

**SAFEWAY PROPOSED
ACQUISITIONS INQUIRY**

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AMENDED

Some minor changes were made to the text of this transcript at the checking stage, at the request of the parties

Open meeting

30 April 2003

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Panel:

**Sir Derek Morris (Chairman)
Professor John Baillie
Mr Christopher Goodall
Professor Paul Klemperer
Mr Jonathan Rickford
Mr David Stark**

Ms Margaret Smith (Inquiry Director)

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Competition Commission
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P R O C E E D I N G S

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1 THE CHAIRMAN: Good morning, ladies and gentlemen. Let me start by
2 welcoming you all here today. I am Derek Morris, Chairman of
3 the Competition Commission and chairing this particular inquiry
4 into four bids for Safeway.

5 Let me start with some introductions. There are in fact
6 six members of the Commission who are responsible for this
7 Inquiry. The five, apart from myself, on the table are:
8 Professor John Baillie, who is an accountant; Professor Paul
9 Klemperer, an economist; Jonathan Rickford, who is a lawyer;
10 David Stark and Christopher Goodall, who both have business
11 backgrounds. Also with us is Margaret Smith, who is the staff
12 member of the Commission who is responsible for this inquiry.
13 She has a team of about 30 staff members of the Commission
14 working on these four bids.

15 Just a few introductory comments. The Commission has held
16 a number of open hearings in recent years and it has become
17 effectively the norm in cases which are, for want of a better
18 phrase, high profile, where there is a strong consumer interest
19 and where we feel that an open hearing may help to some degree
20 to clarify matters or indeed encourage submissions from other
21 organisations or indeed members of the public.

22 This is, however, only the second merger case in which we
23 have held an open hearing. Open hearings in merger cases are
24 more problematic: first, because resources and time scales are
25 very short in merger cases but, secondly, because there are very
26 clear rules about the information dissemination that can occur
27 in takeover situations and which have to be observed. None the
28 less, with four bids in this case, these being in relation to, I
29 suppose, one of the most significant items of consumer
30 expenditure, it seemed to us clearly appropriate that we should
31 hold an open hearing. So it is an opportunity for the bidding
32 parties to summarise their cases and do it publicly, and an
33 opportunity obviously for those others, or perhaps for the
34 people they represent, to say that they will be affected for
35 good or bad by any of the proposed acquisitions and to explain
36 why that is the case.

37 The Secretary of State referred this case to the

1 Competition Commission on 19th March and that was on the advice
2 of the Director General of the Office of Fair Trading. We are
3 due to report by 12th August, so that, you will appreciate, is
4 an extremely demanding timetable.

5 I should also stress that the Inquiry is being conducted
6 under the provisions of the 1973 Fair Trading Act. Some of you
7 will know that that is due to be replaced when the 2002
8 Enterprise Act comes into force in June of this year. However,
9 this Inquiry will be conducted through to its conclusion
10 entirely under the Fair Trading Act provisions.

11 I should stress that, apart this open hearing, the
12 Commission will, as usual, be receiving written submissions from
13 all interested parties and it will itself be gathering, indeed
14 already is gathering, information for its analysis of
15 competition and related issues. We will be holding a series of
16 hearings in private with various interested parties. The
17 findings at the end of the Inquiry will of course reflect all of
18 those various sources of views and information.

19 Today's hearing is going to be split into two. You will
20 see this from the timetable. The first session will focus
21 primarily on local issues, what will be the effect of each of
22 these acquisitions on local competition and how that is likely
23 to affect consumers. The second session will look at the
24 national scene, national dimensions, national aspects of
25 competition between the supermarkets and the impact of the
26 merger on that, and also any impact or consequence of the
27 mergers on suppliers to supermarkets.

28 Each session will start with presentations by the
29 potential bidders for Safeway and after that there will be an
30 opportunity for other interested parties to speak. A number
31 have already indicated to us that they wish to speak and I will
32 try to ensure that they get the opportunity during the course of
33 the morning.

34 I or my colleagues may wish to raise some questions, but I
35 suspect that we will be more or less entirely in listening mode
36 today and want to give as much time as possible to people in the
37 room who wish to raise points.

1 You will see in the timetable - I will not go through it -
2 that it is indicative rather than rigid. I do want to try to
3 ensure that people feel they have adequate opportunity to make
4 the points they wish to make.

5 Just finally a few points about the conduct of these two
6 sessions. The potential bidders have been advised by the city
7 regulators, in particular the Takeover Panel, that they should
8 be careful about the public statements they make. In
9 particular, they must ensure that they avoid discussing the
10 terms of any offer they make or making any statements concerning
11 the bidder's intentions that risked misleading the market or
12 perhaps even creating a false market in the shares of these
13 companies. It is right that everyone here should be aware of
14 those restrictions which the main participants are operating
15 under.

16 As for Safeway, it remains subject to offers from other
17 bidders and its position is even more restricted under the city
18 rules therefore. Safeway representatives are present today but
19 they will be here only as observers.

20 In the same vein and for the avoidance of any doubt, no-
21 one should draw any inferences from anything that I or any my
22 colleagues might say. It is very early in the Inquiry and we
23 will not begin to form any judgements about this case until
24 considerably later. We are primarily here to listen.

25 Any contributors who wish to make a point from the floor
26 just catch my eye. It would help if you would indicate any
27 organisational affiliation which you have. It is not an
28 absolute requirement and I do not want to deter any participants
29 who might wish to remain anonymous but, if you feel you can give
30 us your affiliation, at least in broad terms, that would be
31 helpful.

32 I should stress that these mergers are of course involving
33 many millions or indeed billions of pounds, many millions of
34 customers and many thousands of localities and the Commission's
35 interest must of course therefore be in the overall picture. We
36 appreciate that an individual example can sometimes help to
37 illustrate a general point, but I hope you will all recognise

1 that this is not the right forum to raise any individual
2 complaint that anyone might have vis-a-vis a particular store of
3 a particular supermarket.

4 Equally important, I do want to stress that this is not an
5 Inquiry into the current state of the supermarket industry or
6 the activities or conduct of any of the existing supermarket
7 players. It is only about the likely impact of any or all of
8 the mergers that have been proposed and so I do hope that any
9 questions or observations will be clearly grounded in that
10 issue.

11 Finally, I should say that, if there are points raised, I
12 will certainly give the various supermarket representatives an
13 opportunity to respond if they wish, either straightaway or near
14 the end of the morning, but there may be issues that they need
15 more time to consider or indeed full answers may require
16 confidential material that it is not appropriate to raise today.

17 I do want you to feel confident that, if there are questions
18 raised that do not receive an answer today, the Commission none
19 the less will pursue those at subsequent hearings.

20 Two final administrative points. A transcript is being
21 taken and will be available on our website or, if you wish to
22 have your own copy, please write in and we will send you one.

23 Finally, would you all now, as of right now, at this very
24 moment, please check (a) do you have a mobile phone; (b) if so,
25 is it switched off; and (c) if it is not, please switch it off
26 now. Thank you.

27 I now open the first session by asking Tony DeNunzio to
28 come and speak on behalf of Asda. I should stress that the
29 order is alphabetical.

30 MR DENUNZIO: Good morning. Thank you, Chairman and the
31 Competition Commission, for giving us the opportunity to
32 summarise our case.

33 There are two key reasons why we believe an acquisition of
34 Safeway by Asda will be strongly pro-competitive and pro-
35 consumer. Firstly, we will satisfy the pent-up demand for Asda
36 in those catchments where we have little or no presence at the
37 moment, where we have low prospects of obtaining a presence in

1 the future because of planning constraints. Millions more
2 shoppers will have access to the UK's favourite and lowest price
3 supermarket. Secondly, we will enhance competition by bringing
4 a low price operator to catchments that previously had not had
5 one, putting greater pressure on our rivals to compete with
6 Asda. Safeway shoppers will benefit from a substantial price
7 cut from the introduction of Asda prices in those Safeway stores
8 that we intend to retain and convert.

9 I have only been speaking for 30 seconds and I have
10 already mentioned price three times. Before I go any further,
11 let me give you some evidence of our price competitiveness. It
12 is pretty compelling.

13 The independent A C Nielsen survey shows that people who
14 shop at Asda get consistently lower prices on a basket of goods
15 than customers at other supermarkets. In fact, our prices are
16 substantially cheaper than Safeway. We have also come top of
17 *The Grocer* magazine's independent basket analysis for each of
18 the last five years. Our own internal basket suggests that Asda
19 prices were on average 19 per cent cheaper than Safeway's during
20 the whole of 2002 and, perhaps most importantly, customers
21 recognise this. They rate Asda best overall on price in survey
22 after survey after survey.

23 As we will discuss in the next section on national issues,
24 Safeway is the weakest of the leading supermarkets and does not
25 effectively restrain its competitors. So, after we acquire
26 Safeway, there will continue to be considerable competitive
27 pressure in the market. Where any issues of choice between
28 supermarkets in local catchments do arise, we will deal with
29 them comprehensively by divesting stores according to an
30 objective and robust methodology.

31 I will now expand on this by telling you why our
32 acquisition of Safeway will be positive for consumers in local
33 markets. The first point is that local catchments are the
34 relevant markets for assessing the impact of our acquisition.
35 Customers do not want to go far to shop. They shop locally.
36 Competition in the one-stop shopping market for groceries is
37 therefore local. As the Commission is aware from its monopoly

1 inquiry, customers will not travel for more than 10 minutes in
2 urban areas or for more than 15 minutes in rural areas to reach
3 their preferred supermarket. This is reflected in our own
4 experience. About 90 per cent of customers live within 15
5 minutes of our stores.

6 Of course matters such as price ranging and advertising
7 are decided centrally by some companies, but they are determined
8 by competition in local markets because people shop locally. It
9 is the local market, the catchment, where the competitive heat
10 is felt.

11 Let me explain how our acquisition of Safeway will enable
12 us to meet pent-up demand for everyday low prices or, to put it
13 into industry jargon, EDLP. Our whole approach is based on
14 giving customers what they want: quality groceries at the
15 lowest price and great service from the friendliest colleagues.

