

## Price control mechanisms at food retail level

### Key messages

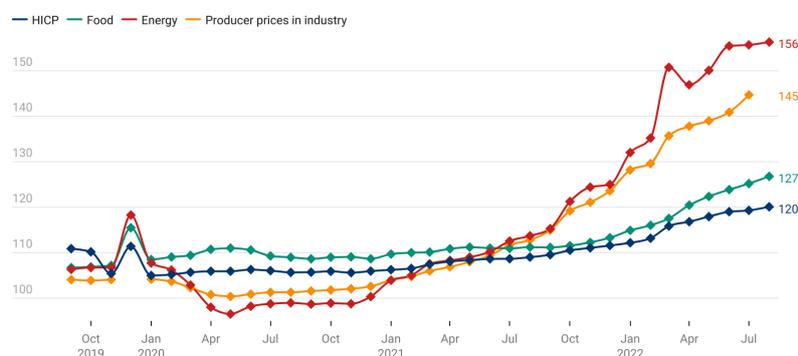
- Rising inflation is impacting consumer purchasing power amidst a global economic downturn and the prospect of recession in Europe.
- Retailers and wholesalers are facing a triple burden: price increases by their suppliers, skyrocketing energy bills for their stores and consumers threatened by the cost-of-living crisis.
- In this context, some EU governments have imposed or are considering consumer price control mechanisms that affect the price retailers can charge in their stores.
- EuroCommerce warns against government intervention to regulate prices for food products as a counterproductive means of helping consumers struggling with record-high inflation.
- There is no consensus on whether price control measures can help curb inflation. However, price control measures often have negative effects on availability of supplies and competition.
- A strong competitive single market is key to guarantee affordable prices, better quality and innovation for consumers.
- Member states should refrain from interfering in price competition in food retail and instead concentrate their action on addressing rising energy prices to support struggling households and businesses.

### The current context

1. Record-high inflation in Europe<sup>1</sup> is impacting consumer purchasing power amidst a global economic downturn and the prospect of recession. The underlying factors - increased costs of energy and commodities, supply chain disruptions and labour market shortages - are all exacerbated by the impact of the Russian invasion of Ukraine.

#### Harmonized consumer price index

Unadjusted data (i.e. neither seasonally adjusted nor calendar adjusted data), 2015=100



<sup>1</sup> Inflation in Europe is at its highest ever since the creation of the euro. Euro area annual inflation was 10.7% in October 2022; in December 2020, the rate was 0.2%. See: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=inflation\\_in\\_the\\_euro\\_area#:~:text=Euro%20area%20annual%20inflation%20was%200.4%20%25%20in,the%20COVID-19%20crisis%20in%20all%20euro%20area%20countries.](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=inflation_in_the_euro_area#:~:text=Euro%20area%20annual%20inflation%20was%200.4%20%25%20in,the%20COVID-19%20crisis%20in%20all%20euro%20area%20countries.)

Source: eurostat

2. Retailers are absorbing inflationary pressures but, as they operate with low margins (1-3% net profits in food retail), they are only able to do so to a certain extent. They are impacted by high inflation and high energy costs: 1) through the higher costs of goods purchased; 2) through higher costs of operations and 3) through consumers' lower purchasing power. This is adding pressure on retailers' already low margins. A recent report by the French government confirms that the retail sector has not benefited from the current high inflation environment<sup>2</sup>.
3. Consumers are changing their shopping habits as the cost-of-living crisis and skyrocketing energy and petrol bills reduce their purchasing power. High inflation is felt hardest by the 96.5 million Europeans living at risk of poverty or social exclusion.<sup>3</sup>
4. In this context, some EU governments have imposed or are considering consumer price control mechanisms that affect the price retailers can charge in their stores. For instance, Hungary and Croatia have capped the retail price of certain food products; Greece has capped gross profit margins on certain food products and compelled supermarkets to reduce prices for certain products which form part of a 'household shopping basket'; and Spain and Denmark have discussed introducing caps on consumer prices.
5. **EuroCommerce warns against measures seeking to regulate prices for food products:** the best means of ensuring affordable prices is the already strong competitive pressures within retail.
6. Price control measures have already been shown to have a number of **unintended negative consequences**. They may result in price increases for other goods, affect availability, and render a business unviable. This can lead to job losses and, affect neighbouring countries' economies and public attitudes.
7. The Portuguese and Spanish competition authorities recently warned that price control mechanisms could lead to collusion, damage smaller companies and cause supply chain disruptions and shortages.<sup>4</sup>

#### *Price control mechanisms increase prices for other goods*

8. Price control mechanisms force distributors to operate at a loss when a supplier charges more than what the product can be sold for.
9. To recoup losses, retailers may be forced to disproportionately increase prices on other products.
10. This has a negative impact on consumer purchasing power and runs contrary to the aim of measures intended to keep consumer prices down. It also can have a negative effect on smaller shops with a narrower product range, where passing the increase onto other products is not as easily done.

