

ABSTRACT

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Reasons for differences in food prices among European countries



This study identifies reasons for food price differences between European countries. We examine the level of food prices in the EU member states (EU-15), candidate countries (most of these have joined the EU on 1 May 2004) and EFTA countries. We look for answers to the question why the price of food is high in some of these countries and low in others.

The results of the study show, first of all, that a major part of the price difference is explainable. Second, the prices of domestically produced and

imported products are determined differently in different countries. Third, price differences are mainly due to factors like the level of labour costs (high labour costs are related to high prices), size of the country (prices are lower in large countries than in small countries), consumption share of the product group (high consumption share compared to the European average lowers the price level) and possible protective measures against foreign competition. Even after these factors are taken into account, the food price level is highest in the EFTA countries and the lowest in the candidate countries. Surprisingly, the level of value added tax does not have any significant effect on food prices. Consequently, lowering the value added tax for foods in Finland would probably not significantly decrease the price level, as has been argued in Finnish public debate.

Our study also develops rough measures of competitiveness for each of the studied countries. According to this measure, the Finnish food industry appears fairly competitive. The consumer prices of food in Finland are slightly higher than they should be in equilibrium. On the other hand, Finnish tax-free food prices are lower than they should be in equilibrium.

Keywords: groceries, prices, price competition, competitiveness, competition, VAT, EU-world