



## **Call – Structured engagement with European retail sector 21 April 2020**

### **Main issues:**

The retail sector has been severely affected by the coronavirus crisis:

- Food retail has continued operating and has proven to have an essential role in supplying population with food.
- Non-food retail has been hit by closures or limitation of operations of shops. SMEs in this segment may find it difficult to recover.
- Online retail is facing problems with supply and delivery.

The sector is calling for financial support, a coordinated approach to the re-opening of shops and for using the Single Market as a driver for recovery (keeping in mind the complex cross-border supply chains).

Retailers are also worried about measures adopted through rapid legislation during crisis times, which may have a tendency to remain in place.

This meeting with the European retail sector shall allow you to:

- understand the main issues faced by retailers and their estimated impact
- assess the current financial/operational situation of the sector and the outlooks for the nearest future
- get the feedback on the use of the Commission's support measures and establish whether there are particular needs in the short term
- discuss how to prepare for the 'new normal' and 'post-COVID' recovery.

## Running order

1. Initial remarks by Commissioner **Thierry Breton**
2. Overall retail sector situation and outlook: [REDACTED], [REDACTED] **Eurocommerce** – European retailers and wholesalers Association representing 6 million companies from 31 countries
3. Viewpoint of Independent retailers (IRE) representing SMEs: [REDACTED], [REDACTED] **of Independent Retail Europe (IRE)** which represents over 380,000 independent retailers; he is also part of the management of **REWE Group**, a large German retailer, chain of independent retailers, operating in food, non-food (DIY) and tourism services.
4. Viewpoint of large retailers: [REDACTED], [REDACTED] **of INGKA Group (IKEA)** - the Swedish world's largest home furnishing retailer owns and operates 367 IKEA stores in 30 markets
5. Viewpoint of large retailers: [REDACTED], [REDACTED] **of Decathlon** – French based sports equipment retailer with own brands
6. Viewpoint of an SME cooperative: [REDACTED], [REDACTED] **of Euronics**, a leading consumer electronics retail group in the EMEA and CIS regions, representing independent retailers in 35 countries with more than 8,500 outlets, with operations in many MS, including Central and Eastern Europe and the Baltics.
7. Viewpoint of shopping centres: [REDACTED], [REDACTED] **of Gemini Holding** – can provide a broad overview of the functioning of the retail sector in Poland as well as shopping centres
8. Discussion
9. Wrap-up & next steps

## **Key messages**

- Thank you for having made yourselves available today.
- Beyond the human tragedy, the coronavirus crisis will leave a devastating trace on our economy. This discussion with you is part of a series of conversations I am having with leaders in different ecosystems.

### ***Challenges of the retail sector***

- I have already discussed retail sector challenges with the agro-food sectoral ecosystem, textiles and construction. Today allows me to take an even more holistic view of the sector
- I recognise the enormous effort the wholesale and retail sector is undertaking to supply businesses and consumers in these difficult times. Retail experiences significant disruptions. Non-food shops had to close or limit their operations. Online retail is facing problems with ensuring supply and delivery.
- The retail sector is characterised by the large number of SMEs and micro-businesses. SMEs are facing particular difficulties
- The functioning of the Single Market is under pressure due to restrictions to goods and people introduced along national borders. This affects retail significantly.

### ***Commission measures taken to date***

- I am working hard to keep national borders open, remove export bans and make sure goods can circulate freely within Europe. I have been personally engaged to make sure Member States lift restrictions and most have now done so. But I remain very alert to any signals of disruption.
- The Commission has adopted targeted Guidelines to ensure coherent border management, including Green lanes
- As regards retail, we are encouraging Member States to consider certain flexibility, e.g. on seasonal sales or on payment of rents. The best practices identified in the 2018 Retail Communication may be useful.
- More widely the Commission has taken a series of measures to provide financial breathing space.

