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Competition in the Food Supply Chain – Contribution from Mexico

- Session IV -

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Competition in the Food Supply Chain

- Contribution from Mexico -

1. Introduction

1. The Federal Economic Competition Commission (Cofece or Commission) has undertaken different actions to guarantee competition and free market access to products that are widely consumed and a part of Mexicans' basic basket of food supplies. In the food sector, Cofece has conducted market studies to assess the competition conditions in the agri-food and beef markets supply chains, as well as, on the modern channel of retail commerce of food and beverages. These studies include several recommendations to enhance market efficiency, refine existing regulations, eliminate unnecessary regulatory barriers, and improve the information accessible to producers and consumers, among others.

2. Background

2. Cofece's actions focus on those economic sectors that have the greatest impact on the welfare of Mexican households.¹ The food and beverages sector has been a priority for competition policy in Mexico since 2013 because of its contribution to economic growth, its consumption by Mexican families, its cross-cutting impact on other sectors of the economy, and a high proportion of spending by lower-income households, among other issues.

3. It is worth mentioning that according to the Federal Economic Competition Law (LFCE for its initials in Spanish) no market study prejudices about possible violations to the LFCE, and that the recommendations included in these studies have a non-binding character.

2.1. Market study of the agri-food sector²

4. In 2015, the Commission published an analysis of the regulatory and economic competition conditions in the agri-food sector with a focus on its production chain. Through

¹ Cofece's Strategic Plan for 2022-2025 includes a prioritization strategy that aims for a greater impact of Cofece's interventions in terms of efficiency and functioning of the markets and the welfare of consumers. The sectors in which the Commission places special attention for the 2022-2025 period are health, food and beverages, finance, transport and logistics, energy, construction and real-estate services, public procurement, and digital markets. Although these sectors guide the proactive work of the Commission, the commitment to timely address complaints and initiate the corresponding procedures when Cofece detects obstacles to competition and free market access remains. The criteria to identify sectors that are a priority for the Commission are: i) contribution to the economic growth; ii) generalized consumption of goods and services; iii) the cross-cutting impact of the sector in other branches of the economic activity; iv) impact on the spending of lower-income population; v) regulated sectors, and vi) prevalence of anticompetitive conducts. For the 2022-2025 four-year period an additional criterion was added: international competition trends.

² The Report on the Conditions of Competition in the Agri-food Sector is available in Spanish at:

this study, Cofece sought to gain knowledge of the markets that conform it, issue recommendations to sector regulators and the agencies responsible for the sectoral policy, and evaluate the need to use its powers to foster and protect competition along the links conforming the sector value chain.

5. The study defines the agri-food sector as all the goods and services related to agricultural products that are used for human consumption, directly or after different processes in the food industry. The definition included all activities related to: i) agriculture and animal breeding and production (known as primary production, agricultural or livestock activities); ii) the manufacturing of foods and beverages by the food industry with primary products; and iii) related or connected activities essential for their operation, such as financing services, foreign trade activities, general supply of manufacturing industries (e.g. chemical products, packaging, containers, labels, machinery and equipment, special vehicles, fuels, electricity), iv) and commercialization activities.

6. The report mentions that the agri-food sector is comprised by interconnected activities that add value through a series of stages in its production chain. As such, the study analyses each of the links to highlight the potential risks that could arise if, due to a lack of competition, supply was restricted or the product prices were raised in certain activities, which would have repercussions on subsequent markets that use those products as inputs.

7. In this regard, the study focused on the: i) analysis of the transversal factors that mostly impact primary producers, such as, seed and fertilizer production, government subsidies to private producers, land regulation, grain delivery, storage, cold chain, and retail, and ii) assessment of the transmission of prices from the primary producer to the final consumer.

8. The study concludes that the intensity of economic competition and free market access may depend upon various factors such as: i) the structure of the market; ii) behaviour of companies; iii) government or specific regulatory interventions, for example, in the areas of imports and exports, subsidies and health, and d) the efficiency of competition law enforcement.

9. It is worth noting that, in 2014, families with the lowest income (decile I) spent 79% of their total income on food, whereas those in the highest decile (decile X) spent only 8%. As such, competition conditions have a direct impact, especially on the welfare of lower- income households.