16 We are an EDLP operator, offering the same low prices
17 nationally in all our stores. Our customers don't get gimmicks,
18 they don't get store loyalty cards, they don't get promotions;
19 what they get is one price, a national price, the lowest price,
20 that is Asda price.

21 As a result of our low prices and our focus on great
22 customer service and a wide range of products we were the most
23 highly rated place to shop by a recent AC Nielsen survey.
24 Customers prefer low prices to complicated promotional activity.

25 To quote Verdict's last report on how Britain shops in 2003,
26 "Looked at more closely, it is clear that consumers prefer
27 constantly competitive prices, EDLP, as opposed to short lived
28 if tempting special offers that they have to pay for with higher
29 prices elsewhere around the store". The paragraph continues,
30 "This point further reinforces the potency of the EDLP based
31 strategy of Asda and exposes the shortcomings in Safeway's offer
32 led high-low approach".

33 There are many catchments in the UK where we have no
34 stores and this is particularly true in the south-east of
35 England, East Anglia and London. People know Asda. We
36 advertise nationally and our consistently low prices are central
37 to our appeal. The question I am most frequently asked when I

1 am out and about is, "When can we have an Asda near us?" We
2 know from the Commission's 2000 inquiry that there are many
3 shoppers who would like to shop with us but cannot as the
4 closest store is just too far away. The Commission's own survey
5 found that 40 per cent of consumers were unable to shop at their
6 supermarket of first choice. Asda was cited most frequently as
7 a store which was not available but where consumers would prefer
8 to shop if a store was close to them. By taking over Safeway we
9 can extend our low prices to many customers who want them but
10 cannot sensibly travel to one of our stores.

11 We cannot hope to meet this pent-up demand through organic
12 growth. Tight government planning constraints on new retail
13 development make it difficult for us to expand our new stores.
14 Tesco and Sainsbury already enjoy high national coverage; Asda
15 does not. That is why we want to acquire Safeway, so that we
16 can meet that significant unfulfilled demand for Asda.

17 Let me now turn to how we will increase competition. We
18 are the UK pioneer of EDLP and being part of Wal-Mart
19 strengthens our commitment. Wal-Mart's mission is to lower the
20 cost of living for everyone and our strategy, as the slide says,
21 is to have low prices always. It is because we share this
22 strong and long standing belief in everyday low prices as well
23 as service to our customers and respect for our people that we
24 fit together so well.

25 EDLP is not just marketing. It is the very foundation of
26 our success. It is the heart of our mission statement to be
27 Britain's best value retailer exceeding customer needs always.
28 Every year more people shop with us because they like and they
29 trust - they trust - our prices. It is the number one driver of
30 loyalty amongst our shoppers. We would move away from EDLP at
31 our peril.

32 Asda does not discriminate by geography, nor by store
33 size, nor by level of affluence. We have one price right across
34 the entire country. Our national pricing policy means that all
35 our customers, no matter where they live, be it in Elgin or
36 Eastbourne, enjoy the same low prices they deserve always.

37 By expanding the number of catchments in which we operate

1 local price flexing by rival supermarkets will be constrained,
2 meaning that customers will enjoy lower prices everywhere. At
3 the moment Tesco and Sainsbury face us in a minority of their
4 local catchments. For example, 40 per cent of Tesco's large
5 stores face an Asda in their catchment. The remainder of their
6 estates do not face such intense price competition. Safeway
7 currently provides little competitive constraint in terms of
8 price or range, despite its wide coverage.

9 Through the acquisition of Safeway we will bring our low
10 prices to a significant number of new catchments. It will also
11 increase the competitive pressure on rival supermarkets,
12 compelling them to be more competitive, not just on price but
13 also on range, on quality and on service. Asda is more highly
14 rated than Safeway on all of these key measures of competition.

15 In this way our acquisition of Safeway will enhance competition
16 at a local level.

17 We appreciate that there may be some concerns about a
18 reduction in consumer choice in some catchments as a result of
19 our acquisition of Safeway. We will deal with these concerns.
20 We have put proposals to the Commission to divest Safeway stores
21 where the conversion of a Safeway to an Asda may lead to a
22 reduction in number of supermarket facias to less than three.
23 The proposals apply a robust and objective methodology to
24 identify those local catchments where we need to divest stores.

25 We look forward to constructive discussions with the
26 competition on this subject.

27 Let me summarise how our acquisition of Safeway will be
28 both pro-competitive and pro-consumer. First and foremost, we
29 will extend our low prices to millions more shoppers; second,
30 we will increase competition locally; and, third, it is not
31 just about price, we will continue to provide the wide range,
32 the high quality and great service that all customers demand.

33 To conclude, our acquisition of Safeway will increase
34 competition at a local level. Thank you for listening.

35 THE CHAIRMAN: Thank you very much. Could I now invite Sir Ken
36 Morrison to speak on behalf of Morrisons.

37 SIR KEN MORRISON: Good morning, Sir Derek, Panel members and ladies

1 and gentlemen.

2 My father founded Morrisons on the principle of great
3 service, high quality goods and outstanding value for everyone.

4 These principles hold true more than a century later. With our
5 roots in the markets of West Yorkshire we are a successful
6 regional grocer, particularly well known in the North of
7 England. Not being a truly national competitor, we are less
8 familiar to those consumers in the South and in Scotland.
9 However, our uncompromising commitment to delivering the very
10 best for less finds favour with shoppers wherever we presently
11 trade.

12 We have a passion and a flair for food retailing and are
13 keen to extend our "least cost, best value" approach
14 countrywide, enhancing local competition. We earn our
15 customers' loyalty through delivering consistently good service
16 in all aspects of our business and in being excellent
17 shopkeepers. We are the only major food retailer never to have
18 had a loyalty card in store and are one of the most
19 competitively priced food retailers around. Our national
20 promotional programme gives real savings to shoppers at the
21 checkout.

22 The combination of Morrisons with Safeway will create a
23 fourth national food retailer capable of offering a value based
24 retail challenge to Safeway's three larger national competitors.

25 The merged business will be able to reap some of the
26 economies of scale available only to the "big three" which,
27 through the operation of strong national and local competition
28 and our long established value based pricing policy, will mean
29 lower prices for customers. We could never achieve the increase
30 in scale required to mount such a challenge and deliver such
31 benefits to customers throughout the UK by organic growth alone.

32 Safeway has neither the resources nor scale to undertake this
33 challenge independently. We have both the skills and resources
34 to integrate the Safeway business successfully and to preserve a
35 diversity of competitive strategies for the benefit of consumers
36 everywhere.

37 The merger will create very few local overlap issues if

1 the criteria set out in the Commission's monopoly report into
2 supermarkets are adopted. We have identified only seven
3 locations out of a combined 600 stores where the post merger
4 local structure would not satisfy the Commission's three fascia
5 test. However, we recognise that, whilst three fascias may be
6 adequate in a monopoly inquiry, these may not be enough in the
7 context of a merger inquiry focusing on whether there would be a
8 substantial reduction in competition.

9 If it is decided that, where four fascias existed before,
10 it would be desirable to have four fascias after the merger,
11 then we believe the number of store divestments needed to
12 achieve this would be between 20 and 30, which is still less
13 than 5 per cent of the combined store portfolio.

14 If required, it is entirely achievable and will ensure
15 that, in addition to four effective national competitors, there
16 will be at least four effective local competitors where four or
17 more previously existed.

18 Our uniform national pricing policy will bring value
19 benefits to customers across the country. Prices in Safeway
20 stores will be reduced and their current practice of local
21 weekly price promotions and price flexing brought to an end as
22 our national pricing and promotional policy is implemented.

23 Morrisons with Safeway will compete head on with Asda,
24 Tesco and Sainsbury. We strongly believe that this is in the
25 best interests of shoppers, suppliers, employees and
26 shareholders. We have the necessary skills and resources to
27 invest in and grow the combined company, believing very strongly
28 that four national food retailers are better for competition
29 than three. A takeover of Safeway by any of the "big three"
30 would eliminate a competitor and concentrate purchasing power
31 still further. It would create an anti-competitive and
32 unhealthy market place with less choice and potentially higher
33 prices. We have looked very carefully at the way Morrisons and
34 Safeway will come together and at the efficiencies that will
35 flow from the combination. We have set achievable targets and I
36 have absolutely no doubt that we can meet them. This will mean
37 more choice and lower prices for customers and bigger and better

1 opportunities for suppliers.

2 The merging of our business with Safeway presents a unique
3 and outstanding opportunity, an opportunity to transform the
4 scale and potential of our group and to take our successful
5 formula and unique brand of retailing across the UK for the
6 benefit of consumers everywhere.

7 I find it interesting to note that there are many ways in
8 which UK supermarkets set about achieving what is basically the
9 same objective. I have tremendous regard for the qualities of
10 our major competitors. We have learned much from them and I
11 suspect that they too may have learned a little from us. The
12 British consumer is fortunate to be able to enjoy the benefits
13 of the best food supermarkets in the world. A combination of
14 Morrisons with Safeway can improve this situation and it will
15 create a major new force in UK food retailing, enhancing
16 competition and creating a fourth strong national player. This,
17 by its very nature, will strengthen competition both locally and
18 nationally and we relish having the opportunity to deliver.

19 Thank you very much.

20 THE CHAIRMAN: Could I now invite Sir Peter Davis to speak on behalf
21 of Sainsbury.

22 SIR PETER DAVIS: Good morning, Chairman and ladies and gentlemen.
23 I too am very pleased to have this opportunity of presenting the
24 case why Sainsbury and Safeway together would be good for
25 competition and good for consumers.

26 First, a few words on the development of the industry
27 which we believe is crucial to the understanding of why the
28 national current situation concerning Safeway represents a
29 unique opportunity to enhance competition and choice in the UK
30 market.

31 The UK industry has become increasingly polarised in
32 recent years, mainly due to the buying power of the large
33 international players and the increasing development of non food
34 lines, selling clothes, electrical goods and other products
35 alongside food. This is behind the growth of Wal-Mart and
36 Tesco. Wal-Mart is now the world's largest company by sales,
37 some 162 billion in 2002 at the then rate of exchange, six times

1 the size of Tesco and nearly 10 times the size of Sainsbury's.
2 In addition, its UK subsidiary, Asda Wal-Mart, is the UK
3 supermarket price leader and price setter. Buying power and non
4 food are also behind the growth of Tesco, market leader in the
5 UK, which also has substantial operations abroad. We believe
6 that, if either Tesco or Wal-Mart were successful in securing
7 Safeway, then the resulting duopoly would be very much against
8 the interests of both customers and suppliers.