- The EIB will mobilise up to EUR 40 billion. Out of this 40 billion, EUR 10 billion will be used to set up dedicated liquidity lines to banks to ensure working capital support for SMEs and mid-caps.
- We mobilised financial support to accompany most impacted businesses via the €37 billion Corona Response Investment Initiative.
- A €100 billion solidarity instrument known as SURE to provide loans to help Member States cover the costs of creating or extending national short-time work schemes.
- Under the state aid temporary framework, the Commission allows Member States to provide grants, subsidies loans and guarantees to businesses. In this instrument, retail is identified as a sector particularly affected by the crisis.
- Last, but not least, we will make full use of the flexibility which exists in the Stability and Growth Pact, to give more breathing space to Member States.

#### *A strategy for recovery for “the day after”*

- The Commission is carefully following market developments as we need to assess what will be needed for “the day after”.
- The Commission has proposed a coordinated approach with Member States to this issue in a Roadmap to lift coronavirus containment measures adopted on 15 April.
- As Commissioner for Internal Market, I want to stress that a fully functioning Single Market will be essential to our recovery!
- While facing the current crisis we shall not lose from sight the longer- term opportunities of a greener economy, fully capturing the power of data and digital innovation, while responding to the challenge of growing global competition.
- Companies will start - and many of them started before the outbreak of the virus - to review their entire supply, manufacturing and logistics chains, taking into account not only price criteria but also carbon footprint, digitisation, market evolution, proximity to services and customers... and dependency on third countries or extra-European partners.

- The retail sector is one of the most important sectors of the EU economy. It pays a crucial role in particular in terms of contribution to GDP and employment. It will need help to recover and face future challenges.
- Today I would like to hear from you a first hand, frank assessment of the financial situation of your sector and understand what you need the most going forward.

### **Concrete questions to the interlocutors**

#### **Impact on your business:**

- Have you been able to carry on with your business? If yes, what kind of organisational changes or additional costs did it require?
- What are the most urgent problems you have to face today?
- What are the outlooks for your business in the coming months (the exit phase)?

#### **Short-term measures**

- In addition to the horizontal support measures put forward by the Commission and Member States, are there any additional support measures needed?
- What are your needs in terms of financial support? Have you received support by national governments?

#### **Recovery Strategy /Long-term**

- How will your sector change/adapt after the crisis?
- What kind of (medium and long-term) changes in consumer habits do you expect (e.g. e-commerce)?
- What kind of measures do you consider necessary to relaunch the provision of services and consumer demand?
- What kind of ecosystem could be built to help the EU retail sector's competitiveness? Are there longer term financial/investment needs?

### **Defensives (based on questions received so far from the industry)**

***What long-term measures are planned by the Commission to support economic recovery after the end of the crisis?***

The Commission work on economic support measures is on-going (I have mentioned the major actions taken until today). Several measures are under reflection but have yet to be confirmed.

***How can the Commission help the retail sector specifically?***

I am aware of the significant negative impact the COVID-19-related restrictions on retail. Member States will need to provide regulatory flexibility to help the sector recover. The 2018 Retail Communication identified good practices from which Member States may get inspiration to set up a regulatory framework which would support the recovery of the retail sector. The Retail Restrictiveness Indicator shows for each Member States where they should focus their efforts. My services are ready to help Member States in this respect.

***Will the Commission adjust regulatory deadlines for the acts that will be applicable or will enter into force in the coming months?***

I have instructed my services to make a thorough analysis of all the upcoming regulatory deadlines and of their adequacy under the current circumstances, based on Commission competence. Your input is of course appreciated in this respect.

***Are retail and wholesale workers covered by the COM Guidelines on the free movement of workers? They have not been mentioned specifically.***

In the Guidelines, the Commission provides a non-exhaustive list of the occupations for which Member States should allow workers to enter their territory and have unhindered access to their place of work. Workers involved in the supply of goods, in food manufacturing and processing and related trades are mentioned. Workers in the retail and wholesale sectors would fall within the scope of these occupations. We are ready to raise any issues you may have on the crossing of borders for the workers in the above sectors with the Member States concerned.

