggestion that methods should be established to collate information on the price of food products.

7.1.6 Other types of measures

In France, the so-called EGalim laws have been strengthened. These laws aim, among other things, to ensure fair compensation for primary producers in the food supply chain. In the Netherlands, a ban on "fake price hikes" has been introduced. These price hikes refer to the practice where sellers temporarily raise the price of an item for a short period, only to later offer it at a discounted price, a tactic commonly seen in grocery retail chains.

7.2 Recommendations

Based on the analyses carried out by the authorities, they have in most cases made recommendations to the market players or decision-makers. Although they have not always been translated into concrete measures, they show identified needs based on the conditions prevailing in different parts of the EU, with a view also to the United States.

Recommendations related to the establishment of grocery stores and a detailed development plan that regulates land use and what the built environment is to look like in a particular area:

- Planning and building regulations have been analysed in Denmark, an area where authorities in several other countries have also made recommendations and taken measures. Increased transparency in municipal land use decisions (Finland); abolition of requirements for large grocery stores in city centres (Finland).

The functioning of the food supply chain is highlighted by the following recommendations:

- Promote competition to reduce severe impacts of supply chain shocks (USA); increase transparency and knowledge sharing to improve profitability in the food supply chain (Finland); investigate retail price increases that exceed cost increases (USA); study economic implications of downstream retail promotional financing with regard to potential impact on competition (USA); public authorities, in particular, should consider the necessity of flexibility in food pricing in contracts if conditions change (Finland).

- Linked to shortcomings in current competition enforcement tools, new powers are requested to counter tacit collusion in markets with few players in (Netherlands). Among related issues, measures for resilience are also proposed following a review of the freight and logistics supply chain (USA).

7.3 Market studies

The European Commission collects, presents, and analyses data on prices in primary production. The overview highlights studies related to the food supply chain and retail trade. Some studies have concluded that there are no competition issues (Czech Republic, Lithuania, Slovakia), while others recommend further research as there are concerns about potential competition issues (USA). In Finland, additional studies have been initiated as the domestic food price trends in have become more evident in relation to other countries.

Inquiries into the food supply chain have been conducted in various countries, including Austria, Croatia, the Czech Republic, Lithuania, Slovakia, Slovenia, and New Zealand. Several Member States, as well as Nordic countries outside the EU, have chosen to carry out market studies at the retail level (Hungary, Ireland, Luxembourg, Norway, and Iceland). Additionally, several studies based on data on prices and consumer behaviour have been conducted in the United States. In Poland, studies on market concentration in the food sector were initiated in 2020, prior to the high inflation of recent years.

Studies on price margins have been conducted in most Member States as well as outside Europe, for example, in New Zealand. Some authorities have specifically focused on studying profit margins within the food supply chain (Austria, Finland, Lithuania, Netherlands, Slovakia, Norway, and New Zealand), with the Netherlands conducting such studies annually for a basket of food products. Denmark has specifically examined butter and eggs, while Latvia has studied dairy products and the price differences for private label products.

Most countries have found that retailers have market power (Hungary, Latvia, Luxembourg, Slovenia, and New Zealand); Latvia has found poor price transmission in the food supply chain for some dairy products and Luxembourg, which conducts studies periodically, most recently in 2019, has focused on wholesale competition including cross-border trade.



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