9 By contrast, we do not believe there would be any
10 substantial lessening of competition in the event of Sainsbury's
11 acquiring the Safeway portfolio. Indeed, we believe a combined
12 Sainsbury's and Safeway business would provide greater choice
13 and value to consumers whilst strengthening the competitive
14 environment over the short, medium and longer term. In fact,
15 after studying this for 18 months, we first approached Safeway
16 many months ago.

17 In this session you have asked us to address two issues,
18 local competition and the effect on consumers, and let me take
19 each in turn.

20 On local competition we agree with the conclusion of the
21 previous Competition Commission report that for consumers
22 competition is essentially local. There is sufficient consumer
23 choice if consumers have at least three competing supermarkets
24 within easy reach. Our own research conducted by Taylor Nelson
25 Soffres shows that the average consumer is likely to visit three
26 different supermarkets within a month and this, in our view,
27 supports the Competition Commission's original conclusion. This
28 catchment area has been defined as a 10 minute drive in urban
29 areas and a 15 minute drive in the country. One can argue about
30 different driving speeds but our experience shows that the 10
31 and 15 minute drive times are typical. We therefore accept the
32 basic criteria established by the original Competition
33 Commission report. On this basis we are prepared to divest any
34 stores that could in any way lessen competition in any specific
35 local area.

36 I would now like to move to consumers which is, after all,
37 what this is all about. Clearly, one of their biggest factors

1 in the choice is convenience and location of their nearest
2 store. However, we have done a lot of work to analyse why
3 customers choose one supermarket chain over another and we don't
4 believe that is only on price. This research by Milward Brown,
5 another independent research agency, on our behalf looks at a
6 number of factors about customer choices. I recognise that the
7 chart may not be clear at the back and we are happy to provide
8 copies of it outside or after the meeting.

9 This chart looks at customers who shop at both Sainsbury's
10 and another chain. For example, you can see that amongst
11 customers who shop at both Sainsbury's and Marks & Spencers 75
12 per cent choose Sainsbury's as offering outstanding choice of
13 food against 49 per cent selecting Marks & Spencers. In turn,
14 this is true of shoppers who shop at each of Sainsbury's and
15 Waitrose, Sainsbury's and Safeway, Tesco, Asda and Morrisons.
16 It is also true when customers are asked about innovation and
17 new products, and it is also true, except for Waitrose and Marks
18 & Spencers, on quality. When you turn to low prices, we beat
19 Marks & Spencers and Waitrose but customers do recognise the
20 pricing position of some of our competitors.

21 We are only too aware that price is also important to
22 consumers it is and something we take very seriously indeed.
23 There are numerous ways of measuring price and many conflicting
24 claims on competitiveness. It could take the Commission the
25 whole of the time until August 12th solely on competition
26 pricing claims. We think that a good basic measure is The
27 Grocer 33 where there is a defined list of products and it
28 clearly measures actual prices paid in store for defined lines
29 each week net of promotions. This shows quite clearly that we
30 are competitive on price.

31 However, we stock a wider range of goods than most of our
32 competitors and another way to measure price is to weight it by
33 the actual goods bought. Take coffee. Coffee is a complex
34 market if you take into account instant coffee, ground coffee,
35 decaffeinated, coffee bags, pack sizes and blends, and there are
36 over 250 individual lines stocked both by us and our major
37 competitors. If customers want a standard economy line, they

1 can have it. However, Sainsbury's offers more choice and deeper
2 ranges and, because some of our customers choose to buy
3 different ranges at different prices - for example, organic or
4 Fairtrade coffee - the average amount spent per item at
5 Sainsbury's on coffee at £2.65 is some seven index points higher
6 than Tesco's average at £2.47. This is what happens when you
7 actually weight for customers' actual purchases, like TNS, for
8 example, does, as opposed to comparing like for like prices, as
9 The Grocer survey does, and which on coffee shows just over 2
10 per cent difference on a like for like shelf price basis.

11 As I say, customers want choice and this is what we can
12 deliver. We believe that there are real benefits to competition
13 and consumers from the fact that we take this different approach
14 compared to other major players. We believe a fundamental point
15 is that consumers want different choices, not all the same
16 choice.

17 This chart shows the number of lines per average size
18 store in about half of the food markets that we serve and is
19 based on scan data by IRI (Information Resources Inc). It
20 excludes beers, wines and spirits and most fast moving fresh
21 foods where the range changes more often. Incidentally, in our
22 own surveys, when we have included these areas, it puts us even
23 further ahead.

24 The main other development in this sector has been the
25 impact of non food lines in food stores. There is much to be
26 said for this in terms of one-stop shopping, but again there is
27 a price to be paid as more retail space is diverted into non
28 food lines at the expense of real choice and quality in the core
29 food offer.

30 Our concern is that, if the market becomes dominated by
31 two retail giants, which we think would be a real consequence of
32 either Tesco or Wal-Mart Asda being able to acquire Safeway, the
33 choice available to customers would suffer as they both competed
34 increasingly on price at the expense of range. If you want to
35 see a market place that has become price driven, then you need
36 to look no further than Germany where range and choice has been
37 reduced.

1 We believe our promise is quite simple. First, we will
2 give more choice to the current Safeway shoppers. Secondly, we
3 will reduce Safeway prices to Sainsbury's levels, which at the
4 time of the offer on Neilsen would have been 4.7 per cent and
5 currently would be more. Then we would go further by
6 reinvesting synergy savings in further price reductions.
7 Indeed, we would offer significant benefits to customers from
8 the economies of scale that adding Safeway to Sainsbury's would
9 bring, potentially 50 per cent more, whereas, if you add
10 Safeway's turnover to that of Wal-Mart or to Tesco's, it would
11 not make as much difference. Finally, we would offer a real
12 promise to consumers to deliver the Sainsbury's hallmark of
13 quality food across the Safeway store portfolio.

14 Thank you.

15 THE CHAIRMAN: Thank you. Could I now invite Sir Terry Leahy to
16 speak on behalf of Tesco.

17 SIR TERRY LEAHY: Thank you, Chairman. May I begin by saying how
18 much I welcome this open meeting; also to congratulate you on
19 assembling four retailers here within 15 minutes of each other
20 without resorting to isochrones! (Laughter)

21 It is an opportunity for us all not just to give
22 information, but to listen and to engage with others, including
23 our suppliers, consumer representatives and representatives of
24 employees.

25 Chairman, you asked each of us in this first session to
26 focus on the impact which our acquisition would have on local
27 choice, including local competition and consumers, and these are
28 important issues. People tend to think about where and how they
29 shop in local towns and the impact on them, their families,
30 their communities, the local economy and indeed the local
31 environment.

32 Let me first give you an overview of the extent of local
33 competition between the major players throughout the country. I
34 will take you through some maps. This is the distribution of
35 Tesco stores first. What the map shows is that Tesco has a
36 presence throughout the country. I should explain that the map
37 excludes stores smaller than 15,000 square feet. That is

1 because the Competition Commission decided in 2000 that the
2 grocery retail market it was interested in was limited to that
3 for weekly one-stop shopping defined by reference to size of
4 store.

5 Let me show you the same map with Sainsbury's coverage
6 and, as you will see, extensive coverage throughout the country
7 with a greater weighting perhaps in England. You will see
8 similar coverage in fact for Asda, although Asda is more
9 concentrated on big stores in the conurbations. For Safeway
10 national coverage again, particularly strong in Scotland.
11 Finally for Morrisons, where you will see a different kind of
12 coverage in this case, fewer stores grouped around the North and
13 the Midlands.

14 Before I leave the maps, I want to briefly address the
15 impact of planning controls. Some have suggested that planning
16 creates a major barrier to entry. Whether or not this is true,
17 it would not be affected by our acquisition of Safeway. We all
18 have to live with government regulation and to devise strategies
19 that fit in with social and environmental policy. Our record
20 shows that there is no shortage of planning consents if you are
21 prepared to be flexible about size, about store type and about
22 location. Indeed, if we look at changes in these maps over
23 time, then all the big supermarkets would have secured more
24 national coverage over the last few years.

25 We believe a Tesco acquisition of Safeway would be the
26 best for local choice. I want to explain that from the
27 consumers' point of view. There are hundreds of areas where
28 consumers currently do not have access to a Tesco store, so how
29 would a consumer benefit from seeing one of our stores in their
30 locality. I want to take you through a number of benefits.
31 These are not limited to price, quality, range and service, but
32 those must represent the starting point. Indeed, in respect of
33 each of those factors, the consumer would benefit from the best
34 customer offer in terms of quality, range, service and price,
35 and it is not just me who says this. Tesco is the most popular
36 retailer in the UK and the reason for that is that we aim to
37 give universal appeal to all customers.

1 Let me deal first with price. The price of food has
2 declined by 12 per cent in this country in real terms since
3 1989. Within this, since 1999, our food prices have fallen by
4 4□ per cent in real terms in Tesco against an industry average
5 of 4.5 per cent. You may know that we have cut prices by a
6 further £60 million only this week.

7 This table sets out a six monthly snapshot of relative
8 prices for the five leading operators from July 1999 to January
9 2003. Relative prices have been calculated on a weekly basis by
10 comparing the prices of a sample of product across retailers.
11 Every week the price of 11,000 - not just a few - comparable
12 products is independently checked. This represents over 60 per
13 cent of our sales. Tesco on the chart here is shown as the red
14 line and our prices are shown as 100, even though, as I
15 mentioned, they have actually fallen over time, so this is for
16 comparison purposes. Safeway is the orange line at the top,
17 Sainsbury's the green line, Morrisons is the pink or the purple
18 and Asda Wal-Mart is the dotted blue line.