10. The analysis began with a review of the markets for inputs used in agriculture and livestock products. These inputs include seeds and vegetative material; fertilizers; other agrochemicals (e.g. herbicides and insecticides); electricity; and fuels (gasoline and diesel). These five inputs represent from 49% of the variable cost of production in the case of sugar cane, to 68% for apples.

11. The study found that 60% of the seeds certified for use by the Mexican Authorities were registered by only three companies, one of them possessing certificates for 30% of the seeds used in the agri-food sector. Up to 30% of the fertilizers were supplied by national companies which requested compensatory quotas from imports from the United States and China.

12. As such, the study recommended that, to prevent the supply of these inputs from becoming concentrated, it was pertinent to adjust the respective legislation to guarantee that any person who wished to import these products may do so freely -provided that they

https://www.cofece.mx/cofeca/images/Estudios/COFECE_reporte%20final-ok_SIN_RESUMEN_ALTA_RES-7enero.pdf#pdf

comply with health and safety standards-. Moreover, it should be ensured that the owners of seed certificates do not have the legal capacity to prevent other persons from carrying out parallel imports of these products.

13. Catastrophic risks are the second most acute problem for agricultural producers, only after the cost of inputs. In the 2014 National Agricultural Survey, 78.2% of respondents mentioned that one of the main problems they faced was the loss of crops or animals because of climatic hazards, pests and diseases; however, only 3.6% of the respondents reported having insurance, which shows the high exposure to risk of primary agricultural activities.

14. An entry barrier in the insurance market is the high operating costs, which is a consequence of the pulverization of demand -many production units scattered throughout the territory- the heterogeneity of production conditions and multiple market niches. In this sense, the lack of information on the characteristics of demand raises the costs for insurance companies to design adequate and financially viable products.

15. For this reason, it was recommended to establish an information bureau for agricultural insurance, in order to gather and share existing information on claims, meteorological variables, geo-referenced location of beneficiaries and other relevant information for insurance providers, which seeks to reduce the costs of entering the market.

16. The former recommendations, along with others included in the study, were submitted for the consideration of the different levels of the government involved in the agri-food sector. They included actions related to establishing or modifying criteria for certain governmental subsidies, aligning state and federal level regulation, to promote competition and free market access along the supply chain for the benefit of Mexican families.

2.2. Beef market study³

17. Beef is of great importance for Mexican households because of its contribution to their diets and because it represents 8% of food expenses for Mexican families.⁴ Also, the beef industry is of great relevance to the Mexican economy; in 2021, carcass meat production accounted for 8% of the agrifood Gross Domestic Product.⁵ Meat production and processing -which includes meat from cattle, poultry and other edible animals- employed 83,000 people in June 2022,⁶ while live cattle production employed 427,000

³ The study of the beef market is available in Spanish at: <https://www.cofece.mx/wp-content/uploads/2024/03/EE23-CRN-estudio-carne.pdf>

⁴ Instituto Nacional de Estadística y Geografía (INEGI) (2021), *Encuesta Nacional de Ingresos y Gastos de los Hogares de 2020* (2020 National Households Income and Expenditure Survey). Available in Spanish at: <https://www.inegi.org.mx/programas/enigh/nc/2020/#Microdatos>

⁵ Instituto Nacional de Estadística y Geografía (INEGI) (2022). *Por actividad de los bienes y servicios. Base 2013* (By activity of goods and services. Base 2013), and Servicio de Información Agroalimentaria y Pesquera. (2022). *Anuario estadístico de la producción ganadera*. (Agri-Food and Fisheries Information Service. Statistical yearbook of livestock production). Available in Spanish at: <https://www.inegi.org.mx/programas/pibact/2013/#Tabulados> and http://nube.siap.gob.mx/cierre_pecuario/. The value of carcass meat production was taken, divided by the sum of the gross value added of subsectors 111, 112, 114 and 311.

⁶ Instituto Nacional de Estadística y Geografía (INEGI) (2021). The data is the total slaughter, cutting, and packaging of cattle meat, poultry, and other edible animals, SCIAN branch 3116, as of June 2022.

people in 2020. Together, these activities accounted for 1% of the employed population and 13% of jobs in the agri-food sector.⁷

18. In March 2024, Cofece published a market study on competition and free market access in the beef market. The study provides an overview of the industry, analyzes prices statistically, identifies the main economic and regulatory obstacles to competition and free market access and, finally, presents a compendium of recommendations.

