



AGRICULTURAL CRISES: A RESPONSE FROM THE FRENCH RETAIL SECTOR

CONTEXT

Agriculture in Europe has been caught in a web of [cyclical crises for more than 30 years](#), peaking yet again in the summer of 2015 in France and across Europe, where overall as an average for the whole year, agricultural prices for all products decreased by 2,8%. Milk and pork commodities were particularly hit with a decrease of 14,4% and 6,7% respectively.

In a struggle to find solutions within the agri-food supply chain, since a few years EU politicians have started mixing up issues - such as Unfair Trading Practices (UTP's), support to SME's, the recent agricultural crisis and retail brands – and debating them together on the same platforms.

So when the prices for milk and pork in particular plummeted last summer, naturally some [politicians](#) pointed their fingers at retailers, claiming that the agricultural crisis was notably due to unfair trading practices (UTPs) between retailers and farmers.

So are retailers responsible for the agriculture crisis? If not what are the real causes? And how can retailers support a stronger and more sustainable agri-food supply chain?

1. Retailers are not responsible for the agricultural crisis

“Retailers are not responsible for the agri-crisis”.

In an exclusive interview with [LSA in September 2015](#), Stéphane Le Foll, the French Agriculture Minister, discussed the agricultural crisis that hit the milk, pork and beef sector last summer. According to him, retailers were not directly responsible for the situation; but could play a decisive role in the reorganisation of the sectors.

1.1 Retailers are only one of many links in the food supply chain

Retailers are the last and most visible link (due to marketing and branding) in a highly complex supply chain including wholesalers, manufacturers, processors and primary producers such as farmers.



1.2 Retailers very rarely deal directly with farmers

80% of the products that retailers sell in France are transformed products, bought through manufacturers and processors and not directly from farmers. Even raw products (fruit, vegetables and meat) which make up 10% of total products sold, are generally sourced from processors and rarely farmers themselves.

1.3 Retail net margins are relatively small

In France, retailers provide their financial results to the ‘Observatory on the formation of food product prices and margins’, who then compile this information into an annual report.

In the [last report published in April 2016](#), for food categories combined, overall net margins totalled a mere 0.8% for retailers (i.e. the net margin for the average shopping basket worth 50€ only brings 55 cents for the retailer). Unfortunately figures for manufacturers (i.e. Nestle, Danone) in France are not consistent or to date, as they show a reluctance to reveal their net margins by product.

However you can get a better idea when you look at global figures, which are more transparent: overall net margins for manufacturers are much bigger than retailers. On average, the top two manufacturers in each product category represent 62% of total sales of national brands. In 2013 (last available data for manufacturers) the net margins of these world leaders reached 11% on average, against 1.6% for the retailers.

1.4 Retailers are also subject to unfair trading practices

Unfair Trading Practices (UTPs)¹ can be imposed at each stage of the food supply chain, from producers, processors and other economic operators, right down to the final distributor.

Example

In 2012, DG Competition published its [European Competition Network report](#) (page 7) on activities in the food sector. One key learning regarding the enforcement activity on agricultural products (not multi-products) is that infringements mostly took place at the beginning of the agri-food supply chain (processing of cereals e.g. milling; the manufacturing of cereal-based products e.g. bread; and the processing of milk).

Unfair Trading Practices are therefore not caused by one sector in particular, but are due to an abuse of superior bargaining power by a few companies.