19 What the table shows is that we are not beaten on price by
20 any of our major national competitors and, of course, I have not
21 taken into account the impact of Clubcard which would represent
22 a further 1 per cent of discount off shopping for Clubcard
23 holders.

24 A Safeway customer whose store converted to Tesco would
25 see prices fall by some 11 per cent across a very broad range of
26 products. Consumers know that price cutting is long term Tesco
27 strategy. It is not a new tactic. Lower prices make food more
28 accessible, particularly for the less affluent.

29 Let me now deal with quality, range and service and what
30 this means for communities. This same customer whose store was
31 converted to Tesco would also see a store dedicated to serving
32 its local community, whether it is deprived or affluent, urban
33 or rural, or somewhere in between. Our stores range from small
34 neighbourhood convenience stores through to large one-stop
35 hypermarkets. We pride ourselves in serving customers from all
36 walks of life. In all our supermarkets we offer products at
37 each end of the spectrum, from value through an extensive range

1 of branded and own label products, right the way through to
2 finest. We are organised to deliver value for money to all
3 customers, not just to some. No neighbourhood is a no go area
4 for Tesco or for serving customers.

5 Let me talk, if I may, about our plans for Safeway stores.

6 A customer of a Safeway store that converted to Tesco could be
7 more confident that we would make a success of that conversion
8 than would our competitors. Indeed, in respect of smaller
9 stores, some of them simply don't have our track record of
10 running them effectively. Remember, 25 per cent of Safeway
11 stores are less than 15,000 square feet. We have made it clear
12 that we are willing to divest stores to deal with any problems
13 of local choice identified by the Commission. As a result, we
14 believe there will be no adverse effects on local choice but
15 substantial improvements in the contribution of the new
16 Tesco/Safeway stores to that choice.

17 Now I want to move on to the important issue of
18 employment. Communities would see more local jobs for local
19 people. We have a strong record of applying management skill
20 and innovation when integrating businesses into our own. We
21 have done it before and we would manage the change well. We
22 believe that our acquisition of Safeway would lead to a net
23 creation of some 5,000 new jobs; these would be good jobs,
24 benefiting from our industry leading terms and the excellent
25 career prospects that are at Tesco.

26 Finally, I would like to talk about sustainability.
27 Customers would also see tangible benefits for the environment
28 and sustainability. For example, on waste we pioneered re-
29 useable green trays. They have replaced cardboard boxes and we
30 save 46,000 tons of cardboard a year. We have also nearly
31 halved the amount of waste that we send to landfill at a time
32 when the pressure on landfill is increasing, and over 90 per
33 cent of our new store developments are on brown field sites. We
34 also have a number of award winning regeneration initiatives in
35 economically and socially deprived neighbourhoods.

36 Our core purpose is to create value for customers to earn
37 their life time loyalty. All of the points I have outlined

1 above, plus others that I did not have time to cover today, help
2 define value at a local level. That is why I am confident that
3 Tesco offers the best value for local consumers and communities.

4 I look forward to the second half of our discussion explaining
5 our position on national issues.

6 Thank you.

7 THE CHAIRMAN: Thank you. Just to confirm that before coffee I will
8 give the four presenters, whom I would like to thank for being
9 commendably brief, an opportunity to respond to anything that
10 has been said, but I think now is the moment when I should throw
11 the matter open to comments from the floor. I will take one or
12 two questions first. There are a number of people, as I
13 mentioned earlier, who have already indicated that they would
14 like to speak and I will try to make sure that I pick them all
15 up.

16 MR PROUDFOOT: Good morning, everybody. My name is Ian Proudfoot,
17 the managing director of the Proudfoot group of retailers since
18 1945 in the food industry. We operate stores up to 30,000
19 square feet.

20 Two of the companies here today have said they have
21 national pricing policies. One was Morrison and one was Asda.
22 I would like to ask the managing director of Tesco how many
23 different pricing policies he brings to different catchment
24 areas in the UK. I believe it might be four or so.

25 SIR TERRY LEAHY: We have actually one national pricing policy and
26 the price in Tesco stores throughout the country, wherever you
27 are, is the same price. It is well known, and we submitted it
28 to the Commission, that in our Metro High Street stores and our
29 Express convenience stores we have a different pricing policy in
30 those stores because of different operating expenses. But, if
31 you shop in a Tesco store anywhere in the country, the price is
32 the same, and in fact all three are national set prices.

33 THE CHAIRMAN: Could I invite at this stage the Consumers'
34 Association to speak? They have indicated that they would like
35 to make some points.

36 PHIL EVANS: Thank you
37 very much and good morning. It has been very interesting

1 listening to the presentations and I think I would commend all
2 of the parties for turning up because in the past not all open
3 hearings have had all the parties. It is very good to see
4 everyone here.

5 I think what we have not heard on local competition really
6 is exactly what it means in terms of both choice of fascia and
7 the effectiveness of that competition, or the relationship
8 between the two. For us I think the important factor really is
9 the degree to which local multi-market contact affects the
10 national policy setting of each of the players or rather, given
11 national pricing policies, does the frequency and vigour of
12 local competition drive national strategy. So I think it will
13 be interesting to hear later on the relationship that the
14 players see between the degree to which they have to compete at
15 a local level and the frequency of that competition, and the
16 policy that they have at the national level on pricing.

17 I think that for us in many ways the important thing is
18 that, if we do have four players which we currently have, do we
19 wish to keep four players or do we wish to have effectively
20 three, and which on balance of the bids is most likely to give
21 us that choice of fascia and effective local competition.
22 Although I think certainly the three larger players will offer
23 some benefits, the chance of having that with the larger three
24 is relatively low whereas the chance of having that with the
25 Morrisons bid is relatively high. So I think the relationship
26 between the national and local competition is something that we
27 look forward to hearing about later on this morning.

28 Thank you.

29 THE CHAIRMAN: Thank you. May I invite other questions?

30 SPEAKER: I have a question for Mr DeNunzio. He made a
31 comment in his speech that 40 per cent of consumers cannot shop
32 at their preferred stores. Can I ask him how he thinks going
33 from four national players to three will improve that statistic?

34 MR DENUNZIO: That statistic comes from the last Competition
35 Commission report that said that, when customers were asked if
36 they could shop at their store of first choice, 40 per cent
37 could not. When they were asked which store they would most

1 like to shop at, Asda was cited most frequently at the store
2 that they would most like to shop at. In terms of improving
3 overall choice and giving more customers their store of first
4 choice, our acquisition would do that.

5 THE CHAIRMAN: Could I then invite Chris Oxley, who has expressed an
6 interest in speaking.

7 MR OXLEY: Thank you, Mr Chairman. I am District Councillor Chris
8 Oxley and I represent a large village near St Alban's.

9 I am very concerned with the whole of this merger concept.

10 I consider that historically some of the supermarket groups
11 have acted unreasonably in closing down profitable operations in
12 small towns and large villages with the consequent major adverse
13 impact on the elderly and the less well off in the communities.

14 In our village the local shop was taken over by a private group
15 and has effectively become a monopoly supplier. That group
16 itself has been taken over and we are now concerned that the
17 shop will close completely.

18 Dealing with the various points that have arisen this
19 morning, I pick up in reverse order the comment from Tesco. I
20 do appreciate the fact that they are here and, as Sir Terry
21 Leahy said, they have the opportunity to listen but, although we
22 are focusing very much today on the very big supermarkets and
23 very big supermarket groups, the smaller supermarkets are also
24 extremely important to local communities. As Sir Terry Leahy
25 said, they are trying to serve all customers. I am looking at
26 all consumers. It is all very well if you have a car and we are
27 talking about a 10 minute drive time but, if you do not have a
28 car and there are significant proportions of communities that do
29 not, then a drive time is not a lot of use. It is perhaps a one
30 and a half hour bus ride together with waiting for the bus in
31 the first place. That of course has its impact on the
32 environment if people are driving all these times when in fact
33 the service could be provided locally.

34 Going to Sir Peter Davis and Sainsbury's, he does mention
35 consumers and the convenience and location. But, as I have just
36 touched on, this is great if you have a car, or two or three or
37 four cars, but for a small community with the less well off this

1 sort of merger is having a very adverse impact.

2 Not to miss out the other two, very quickly, the key
3 reasons for Asda are pro-competition and pro-customer and they
4 are going to provide a wonderful service for millions more and,
5 to quote precisely, "the lowest cost of living for everyone". I
6 emphasise that word "everyone". Here is a case where the well
7 off are going to get better off because purportedly they are
8 going to get cheaper prices, but there is going to be the major
9 adverse impact on the smaller communities.

10 In conclusion, Mr Chairman, I accept that there must be de
11 minimis situations, I accept that the pricing structure in
12 smaller units as outlined by Sir Terry Leahy may be necessary,
13 but I do not accept that the consolidation of the supermarket
14 business into a smaller number of very large units is
15 satisfactory without protective mechanisms being put in place to
16 cover smaller communities.

17 As a consequence, I oppose all the mergers on the basis
18 currently put forward. Thank you.

19 THE CHAIRMAN: Thank you. Can I invite other questions? I see
20 everyone is entirely convinced by everything they have heard,
21 which is wonderful! Friends of the Earth would like to speak.

22 MR RILEY: Thank you, Chairman, for allowing us this opportunity.
23 I am Pete Riley and I am the senior campaigner for Friends of
24 the Earth's food and farming campaign.

25 We are opposed to all the merger proposals and we urge the
26 Commission to reject them all. We hope to have the opportunity
27 to focus on national issues after the break, but I would just
28 say one or two things about the concerns we have about the local
29 impacts of the proposals.

30 We have heard a lot about competition between supermarkets
31 this morning, but one of the important aspects of food which has
32 developed since the Foot and Mouth outbreak and the Curry
33 Commission is the development of strong local food economies
34 which, as we know, have been put under serious pressure over the
35 last decades. We have seen huge numbers of small local
36 retailers in the food sector going out of business. That
37 reduces consumer choice and it also means in some aspects of

1 food retailing that consumers are paying high prices. Last
2 autumn we looked at the pricing of apples between supermarkets,
3 local stores and local markets and found that, if you want to
4 buy cheap apples, you don't shop at a supermarket. This rather
5 suggests that supermarkets are tending to charge more for what
6 you could term healthy food rather than putting lower prices on
7 the less healthy food where the sugars, fats and salts are
8 higher.

