

The regulation and promotion of retail trade in Germany and relevance for Uzbekistan

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1. Introduction

- The *Agency for the Development of Entrepreneurship* under the Ministry of Economic Development and Poverty Reduction of the Republic of Uzbekistan is to contribute to the implementation of the *Action plan to create conditions for wholesale and retail trade of products by small business entities, including new retail enterprises, as well as encourage the establishment of universal stores in rural areas*
- To „*study the practical experience of developed countries in regulating domestic trade*“ is one of the tasks of the mentioned *Action plan*
- The following Policy Briefing aims at supporting the implementation of this task of the Action plan by providing a brief overview over the
 - regulation of retail trade in Germany
 - promotion of the establishment of universal stores in rural areas in Germany

2. Framework conditions for retail trade in Germany

For the discussion of retail regulation in Germany, it is important to pay special attention to the general framework conditions of retail trade in Germany

- The principles of freedom of trade and freedom of geographical establishment apply for all kinds of retail and wholesale businesses with only few exemptions
- There is sufficient available plot of land with high quality physical infrastructure including water supply and electricity supply for retailers, even in rural areas, for
- All retail businesses are 100% privately owned, there are no state-owned enterprises in the retail sector
- There is an efficient payment system with a variety of payment methods with moderate fees in Germany, which facilitates the interaction with consumers
- Domestic trade is a very important sector in Germany, German retailers/wholesalers are amongst the biggest companies of the world
- There is fierce competition in this sector

3. Regulation of retail trade in Germany: Overview

- German policy towards retail and wholesale businesses follows the principle of minimising restrictions and interventions
- The government intervenes only in special cases, when public goods take precedence over company interests. The most important regulations are:
 - Licenses/permissions as a means of restricting the freedom of trade for a few special cases
 - Restrictions on freedom of geographical establishment for special cases
 - Provisions of the competition regulation
 - Regulations against unfair business practices in general and in the agricultural and food supply chain in particular
 - Regulations with respect to consumer protection
 - Regulations with respect to sanitary standards for food retail
 - Regulations of opening times
 - Regulations of online trade
- The following highlights some of the listed regulations

3.1 Licenses/permits only required for exemptional cases

- In general, retail businesses do not need any license or permission
- But there are exemptions for:
 - Trade with arms
 - Trade with animals
 - Pharmacies
 - Doorstep selling
 - Pawnshops
 - Insurance intermediaries, insurance consultants, brokers, investment advisors
 - Operation of amusement arcades
 - Operation of lottery machines and other games with a chance of winning
 - Realisation of auctions
- Furthermore, registering a retail business cannot be denied by authorities. The registration is declaratory, not constitutive. This means that registration is obligatory, but not a prerequisite.

3.2 Restrictions on geographical establishment

- According to the German constitution the state has to provide a certain minimum standard of infrastructure for every citizen and to ensure equal living conditions in all regions
- However, market developments in the retail sector often run counter to the spatial and urban planning objectives of the municipalities
- To maximise their profits, retailers strive for large commercial spaces with low rents and good accessibility for many customers. Without political intervention, the landscape would be littered with large suburban shopping centers and the inner cities would wither
- Therefore, the German state can, under certain circumstances, restrict
 - The sizes of retail stores
 - The settlement of large retail stores near city centers etc.
- Policy decisions on restrictions on freedom of geographical establishment for retailers are made in the course of regional planning through interaction between the central government, the regional governments, and municipalities

3.3 Highlighted provisions of the competition regulation

Ranking of German retailers

Rank Germany	Company	Retail Revenue 2018, USD bn	Rank in world
1	Schwarz Group (Lidl, Kaufland)	122 bn	4
2	Aldi	106 bn	8
3	Edeka	62 bn	16
4	Rewe	56 bn	20
5	Metro	29 bn	34
6	Ceconomy	25 bn	38
7	Otto	12 bn	85
8	Rossmann	11 bn	95
9	dm	11 bn	98
10	Tengelmann	9 bn	119

Source: Deloitte: Global Powers of Retailing 2020

- The most important policy instrument of the competition authority is **Merger Control**
- Mergers and acquisitions between big market players need permission and can be denied in case of significant impediments for *effective competition*
- *Effective competition* is significantly impeded if
 - the merger would enable the company to raise prices,
 - lower product quality,
 - reduce innovation investments
 - worsen its offer in any other way without incurring the risk of losing customers
- This is in particular the case if the merger is expected to create a dominant market position
- There was a spectacular case of the merger prohibition in retailing in 2015/2016 In Germany (Edeka vs. Tengelmann & Kaisers)