19. The study considers that the value chain of the beef market includes cattle raising, production of carcass meat (which is the dead, bled beef, without skin, viscera, feet and head), primary cuts and meat available to final consumers, as well as, various processing activities, such as: slaughtering, cutting, boning and other value-added processes. The study also analyzes the related markets of livestock and transportation.

20. The main findings of the beef market study are:

- There are federal, state, and municipal regulations that unjustifiably hinder competition. The Sustainable Rural Development Law, the Cattle Organizations Law, the Federal Animal Health Law, and various Mexican Official Standards, as well as the regulations of thirty-one states and at least four municipalities, establish various restrictions to competition that are not justified. For example: state governments that require permits for the movement of cattle, their products, and by-products that overlap with federal government permits; the influence of local cattle associations in the granting of these permits; and the imposition of various barriers to producers from other states.
- Even though there are large vertically integrated companies, no producer of carcass meat with sufficient market power to significantly harm the competitive process was found.
 - At the national level, there is no economic agent with high market share in carcass meat; however, this could be different in specific regions.
 - Many slaughterhouses that do not have TIF certification (export quality certification), slaughter few cattle, and therefore operate on an inefficient scale. However, keeping them in operation is justified to avoid clandestine slaughter in unsanitary conditions, in addition to the fact that municipalities are legally responsible for public slaughterhouse service.
 - Not all TIF slaughterhouses have reached sufficient scale of production to take full advantage of economies of scale.
- Live cattle slaughtered at TIF slaughterhouses have similar prices to those processed at municipal slaughterhouses, despite the differences in the quality of the cattle supplied by each type of slaughterhouse. Neither type of slaughterhouse has improved its negotiating conditions in the purchase of cattle from 2000 to 2022, except for brief periods of time. Nonetheless, this study identified that the relevant authorities need to be provided with the necessary capabilities and resources to collect more complete, and accurate price and quantity information.

⁷ Instituto Nacional de Estadística y Geografía (INEGI) (2021). *Encuesta Nacional de Ocupación y Empleo, tercer trimestre de 2021* (National Employment and Occupation Survey, third quarter of 2021). Available in Spanish at: <https://www.inegi.org.mx/programas/enoe/15ymas/#Microdatos>

- Retail prices in different cities behave similarly, so this study did not find sufficient evidence to determine that there are regionally separate markets in this link of the value chain. Large beef companies have the capacity to sell in most of the country.
- No substantial differences between retail meat prices in modern (supermarkets) and traditional (butcher's shops and markets) channels at the national level were found. In the first channel, meat is slightly more expensive than in the second, and prices in both follow the same trend. This is, despite the fact, that the modern channel only sells TIF-certified meat, while the traditional channel sells both TIF and non-TIF meat (either because it never had this certification or because it lost it due to poor handling along the value chain). This shows that TIF and non-TIF meat are at least in competition in the traditional channel and are seen as substitutes. This is an indication that meat of higher sanitary status is not being fully valued by consumers, which may lead to the market not functioning efficiently.
- The variations in beef prices in the U.S. affect prices in Mexico. Mexican exports to that country have grown over the last seven years so that 14% of Mexican beef production is now exported. High beef prices in the U.S. increase the demand for Mexican beef, increasing the price of exports, which in turn increases the price of beef in Mexico.

21. The recommendations of the study were issued to several organisms and authorities. These recommendations include: i) putting into effect meat grading at the national level; ii) that the subnational governments eliminate regulatory obstacles that unduly restrict competition and/ or conflict with federal norms, like permits and authorizations to move cattle as well as their products and by-products or the control of sales price iii) establishing a long-term program to modernize the municipal and non-TIF slaughterhouses until TIF certification is achieved, iv) promote a work plan to produce detailed and timely information on prices and production at intermediate stages of the value chain, as well as, other variables of interest to competitors and regulators on livestock production, carcass meat and meat products; v) conduct outreach and orientation campaigns about meat safety, quality, flavor, and marbled fat content for consumers and retailers to promote informed consumption and product handling decisions.

2.3. Study of the modern retail channel of food and beverages⁸

22. In 2020, Cofece published a market study to know if the retail of food and beverages sector was functioning adequately since Mexican households spend 27% of their budgets in these products, and 9.3 million of Mexicans work in this sector.⁹

23. Food and beverages are sold to consumers through three distribution channels: i) traditional, ii) modern and iii) electronic. The study focuses on the modern channel, that is supermarket and hypermarket chains that make intensive use of technology, have sophisticated logistics systems, and organize stores in formats adapted to the socioeconomic segments they seek to serve.