9 We think the Commission should take a real hard look at
10 what impact these mergers would have on small local food
11 producers but increasingly, because of the movement into non
12 food, the impact of non food local retailers as well. This
13 would extend right across the range and we feel that further
14 consolidation would put increased pressure on small non food
15 retailers as well as food retailers and we would like you to
16 give that some serious consideration.

17 The other thing I would like to say is to very much echo
18 what Chris Oxley has just said about the fact that there are
19 significant numbers of households in this country who do not
20 have access to a car, both urban and rural consumers. We know
21 from experience in the past that, when large stores are formed,
22 that has a direct impact on retailers and the closure of stores
23 will follow with some certainty. That means that people's
24 choice, if they do not have access to a car, and that is the
25 people who are the poorest, will greatly diminish. We would
26 like you to investigate very thoroughly what the impact is on
27 people on low incomes - this is single parents, the elderly and
28 the infirm - who really do not have that range of options open
29 to them.

30 Thank you.

31 THE CHAIRMAN: I perhaps should mention in that context that the
32 issue of the increasing proportion of sales from supermarkets
33 that is non food is clearly an issue that we will need to
34 address. We are not clear yet as to its significance but we
35 will need to look at it. Similarly, whereas the Commission's
36 report last time, for reasons which were spelled out then, was
37 heavily focused on the so-called one-stop shop market which was

1 defined at that time as a store large enough to do a weekly shop
2 at about 15,000 square feet, we will obviously need to consider
3 whether there are any issues arising from these mergers that
4 relate to smaller stores than that.

5 Are there any other points or observations? I gather that
6 the Scottish Grocers Federation would like to speak.

7 MR LANDSBURGH: Thank you, Chairman, and good morning, ladies and
8 gentlemen. My name is Scott Landsburgh and I am the Chief
9 Executive of the Scottish Grocers Federation, based in
10 Edinburgh.

11 The Scottish Grocers Federation was established in 1918
12 and it represents in excess of 3,500 retail units throughout the
13 mainland and islands of Scotland through independent chains, co-
14 ops, single groups and private individuals. We are speaking
15 today because we feel that the Scottish market place is
16 structurally different to the rest of the UK. Safeway UK has
17 115 supermarkets in Scotland, a greater representation than it
18 has in any other region in the United Kingdom. It has four
19 petrol forecourt sites in conjunction with BP and a significant
20 proportion of its supermarket business is in medium sized
21 supermarkets in secondary shopping centres or High Street
22 locations. These are designated as convenience stores by
23 Safeway and, as such, have a significant bearing on the overall
24 Scottish convenience store market.

25 Our concern is for the overall competition within the
26 convenience store market and, as such, we believe a takeover or
27 merger by one of the big two supermarket multiples who,
28 combined, currently enjoy in excess of 40 per cent of the
29 Scottish market may reduce competitiveness rather than enhance
30 it. With the current store numbers Safeway enjoys, with any
31 merger there may be duplication in certain towns and cities in
32 Scotland. This may mean sell-offs or re-branding of some of the
33 sites which could result in redundancies and uncertainty for
34 employers.

35 In your original report in 2000 you concluded that the
36 four largest supermarket companies were exerting a complex
37 monopoly in the grocery sector. A merger with Safeway will only

1 consolidate that position with its large number of sites and
2 higher market share north of the border. We would ask you
3 therefore to consider the implications of the merger to the
4 structure of the food grocery market as a whole, particularly
5 for the Scottish region which we believe will be more affected
6 in relative terms.

7 Our position is that we would prefer to see a merger with
8 one of the two retailers who historically have less market share
9 north of the border and therefore would fit geographically into
10 the market place more easily. Scotland currently enjoys four
11 major supermarket groups vying for market share and we believe
12 it would be to the benefit of the Scottish consumer if that
13 position was maintained. Alternatively, to accommodate this it
14 may be worth while for you to consider a separate solution for
15 the Scottish region as part of a final merger deal.

16 I would like to also bring in another subject at this
17 point. I would like to draw your attention to the problem of
18 below cost selling by the major supermarkets which you also
19 acknowledged in your 2000 report. We believe there has been an
20 increase in this practice in the two year period since the
21 report was published. This practice undermines competition. It
22 clearly substitutes consumer spending from one retailer to
23 another, thereby skewing sales of certain products and creating
24 temporary product shortages. This can mean certain regions of
25 the country and certain sectors of the trade can be excluded
26 from product supply to the consumer.

27 We would therefore like to see the Commission create
28 conditions to eliminate below cost selling and also to encourage
29 the publishing of transparent buying prices from suppliers. All
30 suppliers should be compelled to publish the invoice cost of
31 their goods along with quantity discounts. Publishing volume
32 discounts will give all retailers the opportunity to create
33 buying policies to take advantage of this knowledge, thereby
34 creating better and more equitable competition. We would ask
35 the Commission to put in place conditions to therefore ensure
36 cost prices are equitable throughout the grocery industry and
37 that these are reflected in retail prices which are above cost.

1 This will create the conditions to ensure that there is fair
2 competition in the retail market place to the benefit of all
3 consumers. We would cite the experience of the Republic of
4 Ireland where the independent trade still represents around 40
5 per cent of the grocery market. This has primarily come about,
6 we believe, due to government intervention in making it illegal
7 for large supermarkets pursuing a policy of below cost selling.

8 This has not led to the basket price of grocery goods becoming
9 relatively higher in the Republic, due to robust competition
10 maintaining low retail tickets. The choice on the High Street
11 and in local communities is also much greater to the consumer.

12 In summary, therefore, along with your decision, we would
13 like to see a commitment to a ban on below cost selling and
14 legislation on transparency of supply price to all retail
15 companies.

16 Thank you.

17 THE CHAIRMAN: Thank you. The issue of below cost selling is of
18 course one that the Commission looked at before and I would
19 invite any of the supermarket representatives here a bit later
20 on this morning to offer any comments they have on that
21 practice, but in particular whether that has a bearing on the
22 assessment of the takeovers that are being reviewed in this
23 Inquiry.

24 Could I at this point see if any of my colleagues have any
25 questions or observations that they wish to make at this stage.

26 MR STARK: Yes, Chairman. I was struck by the presentations from
27 all the main parties that they stressed the benefit of price
28 that would be established locally, obviously, where the customer
29 buys the product. I am wondering if they would like to comment
30 on any extent they could see a countervailing disbenefit to
31 consumers of price going down. Is there any reduction in the
32 supplier base implicit in that particular aim? Particularly
33 when you are combining two large companies together, clearly
34 some suppliers are not going to benefit. Do you think there is
35 going to be any loss of that supplier base? Possibly one or
36 other of the larger speakers could respond?

37 SIR KEN MORRISON: We have a tradition, I think we would call it, of

1 supporting small suppliers and we have a lot of people where we
2 have really contributed hugely to the success of their present
3 businesses. I take your point about price but I think it is
4 rather more important to look at value. One would associate the
5 quality equally with the price. I think it is sometimes
6 believed that in the supermarket industry we try to shed
7 suppliers. In our particular case, and I think it is general
8 throughout the industry, there is a need for suppliers. They
9 are just as important as customers and we really do go out of
10 our way to ensure that they succeed as well as we do.

11 THE CHAIRMAN: Just for the moment still focusing on consumers, one
12 aspect of the mergers that has already been put to us is that
13 Safeway has for some while followed what I think is generally
14 called a high-low price strategy. It is a particular price
15 strategy means for them to compete and it is not, as we
16 understand it, a particular strategy that any of the main
17 competitors have adopted. Presumably then any of the mergers
18 proposed would probably involve that particular strategy
19 ceasing, and in a moment it would certainly be interesting to
20 hear whether that could be seen as an advantage or a
21 disadvantage in terms of the price strategies that consumers
22 face and therefore the range of choices that they have.

23 Can I see if there are any other questions or observations
24 from my colleagues.

25 MR GOODALL: I would be interested in hearing from the four main
26 parties whether they think the individual takeover that they
27 would represent would affect the barriers to entry into the UK
28 market for a significant extra outside the UK competitor. That
29 was my first question. I would also like to ask similarly of
30 the four potential bidders whether their proposed takeover would
31 affect the growth and success of local suppliers to their
32 supermarket chains.

33 THE CHAIRMAN: There are quite a number of points building up here,
34 I am sorry to say. Perhaps we can take those all later. Are
35 there any other points from the floor primarily for the moment
36 still focusing on local issues and how that affects consumers?

37 MR MCGETTICK: My name is Owen McGettick and I am the chairman of a

1 company called Musgrave UK, who supply independent retailers in
2 Ireland and own a chain of supermarkets in England called
3 Budgens. On local issues I wonder if Sir Terry could answer
4 about Northern Ireland where Tesco currently have almost 40 per
5 cent market share and Safeway also have a significant market
6 share, and whether there is a local consideration in Northern
7 Ireland which might be different to the rest of the United
8 Kingdom.

9 THE CHAIRMAN: There is now a particular question about Scotland one
10 about Northern Ireland. Any other points at this stage? If
11 not, could I ask whether any of the four principal speakers
12 would like to respond to some of the points that have been
13 raised. Can I invite Asda first?

14 MR DENUNZIO: If I can take the questions there from Christopher
15 Goodall, one on local sourcing and the second on barriers to
16 entry, we have a very strong policy of promoting local
17 suppliers. As we will see in our second presentation, we have
18 800 local products and 100 local suppliers, and that will
19 increase if we were to acquire Safeway. Our policy is very much
20 to promote local products in local stores.

21 The second question around barriers to entry: I think one
22 of the reasons why there is so much interest in Safeway is
23 because it is so difficult to get new retail sites in the UK.
24 Whilst a competitor from outside might be able to acquire sites
25 on an individual basis and build up a small portfolio, in
26 reality they cannot do that because it just takes too long.
27 This piece of consolidation is clearly fundamental to the future
28 shape of the industry and it would be probably quite difficult,
29 unless a competitor from outside was to buy one of the current
30 competitors, for them to gain a foothold in the UK.