3.4 Regulations against unfair business practices

- Food retail is highly concentrated in Germany. The four biggest food retail companies possess 85% market share.* This gives them with strong market power
- Mainly due to the risks associated with the high level of concentration and special conditions in agricultural production, a special regulation against unfair business practices in the agricultural and food supply chain was introduced throughout Europe**
- Examples of prohibited practices:
 - The buyer pays the supplier later than 30 days for perishable food
 - The buyer cancels the order of perishable products up to 30 days before delivery
 - The Buyer unilaterally changes the terms of a supply agreement
 - The buyer requires the supplier to make payments unrelated to the sale

Sources: * Federal Ministry of Food and Agriculture, 2020.

** Directive 2019/633 of the European Parliament and the European Council: “While business risk is inherent in all economic activity, agricultural production is particularly fraught with uncertainty due to its reliance on biological processes and its exposure to weather conditions ... The number and size of operators vary across the different stages of the agricultural and food supply chain. Differences in bargaining power, which correspond to the economic dependence of the supplier on the buyer, are likely to lead to larger operators imposing unfair trading practices on smaller operators.”

4. Promotion of universal stores in rural areas in Germany

- Long-term trend that retailers leave rural villages in Germany. Half of the villages, and almost all villages with fewer than 700 inhabitants, no longer have retail stores*
- However, more than two-thirds of the population in rural areas see no need to change this situation**
- One reason for this is the fact that 80% of the adult people in rural areas possess a car, further 9% have temporary access to a car***
- Above all, Germany is very densely populated. Half of the population is less than 1 km away from a grocery store*** (see also chart on next slide)
- It is only recently, that policy makers have started initiatives to promote local retail stores in rural areas. The reason is not so much securing the access to groceries and necessary goods, but rather:
 - social functions of local stores
 - avoidance of carbon emissions
 - village structure preservation