***Online shopping, popular during the crisis, may become a habit of many EU consumers. How is the Commission going to ensure that physical retailers can compete on fair grounds with online pure players?***

The crisis has pushed many companies, not involved in e-commerce before, to sell online. In particular SMEs. And consumers on their end, because of the closure of shops, had to change their habits and turn to e-commerce. However, we do not know at this stage if these trends will remain and if yes, to what extent. Already before the crisis, we encouraged Member States to take e-commerce into account when regulating retail. Now this becomes even more relevant. The best practices put forward in the 2018 Retail Communication would help ensure fair and balanced conditions for offline and online retail. My services will continue the dialogue with Member States authorities in that respect.

***Retailers are under unprecedented financial pressure. Solutions to help them pay their rents are needed.***

I am aware of the very difficult financial situation faced by many companies in your sector. The Commission has been working on numerous solutions to help businesses survive, I have mentioned to you the most important ones. As regards rents, it is crucial to balance the interests and find solutions acceptable to both retailers and landlords. In some Member States support has been offered to fill the gap where rent relief is offered to tenants leading to solutions satisfactory to all economic actors. We will encourage Member States to continue these efforts.

***Some Central and Eastern European Member States seem to have taken the opportunity of the state of urgency and have imposed far-reaching restrictions on the retail sector.***

I am aware of these unwelcome developments in certain Central and Eastern European Member States. They concern mostly food retail. I would like to reassure you that they do not escape the Commission's attention. My services are closely following these developments and if considered necessary, we will be raising these issues directly with Member States concerned.

## **Background information on sector specificities**

### **The EU retail sector**

#### **The 2018 Retail Communication (“A European retail sector fit for the 21st century”)**

In the Communication adopted on 19th April 2018, the Commission identified best practices that should assist Member States in their reforms towards a more competitive retail market. E-commerce is a game changer. Reducing restrictions to retail would make this sector fit for the 21st century. A better functioning retail should be beneficial to the sector itself and consumers (bigger choice of products, lower prices). This could also have positive spill-over effects on manufacturers and other sectors.

The Communication includes a *Retail Restrictiveness Indicator (RRI)* which is a dynamic monitoring tool to measure Member States’ efforts to create a more open, integrated and competitive retail markets.

What barriers are targeted by the best practices?

- when public authorities impose disproportionate conditions on retailers trying to open new shops (retail establishment restrictions). This can hamper market entry and expansion.
- when daily operations of shops are subject to restrictions (such as shop opening hours, retail specific taxes, restrictions on sales promotions or distribution channels for certain products). This can hamper retailers' efficiency and productivity. Such restrictions make it difficult for physical shops to compete with online ones which are not subject to such restrictions.
- barriers can also be of private nature. For example, when some manufacturers prevent retailers from sourcing cross-border (territorial supply constraints, TSCs).

#### **Guide for fostering the revitalisation and modernisation of the small retailers**

In parallel to the Communication, the Commission published a guide on fostering the revitalisation and modernisation of the small retail sector.

The guide gives public authorities practical suggestions on how to help small retailers embrace technological change and meet the challenges of the future. Each solution is underpinned by practical real-life examples, gathered from best practices across the EU, which can be transferred to the local setting or be a source of inspiration. In 2019, the Commission held four workshops in Brussels, Madrid, Vienna and Bucharest to promote the Guide and present and discuss success stories of local initiatives aiming to revitalise the small retail sector.

### **Expectations and positions of retailers:**

- Non-food retailers have been faced with forced shop closures or limitations of their operations. For some of them it is a threat to their survival.



- the sector calls on the Commission and national governments to provide adequate resources to ease the burden on retailers and wholesale tenants, and, under their national support initiatives, include resources to cover rent payments during the present crisis. The sector also calls on landlords to act in solidarity and dialogue to find mutually beneficial solutions.
- The sector also calls on the national governments to coordinate in gradual re-opening of non-food shops, with transparency towards business and consumers and appropriate safeguards for the health of customers and staff as adopted in food retail.
- It also calls on the Commission and Member States to use the Single Market as a driver for recovery. Complex cross-border supply chains mean that disruption caused by closure of suppliers in one country affects the supply chain in another.
- Retailers are also worried about measures adopted through rapid legislation during crisis times, which may have a tendency to remain in place. Measures should preferably be voluntary, left to market operators working in solidarity with one another, and removed as soon as the pandemic is under control, so that the single market can operate again.
- They ask for financial support to continue to be available after the crisis. This should also include helping SMEs in adopting digital technology and going online.
- In their joint letter to the Commission of 27<sup>th</sup> March, EuroCommerce and Independent Retail Europe are asking the Commission to delay any new consultations until after the present pandemic situation improves, and to extend the consultation period for the ongoing consultations. They are also urging the Commission to deter the implementation of new measures from 2020 Work Programme and also guiding Member States to delay their enforcement.