31 THE CHAIRMAN: Thank you. Sir Ken, any points to add?

32 SIR KEN MORRISON: I would simply say that obviously cost of entry
33 nowadays is very expensive if you are looking at the major
34 stores. It is the large units in the Safeway portfolio that are
35 of prime interest to everyone, I believe, and they represent the
36 power of the business. I think that the likelihood of another
37 overseas competitor arriving is limited and in my previous

1 remarks I commented on the quality of the British industry. For
2 once, I think we can be proud of what we do and say that perhaps
3 we do frighten a few people away with the quality that is
4 perceived in the UK.

5 THE CHAIRMAN: Thank you. Sir Peter.

6 SIR PETER DAVIS: I just wanted to pick up a number of points that
7 were raised.

8 One was the question about low pricing. We are in favour
9 of low pricing but not to the exclusion of everything else. I
10 think in consumer terms we have to ask the question whether over
11 concentration on price is at some cost. The argument I was
12 making is cost in range and cost in choice but there are also
13 issues around supplier bases and I will be going on to talk
14 about that in the second session.

15 On the high-low pricing policy it has obviously worked
16 quite well to an extent for Safeway. We operate a promotional
17 policy but - my colleagues might laugh cynically when I say it -
18 we call it a medium-low pricing policy because we don't think we
19 start from the same price as Safeway. I think that our
20 experience shows that there are a group of consumers who do like
21 promotions. It is also true that suppliers like promotions and
22 so I think that there is an argument that the loss of
23 promotional activity, or the loss of choice for customers who
24 want promotional activity rather than everyday low prices, might
25 be regretted by some consumers.

26 Incidentally, I agreed with almost everything Ken Morrison
27 said and I also admire the major competitors that we have in
28 this country. I think we have some of the most sophisticated
29 and best operators in the world operating in this market and
30 customers have very real choice between them.

31 I also agreed with what Terry said about environmental
32 issues and I would actually point the Commission to the business
33 in the environment index, which shows that Sainsbury's I think
34 are alone in the top quartile or top quintile in environmental
35 matters, so I think we too have a good record on environmental
36 matters.

37 I am glad about the Scottish question because I was going

1 to raise Scotland, as you might have expected, under the
2 national section. If I take one-stop shopping, on the figures
3 that we supply to the Commission in our submission, we believe
4 that Tesco have just under 30 per cent of the Scottish one-stop
5 market, Wal-Mart/Asda have 33 per cent and Safeway have 24 per
6 cent. Therefore, the addition of Safeway to either of those two
7 would be a problem. Sainsbury's at 6.6 per cent believe it is
8 possible for us to add the Safeway market share and only then
9 reach the same levels as Tesco or Wal-Mart. I think our figures
10 show Morrisons at just under 1 per cent so I am sure that the
11 same applies to Morrisons as well.

12 The other point that was made by several people from the
13 floor was about smaller stores and the importance of people who
14 don't have cars, and people who wish to shop on foot or have to
15 shop on foot or by bus. I think the Commission should bear in
16 mind that both Tesco and ourselves operate deliberately as a
17 matter of policy stores from the very smallest local convenience
18 stores to the largest and we do so, as I believe Tesco do, in
19 both rural and urban locations. That is a matter of business
20 policy in Sainsbury's case and I believe - though I don't know
21 why I should be saying it in support of Tesco - it to be Tesco's
22 case as well. I don't believe, on the other hand, that it is a
23 policy heretofore of Asda or probably of Morrisons.

24 On the barriers to entry point I think the submission we
25 have already made to the Competition Commission says that there
26 are significant barriers to entry in this market, except to
27 those outside the UK. Because of the competition issues and the
28 sheer cost and size of starting, we believe that actually one of
29 the few opportunities for entry into the market is of an
30 overseas operator though, as I am going to say in the second
31 half, Carrefour do not believe under public quote that Safeway
32 have enough scale for that to be attractive to them. The
33 implication is that, if Safeway was merged with one of the rest
34 of us, that might be more attractive to an outside competitor,
35 but I am not sure that we would argue that that was a reason for
36 doing it.

37 On the supplier and local supplier issues I am going to

1 cover those in the second half.

2 THE CHAIRMAN: Thank you. Sir Terry, anything to add?

3 SIR TERRY LEAHY: Just very briefly because I don't want to repeat
4 Sir Peter's comments.

5 On the earlier question on prices from David, the effect
6 of low prices on choice and supply, the evidence, such as it is,
7 is quite encouraging. If you look back there over the
8 statistics, there have been real reductions in grocery prices
9 over some 10 years and during that time you can see a real
10 increase in the range of products and the suppliers on offer.
11 So far it looks encouraging. That does include local suppliers
12 and I think we added 300 suppliers in the last year alone. You
13 are beginning to see, I think, a fairly dynamic supply market.

14 On the specific question of Northern Ireland, I think
15 Northern Ireland is a different case and I am sure that the
16 Commission will look at that, based on the evidence that is
17 there. I am very proud of what Tesco has achieved in Northern
18 Ireland and, whenever I go over there, we are welcomed and
19 customers do put on record what we have been able to do.

20 I do want to echo Peter's point in answer to the
21 councillor from St Alban's about car access and the Express
22 stores, the convenience stores, were specifically designed to
23 bring our offer into neighbourhoods. Most of our customers in
24 Express stores actually walk to the store within about a half a
25 kilometre, so they are a very specific response to people's
26 concerns about access by car. They do, as I say, have slightly
27 higher operating costs but they represent tremendous value in
28 terms of the service that they give in the local community.

29 Thank you.

30 THE CHAIRMAN: Thank you. I perhaps might add at this moment really
31 three or four of what we at the moment see as the main sort of
32 issues that we will be struggling with, still for the moment in
33 relation to local competition.

34 One arises from a point which Sir Ken Morrison made. In
35 our previous report we developed the so-called three fascia
36 rule, that we felt that the local competition in the one-stop
37 shop market was probably adequate if there were at least three

1 competing fascias of stores of a sufficient size to provide that
2 service. If we now in this merger, or in any of these mergers,
3 contemplate in a particular locality a reduction in the number
4 of fascias from four to three, the question for us is how do we
5 address that. One answer would be to say, well, three fascias
6 are adequate and so reduction from four to three is not a
7 competition problem because there are still three fascias there.

8 An alternative view would be to say, well, three may be
9 adequate but four is better, and a move from four to three in a
10 locality might well be thought to be a significant reduction in
11 competition or at least a reduction in choice for consumers. We
12 do not, I stress, have a view on this at the moment but there
13 clearly is that issue to be addressed. Some might say, well,
14 what about five to four or six to five; in other words, where
15 exactly does one draw the line in a merger situation, and can
16 one read across from the market investigation of three years ago
17 or not. So that is one area we are considering.

18 Another is the role of large stores owned by players other
19 than any of the main players here. Should we make sure that we
20 include and attach full weight to, for example, a large Waitrose
21 store? What about a Marks & Spencers store or one of the larger
22 stores of perhaps the Co-op or other players and so on? There
23 is the question of what weight we give to those locality by
24 locality.

25 A third practical point I should just address is that it
26 is one thing to use these famous isochrones for analysis of what
27 may well be several thousand localities to try to get a feel for
28 the extent to which any particular merger reduces local
29 competition but, of course, several of the speakers have
30 referred to the fact that, where there would be a clear overlap
31 if the merger were to go ahead, they would obviously contemplate
32 divestment of the stores that were involved in that heavy
33 overlap.

34 That does raise the practical problem that it is one thing
35 to draw isochrones and have various rules like 10 minute or 15
36 minute drive times as a screening or a filter system to decide
37 is there roughly 100 areas of overlap or only 10 areas of

1 overlap. But, if one is actually exploring divestment of
2 individual stores, one is actually going to have to have much
3 more detailed on the ground evidence, because clearly there can
4 be cases where two stores are apparently in the same locality as
5 defined by an isochrone, but there is some feature, a railway
6 splits down the middle and there is no bridge, for example, or
7 the alternative, there are stores that are in different
8 catchment areas as defined by isochrones but there is a very,
9 very fast access from one to the other, or some other local
10 consideration that means the isochrone analysis is not accurate
11 in that case. That does present us with a practical problem.

12 The fourth, finally, which has come up a bit this morning
13 is to what extent should one focus on - a number of speakers
14 have emphasised - reductions in prices that would come as a
15 result of their company taking over Safeway and basing the
16 reduction in prices on the existing difference between the price
17 levels of that company and Safeway, as against the issue simply
18 of choice, choice of price strategies, choice of fascia, choice
19 of range, quality, selection and so on. Again, I have no view
20 and nor do my colleagues at the moment, but there is quite an
21 important issue to be addressed there: is it low prices or is
22 it more generally choice for consumers. We would obviously
23 welcome views on any or all of those matters.

24 At that point, unless there are any other questions at
25 all, I suggest that we break for coffee. We are a few minutes
26 early but I think that is quite convenient because rather more
27 speakers have indicated that they want to speak in the second
28 session.

29 Let me say that in the second session we are going to move
30 to the national level and there are really two dimensions to
31 that. One is that we have very much focused so far on local
32 competition; question, is there a national dimension to
33 competition; if so, what is that, and how might that be
34 affected by any of the proposed bids? That is still competition
35 for the consumers' expenditure. Then also, once one looks at
36 national level, the whole question of relationship with
37 suppliers comes in. We have touched on that already but I know

1 there are a number of people who would like to raise points on
2 that.

3 I will welcome you back here at no later than 11.20 and
4 then we will proceed from there. Thank you.

5 (Coffee break)

6 THE CHAIRMAN: Welcome back. Just before we start, there are two
7 points. One is just to say that, when the transcript appears on
8 our website, it will have with it copies of the overheads that
9 have been used in the presentation so they will be publicly
10 available for those who want to have copies of them.

11 Secondly, I should just reiterate because I do think it is
12 important that, although we are inviting comments or indeed
13 questions, there is no presumption that at this hearing those
14 will necessarily be answered by the supermarkets involved.
15 There may be occasions when they would like to consider an
16 answer or it may be that they are somewhat restricted from
17 answering because of the Takeover Code rules that I mentioned at
18 the beginning. I just want to re-emphasise that point.