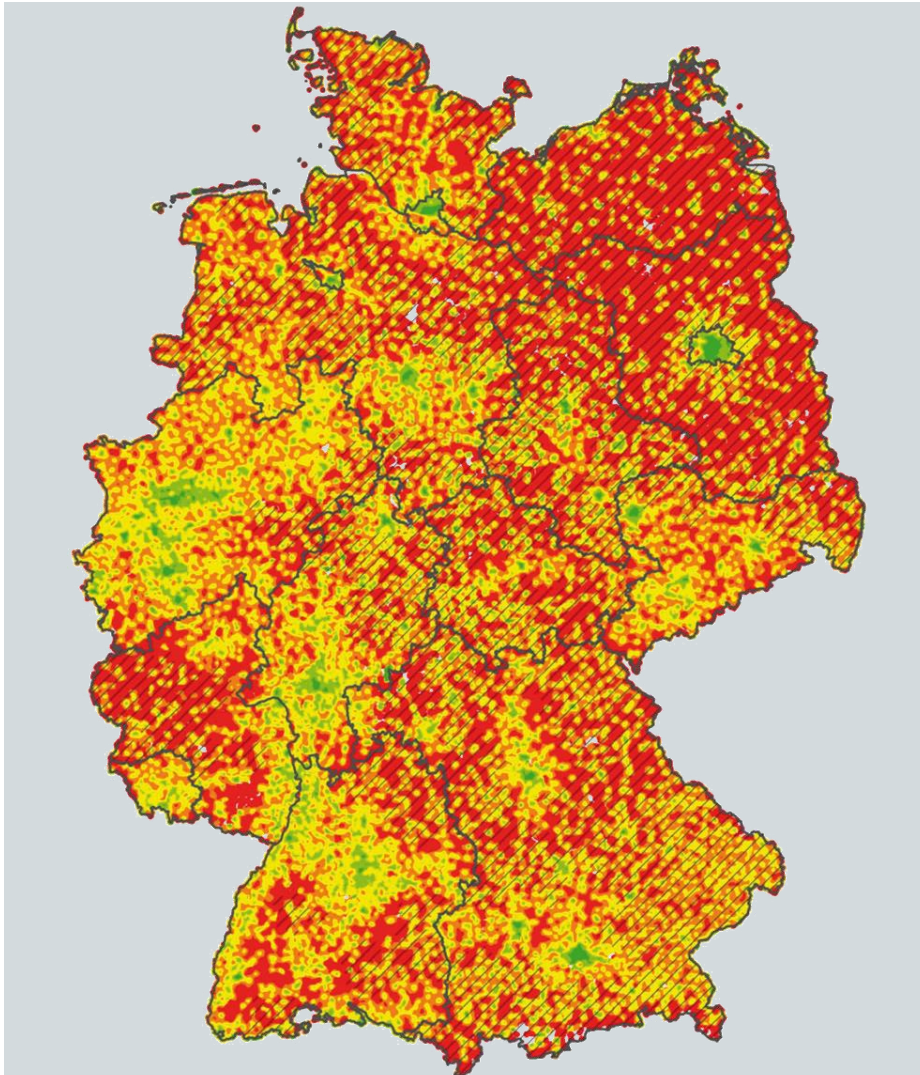
Sources

* Kuhlicke, C. et al.: *Versorgung mit Waren des täglichen Bedarfs im ländlichen Raum*, 2005.

** Sturm, G.; Walther, A.: *Lebensqualität in kleinen Städten und Landgemeinden*, 2011.

*** Federal Ministry for Environment, Nature Conservation and Nuclear Safety, Germany, 2014

4. Promotion of universal stores in rural areas in Germany (cont.)



Map of walking distance to the nearest grocery store



Source: Federal Ministry for Environment, Nature Conservation and Nuclear Safety, Germany, 2014

4. Promotion of universal stores in rural areas in Germany (cont.)

Beneficiary: Microenterprise that establishes an universal store in a rural area

Program/Budget/Donor	Support
Municipal budget	<ul style="list-style-type: none"> • Discount on rents for premises owned by the municipality • Profit-related rent of the premises (so that in the case of higher profits the community also participates and in the case of lower profits the existence of the shop is not additionally endangered) • Free advertising space (billboard, poster ...) • Credit guarantees for the bank loans
Development Bank for Agribusiness	<ul style="list-style-type: none"> • Preferential loans
Federal + Regional budget Program “Common Mission Improvement of agricultural structure and coast protection”	<ul style="list-style-type: none"> • Grants for investments (up to 55% of investment volume)
EAFRD European agricultural fund for rural development + Region (Bundesland)	<p>Grants up to 55% of investment volume for</p> <ul style="list-style-type: none"> • Purchase of buildings (without land value) • Construction measures (new construction, extension, conversion, modernisation) • Machinery and equipment • Measures to prepare a plot of land for construction

4. Promotion of universal stores in rural areas in Germany (cont.)

Beneficiary: Municipality that provides for entrepreneurs the investment for an universal store in rural areas	
Program/Budget/Donor	Support
Development Bank for Agribusiness	<ul style="list-style-type: none"> • Preferential loans
Federal + Regional budget Program “Common Mission Improvement of agricultural structure and coast protection”	<p>Grants up to 65% of investment volume for</p> <ul style="list-style-type: none"> • Preliminary work (analyses, economic feasibility studies, surveys, investigations, impact assessments) • Purchase, construction and conversion of buildings • Interior fittings • The necessary purchase of land, provided this does not exceed 10% of the total eligible expenditure • If applicable, also project expenses for architects/engineers
EAFRD European agricultural fund for rural development + Region (Bundesland)	<p>Grants for investments up to 65% of investment volume for</p> <ul style="list-style-type: none"> • Purchase of buildings (without land value) • Construction measures (new construction, extension, conversion, modernisation) • Machinery and equipment • Measures to prepare a plot of land for construction • Cars for mobile grocery stores

5. Conclusions and relevance for Uzbekistan

- The German retail sector has been flourishing for decades, mainly because of the very good framework conditions. As a result, German policy towards the retail sector has not been very active and has mainly focused on containing concentration and market power abuse
- The promotion of the establishment of universal stores in rural areas has only recently received some attention of German policy makers
- Although retailers leave the rural villages in Germany, all citizens have sufficient access to groceries and all necessary goods
- The conditions in Uzbekistan are different: securing the access to groceries and necessary goods in rural areas is likely much more important for domestic trade regulation
- Nevertheless, the presented instruments to encourage the establishment of universal stores in rural areas in Germany could serve as example of policy instrument design, with the limitation that there is little long-term experience on effectiveness of these instruments in Germany

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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