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## France

**Post:** Paris

### No More Butter for French Croissants

**Report Categories:**

Agricultural Situation

Dairy and Products

Agriculture in the News

Agriculture in the Economy

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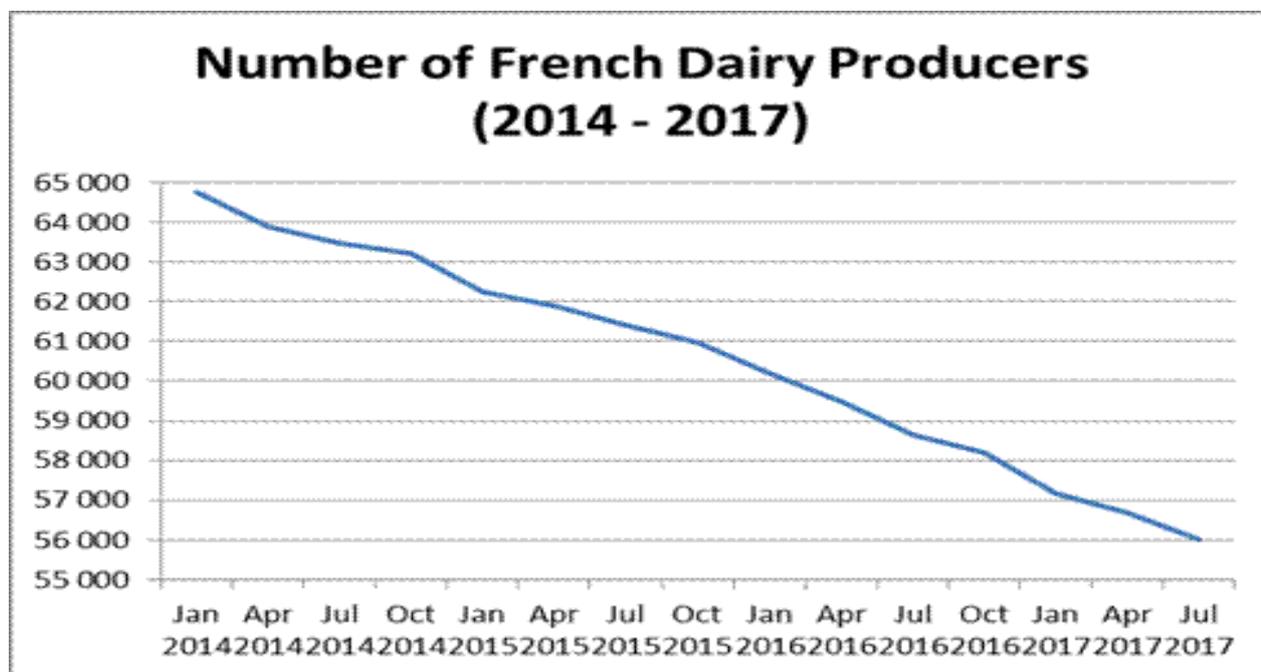
**Report Highlights:**

Consumers in search of butter in French retail markets are facing scant or bare shelves. The shortage is due to lower production, higher foreign demand, and the resulting price increase for butter that French retailers are reluctant to pay. Even with price re-negotiations underway between suppliers and select retailers, the shortages are likely to extend into the holiday season. U.S. and other global consumers face higher prices but not shortages due to the differences in market mechanisms in France.