## **Position of Eurocommerce**

Retailers and wholesalers impacted by the crisis in diverse ways:

- Food retailers all "hands on deck" to face unprecedented challenge of delivering an essential service to consumers, whilst preserving the safety of employees and customers under difficult circumstances
- Food wholesalers serving catering and hospitality (closed everywhere and for longer) facing major disruption
- Non-food in disaster mode:
  - Most member states have forced closures, and where shops still open, sales down as much as 80%. Clothes and textiles, footwear, jewelry and accessories hit particularly hard. Consumer electronics and household equipment resisted in the early days as consumers looked for equipment.
  - some transactions redirected to digital, some companies forced to switch to digital; online sales good in some sectors but this has often not been enough to compensate for the losses through physical shops and on-line is also down 20-30%.
- Key issue is lack of liquidity. An extension of the confinement measures means that many retailers will not be able to open again after the crisis (risk as high as 40% of shops in DE and 30% in FR).

What is needed:

- support through tax deferrals or waivers, labour costs compensation schemes, state guaranteed loans and direct support (state aid); immediate support needed to help companies deal with their lack of liquidity; issues particularly with rental agreements and energy bills
- Measures taken by national governments not sufficient
- Exit strategy needs to be coordinated across Member States, and based on same principles, while taking into account that not all countries are at the same stage of development in tackling the pandemic.
- The single market is a top priority and work on opening up international borders again; this means rapid dismantling of all restrictive measures suspending the single market immediately after the pandemic; could unleash 750 billion euro; dedicate resources to enforce; consider linking massive help to member states to countries removing discriminatory treatment of foreign retailers and other barrier

## **Position of Independent Retail Europe**

- Non-food sectors are very badly hit particularly where they were obliged to close and particularly SMEs (for lack of online presence).

There was a shift to online which:

- could lead to a permanent shift in consumer behaviour > even more of a need for groups of independent retailers to have fair competition rules to enable them to be efficient online.
- has led to disrespect of safety rules in large online retailers

The most urgent problems:

- How to cover costs - rent, salaries - how to obtain loans
- Finding solutions with supply chain partners.

Immediate needs:

- EU sanitary guidelines for the re-opening of stores and factories. We receive questions from storeowners if stores need to be disinfected and goods - for instance testing goods in stores need to be thrown away. There are no guidelines for this.
- Food retailers have a high and increasing need for masks and gloves. Two weeks ago the Commission created the possibility for food retailers to buy this equipment free of VAT and duties. But the member states need to allow this. We are struggling to convince the national authorities to allow this, as these are only geared towards public and philanthropic medical & crisis relief organisations.

Medium term needs:

- Create national contact points for assistance to sectors/retailers as regards COVID safety measures
- The EU and member states should promote and take a flexible approach to voluntary solutions to solve supply chain disruptions and get products to market. Labour laws should be flexible in crisis times, allowing to easily shift workers to sectors that are still working, allowing for a maximum of people to work and guaranteeing income.

The crisis has shown that SME retailers will have to strengthen their online presence.

The Commission should give guidance to member states to actively promote and support SMEs in the retail sector (Member States should invest in attractive, lively, and diverse town centres, allow for innovative business models and reduce burdens on SME retailers).

## **Position of IKEA**

- Even if measure taken were different in different MS, for several weeks IKEA has closed 350 of 420 stores. In some cases (UK and US) they have taken unilateral decisions to close stores ahead of government decisions.
- IKEA offered online shopping in most countries but we had to adapt to country specificities. Successful drive through click and collect in Germany, should become an option in other MS too.
- Urgent problems is competition as some DIY retailers will be granted the possibility to open ahead of IKEA.

