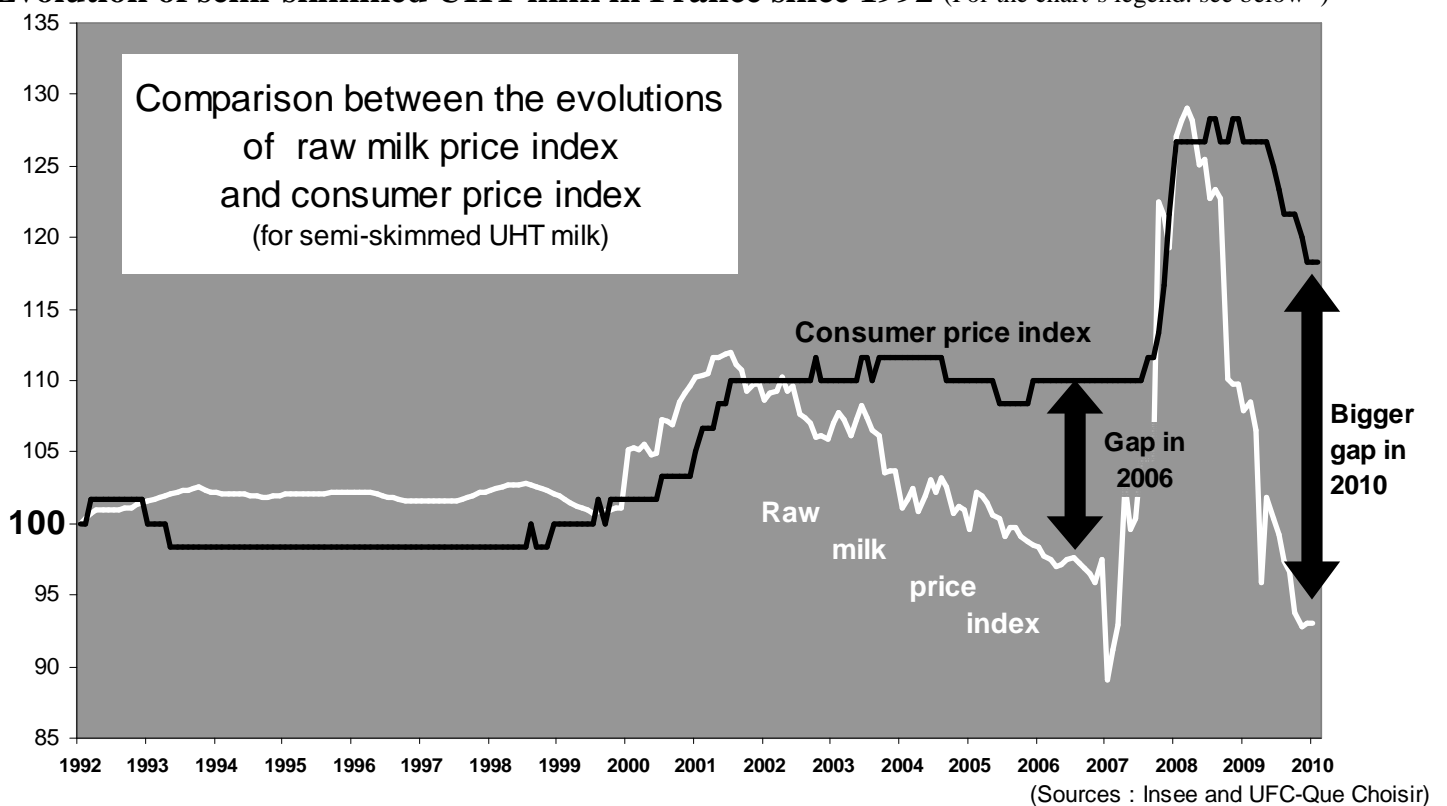


The evolutions of consumer prices of milk products in France

General context: representatives from the food industry and retailers say the inflation seen on food products in France since 2007 is solely due to the 2007-2008 price rises of agricultural raw materials.

Methodology: Due to the lack of data and transparency in the construction of food prices, it is difficult to confirm the truth of the explanation given by industry and retail. The only way to check if there has been any unjustified price increase is to compare the evolution of farm price indexes to that of retail price indexes on a certain period of time. If there is a real link between farm price and retail price, any evolution of the farm price should be passed on identically to the retail price whatever the evolution might be: increase, decrease or stability. If, on the contrary, a gap is growing between farm price and retail price, it means that the gross margin has increased for the food industry, for retail or for both.

Evolution of semi-skimmed UHT milk in France since 1992 (For the chart's legend: see below¹)