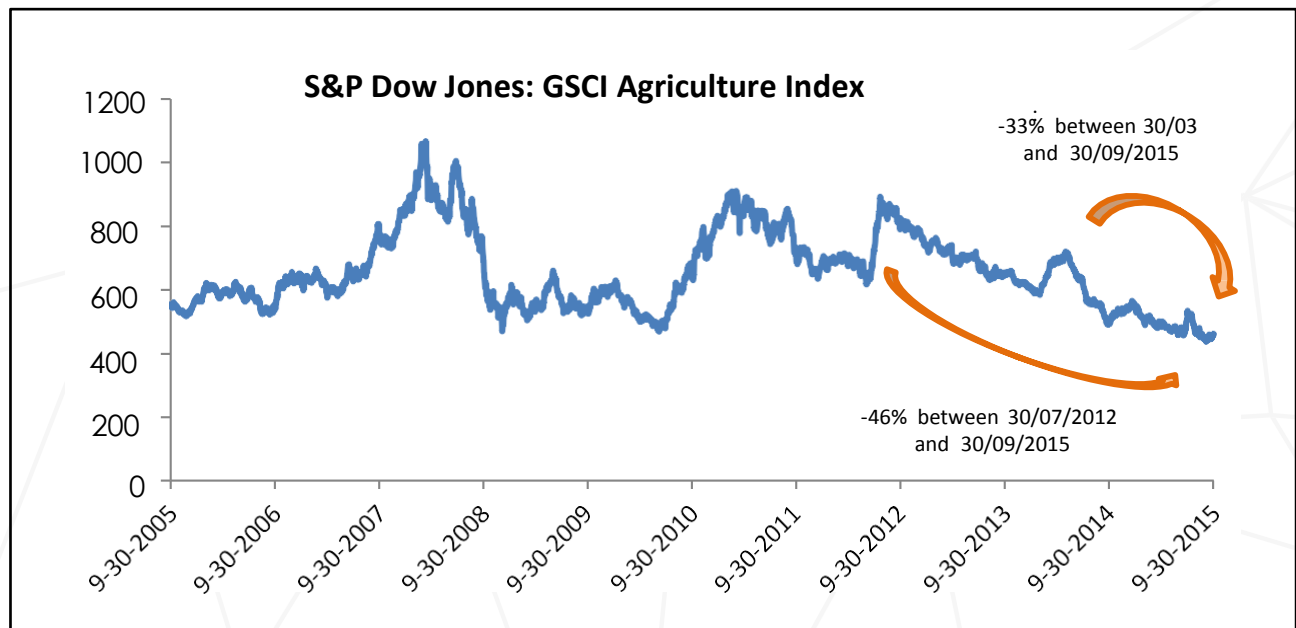
¹ For example in upstream agricultural production, it seems important to consider operators such as chemical industries (producers of fertilisers, phytonutrients etc.), seed companies (three industrial seeds companies account for 55 % of world market) or feed providers.

2 What are the real causes of the agricultural crisis?

“The current crisis is mainly the result of surplus production globally, exacerbated by the Russian embargo and a drop in Chinese consumption, the lifting of milk quotas, stagnating consumption and changing dietary habits in Europe. This comes on top of pre-existing structural issues in certain member states and sectors” – Christian Verschuere, [EuroCommerce](#), 16 September 2015

2.1 Price volatility due to global surplus production

World prices for agricultural products hit an all-time low end September 2015; linked to both high levels of harvest and a broad decline in other commodities (oil market in particular).



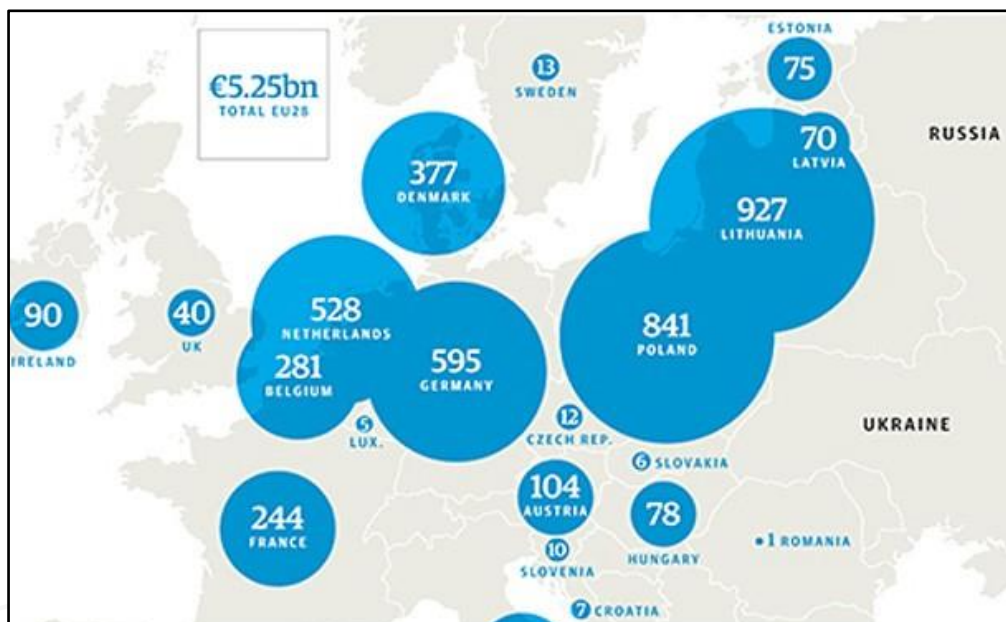
Source : <http://us.spindices.com/indices/commodities/sp-gsci-agriculture>