### **Assessment of measures :**

#### **Short-term**

- Received support in some countries mostly as regards technical unemployment. Aim is to protect employment in the long term so ensuring liquidity in the short term is important.
- Need to coordinate exit plans. Retail needs to open in a coordinated and fair way to avoid people shopping cross borders.

#### **Recovery Strategy /Long-term**

- Digital offer will be important. Re-skilling of workers and fast tracking digitalisation plans needed. The Commission proposals on digitalisation will become also more relevant than ever.
- IKEA will continue to push for sustainability agenda that might lose pace. It is confident that the economic recovery and the green economy go hand.

## **Position of Decathlon**

### **Impact on business:**

- Out of 1,650 stores in the world, 1300 are currently closed. Sales are down by -80% each day. During the sole month of March, despite partial unemployment measures, the net profit has been cut to -70 M€ or a decrease by -110 M€ year-to-date. This is unheard of since Decathlon was founded, some 45 years ago.
- Decathlon had to cancel in the last 4 weeks around 1.5 billion € of orders (for the 1st semester alone), putting considerable pressure on its industrial partners in Asia as well as across Europe (30% of its manufacturing is done in Europe or in Mediterranean countries). Decathlon directly employs around 100,000 people as well as 1 million people indirectly in the 60 countries where it operates.
- It needs to restore its profitability. If, in the second semester, the economic perspective do not improve, it will have to drastically reduce operating expenses and capital expenditures in order to keep the company afloat.
- The Chinese lockdown has severely impaired consumption. Four weeks after reopening, the stores are still down -25% on a daily basis vs. 2019 (we know that competition is facing the same adverse situation). Recovery seems very slow in this sector (discretionary consumption) which will create a lot of negative impact on the value chain and, consequently, on people.

### **What is needed**

#### **Short-term:**

- Reopening of stores (physical activity strongly recommended by WHO)
  - Extension of opening hours (e.g. Sundays in France)
  - Would be happy to propose to the Commission - together with other actors – a set of sanitary standards to implement in stores
  - State aid – would need reassurances for flexibility to carry out unfortunately needed workforce adjustments and that the aid obtained will not be challenged as long as they show good faith.
  - From a financing perspective: the Banque de France has helped buying €300 M of Decathlon commercial papers with a maturity of 9 months. But more help is needed. (another €200 M)
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- Fair conditions needed to for EU champions to compete with international pure players (they have the ability to operate and deliver during weekends)
  - European Commission should impulse more European coherence between the Union's countries in:
    - i) the definition of safety measures to be taken by retailers post-confinement,

- ii) economic initiatives coordination to mitigate the effects of business interruption and a likely impaired consumption in the months to come.

### **Recovery Strategy/Long-term**

The emergence of COVID-19 is accelerating changes that they had already anticipated in terms of global delivery models with unprecedented consequences for supply chains. It will also create new opportunities for people's development as long as companies are provided with the necessary flexibility to operate those adaptations swiftly and efficiently.

- Political and legislative support should be given for the creation of a European ecosystem that sustains Health initiatives. This would help the European populations to enjoy a better quality of life. This would also give relief to the EU countries domestic social and medical budgets.
- Climate change puts corporations and states under the constraint of deeply revisiting their economic models.
- Decathlon believes that it is absolutely necessary continue the quick and sustained pace towards a circular economy. Fiscal stimulus and incentive laws should be part of the arsenal that the EU should favour to promote the establishment of repair, rental and second hand markets and help transition "traditional" retailers like Decathlon.
- Sustainable, fast, reliable and efficient supply chains will be one of the key factors for the European retail sector's competitiveness, at home and abroad.

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## **Position of Euronics**

The priorities are:

- the opening of the shops, in accordance with the health measures issued by the governments
- guarantee to credit insurers that they will not substantially change the credit rating relative to retailers, as this means that suppliers are not prepared to offer additional payment terms
- shops have to reopen also in the context of competition in e-commerce. Online sales lead to lower prices and therefore also lower added value (Euronics has already seen the consequences of this in the comparison of weeks 12, 13 & 14) where the numbers give -20% in certain categories but the turnover of -40%.