### General Information:

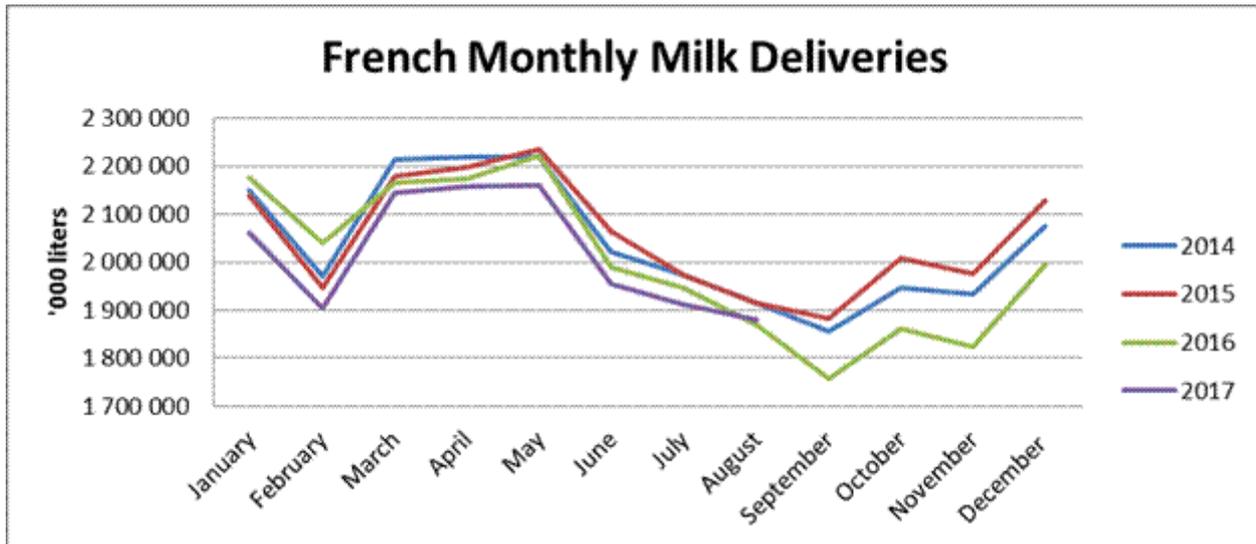
The shortage of butter in French supermarkets has inspired national and international media reporting on consumer stockpiling and empty shelves. French dairy farmers blamed butter manufacturers for voluntarily organizing the shortages in order to increase prices. However the situation is more complex.

Dairy collection increased in most EU-28 countries in 2015 and 2016 with the end of the EU-28 milk quota system that had limited the expansion of its production, leading to a significant drop in milk prices. For more information on the end of the system see: [FAS EU-28 Dairy Annual GAIN report](#). In 2016 after numerous nation-wide farmers' demonstrations, France lobbied the EU-28 Commission successfully for a €500 million (\$532 million) farm program with at least €150 million (\$160 million) targeted at the EU-28 Dairy sector. The program was designed to encourage dairy producers to voluntarily reduce their milk production. In France, the program meant many struggling producers left dairy production permanently.



(Source FranceAgriMer/SSP)

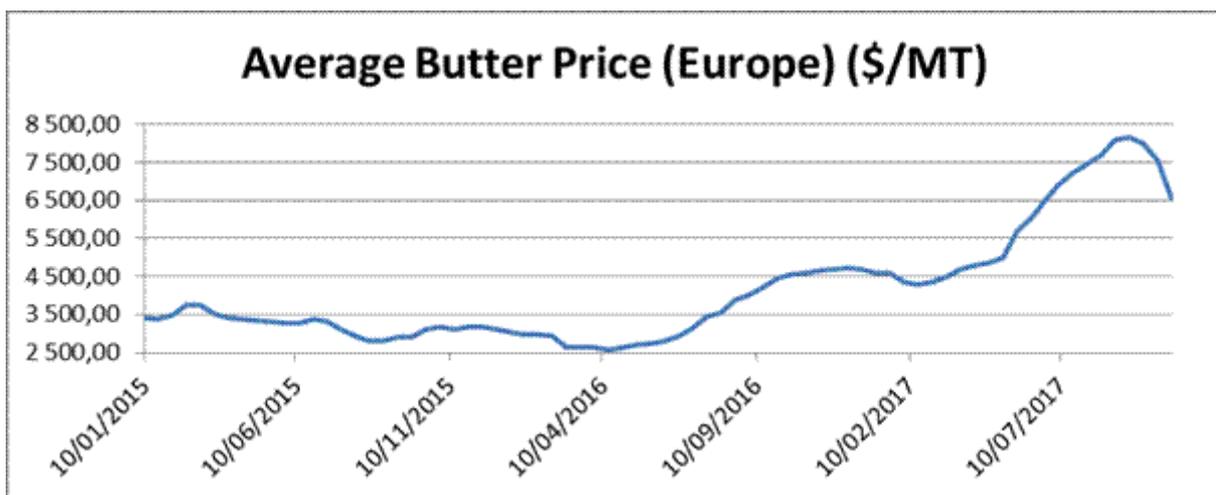
France's dairy production fell during 2016 and 2017



