Competitive functioning of the agricultural equipment sector: the Autorité de la concurrence issues its opinion to the Economic Affairs Committee of the French Senate

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Background

The *Autorité de la concurrence* was asked by the Economic Affairs Committee of the French Senate for an opinion on the competitive functioning of the agricultural equipment sector.

As this sector encompasses a wide range of equipment, the *Autorité* focused its analysis on tractors. In 2022, tractors accounted for 40% of the agricultural equipment sector's turnover and, more broadly, represent a significant share of farm production costs. Moreover, in value terms, they are the main category of agricultural equipment produced in France.

Firstly, the *Autorité* has observed a rise in tractor prices in recent years. While this rise reflects a broader inflationary context, it may also be attributable to other sector-specific factors, such as farmers' growing needs (notably in terms of tractor power and connected services) and the adoption of new standards.

In addition, given the potentially inflationary nature of certain purchase incentives (such as subsidies or tax measures), the *Autorité* considers it essential that, if such measures are applied to tractors, their impact is carefully assessed, firstly by reviewing the effects of previously introduced mechanisms, and then by carrying out a prior impact study based on precise quantitative data.

Secondly, the *Autorité* wishes to draw operators' attention to a number of competition-related issues in both the upstream and downstream tractor markets.

- Upstream, the market for the manufacture and marketing of tractors is oligopolistic, with a high degree of concentration around four main players. It is characterised by high barriers to entry and a level of transparency that calls for particular vigilance with regard to the risk of exchanges of commercially sensitive information.

- Downstream, in the tractor distribution and repair markets, competition is primarily inter-brand, given the territorial exclusivity clauses granted to dealers of a given brand, which restrict intra-brand competition. Inter-brand competition in tractor distribution appears relatively satisfactory, insofar as the main manufacturers' networks cover most of France. However, in certain areas, the range of offers available to end consumers may still be very limited.

In the related tractor repair market, consumer choice is significantly reduced by the competitive advantage enjoyed by authorised network dealers, combined with territorial exclusivity clauses.

The *Autorité* therefore considers that inter-brand competition alone in the distribution and repair markets does not always guarantee a sufficiently diverse offering for end consumers and that intra-brand competition should be strengthened in order to broaden farmers' scope for choice and comparison.

Accordingly, the *Autorité* invites manufacturers to clarify certain clauses in their dealer agreements and to ensure that distributors are fully informed of their rights and obligations, in particular with regard to passive sales. Manufacturers should also take care not to introduce obligations that could reinforce any economic dependence of their dealers.

Tractors, the mainstay of the agricultural equipment sector

As the leading country in the European Union by utilised agricultural area, and second only to Spain in terms of cultivated area, France is the largest agricultural equipment market in Europe and ranks fourth or fifth worldwide, depending on the year.

The agricultural equipment sector encompasses a wide range of equipment, used for both agricultural work and the upkeep of green spaces. This wide diversity, combined with the variety of farming production systems and practices, makes it difficult to analyse the agricultural equipment sector as a whole.

Nevertheless, among all the agricultural equipment used across the main agricultural sectors, almost all farmers appear to own at least one tractor (between three and four on average per farm). Tractors also account for a significant share of production costs for French farms, with traction representing the largest item of mechanisation expenses, which account for around a quarter of farmers' operating costs. Lastly, in value terms, tractors are the main category of agricultural equipment produced in France (approximately 40%).

A sharp rise in prices explained by a combination of factors

The *Autorité* concurs with the Senate Economic Affairs Committee's finding that tractor prices have risen sharply since 2020. According to the French Chambers of Agriculture (*Chambres d'agriculture France*), the average price of a 170-horsepower four-wheel-drive tractor rose from €100,200 in 2020 to €130,000 in 2024.

While this rise reflects a broader inflationary context, it may also be attributable to other sector-specific factors, such as farmers' growing needs (notably in terms of tractor power and connected services) and the adoption of new standards.

The competitive functioning of the tractor sector

High concentration in tractor manufacturing

The upstream market for the manufacture and marketing of tractors is oligopolistic, with a high level of concentration around four main players (AGCO, John Deere, CNH and CLAAS), which together account for almost 90% of market share. It is also characterised by high barriers to entry, linked in particular to the scale of investment required, both for the technological development of machinery and for establishing a sufficiently dense distribution and after-sales service network to provide effective nationwide coverage. Moreover, no new operator has entered this market since Kubota in 2008.

The *Autorité* also notes that this market is relatively transparent, as the French National Agency for Secure Documents (*Agence nationale des titres sécurisés*) provides information on tractor registrations, which third-party operators may use to supply statistics to manufacturers or operators in the downstream distribution market. In its opinion, the *Autorité* recalls the rules governing the exchange of commercially sensitive information.

> With regard more specifically to the exchange of historical information between competitors, the shorter the time lag between the data's reference period and its communication, the more likely the data is to be considered commercially sensitive within the meaning of competition law.
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> Thus, if a company operating in the market can, based on past data, infer the future intentions of other players, or be prompted to tacitly adopt, together with those players, behaviour aligned with one of the market's competitive parameters, such exchanges are likely to alter the competitive functioning of the market. The

effects of such information exchanges will also depend on companies' ability to agree on a common strategy within a given area, which is itself linked to the degree of market segmentation resulting from different distribution networks.