⁸ The Study of Competition in the Modern Retail Channel of Food and Beverage is available in Spanish at: https://www.cofece.mx/wp-content/uploads/2020/11/EE_comercio-031120-FINAL-002.pdf

⁹ Instituto Nacional de Estadística y Geografía (INEGI) (2019). *Encuesta Nacional de Ocupación y Empleo, 2019*. (National Survey of Occupation and Employment, 2019). Available at: <https://www.inegi.org.mx/programas/enoe/15ymas/default.html#Tabulados>

24. The expansion and development of the modern channel has been one of the most important transformations in food and beverage retailing. Technological innovation, mainly associated with the development of logistics networks, is generating efficiencies in this channel that could eventually be transferred as benefits to consumers.

25. However, the study identified the need to facilitate the entry of more competitors to this market, as there is a high market concentration in a few supermarket chains with a nationwide presence, mainly in the warehouse, supermarket, hypermarket, and megamarket formats.

26. It was found that in 1,592 municipalities, where more than 17 million persons live, there are no self-service stores, and in 255 there is only one self-service store (without considering convenience stores). The fact that there is not enough competitive pressure hampers consumers from gaining access to better prices. Furthermore, this high concentration favors the negotiating power of large retail chains over their smaller suppliers, which could cause their exit from the market and harm their capacity to innovate.

27. In the Mexican market for self-service stores there are only three chains with nationwide presence, which in some regions face competition from well-positioned local chains. Competition from self-service stores is local, this means that consumers purchase at the nearest stores to reduce costs and travel times.

28. For the analysis of this market, the study defined the area of influence for these large-surface stores, which were classified into four types, according to the number of inhabitants per hectare: i) Metropolitan Zone of the Valley of Mexico, ii) urban zones with population density above average, iii) urban zones with population density inferior below average and iv) rest of the country.

29. In 10% of the country's areas of influence, there is only one self-service store; in 15% there are two stores; in 24% there are three participants, and in the remaining 51% there are more than three stores of the modern channel. It was also found that the same brand of supermarkets is present in 87% of the areas of influence that have only one participant. This situation is due to a combination of factors such as the economic and technological characteristics of the modern channel, local regulation of trade, and the scarcity of land.

30. Regulatory obstacles inhibit market access of potential competitors through procedures and requirements that increase costs or, in some cases, forbid the establishment of new stores. To a large extent, only large national chains can overcome these barriers, as they have the economic capacity to set up legal teams specialized in procedures, unlike regional or local chains with fewer resources.

31. Market concentration also grants large chains with purchase power to conduct commercial practices that cause unforeseen costs for their smaller-sized suppliers, besides transferring to them the risk of not selling the products that the retail chain has already acquired. Amongst said practices are, paying after the agreed timeframe, applying non-negotiated charges or returning merchandise without prior agreement, impacting their profits, to the extreme that these could cause their exit from the market as they do not have enough resources to deal with them. This asymmetric relationship translates into advantageous terms and conditions for the chains that suppliers must comply with, as well as disputes in the delivery and return of products and in payment. In Mexico, as in other countries, a code of conduct was adopted to solve these problems. However, the Code is little known and used only by small suppliers.

32. Also, the study identifies state or local regulatory obstacles that either limit the number of competitors or hinder their incentives or capacity to compete such as

discretionally granting and renewing licenses and permits, granting a limited number of licenses and permits, or limiting advertising.

33. Accordingly, improving and eliminating such regulatory obstacles along with the implementation of schemes that promote good business practices among suppliers and retail stores could strengthen the conditions of competition in the modern food and beverage retail channel.

3. Concluding remarks

34. Market studies allow Cofece to understand the functioning of the food markets which allows the identification of possible inefficiencies, barriers to entry, and unjustified regulation, among other problems that hinder competition and free market access. This in turn, gives Cofece the elements to improve the functioning and efficiency of the studied markets through either the corresponding recommendations to the relevant authorities or the use of all the rest of its powers for the benefit of all Mexican families, consumers, and economic agents.

35. Market studies may also be a valuable resource for policymakers and public authorities of different levels of government, who are interested in a better understanding of the markets they regulate, recognizing the competition concerns and the solutions to address them, and adopting the recommendations made by the Commission.