2.2 The Russian embargo

In August 2014, Russia banned the import of certain foods and drinks originating from the European Union as a response to Western sanctions over Ukraine's crisis.

This ban resulted in a surplus of certain products which in turn drove prices down. Russia is the second most important destination for EU agri-food exports and the ban represented a value of € 5.2 billion in 2013 exports, or 43% of EU agri-food exports to Russia ([European Parliament report on the Russian embargo](#)).

Value of EU agri-food products banned from entering Russia (€m 2013 figures).
[Click here for full graphic \(pdf\)](#): The Guardian



The [European Parliament's report](#) on effects of the Russian embargo provides a good overview of the impacts on the economy, farmers and jobs. The Russian food ban also forced the European Commission to mobilise €500 million of agricultural funds in September 2015 to help EU producers hit by the trade restrictions – funds which [MEPs say are not enough](#).

2.3 Lifting of EU Milk Quotas

In April 2015, the EU put an end to milk quotas which were introduced in 1984 to prevent over-production that led to “milk lakes” and “butter mountains” when farmers dumped surplus products, spurred by high prices.

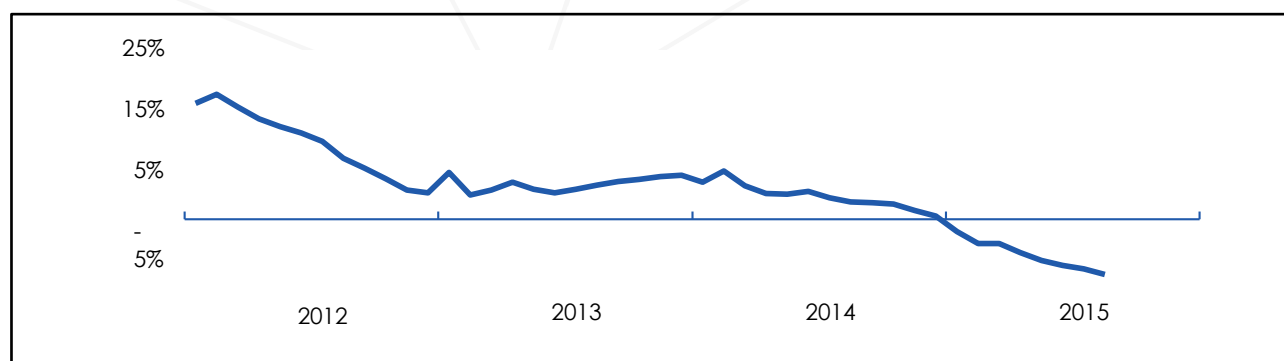
[Phil Hogan, the Commissioner for Agriculture](#), said that European dairy farmers will now be better poised to benefit from demand for their products, particularly in Asia. However the European Commission assured that it would “remain vigilant” in case of a threat to Europe’s milk producers, as they acknowledged the risk of price volatility. Unfortunately reduced demand from China and price volatility due to surplus milk production, significantly contributed to the milk crisis last summer.