## **Position of Gemini Holding**

- Shopping centers have been closed in Poland except groceries and pharmacies, and as per the covid-19 law in Poland the landlords have been deprived of almost all revenues but still left with all costs (which for most of the sector accounts for ca. 95%+ of all revenues – including the debt repayments).
- Debt repayments covers ca 60 % of revenue (capital installments + interests). Some selected banks so far agreed to prolong capital installments (ca 35% of all revenue), but excluding interests and only for limited period of time. This is the only support the sector have been given so far, which has been negotiated directly between investors and creditors.
- Shopping centers are facing financial liquidity problems as they have to be maintained, secured and heated. Shopping centers offer dozens of thousands jobs for related businesses like cleaning, security and property management. All these jobs are massively exposed to be terminated. Extra compensation towards Landlords losses is urgently needed (branch support is expected).
- The landlord industry remains open for a dialogue with tenant companies in order to find the right solution for the entire sector in Poland. Government during last days had undertook dialogue with landlords.
- We expect the authorities to offer balanced solution that will support the owners of shopping centers but also adequately take care of the tenant companies. Landlords should receive benefits and in a consequence benefit tenants in proportion to the tenant's economic losses.

## **Key EU policy actions relevant for retail**

- [Joint European Roadmap towards lifting COVID-19 containment measures](#). Responding to the call of the European Council of 26 March, the Commission, in cooperation with the President of the European Council, has put forward a European roadmap towards lifting coronavirus containment measures. It takes into account the expertise of the European Centre for Disease Prevention and Control the Commission's Advisory Panel on the coronavirus, experience of Member States and guidance from the World Health Organization. The European roadmap establishes principles for lifting the containment measures (criteria to decide when to do it, proposed accompanying measures, recommendations for Member States how to do it).
- EU [Guidelines](#) for border management measures – very relevant for the supply chain of goods and inputs to production. Worth noting that the guidelines aim at preserving the free circulation of all goods, not only 'essential' goods. Guidelines emphasise the importance to ensure constant provisioning of social needs to avoid panic and dangerous overcrowding of shops;
- [Practical advice to ensure that mobile workers](#) within the EU that qualify as critical workers in the fight against the coronavirus pandemic can reach their workplace. Workers active in retail and wholesale although not mentioned as such fall within the scope of critical occupations. In any case, from a more general viewpoint, the free movement of workers Guidelines clarify that Member States should allow frontier and posted workers to continue crossing their borders to their workplace if work in the sector concerned is still allowed in the host Member State. They also clarify that Member States should treat seasonal workers in the same manner as the workers that exercise critical occupations
- EUR 37 billion [Coronavirus Response Investment Initiative](#) to provide liquidity to small businesses and the health care sector.
- EUR 1 billion will be redirected from the EU budget as a guarantee to the European Investment Fund to incentivise banks to provide liquidity to SMEs and midcaps. This will help 100,000 European SMEs and small midcaps.
- A €100 billion solidarity instrument known as SURE would provide loans to help Member States cover the costs of creating or extending national short-time work schemes as a response to the pandemic. These national measures would enable businesses to temporarily reduce employees' hours or suspend work, with income support provided by the State for the hours not worked.
- The European Competition Network joint statement to put aside the application of the competition rules to allow businesses join forces.
- Other measures recommended by the Commission include tax holidays, ease of pay-outs, access to cheap credit.
- The EIB will also mobilise up to EUR 40 billion. Amongst them, EUR 10 billion will be dedicated liquidity lines to banks to ensure working capital support for SMEs and midcaps. The EIB Will implement its proposal to create a pan-European guarantee fund of EUR 25 billion to support EU businesses, in particular SME's, throughout this crisis, including through national promotional banks.
- The ECB €750 billion Pandemic Emergency Purchase Programme (PEPP) and the expansion of the range of eligible assets under the corporate sector purchase programme.



**Bios of interlocutors:**

**[REDACTED], Eurocommerce**

[REDACTED]

**[REDACTED], Independent Retail Europe**

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**[REDACTED], Decathlon**

**Euronics**

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**██████████, INGKA Group (IKEA)**

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