Furthermore, the fact that raw data is made available by the State does not exempt operators using that data, nor third parties providing services based thereon, from liability. Such operators or third parties could potentially be held accountable as facilitators of collusion.

Tractor distribution and repair markets shaped by the need for proximity between dealer and buyer

In the downstream tractor distribution and repair markets, the *Autorité* notes that there is a strong need for proximity between customers and their dealers, who typically provide after-sales services. The *Autorité* estimates that, on average, a farmer will choose a dealer located less than 40 km from their farm (i.e. about an hour by tractor).

The tractor distribution market: generally satisfactory inter-brand competition, limited intra-brand competition

Tractor distribution is organised by manufacturers through networks of generally exclusive dealers. Only the distributor is authorised to sell tractors of a given brand within an area defined in the dealer agreement, meaning that intra-brand competition is very limited. Moreover, while inter-brand competition appears generally satisfactory, as manufacturers' distribution networks cover most of mainland France, certain areas may remain insufficiently covered, with the number of operators in some local areas limited or even reduced to just one.

This market is also characterised by high barriers to entry, such as the need for an operator to secure a dealer agreement, to have substantial financial capacity to purchase or lease premises, and to recruit qualified technicians, among other requirements.

Limited competition in the tractor repair market

The *Autorité* notes that competition is even more limited in the tractor maintenance and repair market. Competition from third-party repairers or dealers of other brands may be constrained due to the advantages held by authorised dealers, who have direct access to original parts, technical software, diagnostic tools and maintenance manuals for the licensed brand, and whose staff are specifically trained to repair this brand's tractors. As a result, customers tend to use authorised dealers. Moreover, these dealers generally benefit from territorial exclusivity, which limits customers' ability to choose between different members of the network.

In view of these factors, the *Autorité* considers that there are certain limits to inter-brand competition in the downstream distribution and maintenance-repair markets, and that it cannot be ruled out that some operators may hold a dominant position in certain local areas.

In such cases, operators must take care not to hinder the competitive functioning of the markets, for example by favouring members of their distribution network for access to the inputs required for maintenance and repair operations.

Relationship between manufacturers and dealers

These limits to inter-brand competition could, to some extent, be offset by the level of intra-brand competition. However, by its very nature, the tractor distribution model, which is generally based on territorial exclusivity clauses between manufacturers and dealers, restricts intra-brand competition and is therefore likely to influence tractor pricing. This system is also likely to affect related markets, in particular those for spare parts distribution and tractor maintenance and repair services.

Given the potential significance of intra-brand competition for the sector's competitive dynamics, the *Autorité* took a closer look at the relationship between manufacturers and dealers, both with regard to collusion and abuse of economic dependence.

With regard to collusion

The *Autorité* notes that various clauses in dealer agreements may restrict intra-brand competition, which is already very limited due to territorial exclusivity clauses. Some clauses, for example, require dealers to purchase exclusively from the supplier, while others limit their ability to hold shares in companies marketing competing brands. With regard to sales outside the contractual territory, although agreements do not formally prohibit passive sales, such sales may be restricted by certain indirect measures, such as notifying the distributor in the relevant area of passive sales or not taking such sales into account in the amount of rebates granted to dealers.

> The *Autorité* considers that, if established, such practices could hinder the competitive functioning of the downstream tractor distribution market, and that it cannot be ruled out that the proliferation of exclusivity obligations imposed on certain distributors could have a cumulative effect, further restricting competition.
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> The *Autorité* therefore invites manufacturers to clarify certain clauses and to ensure that distributors are fully informed of their rights and obligations, in particular with regard to passive sales.

With regard to abuse of economic dependence

The *Autorité* notes that the combination of various contractual and organisational mechanisms may raise questions about distributors' effective economic

independence from their suppliers. Single-branding obligations, which require distributors to sell only the tractor brand of the manufacturer with which they have entered into a dealer agreement, combined with supply exclusivity, significantly restrict distributors' ability to diversify away from the manufacturer to which they are contractually bound. Some manufacturers may also require their distributors to market a wide range of their products. Moreover, the contractual clauses are based on standard contracts, and it has not been demonstrated that distributors can negotiate their scope to any significant extent. Lastly, these obligations make alternative solutions all the less likely for distributors, insofar as they are implemented by most of the manufacturers consulted.

In addition, several manufacturers include obligations which, by restricting their distributors' ability to diversify, are likely to reinforce their economic dependence, whether through clauses prohibiting shareholdings in companies marketing competing brands or through listing obligations.

The *Autorité* therefore invites manufacturers to exercise particular vigilance and to refrain from imposing obligations that could reinforce any economic dependence of their dealers. Without being exhaustive, manufacturers could, for example, remove clauses prohibiting shareholdings in other companies or, at the very least, limit their scope by making them subject to clear and objective justifications. They could also ensure that obligations relating to the listing by distributors of products other than tractors are not used to compel distributors, directly or indirectly, to list a range of complementary products.

on a request for an opinion from the Economic Affairs Committee of the French Senate in the agricultural equipment sector

See the full text of the opinion (in French)

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