2.4 China's decreased imports

The “official” growth of the Chinese economy remained stable at 7 % year on year in the second quarter 2015, but other indicators - such as percentage of imports - show that the actual slowdown is much more pronounced than that of official statistics. This includes the import of agricultural products, including milk.

Chinese imports:

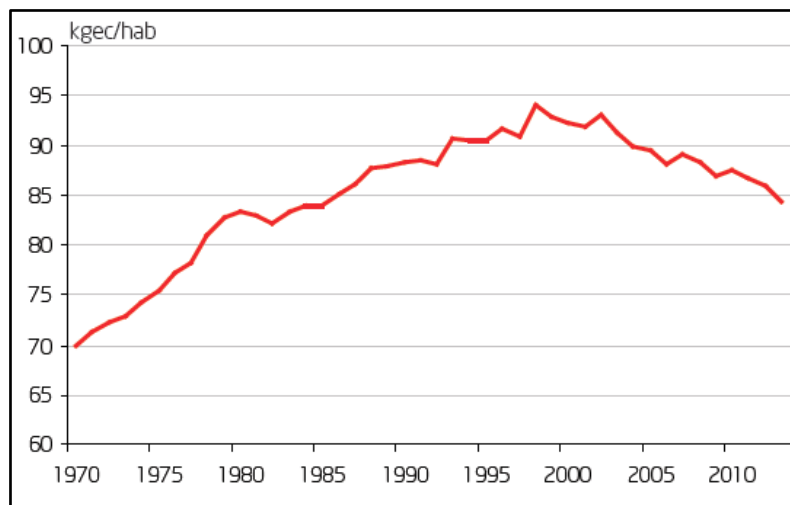
Units: variation in %



Source: General Administration of Customs of the People's Republic of China

2.5 Changing eating habits

In France for example, statistics published by [FranceAgriMer](#) (France's national agricultural and fisheries agency), show a decline in the consumption of meat and milk right across Europe in 2014.



For every 100 kilos of pork consumed in the EU in 2008, only 96.5 kilos were consumed in 2014. The statistics for milk consumption are similar.

These trends, occurring across the EU, reflect a shift in consumer habits due to the economic crisis and changing diets.

Source: FranceAgriMer
[Kilo of meat per inhabitant]

2.6 The questionable agricultural model

Agriculture in the EU has become increasingly fragile as it trades on economically volatile markets with many external factors influencing it. It is also not set up to be competitive and is struggling as countries inside and outside of the EU compete with each other in terms of pricing for products like meat and milk. An agricultural model based on economics seems the only viable way forward.

3. How can retailers support a stronger and more sustainable agri-food supply chain?

“Together, we need to build up stronger cooperation, better information flows, improved sharing and learning. All these can enable the sectors to find solutions together when faced, as we are now, with a common problem”, Christian Verschueren - [EuroCommerce](#) – September 2015.

3.1 Support Small and Medium Sized Enterprises (SMEs)

If SMEs are the backbone of the EU economy and essential long-term partners for retailers, then current rules and practices protecting them should be harmonised across the EU to:

- Minimise risks linked to imbalances in bargaining power
- Protect SMEs from the negative effects of global markets and trade
- Value products ‘made in the EU’

In this respect the French Retail Federation (FCD) has signed many agreements with French SME associations to develop sustainable business relationships together, of which most recently:

- [FEEF](#) (representing 600 non-food and agri-SMEs): voluntary agreements signed in [2013](#) and [2014](#),
- [Coop de France](#) (representative of French agricultural, agri-food and agri-industry cooperatives): signed a framework agreement in [2015](#) and a regional agreement in [2016](#).

3.2 Direct partnerships with producers

Even though farmers are not the “direct” suppliers of supermarkets in France, our members have developed specific partnerships within particular food sectors. Together with producers and processors, they have developed ways to work across the entire supply chain to produce specific products. These working relationships occur in different forms: “tri-partite” contracts (between the producers, processors and retailers); double “bi-partite” contracts (producer-processor contracts linked to processor-retailer contracts); or production specifications (integrating the production process of the farmer or the processor).