19 If we may then go on to the second session, as I said
20 earlier, this really focuses now on national competition issues,
21 both vis-a-vis the consumer and also vis-a-vis suppliers, and we
22 are now operating in reverse alphabetical order. I invite Terry
23 to speak first. Thank you.

24 SIR TERRY LEAHY: Thank you, Chairman. You have asked us in this
25 session to focus on national issues, including the effects that
26 an acquisition might have on competition in the UK and on
27 suppliers.

28 Let me address the question of competition first. We
29 believe that competition in this sector is played out at a
30 national level. For each of the major players all significant
31 policies are set nationally. If you take the case of Tesco,
32 pricing in Tesco is set nationally for Tesco stores throughout
33 the country. Our product ranges are developed centrally by our
34 in house category teams working with our suppliers. Our opening
35 hours and other service policies are defined nationally.
36 Obviously, our people policies, training, career development,
37 benefits and so on, opportunities, are all developed nationally.

1 Our new technology is developed in Hertfordshire and is
2 applied systematically to all store types. Even our
3 advertising, for example our Dotty campaigns, is created and
4 rolled out nationally. Our property investment decisions are
5 taken on a national basis. So, when you go into a Tesco store,
6 the experience is no accident. It is the result of a national
7 strategy implemented locally by wonderful staff.

8 Each of our major competitors has a national reach, as I
9 have already shown, and approaches these competitive drivers
10 nationally. If any of us get something wrong, we are punished
11 for it in our stores. The Safeway experience is the most
12 telling recent example of this. Decisions by Safeway
13 nationally, particularly as regards perhaps pricing policy, have
14 resulted in consumers currently switching their custom to other
15 retailers. This can only be repaired at the national level.

16 The key question is whether an acquisition of Safeway
17 would lead to a significant lessening of competition to the
18 detriment of consumers, for example through higher prices. This
19 competition question will be decided by the Commission, but what
20 I can tell you is that, in the case of Tesco, the proposed
21 acquisition would enable all customers to benefit from our offer
22 in many more stores of all sizes without weakening the intense
23 competitiveness that characterises our business. We compete
24 nationally and would continue to do so.

25 Some people may argue that, as market leader, we should
26 not be allowed to participate in the bidding for Safeway. I
27 believe this is wrong. Consumers vote with their feet. We are
28 a market leader, because more customers prefer us to our
29 competitors, and we will only remain the market leader for as
30 long as we provide a better value for money offer than our
31 competitors.

32 It would be perverse to deny a wider group of consumers
33 the chance to have access to what Tesco has to offer for
34 customers. It would send a signal that successful firms in
35 competitive markets face a regulatory hurdle not shared by their
36 rivals. This could chill the very competitive endeavour that
37 competition policy exists to preserve and to encourage.

1 Indeed, Tesco is totally committed to maintaining
2 competition and rivalry in the sector. This environment has
3 allowed significant movements in market share over time. It is
4 by working in a competitive environment which spurs innovations
5 like Clubcard or Home Shopping or 24 hour shopping that we have
6 become market leader.

7 This competition and rivalry amongst supermarkets has also
8 led to large improvements in the life of ordinary consumers.
9 Tesco, Asda and, to some extent, Morrisons were all relatively
10 weak in the early 1990s. They re-positioned themselves to
11 respond to consumers increasingly in search of value. We have
12 grown at the expense of Sainsbury, which used to be the clear
13 market leader, and of Safeway. The reality is that no-one is
14 guaranteed success in this market. Size alone is no protection.

15 Indeed, the fastest growing major player in the market is
16 Morrisons.

17 Rivalry also ensures that buying efficiencies are passed
18 on to the consumer through price and quality. Our business has
19 more than doubled in size in the last 10 years, yet our margin
20 was actually higher 10 years ago than it is today.

21 This brings us to the issue of suppliers. We are proud to
22 be acknowledged by the National Farmers Union for our support as
23 Britain's biggest customer of farmers. Indeed, this week we
24 have announced that we are buying a much greater volume of
25 British produce, including early season potatoes and
26 strawberries, as a result of work we have done directly with UK
27 farmers to extend the growing season. This helps, of course,
28 reduce our dependence on imports. We work tirelessly with
29 suppliers of all sizes. As I said earlier, we have around 3,000
30 suppliers and we added 300 in the last year alone.

31 We have pioneered the transparent and strong relationship
32 now enshrined in the code of practice and we are committed to
33 resolving issues with our suppliers at an early stage. As a
34 result, we have had no complaints under the code and do not
35 believe that the acquisition would impact on its effectiveness
36 in our case.

37 Excellent relationships with our suppliers benefit

1 everyone. By generating more business our suppliers gain a
2 certain and growing market for their products. They get regular
3 and timely payments and our commitment to sharing our
4 understanding of customers. Customers are beneficiaries of
5 supply chain improvements. They get better value, higher
6 quality products and at more affordable prices.

7 To conclude, our success has been driven by our focus on
8 customers in a competitive and dynamic market. The current
9 proposals affecting the future of Safeway raise serious issues
10 as to whether a structural change, which could see the four
11 major retailers become three, is in the consumer interest. If
12 such a re-structuring of the market were to be permitted, I
13 strongly believe that Tesco would be best placed to lead this
14 change. Uniquely, Tesco would deliver substantial consumer
15 benefits, universal appeal to all types of customers, experience
16 across a wide range of store types and a very experienced
17 management team to the benefit of customers, communities, staff
18 and suppliers.

19 Thank you.

20 THE CHAIRMAN: Thank you. Sir Peter.

21 SIR PETER DAVIS: For this session I would like first of all to deal
22 with suppliers. I am only too well aware of the difficulties
23 faced by some of our suppliers throughout the UK, particularly
24 in the primary agricultural area. Having recently been a member
25 of the Curry Commission on food and farming, I have seen at
26 first hand the evidence to support this. The decisions taken by
27 the Competition Commission may result in further profound
28 effects on British agriculture for years to come.

29 Sainsbury's has a unique heritage in British retailing.
30 We have been trading for over 130 years and many of our
31 relationships with our suppliers have been developed over many
32 decades. We have long had an internal code of practice for
33 dealing with suppliers and, though we supported and signed up to
34 the OFT Code of Practice following the Competition Commission
35 inquiry in 2000, we had to make very few changes in the way that
36 we deal with our suppliers.

37 Our approach to suppliers is one of partnership. We do

1 have some quite tough negotiations but, on the whole, I believe
2 that we have a good relationship with our suppliers. Of course,
3 our customers want low prices as well as choice, but we need to
4 achieve this in a way that benefits our suppliers too by
5 enabling them to improve their own performance.

6 One way we have pioneered is through our work with small
7 and medium suppliers to reduce their costs and to help them
8 expand their capacity. These benefits are then shared between
9 the supplier, the retailer and the consumer; the supplier can
10 achieve a higher turnover and Sainsbury's can supply high
11 quality produce to our customers at a lower price. Suppliers
12 are also enthusiastic about the fact that we offer more products
13 in the food area than our competitors and also about the range
14 of promotions which we talked about earlier which we in turn
15 have, which enables suppliers to sell a greater variety of
16 product and create a volume of their products in our stores.

17 We also have a very good track record over many years on
18 working with our suppliers on new product development and
19 supporting their new or speciality lines which we can better
20 accommodate because of our policy of more lines in store.

21 Sainsbury's too has a strong record in buying British. We
22 source over 90 per cent of the fresh food that can be grown in
23 Britain from British suppliers. Customers increasingly though
24 want locally sourced products too and our dedicated local
25 sourcing team delivers this. I had the figures checked for this
26 meeting today and I can tell you that, as of today in
27 Sainsbury's, we have 3,992 locally sourced products from a total
28 of 2,220 local suppliers. In other words, only just about a
29 product and a half from each of them, which shows the range and
30 scope of our work with local suppliers.

31 Unlike some others, we are even willing to sell locally
32 produced products in one store. For example, we sell North
33 Lakes milk in just our Cockermouth store in Cumbria. If
34 Sainsbury's acquired Safeway, we would extend our emphasis on
35 local procurement to the newly acquired Safeway stores. We
36 strongly believe that Sainsbury's have led for some time much of
37 the work on this. It was Stuart Mitchell, our managing

1 director, when he was buying director, who several years ago led
2 the Business in The Community team to drive the benefits of
3 local sourcing in conjunction with the Institute of Grocery
4 Distribution. We currently have active programmes in the South-
5 west, in Scotland, in Northern Ireland, in Wales and in the
6 North-east.

7 In answer to the question about the effect on suppliers of
8 the merger, Sainsbury's acquisition of Safeway would be the
9 least disruptive option for UK suppliers. This is because there
10 is a particularly high degree of overlap in the suppliers
11 between the two companies. We have looked very hard at this -
12 and obviously we do not have access to the same information
13 about our competitors - based on our industry knowledge. We
14 estimate that 80 per cent of the suppliers to Safeway also
15 supply Sainsbury's. We do not believe that this degree of
16 overlap will exist to the same extent with other bidders, but it
17 may be a fair question for you to ask of us all. We believe
18 that any degree of supplier rationalisation would hurt the
19 supplier base less with us than the other parties.

20 In summary, then, the benefits of our approach to
21 suppliers in sourcing, in partnership to improve supplier
22 efficiency and in our rigorous internal procedures to ensure
23 fair treatment will be available to a wider range of British
24 farmers and food companies if Sainsbury's were able to acquire
25 Safeway. We believe we can continue to have a good working
26 relationship with our suppliers whilst delivering value for
27 money and a good range of choice to our customers.

28 Finally, let me now turn to the national market.
29 Suppliers cannot be insulated from the effects of global markets
30 and market power is a critical factor in determining purchaser
31 behaviour. Wal-Mart particularly and also Tesco wield
32 considerable buying power because of their scale and their
33 international coverage. These advantages brought by size and
34 international scale risk creating an unbalanced market, as I
35 have already said.

