# 11 January 2012: The food retail sector in Paris

Published on January 13, 2012

**Following a request for opinion by the Paris municipality, the *Autorité de la concurrence* has issued an opinion stating that the food retail market in Paris is extremely concentrated.**

**In order to be able to modify the structure of the market, the *Autorité* suggests the creation of a new instrument – the structural injunction – the implementation conditions for which will need to be further defined.**

> Version française

On 8 February 2011, the Paris municipality asked the Autorité de la concurrence to look into the competitive environment in the food retail sector in the city. It should be noted that the Autorité had already issued an opinion in December 2010 (opinion no. 10 A 26), in which it referred to the particularly high levels of concentration in the food retail market within Paris proper.

**CONCLUSION: In Paris, the Casino group has a market share of more than 60% in terms of sales area**

The food retail sector is particularly concentrated in Paris proper, where the Casino group's stake in Monoprix has brought its market share to more than 60% in terms of sales area, i.e. more than three times that of its main competitor, the Carrefour group.

The fast rate at which new outlets have been opening in recent years has not affected market concentration, since new outlets are generally mini-markets with sales areas of less than 400 sq. m, and most are operated by the Casino group (further details may be found on p. 11 of the opinion).

• The Casino group accounts for more than half of the retail outlets in 54 out of 80 neighbourhoods, and more than 80% of outlets in 11 of those neighbourhoods. It operates 375 outlets, notably under the brand names Franprix and Leader Price, Casino Supermarché, Marché d'à coté, Petit Casino, Spar and Vival. Since the year 2000, it has also owned the Monoprix outlets jointly with the Galeries Lafayette group (53 Monoprix, 31 Monop' and five Daily Monop' outlets in Paris).
*Further details may be found on sheets 3 and 4 of the press kit, and on pp. 10 - 13 and 31 - 37 of the opinion.*

• Its market share in Paris proper is 61.7% in terms of floorspace (i.e. sales area) and between 50% and 70% in value terms, even when competition from hypermarkets near the edge of the city is taken into account. Since selling the Ed and Dia chains, its nearest rival – the Carrefour group – has had a market share of only 12.5% in terms of floorspace, and of between 10% and 20% in value terms. The remaining groups have market shares of under 10%, and of less than 5% in the case of the main cooperative groupings.
*Further details may be found on sheets 3 and 4 of the press kit, and on pp. 16 - 20 of the opinion.*

The Autorité de la concurrence has also noted that the arrival of competitors has had a negative impact on the net profits of Franprix outlets, which is probably due to a drop in customer numbers and to a rise in the costs associated with addressing increased competition in their neighbourhoods. Nevertheless, this new competition has not driven customer numbers down far enough for Franprix outlets to lower their prices significantly, despite the fact that net margins upstream (at central buying-office level) and downstream (at retail outlet level) are such as would allow price cuts in the event of more intense competition *(further details may be found on pp. 41 - 43 of the opinion).*

**RECOMMENDATIONS: increase the market's fluidity and modify the structures**

**1) Firstly, the Autorité is of the view that barriers to entry must be lowered further, thereby enabling more large food retail outlets to open, and that market fluidity must be increased.**

As it has already stated on several occasions, the Autorité de la concurrence is in favour of abolishing the administrative authorisation procedure for new outlets with floorspace in excess of 1,000 sq. m, since it believes that this would make it easier to find appropriate premises and to develop larger retail outlets. This in turn, it believes, would drive competition, particularly in the light of the large number of small retail outlets already operated in Paris. In this respect, the Autorité is also in favour of the Paris municipality ensuring that sufficiently large surface areas are provided for in commercial development zones, to enable large supermarkets – or even hypermarkets – to be opened.

Moreover, as stated in its opinion of December 2010 (opinion no. 10-A-26), the Autorité de la concurrence believes that more flexible franchise terms would make for greater competition between operators in the food retail sector. While franchise agreements between Franprix outlets and the Casino group are, in terms of duration, actually in line with the recommendations set out in opinion no. 10-A-26, it is also the case that the group's large market share could result in a greater risk of restrictive effects on competition if obstacles to the mobility of franchised outlets – resulting notably from right of prior purchase or post-contract competition clauses – are too great.