Example:

In February 2016, [Auchan has developed a tri-partite contract](#) of three years with an association of producers in the north of France in Calais, regrouped under the brand ‘Le Porcilin’, together with the industrial brand Bigard and several meat processors. This partnership allows for the right level of remuneration for all actors across the chain, whilst guaranteeing quality pork products at an accessible price for consumers.

In addition to these types of direct working relationships, our members also work with farmers via agricultural inter-branch organisations, of which the FCD is a member of four: [INAPORC](#) (pork), [INTERBEV](#) (meat), [INTERFE](#) (fruit and vegetables) and [CNIP](#) (potatoes). These inter-branch organisations allow the collective improvement of: the quality and safety of products; economic performance of the chain (logistics); and commercial relationships (best practice guidelines for contracts).

3.3 Value-added products

Value-added food, includes a manufacturing or production processes that increases the value of the commodity or product, such as organic, ‘free from’ gluten, added Omega 3 etc... In 2015 and 2014, value-added FMCG food products were the only products that actually showed an increase in sales by 1,6%. Also 36% of consumers are willing to pay more for products or services that benefit society or the environment.

Example: Carrefour’s Auvergne free-range farm chicken.

These chickens are raised in a particular part of France, in the open air (free-range) and without antibiotic treatment. In 2015, Carrefour sold 1 million of these types of chicken; and from 2013 to 2015 sales went up by 15%.

In France the decline of pork sales reached an all-time low in 2015 with a decrease of 6,7%. Knowing that the organic pork is in demand in France and based on the fact that imports into France are increasing to supply consumer demand, maybe producing it in France would be a solution.

3.5 Support increased transparency across the entire food supply chain

Since 2012, retailers have joined the French Government’s [‘Observatory on the on the formation of food product prices and margins’](#) and provided details on the net margins of major in-store food categories.

According to the [latest report \(April 2016\)](#) of the French Observatory on the formation of food product prices and margins, in which eight supermarkets participated (Auchan, Carrefour, Casino, Cora, E.Leclerc, Intermarché, Simply Market, Système U), retailer net margins (after corporate tax) dropped to only 0.8% of turnover.

Whereas retailers have shown good faith in disclosing their net margins, the observatory is faced with manufacturers refusing to transmit necessary data in order to provide a comparative overview of the sector. For real transparency on prices and margins in the food supply chain, all players should communicate the data needed for a complete analysis. Furthermore, it is essential that the data collected corresponds to the same time period, because the Observatory used figures from 2013 for manufacturers in their latest report.

CONCLUSIONS

There is no one-size-fits-all solution which can work across the EU and equally, and therefore no strong case for an EU-level regulation. This would only add additional administrative and economic burden to everyone involved and do little to help remedy the ongoing crises we face together as an agri-food sector.

The French Retail Federation (FCD) therefore calls on the European institutions to refrain from an EU- level regulation on unfair trading practices and continue to support the momentum achieved through national and EU joint initiatives, aimed at promoting fair practices. This is a firm basis for commercial relations, encouraging businesses to deal with their disputes in a way that allows business relationships to continue, rather than litigation, which breaksthem.

Providing support to SMEs, increasing transparency and consolidating the upstream supply chain are all part of solutions for a good functioning agri-food supply chain.

The French Retail Federation (FCD) is a professional organisation that represents over 50 retail members, primarily related to food distribution. With around 30,000 food outlets spread across the country, our members employ approximately 750,000 people and have an annual turnover of 194,5 billion euros. The sector includes 1,992 hypermarkets, 5,702 supermarkets, 4,605 maxi-discount stores, 17,950 convenience stores; and more than 2,900 drives. The federation intervenes especially in the areas of food security, sustainable development, economic relations (SMEs, industrial, agricultural sectors), relations with the social partners; and on issues related to urban development and commercial planning.

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