



*“Ladies and gentlemen,
I'm not in the hamburger business.
My business is real estate”*

Ray Kroc, McDonald's Founder

Complaint concerning McDonald's abusive practices on the market of fast food franchise

**In violation of articles
101 and 102 of the TFEU**



We are a coalition of Italian consumer groups, formed by



Codacons



Movimento Difesa
del Cittadino



Cittadinanzattiva

Supported by the Service Employees
International Union (SEIU)



We are here today to announce
that we have lodged a *formal*
antitrust complaint with the
European Commission



...alleging McDonald's *abuses* its
dominant fast-food market
position on the continent...

...*distorting competition*

and *harming* both *franchisees* and
consumers.

If found guilty, McDonald's could face severe penalties, possibly as high as *10% of its global turnover, or \$ 9 billion based on 2014 data*

as well as any additional *remedies*
that the Commission may deem
suitable to *secure fair competition*

In the complaint the coalition calls upon the *Commission to take action* against the unlawful and restrictive *contracts McDonald's imposes on its franchisees*

The complaint argues that
McDonald's franchising system is
in violation of both *article 101 and*
article 102 of the Treaty for the
Functioning of the European Union
- *TFEU*



Under EU antitrust rules, dominant companies have a responsibility *not to abuse their powerful market position* by restricting competition.

Specifically, the complaint alleges:



McDonald's is the only fast food company that requires franchisees to lease property owned by the franchisor

McDonald's abuses its position as a landlord by *charging excessive rents to franchisees*

McDonald's contract terms severely *limit the ability of franchisees to switch to other brands*, preventing effective competition between chains

The operational risks forced upon *McDonald's* franchisees by *restrictive contract* terms result in an increased prospect of:

- financial difficulties
 - poorer financial performance than competitors
 - higher probability of default
-

This, in turn, *negatively affects consumer choice, pricing* and quality of *service* and *food* for consumers in Europe.

How?



McDonald's is one of the world's *largest*
and most recognized *corporations*:

- 8,000 stores in Europe
 - serving 15.7 million customers
-

These European stores generated
€17.3 billion in sales in 2014

Nearly *twice the sales* of its
nearest *competitor*



Given its market share,
McDonald's is the *dominant* fast
food chain in the vast majority of
the countries in which it operates.



But McDonald's *not only* sells
hamburgers



It is also the biggest *franchisor* and main *real estate proprietor* in the world



Most of its *revenue* from franchisees in Europe comes from collecting *rents*



66% of total revenue from franchisees comes from *rents...*



...that are often significantly *higher than market rents* and those paid by direct competitors.

In France, for example,
McDonald's franchisees pay as
much as *84% more than Quick*
franchisees

Margins on real estate for
McDonald's range from

- 63% to 77% in France
 - 61% to 77% in Italy
 - 65% to 74% in the United Kingdom
-

To achieve its impressive economic performance, McDonald's imposes its lease agreements on franchisees at prices as far as *10 times above market rates*



These rents are not an essential part of the company's protection of its operations, but rather a *vehicle* to obtain *economic benefits* that *restrict* franchisees' *entrepreneurial freedom*

By charging the excessive rents,
McDonald's obtains a
*“disproportionate and
unjustified” financial
advantage* over franchisees,
distorting competition.

McDonald's forces franchisees to
comply with a series of other
restrictive contract terms that
amount to *anti-competitive*
behavior

These include, among other measures:

- Unduly long (20 years) contract terms
 - high royalties and other fees
 - overly broad termination provisions
 - one-to-two year non-compete clauses
 - and a company-controlled restaurant location policy
-

The restrictive contract terms imposed by McDonald's result in

- limited consumer choice
 - higher prices
 - poorer quality of service and food
-

A recent survey of McDonald's restaurants across Europe shows that a vast majority of menu *items are priced higher in franchise stores* than in corporate-managed ones.



In *Bologna*, for example, a research we conducted shows that *97% of menu items had higher prices in franchised outlets* than in corporate-managed ones;



in *Rome*, 68% of items had higher prices in franchise stores;



in *Marseille*, 79% had higher prices.



Across Europe, *staffing levels are lower in franchised McDonald's restaurants* than in corporate stores,

resulting in longer waiting time and *lower service standards* for consumers.

This complaint is an important
step in recognizing how
anticompetitive practices and
bad corporate citizenship *harm*
consumers.

We urge the *Commission to examine McDonald's franchising system* in detail

And take all appropriate action to ensure that the *unfair burdens* on the company's *franchisees stop*

And can *no longer harm consumers*