(Source FranceAgriMer/SSP)

With declining overall supply in recent years the French milk processors increased the share of the milk used for cheese as it is a high value product, particularly in export markets. This increase in cheese production meant less milk fat was left for butter and its co-product, skimmed milk powder (SMP). Although French consumers are the largest butter consumers in Europe, with consumption at 8 kilograms per capita, butter production in France has been declining over the past three years. January to August 2017 data indicate an 8 percent decrease over the same period the previous year.

Butter production has followed similar trends in Europe (See [Gain Report EU-28: Dairy and Products annual](#)), while demand, particularly in Asia, has been strong with 2.5 percent annual growth. Recent health studies showing the benefits of butter use over alternatives have meant strong butter consumption in Europe and the United States as well. This strong global demand for butter has helped increase butter prices to record levels.



Sources: USDA AMS - Dairy Programs - Dairy Markets News Division - Report MD\_DA199 (International Dairy Market News - Price Summary)

Elsewhere in Europe, this situation did not lead to empty butter shelves. In EU countries such as Germany, consumer prices for butter rose, in some cases up to 150 percent. Consumers could then choose to pay the higher prices or decrease butter purchases and use alternate fats. In France

because of the retail price negotiation system and a very concentrated retail sector, prices could not increase. It's the basic model of a shortage caused by a price ceiling.

The retail sector in France is almost completely concentrated among five retail chains. Traditionally, those retailers negotiate their purchase contracts with their suppliers once a year, usually in February. They set 12-month purchase prices and volumes during these negotiations. These negotiations are framed by French law passed in the 1990s and 2000s to protect suppliers and to limit food inflation. This legislation is seen by many economists as blocking natural price signals to agricultural and food products producers, processors, retailers and consumers in France.

French dairy processors asked the retailers to renegotiate the contracts when the butter prices started to increase in the spring of 2017, but the retailers refused. Offered the choice between exporting at much higher prices and domestic contracts at lower prices, several French dairy processors broke their purchasing contracts with retailers and exported their butter. At the same time, many French consumers alarmed by reported shortages decided to increase their purchase of butter, freeze and store it. In addition, many bakers, local pastry makers and restaurants unwilling to pay more for their butter at their wholesalers purchased butter at lower prices in retail markets, further depleting the retail supply.

France has a large trade deficit in butter, importing on average 200,000 MT annually and exporting on average 100,000 MT. However, importing butter at higher prices wasn't acceptable to retailers either. As the market prices for butter increased worldwide, French retailers also were reluctant to import at higher prices than the domestic prices from their previously negotiated price contracts. Select retail chains such as Auchan and Systeme U have now agreed to revisit their purchasing contracts with domestic suppliers, which would increase the purchase and consumer price. However, many large retailers still refuse to renegotiate. The French Minister of Agriculture, Stéphane Travert is urging more retailers to open these discussions with their suppliers. Even if more retailers begin purchase price renegotiations the discussions are likely to take several weeks, which could extend the butter shortages until the holiday season. Analysts expect the processors to increase their butter production in the coming months which means the prices and supply of butter in French retail markets would stabilize early next year.