



MONITORING CONTRACTUALISATION UNDER THE EGALIM LAWS: INITIAL LESSONS FOR CATTLE FARMERS

Period 2022-2023

Flash Audit

February 2024

Summary

The EGalim 2 law made written contracts compulsory upstream in cattle supply chains, i.e. between producers and their first buyers. The rules applicable to these contracts, which have recently come into force, are complex and reflect the difficulty of striking the right balance between contractual freedom and market regulation.

Production activities involve a large number of players, first and foremost livestock farmers, but also their buyers of raw milk and live cattle. Livestock farmers, of whom there are many, negotiate the sale of their produce with a small number of buyers. By way of illustration, in 2021, 76.3 % of milk collection was carried out by 28 collection establishments. As for meat, 143 *abattoirs* account for 92 % of tonnages. As a result of this imbalance, buyers benefit from a favourable balance of power when it comes to price negotiations.

Almost all beef and dairy cattle supply chains are covered by the provisions of the law regarding contractualisation. In the case of the dairy cattle supply chain and certain forms of livestock farmer associations, the use of contractualisation was already a well-established practice. On the other hand, it is a new practice for the majority of farmers in the beef cattle supply chain.

The system set up to monitor upstream commercial relations, including contractualisation, relies mainly on the Directorate-General for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF). Other bodies contribute to the implementation and enforcement of the law: the High Council for Agricultural Cooperation, the Agricultural Trade Relations Ombudsman, the Cooperation Ombudsman and the Committee for the Settlement of Agricultural Trade Disputes.

Given the imbalance in commercial relations between livestock farmers and their main buyers, the Court of Accounts decided to carry out a flash audit to examine the controls carried out by the DGCCRF on upstream contracts in the beef and dairy cattle supply chains, to draw initial conclusions from these controls and to suggest improvements. DGCCRF controls are one of the few sources of information on the application of contractualisation.

Main conclusions of the audit

1. The EGalim 2 law made it compulsory for agricultural producers to sign written contracts with their first buyers, i.e. upstream in agricultural supply chains. Most beef production is subject to mandatory contractualisation. The rules applicable to contracts, which came into force recently, are complex and reflect the difficulty of striking the right balance between contractual freedom and market regulation. There are differences of interpretation between the players involved.
2. The system for controlling upstream contractualisation relies mainly on the Directorate General for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF). These controls were planned as soon as the law was enacted and take the form of full investigations to shed light on the commercial relations between livestock farmers and their first buyers, i.e. the agri-food industries, cooperatives and other producer organisations, wholesalers of milk and livestock, and slaughterhouses. These are key players who operate with farmers and their associations (upstream agriculture) as well as distributors and consumers (downstream agri-food).
3. Revenue appears to be one of the main criteria used to identify the key buyers to be audited and to examine their commercial relations with livestock farmers. In all, for the financial years examined by the Court, the DGCCRF audited 64 key buyers in the cattle supply chains, including major national operators. On average, each buyer subject to control generates more than €2 billion in revenue, a financial volume that corresponds to procurement from thousands of livestock farmers. Control activities, up 140 % between 2022 and 2023, are proportionate to

the DGCCRF's resources and have been spread evenly across the country and between the different categories of buyer.

Recommendations

1. Establish a reporting platform for farmers with guaranteed confidentiality (*ministry of the economy, finance and industrial and digital sovereignty, 2025*).
2. Propose to the Committee for the Settlement of Agricultural Trade Disputes that it publish guidelines for resolving difficulties in applying Articles L. 631-24, L. 631-24-2 and L. 631-24-3 of the French Rural and Maritime Fishing Code. (*ministry of agriculture and food sovereignty, ministry of the economy, finance and industrial and digital sovereignty, 2024*).
3. Draw up and publish an annual report on the controls carried out on the basis of Article L. 631-25 of the French Rural and Maritime Fishing Code, presenting the main lessons learned (*ministry of the economy, finance and industrial and digital sovereignty, 2024*).