#### *Price control mechanisms lead to shortages*

11. Price control mechanisms push consumers to stockpile, especially in relation to non-perishable products. Stockpiling often forces retailers to limit the volumes each consumer may purchase, which in turn leads to further panic-buying among consumers. In one country, the result of price controls was to attract consumers from border areas in neighbouring countries to buy abnormally high levels of the price-controlled products, further exacerbating the losses sustained by the

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<sup>2</sup> "[l'inflation des produits alimentaires](#)", ministère de l'économie et des finances, nov 2022

<sup>3</sup> Living conditions in Europe - poverty and social exclusion - Statistics Explained (europa.eu).

<sup>4</sup>

<https://www.concorrenca.pt/sites/default/files/Competition%20and%20purchasing%20power%20in%20times%20of%20inflation.pdf>; <https://www.economiadigital.es/economia/la-cnmc-advierte-a-diaz-limitar-los-precios-al-sector-alimentario-no-es-legal.html>.

retailer

12. Panic-buying often leads to shortages and upsets competition and demand/supply substitution in the chain. For instance, if a price cap were implemented only on chicken breasts, demand for other chicken parts would decrease unnaturally and disrupt the relevant supply chains, including at farm level.
13. Additionally, if prices for certain products are artificially low at retail level, smaller retailers and the hospitality sector may find it more convenient to buy at larger retailers than through wholesale. This upsets competition at wholesale level and again can lead to shortages.

### *Price control mechanisms endanger the viability of the business*

14. Designing price control mechanisms around consumer prices (e.g. price caps for certain products) ignores the complexity of modern supply chains. Price formation is not a simple matter of comparing the prices at origin and consumer price. Retail prices depend on several elements (fixed costs, labour costs, local retail competition). They are also affected by the complexity of modern supply chains with at times several intermediaries between the farmgate and the grocery store, even for common food products such as bread.
15. Retailers operate at very low margins of 1-3% (in food retail) which are currently further eroded by high energy bills (often amounting to more 1% of the turnover). Imposing price control mechanisms on retailers only bites further into those margins and puts the viability of the business at risk.
16. Retailers being forced to operate at a loss on certain products may be compelled to disproportionately increase prices on other products not covered by price regulation (see above); this may endanger the profitability of some operators; the smaller ones will be particularly vulnerable.

### *The impact of price control mechanisms on inflation is unclear*

17. Overall, there is no consensus among antitrust authorities and academia that price control help curb inflation, with effects being at best temporary in nature.
18. In a recent survey conducted by the University of Chicago's Booth School of Business, 58% economists disagreed that price controls could reduce inflation in the U.S. over the next year. Others noted that such initiatives may lower inflation in the short-term but lead to supply shortages.<sup>5</sup>

### *The importance of competition*

19. In times of crisis, a strong competitive single market is key to guarantee affordable prices, better quality and innovation to consumers, thereby protecting their purchasing power in times of inflation.<sup>6</sup>
20. Strong competition at retail level has helped curb the impact of inflation for consumers. The sector has sought to limit price increases for consumers, including by absorbing a significant proportion of extra costs of energy and price rises demanded by large suppliers. They have been offering promotions on essential private label products or 'freezing' the price of certain products for a period of time. Low retailer margins mean that the scope for doing so for long is limited.

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<sup>5</sup> <https://www.igmchicago.org/surveys/inflation-market-power-and-price-controls/>

<sup>6</sup>

<https://www.concorrenca.pt/sites/default/files/Competition%20and%20purchasing%20power%20in%20times%20of%20inflation.pdf>

21. Competition authorities have asked policy makers to assess the risks of price control mechanisms in terms of impact on competition and the effect on the supply chain of affected products and asked them to consider alternative policies that may achieve the same objective while reflecting supply chain complexities, avoiding interferences with competition and ensuring that burdens do not fall on a single group of operators.
22. Margrethe Vestager, European Commission Executive Vice-president in charge of competition policy, recently warned that *'the history of the Single Market should teach us that market outcomes and the price signals they create are our best guide towards prosperity and innovation.'*<sup>7</sup>
23. EuroCommerce strongly supports this view.
24. To tackle the current crisis, policy makers must address the energy crisis by helping business minimise the impact on consumers. This can be done by ensuring non-discriminatory access to state aid (including under the Temporary Crisis Framework), recognising that retail and wholesale has been hit hard by the present energy crisis as a significant user of energy, take action on the price of energy, and create incentives for retailers and wholesalers to invest in alternative sources of energy e.g., streamline and accelerate issuing of permits to instal alternative energy infrastructure, and create a real European Energy Union.

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<sup>7</sup> [https://ec.europa.eu/commission/presscorner/detail/en/SPEECH\\_22\\_5727](https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_22_5727).