

DOES THE EUROPEAN SINGLE MARKET WORK?

Case: Food Products in Helsinki and Tallinn

Abstract

A significant objective of European integration is to form a unified market where goods and services move freely. Several studies have shown, however, that there are substantial price differences between countries. Price differences are regarded as an indication of the non-functioning of the single market - trade between countries should eliminate or at least decrease price differences.

This paper focuses on the price differences of food products in Helsinki and Tallinn. This is only one example of the functioning of the internal market within the EU, but it has several interesting special features. First, Helsinki and Tallinn are close to each other and people move a great deal between the two cities. Second, we know that the price differences between Finland and Estonia are substantial. Third, Finnish retail groups have a significant position in the Estonian daily consumer goods market. Thus, we can look at the price of the same product marketed by the same company in two countries with notably different price levels.

The results of the study further strengthen the notion of substantial differences in the prices of food products in Estonia and Finland. However, the price differences vary a great deal between food products. Finnish brands cost 12% less in Estonia than in Finland. Brands produced in a third country cost approximately 20% less in Estonia than in Finland. Products of Estonian origin are, on an average, as much as 44% less expensive in Estonia than similar products of Finnish origin in Finland. Price variations in these price groups can be interpreted so that the cost structure or competitive situation of retailers does not have a decisive impact on the price differences between the two countries. Instead, starting from primary production, price differences in the entire food supply chain grow to considerable proportions.

The results of the study give rise to several interesting questions about the functioning of the internal market in Europe. For example, the results indicate that the preferences of consumers are a significant barrier to trade between countries. Finnish and Estonian products are apparently not identical, because the fact that Estonian products are not present in the Finnish market implies that Finnish consumers do not consider Estonian products equal to Finnish products.

The results are also interesting in terms of methods used in comparing price differences between countries. What do the price differences of food products between Finland and Estonia indicate? Do they illustrate price differences of products of the same brands produced in the same country, or are they indicative of a considerably higher price difference between the domestic products of each country?

Key words: Finland, Estonia, food products, prices, daily consumer goods trade, single market