**2) Secondly, the Autorité notes that it has no effective power to act when competition-related concerns arise as a result of market structures rather than of operators' behaviour.**

On its own, a lowering of barriers to entry or to mobility would not modify the structure of the food retail market in Paris. The degree of concentration found in the food retail sector in Paris results, firstly, from investments by the Casino group, which have enabled it to extend and enhance its outlets, and, secondly, from the fact that Casino's competitors have been slow in showing any real interest in the Paris market. Between 1998 and 2000, the Casino group – with the consent of the competition authorities – acquired the Franprix/Leader Price network, which had traditionally had a very strong presence in Paris, and took joint control of the Monoprix group, whose development was under threat at the time. Subsequently, the Casino group continued its investment policy, focusing on opening new stores, renovating existing outlets (4% of annual turnover being spent on this) and adapting its commercial model to satisfy demand (differentiation of chains, extension of opening hours, etc.). The Casino group therefore owes its success to its own specific strategy and merits, although this performance was facilitated by its competitors, who focused on opening large retail outlets on the outskirts of major towns and cities, which would have been difficult to achieve in Paris proper. It is only recently that certain operators – and notably cooperative groupings – have shown interest in the Paris market.

Nevertheless, the position currently enjoyed by this operator in the food retail sector in Paris constitutes a barrier to competition, and would appear difficult to reverse, unless a major initiative can be taken to modify the market structure and the spread of retail outlets.

While the law of 4 August 2008 on the modernisation of the economy empowered the Autorité de la concurrence to issue structural injunctions in the retail sector[1], this power can be exercised only under certain very strict conditions: firstly, it must be found that there has been abuse of a dominant position or of a state of economic dependence; secondly – and more importantly – the abuse must be found to have continued despite a decision by the Autorité condemning it. In its current form, this provision does not enable the Autorité de la concurrence to modify the structure of the market and remedy the high degree of market concentration observed in Paris or in other catchment areas.

The fact remains that other countries – notably the United Kingdom, and more recently, Greece – have introduced legislation enabling national competition authorities to enjoin companies to sell assets to their competitors, after due hearing of the parties and where the competitive environment so requires. The matter is also under discussion in Germany. This structural injunction power, which offers procedural guarantees similar to those provided for in merger review, would appear to be the most effective means of modifying the structure of the market for the benefit of the consumer. By achieving early modification of the market structure, bringing a wider range of retail groups to catchment areas with high degrees of concentration, an injunction to sell outlets would, if issued, result in a rapid increase in competitive pressure on operators, thereby bringing about changes in pricing and product ranges designed to better meet consumers' expectations.

*(1) Article L. 752-26 of the Commercial Code stipulates that "in the event of the abuse of a dominant position or of a state of economic dependence by a company or group of companies operating one or more retail outlets, the Autorité de la Concurrence may have recourse to the injunctions and financial penalties provided for in article L. 464-2. If such injunctions as are issued and such financial penalties as are set do not result in an end being put to said abuse of a dominant position or said state of economic dependence, the Autorité de la concurrence may, by means of a reasoned decision made after cognizance has been taken of any observations made by the company or group of companies concerned, enjoin the latter to modify, supplement or terminate, within a given time limit, all agreements and all deeds by means of which the economic power enabling the aforementioned abuse to occur was obtained. The Autorité de la Concurrence may likewise enjoin the company or group of companies concerned to divest themselves of retail outlets if such divestment is deemed to be the only means of ensuring a sufficient degree of actual competition in the catchment area concerned".*

**>** Further details may be found in the **complete text of Opinion Nr 12-A-01 of 11 January 2012 concerning the competitive environment in the food retail sector in Paris** *(in French)* and in the **press kit** *(available in French on the French version page of this press release):*

**Sheet 1: Specific characteristics of the food retail sector in Paris**
**Sheet 2: Chains owned by the various retail groups in Paris**
**Sheet 3: A highly concentrated sector**
**Sheet 4: The Casino retail group's very strong presence in Paris neighbourhoods**
**Sheet 5: Mandatory divestment of retail outlets as a means of promoting greater competition**

**Sheet 6: Article 1 of the bill on “Consumer rights, protection and information”**
**Sheet 7: The methodology applied by the Autorité de la concurrence**

> Press contact: André Piérard - Tel.: +33 1 55 04 02 28