EuroCommerce

THE RETAIL, WHOLESALE AND INTERNATIONAL TRADE REPRESENTATION TO THE EU

High Level Experts Group on milk

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EuroCommerce wich represents the commerce sector in Europe (6 million companies, mostly SMEs, 31 million workers and 11% of the EU GDP), wishes to recall the fundamental features of the milk producers – retailers relationships and its willingness to see farmers revenues stabilized or even increased in the framework of a competitive, transparent, innovation-based market economy:

1. **Relations with manufacturers: The reality of operational margins**:

- As the last link in a complex supply chain which is often dominated by large manufacturers or dairy industries, **retailers do not buy from farmers but from processors** or dairy industry and consequently do not dictate prices to farmers;
- Retailers pay the market price imposed by their suppliers and pass it on to consumers with a relatively low profit margin;
- Strong competition among retailers, which explains the relatively low profit margins (3-4%) as compared to those of manufacturers (10-25%), is the best guarantee that consumers will get the best deal.

2. **Bargaining power**: **The reality of the processors- Retailers relationship**: In the dairy business , a few operators are holding a prominent position – up to 100% market share for one single processor (LU, NL, PT). As a consequence, a few of them do impose their terms and conditions to all farmers they buy from. They also impose their terms and conditions on retailers and even more to the small one. By definition, a processor of a so-called “must-have- (dairy) product” is in a position to impose upon retailers its conditions. The coercive dimension of the supplier’s behaviour and the anti-competitive practices this might lead to including territorial supply constraints, are issues of particular importance for SMEs being in a situation of economic dependence towards stronger partners. This is a crucial point for our 6 millions of SMEs.

3. **Transparency and price fixing: The market reality**: The retailers are not responsible of the increased volatility of agriculture commodities including milk and they regret it. Their prices reflect all the operating costs including staff, transport/energy, taxes leaving a very small profit. **The retailers’ gross margin have reduced over time to the benefit of processors**. Some proposals made by retailers to increase the prices of milk were not followed by processors.

4. **Call for market-oriented solutions**: in order to fulfil their mission i.e. to provide consumers with the right product at the right time at the right location at the best price, retailers need to be able to rely on **stable supply chains that guarantee a maximum level of stability in terms of volumes, quality and prices**. This is why the sector would welcome any flexible and market-oriented solutions such as contract-based relationships provided that they are respectful of competition law, consumer protection legislation and free market principles (limited public interference). Commerce will also welcome all the tools which would increase the competitiveness of the agro-sector.

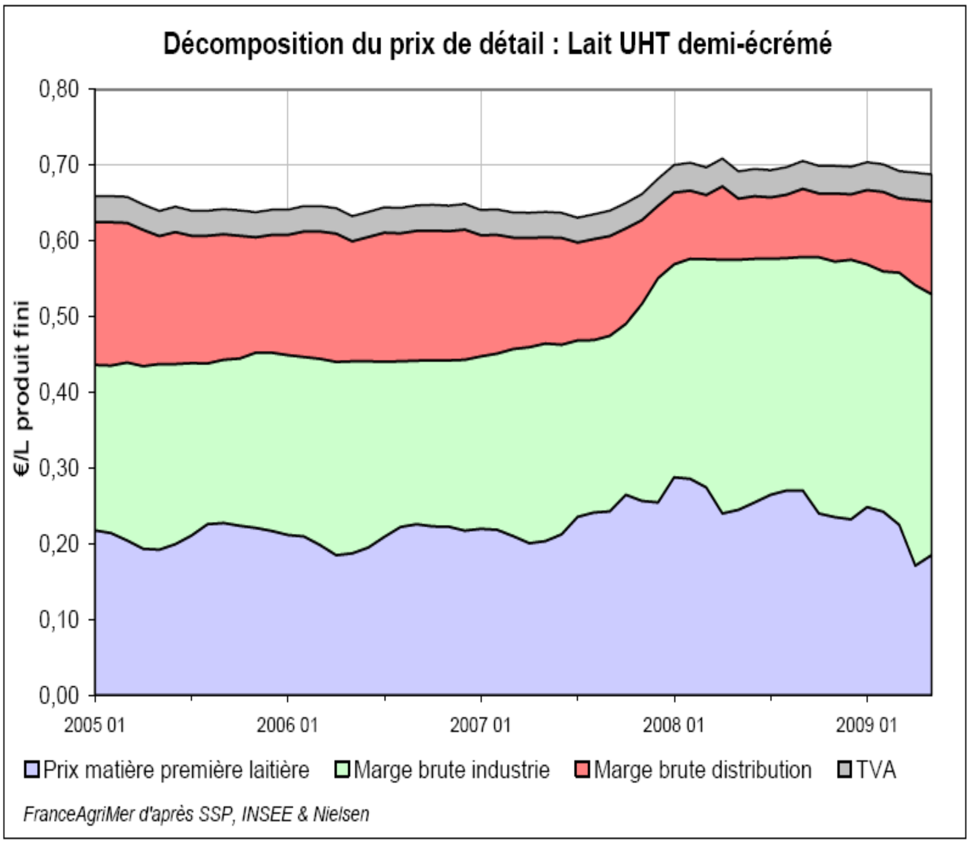
Annex

The division of net margin among the various operators in the food supply chain can be illustrated through the figures in the table below. The profitability of the retail sector compared to the one of processors indicates that where there is competition, the net margin diminishes to the benefit of the consumers.

	Turnover	**EBITDA**	**Operational margin**
Danone	15,2	18,4 %	14,9 %
Nestlé	75,6	16,5 %	13,6 %
Kraft Foods	29,1	14,0 %	11,7 %
Coca Cola	22,0	30,3 %	26,4 %
Pernod	7,2	27,6 %	25,6 %
Carrefour	87,0	5,9 %	3,8 %
Auchan	39,5	5,7 %	3,4 %
Tesco	59,7	7,7 %	5,5 %
Casino	28,7	6,7 %	4,5 %

Source : Bloomberg and annual reports 2008-2009, figures in billion € and %

As far as the dairy industry is concerned in four years, the margins of the various operators of the supply chain have evolved to the detriment of the retailers. The French example:



Between the second term 2005 and the second term 2009, the retailers' share in the sale price has decreased from 21.1% to 17% whereas the manufacturers has increased from 37.5% to 52.1%.