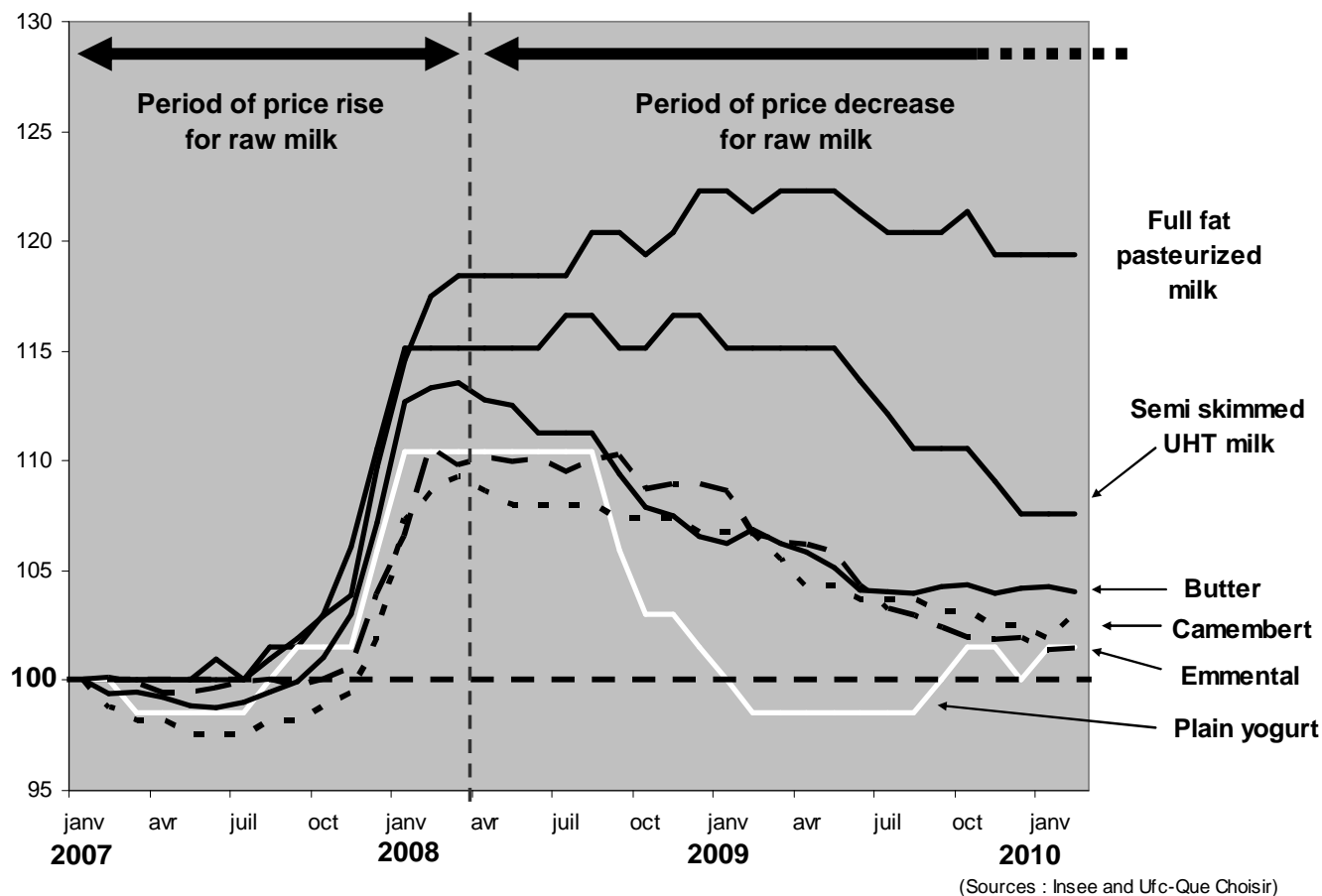
- **Between 1992 and 2001:** both farm price and retail price have kept strictly parallel evolutions.
- **Between 2002 and 2007:** the farm price slowly decreased by 15 %, whereas the retail price remained surprisingly steady. This means that **during this five year period the price decrease of farm milk was not passed on to consumers.**
- **From mid-2008 until now:** the 2007 surge of raw milk price was immediately followed by a dramatic decrease. It must be noted that presently the raw milk price is now below the level of 2007. Surprisingly, the retail price of milk had a very different evolution. **The retail price made a 15 month plateau during which no price decrease was passed on to consumers.** It is only since mid-2009, that some price decrease is seen, although the pace of this decrease is considerably slower than that of raw milk price in 2008.

¹ This chart shows the evolution of indexes since 1992 (evolutions are given in percentages in comparison to the 1992 reference which value is 100):

- The price of raw milk is the average price paid to dairy farmers (a correction is made to remove price variations depending on the season),
- The retail price combines the average prices for various brands (national and retailers' own brands) as well as the prices found in different types of retail outlets. We chose semi-skimmed UHT milk which is the kind of milk most consumed in France.

If we sum up the evolutions seen during the last nine years, it appears that industry and/or retailers used twice the farm price decline in 2001-2007 and in 2008-2010 to increase their gross margins and eventually the consumer price. If we add up those increases we find that **semi-skimmed milk is 18 % more expensive than it was in 2000, whereas the farm price decreased by 7%.**

Evolutions of price indexes for various milk products in France



If we study the evolution of price indexes for a few staple milk products, we have three different kinds of evolutions depending on the link between farm price and retail price:

- **A strong link:** this is the case of plain yogurt for which the farm price decrease was passed on almost immediately to consumers. It has to be noted that the retail price got back to its 2007 level as early as February 2010. The first conclusion we can draw from this chart is: **it is possible to pass on raw milk price decreases to consumers.** The fierce competition between the numerous national and retailers' brands might be an explanation for this positive evolution of price indexes.
- **A delay in price decrease:** this is the case for cheeses and butter.
- **No transmission of price decrease:** pasteurized full fat milk has the most surprising evolution of all milk products. **After a sudden price hike of 20 % in 2007-2008, no decrease has been allowed to consumers until now.** As an explanation, we can say that pasteurized milk and in particular full fat milk has become a niche market in France.

(Semi-skimmed UHT milk seems to be a mix of the last two types).

Conclusion: This analysis has been extensively described in many media in France and confirmed by the French national observatory for prices and margins ... with little or no consequence on consumer prices! With the volatility of commodity prices on the world market, we could see more often such situations where consumers must endure price hikes without benefiting from price decreases. This calls for a reflexion at European level on how to prevent unjustified price increases for consumers.