

Vital - Victoria Oil Case

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Critique on Commission's decision can be classified into following categories:

Relevant Market Definition

- Alternative view
- Addressing Commission's view
- Addressing the market volume data
- Proposing the Methodology

Effects on Price Analysis

- Taking Vital Oil Cost Structure Into Account
- Taking Private Label Into Account
- Taking Macro Trends Into Account
- Taking Retail Prices Into Account

Effects on Quality Analysis

- Factors That Had To Be Analyzed

Effects on Quantity Analysis

- Additional Analysis That Was Needed



Relevant Market Definition

- Relevant market was determined as **production of refined consumable sunflower oil in the Republic of Serbia;**
- Such **market definition is potentially narrow** if you take Serbian cultural context into account;
- Relevant market definition **should potentially include animal fat** as well.

Substitutability criteria



Product Characteristics



When heated, both sunflower oil and pork fat have the same form and neither of them has significant impact on the taste of the meal.

Common Purpose



Consumers in Serbia very often use both pork fat and sunflower oil for meal preparation. One of the most widespread debates is which one of these is healthier. Both of these are used in cosmetics industry as well.

Retail Price



Commission states that the price of 1l of sunflower oil was RSD 107 in 2015 (today it is around 120din). Price of pork fat is around RSD 100-120 per 1kg on traditional marketplaces and around 180din in supermarkets.

Animal fats and sunflower oil – Addressing the reasons

The commission stated that pork fat and sunflower oil are not considered to be substitutes due to following reasons:

Reason

Response

1

Sunflower oil and pork fat have different composition



When heated, these two products have the same composition. Neither does coconut oil have the same composition as sunflower oil (it more looks like fat), but this argument would not be used in that case.

2

Nutritional value of these products is different



This information has very low impact on customer's choice in Serbia. Customers who do analyze nutritional value would consider buying neither of these products (standpoint of an average customer).

3

Pork fat can be used as a substitute only in case of thermal food processing



Sunflower oil itself is mostly used for these purposes. People do use it for salads, but they often use other vegetable oils for this purpose, and even when they do use sunflower oil they use less of it than in case of thermal processing. The Commission used the term "to the certain extent" and did not explain what certain means. If certain means 95% of the cases, shouldn't it be considered a substitute?

Moreover, both products can and are used in cosmetics industry.

Animal fats and sunflower oil – Addressing the volume

Further analysis and review of the table below is needed as well – monthly industry survey is not a reliable source for estimation of the volume of refined oils and fats for, the fact that animal fats (predominantly pork fat) is mostly produced by households and sold on traditional markets.

Year	Refined oil from sunflower and safflower seeds and fractions thereof* (t)	Refined oils and fats** (t)
2012	168,424	162,719
2013	156,969	157,864
2014	183,770	192,336
2015	174,109	178,342

* Industrial products production from PRODKOM Annual Industry Report

** Industrial production by products, from the Monthly Survey of Industry

Source: Council of the Commission for Protection of Competition Decision

Relevant Market – Methodology

Apart from not including animal fats in relevant market according to the substitutability criteria, The Commission has also failed to perform the analysis that could have objectively determined whether refined consumable sunflower oil market, with its oligopolistic structure, can be considered a market for itself.

1

Monthly data about total sales and quantities sold was gathered from oil producers



Based on this data, average monthly price could have been calculated.

Price elasticity of demand (b_1) could have been estimated by applying following logarithmic formula: $\log(p) = b_0 + b_1 \cdot \log(q) + e$

2

Information about cost structure was available as well



Furthermore, cost function should have been estimated.

3

Finally, having all of this in mind, it is evident that hypothetical monopolist test could and should have been performed.

Effects on Price - Vital oil cost structure and price

1

Commission's decision had to be supplemented with analysis of Vital oil cost structure and its production price



It may have been the case that Vital's costs of production were significantly higher than those of Victoria. In this case certain effects of such cooperation would be characterized as positive. The decision only states that in general cost of sunflower seed makes up for 70-90% of the total costs in this industry. It does not take into account if Invej group had operational inefficiencies during this period that could have resulted in total costs of its sunflower oil that are too high.

2

The decision also lacks projections of Vital oil price in case there was no agreement between these producers

If such projections showed that prices of Vital oil would have been much higher in absence of agreement, wouldn't this agreement be perceived differently?

Effects on Price— Private Label and Vital oil

1

Victoria Oil sold Vital products in the same way it sells all of its other private label products

According to the contract, Victoria Oil had no impact on retail prices of Vital oil, just like it has no impact on retail prices of private label brands it produces.

2

This decision lacked analysis of private label cost structure

3

The decision also failed to consider contractual relationships that Victoria Oil had with certain retailers. Private label brands account for significant part of retailer's sunflower oil sales – they can account for up to 60% of those sales

Effects on Price - Sunflower oil market trends

1

The decision did not take quantities of sunflower produced or raw sunflower oil price movement into account



The Commission states that almost entire production of raw sunflower oil intended for domestic market is subject to refining process. This explains why raw oil does not have to be included in the scope of the market, but does not address the causality between the prices of raw and refined oil.

The Commission states that sunflower seeds have more impact on the price of refined oil than raw oil does, but that does not address this issue.

2

The Commission did not consider the refined sunflower oil price trends in other countries

Effects on Price - Retail prices (1)

1

Index of retail prices increased for every single brand
(Dijamant is a brand that had a largest increase in such prices – table bellow)

Index	Victoriaoil (Iskon)	Vital (Vital)	Sunce (Sunce)	Dijamant (Dijamant)	Banat (Cvet Banata)
Sunflower purchase price index	[...]	n/a	n/a	[...]	[...]
Producer price index (11 bottle)	[...]	[...]	[...]	[...]	[...]
Average retail price index	119	120	114	123	123

Source: Council of the Commission for Protection of Competition Decision

Effects on Price - Retail prices (2)

2

Analysis of competitors was not detailed enough



Prior to this agreement, Dijamant was a market leader, according to sales on domestic market figures. It should have been investigated if they had been the first ones to increase the prices. In that case, other increases in prices were just a reaction to a market leader's decision.

3

Dijamant had a largest market share (30-40%), but their impact on price increase was neglected

Effect on Quantity and Quality

Effect on quality

Agreement between these producers did not have a negative impact on product quality. It may be the case that quality even improved due to the fact that Victoria's production process was more up to date.

The decision should have been supplemented with more information that justifies the claim that there has not been any improvement in product quality.

Effect on quantity

Decrease in quantities produced may have been a result of decrease in demand for sunflower oil or decrease in the total quantity of sunflower produced. These factors had to be analyzed as well.

Such decision also had to incorporate the analysis of sunflower oil prices in other countries.



Thank you for your attention!

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