

2009-09-17

PRESS RELEASE

Regulation and competition in the distribution sector in Belgium

(Article published in the September 2009 Economic Review)

The distribution sector is an essential link in the economy, not only because of its weight in terms of value added or employment, but also because it directly influences consumer welfare through the diversity of goods on sale and via their prices.

The way this sector operates regularly attracts the attention of international institutions when they are examining Belgium's structural position. But the recent trend in activity and productivity in this sector seems to be lagging behind that observed in the more dynamic European nations or in the United States. These developments would appear to point to an inadequate degree of competition, related to an overly restrictive regulatory framework, which could lead to inefficiencies and especially to excessively high prices. This article aims to put this evidence into perspective, by cross-matching the various sources of information available.

According to the results of the indicators established for international comparison purposes, such as the OECD's PMR indicator, it appears that there are many regulatory requirements for the distribution sector in Belgium and they are relatively restrictive, too. This finding is further confirmed by an analysis of the requirements in force. Operating conditions - the opening times of (large) shops and monopolies over the distribution of some products (notably medicines) - are covered by a particularly wide array of legislation in Belgium. They are a greater constraint than market access conditions or direct price controls.

Retail trade in Belgium nevertheless still boasts a higher productivity level than that of most other European countries and even the United States. However, unlike trends observed in other branches of activity, this advantageous position has been gradually eroded over the last ten years. Belgium's main problem seems to lie in its inability to improve the efficiency of factors of production. Yet there is an abundant supply of production factors, as evidenced by the high capital intensity, and they are of a high quality too, thanks mainly to the level of workforce skills. The weakness of productivity gains could blunt the overall competitive edge of the distribution sector and, together with the greater international openness that could be triggered by transposing the Services Directive into national law at the end of 2009, weigh heavily on its development.

Compared with the situation in Belgium's near neighbours, no really striking anomalies are noted on the competition front. Non-specialised food retailing is marked by a growing number of large shops and hard discounters, while generic brand products have an important market share. Moreover, and despite the overall indicators pointing to some degree of concentration at national level, local competition - appraised using an original approach applied to detailed data on business establishments - seems to be relatively strong. This is no doubt largely explained by a high population density, which creates local markets that are deep enough to take on several competitors.

International comparisons show that prices charged by the retail trade sector are higher in Belgium than in the euro area and the three neighbouring countries. Recently, some deterioration in the differential for prices charged in supermarkets in Belgium has been observed too, especially when compared with prices charged by German and Dutch supermarkets. Adverse trends in labour costs in Belgium, as well as higher mark-ups, can help to explain changes in the price differential with Germany. On the other hand, the sharp deterioration of the differential between Belgian and Dutch supermarket prices can be explained by the price war which raged between the major Dutch retailers between October 2003 and December 2006.

All in all, it appears that the actual influence of specific regulatory requirements for retail trade on the efficiency of the sector, on the degree of competition and, ultimately, on the level of consumer prices needs to be assessed very carefully. On the one hand, coordinating and simplifying the many existing regulations would no doubt give the same results in terms of consumer protection and land use planning in particular, while at the same time breaking down the underlying barriers to entry for new stakeholders caused by the proliferation of laws. On the other hand, the retail sector's performance is also influenced by the specific features and general rules on the structure of the economy, especially entrepreneurial spirit or the overall functioning of the product and labour markets. Moreover, the size of the market certainly limits the opportunities to reap economies of scale, especially in a European market that remains fragmented.