36 Just one point in response to what Terry said, why Tesco
37 are biggest is not just because of customer choice. On the

1 demand side that may be customer choice but it is also on the
2 supply side in terms of square footage and number of stores.
3 When I left Sainsbury's in 1986 we had roughly the same number
4 of stores and roughly the same number of square feet. When I
5 returned, Tesco had 50 per cent more stores and 50 per cent more
6 square feet, so I think it is both a supply as well as a demand
7 issue.

8 In assessing the evidence, it is worth reflecting on why
9 Safeway is in the position it now finds itself. The truth is
10 that Safeway has become a less effective competitor in the
11 market place. Why? Because it has all the overheads of a
12 national player but with insufficient scale to derive enough of
13 the economic benefits. It is precisely the relatively small
14 size of Safeway which the French group Carrefour gave as its
15 reason why it was not going to seek to enter the UK market by
16 making an offer for Safeway, as quoted on Reuters.

17 In contrast, both Morrisons and Waitrose have shown that
18 you can be a highly successful retailer by being either
19 regionally concentrated or focused on a core offer. They have
20 both delivered very good growth without national coverage.

21 We think it important, therefore, to pick out the
22 Chairman's point at the end of the first session, that, when
23 looking at the fascia choices locally, the competition do look
24 at effective competitors with stores over 15,000 square feet,
25 whether regionally, for example with Booth's in the North-west,
26 or whether with Waitrose, or whether with the Co-op, or whether
27 indeed Marks & Spencers, whose range is much wider than at the
28 time of the initial reference.

29 We believe that Safeway is already finding life difficult
30 but is unlikely to remain a major competitor on its own. The
31 issue facing the Competition Commission is, if there is going to
32 be a reduction from five major players to four in any case, how
33 that can be managed in a way that does not result in a
34 substantial lessening of competition. Indeed, can the
35 Commission's decision result in a market which is more
36 competitive and likely to be over a longer period of time?

37 I strongly believe that such a balanced and competitive

1 market would be created by allowing a Sainsbury and Safeway
2 merger with divestments on an organised basis.

3 I have already explained earlier our concerns about
4 duopoly. I have also explained that our own offering is
5 something rather different, offering consumers both competitive
6 prices where they want them, but also a wider choice of food
7 items. We believe that it is in the customer interest to have
8 real choice in the market place and that this should continue to
9 be available to them. So it will come as no surprise to you
10 that my conclusion is that a Sainsbury and Safeway merger is in
11 the best interests of both consumers and suppliers. Ours is a
12 serious offer and it is the option which will underpin most
13 effectively a balanced competitive UK retail market.

14 Thank you.

15 THE CHAIRMAN: Thank you. We now turn to Morrisons and I think Mr
16 Stott is going to speak on behalf of Morrisons for this second
17 session.

18 MR STOTT: Sir Derek, Panel members, ladies and gentlemen, good
19 morning.

20 The combination of Morrisons brand strength with Safeway's
21 national store portfolio and supporting infrastructure provides
22 a unique opportunity to create a larger scale business, a
23 business well placed to take advantage of market opportunities
24 and create future growth, delivering distinct benefits to
25 shoppers and suppliers alike.

26 We passionately believe that four national food retailers
27 are better for competition than three. Why is this so very
28 important for consumers nationwide? Currently the number for
29 Safeway is struggling to compete effectively with the "big
30 three". To weaken or eliminate this fourth national player is
31 in no-one's interest. Strengthen it and almost everyone will
32 benefit. If Tesco, Sainsbury or Asda buy Safeway, there will be
33 one less national competitor.

34 The Competition Commission concluded in their last
35 investigation in 2000 that the relevant market to consider for
36 one-stop grocery shopping takes in stores above 15,000 square
37 feet. If Tesco were to buy Safeway, their market share in this

1 one-stop grocery market would be 43 per cent. If Sainsbury were
2 to buy it, their market share would be almost 35 per cent. If
3 Asda were to buy Safeway, their market share would be almost 32
4 per cent. In these latter circumstances Morrisons' market share
5 would remain at only 8.7 per cent of the one-stop grocery
6 market.

7 If Morrisons buy Safeway, the merged business becomes not
8 only a strong national player but also a fourth national player
9 with a market share of 19.8 per cent in one-stop shopping. The
10 combined business will have the scale, the retailing skills and
11 resources to really challenge the existing "big three". Ours is
12 the only deal that will retain the number of national and in
13 many cases local players at four, not three, a fact that has
14 been welcomed by the Consumers Association.

15 As the Evening Standard said back when our bid was
16 announced on 9th January, "the Morrisons bid for Safeway will
17 help competition because it will enhance the retailing gene
18 pool among the big four." (Laughter)

19 On current trends there is a risk that the present second
20 place national player will be squeezed, reducing the number of
21 vigorous and effective competitors in the medium term from three
22 to two. We believe that, were this to take place, it would not
23 only be anti-competitive, but would be against the public
24 interest. Choice, variety and diversity best serve customers'
25 interests. With four national players variety is retained,
26 giving a real choice from a diversity of competitive strategies
27 in terms of pricing policies, promotions, product ranges,
28 product quality, own label offerings and opening hours.

29 This leads me on to my next point. Our retail offer is
30 noticeably different. We are characterised by having our own
31 way of doing things and by doing most of them ourselves. We
32 operate our own abattoir, our own fresh food factory and fruit
33 and vegetable pack houses, and we run our own transport fleet.
34 Fresh foods are prepared and served in store daily from our
35 renowned 'Market Street' counters. We have a consistent
36 national promotional programme, featuring 1,000 special offers
37 at any one time on products that customers really want to buy,

1 and that is on top of low prices all around the store.

2 The in-house management of almost every aspect of our
3 commercial operation enables us to be quick and efficient, and
4 it enhances our overall competitiveness whilst our fresh food
5 factories and pack houses help maintain market prices to farmers
6 and growers.

7 If the Morrisons format was to become a national brand,
8 then consumers everywhere will have a fourth, very distinctive
9 choice of shopping.

10 Then there is pricing. We have a long established value
11 based national pricing policy which has operated in Morrisons'
12 stores since 1958 with the same single price for every product
13 in each store, wherever that store is located. We have
14 absolutely no intention of changing this strategy. It is at the
15 heart of what we do. There will be no price flexing in
16 Morrisons stores.

17 Prices will fall significantly as the Morrison trading
18 format is applied to the 358 larger Safeway stores over 15,000
19 square feet. We expect that prices in the converted Safeway
20 stores will fall by an absolute minimum of 5 per cent, but for
21 many stores converted to the Morrisons fascia, the price
22 reductions will be much greater.

23 We also believe that the effect on suppliers of our merger
24 will be favourable. The merged group will have purchasing
25 requirements similar to Sainsbury's and to Wal-Mart Asda in the
26 UK, but still not to Tesco's levels of course. We have a good
27 record of fair dealing with suppliers of all sizes and, through
28 our vertically integrated structure, we have a highly developed
29 and well regarded strategy of supporting British farmers and
30 growers through a very positive British sourcing policy.

31 As a result, we have built up many strong and long lasting
32 relationships over the years. We particularly see smaller
33 suppliers enjoying enhanced sales growth as our commercial
34 strategy is implemented through Safeway and continues to
35 succeed.

36 In summary, we believe there will be no substantial
37 lessening of competition arising from the merger of Morrisons

1 and Safeway. On the contrary, national competition will be
2 enhanced and this will be reflected locally, not least because
3 of the great geographic fit between the two companies' stores.
4 A merger of Morrisons with Safeway will increase competition and
5 reduce prices. Through our trading philosophy and heritage and
6 the powerful competition provided from the other three national
7 grocers rivalry in the market place will increase and provide
8 significantly better value to the benefit of customers
9 everywhere.

10 Four national food retailers are undoubtedly better for
11 competition than three. Only Morrisons combined with Safeway is
12 capable of delivering a value based challenge to the big three
13 by offering increased choice and maintaining diversity.

14 Thank you for your kind attention.

15 THE CHAIRMAN: Thank you. Mr DeNunzio.

16 MR DENUNZIO: As I explained earlier this morning, competition in
17 the one-stop shopping market is essentially local.

18 Competition in local markets drives national policies on
19 price and range. In other words, if our rivals face Asda in more
20 catchments they will feel the need to be more competitive right
21 across the country. By acquiring Safeway we will extend our
22 everyday low prices to a million more shoppers across the UK. We
23 will also improve competition coming head to head with Tesco and
24 Sainsbury's and others in parts of the UK where to date we are
25 thin on the ground.

26 Finally, we will offer suppliers a better deal, building
27 increased volumes through what we believe is the best supplier
28 business model - EDLP. Both local and national suppliers will
29 benefit. I will deal with each of these three in turn.

30 We are well recognised for our low prices. Whilst those in
31 the grocery industry know our pricing policy as "Every Day Low
32 Prices" [EDLP] our customers know it as an unswerving
33 commitment to offer the lowest on-shelf price always. We will
34 bring these every day low prices to all those Safeway stores we
35 intend to retain and to convert. Safeway shoppers in those
36 stores across the country will benefit from a national price,
37 the lowest price, an Asda Price. Not only will this mean

1 significantly lower prices for customers in these stores but it
2 will also mean more price competition right across the UK.

3 The Competition Commission must decide if an acquisition
4 of Safeway by Asda will substantially lessen competition. I can
5 tell you it will not. In fact, it will be extremely pro-
6 competitive.

7 As I have said, the merger will produce a direct benefit
8 for Safeway customers, and consumers generally will benefit from
9 an Asda acquisition of Safeway. Tesco and Sainsbury's and the
10 others will face increased competition in many more catchments.
11 For the first time in the case of Tesco and Sainsbury's they
12 will come head to head with Asda in a majority of their stores.
13 That will put pressure on them to improve the competitiveness of
14 their whole offer.

15 As well as price competition product range, quality and
16 service will be improved for Safeway shoppers. Do not just take
17 my word for it. According to independent survey evidence, Asda
18 is rated more highly than Safeway on all of these key measures.

19 In the AC Nielsen "Attitudes To Retailer Survey" in 2002
20 we were voted number 1 not only for price, but also for range,
21 service and for availability. That was a survey of 6,600
22 shoppers of all supermarkets, not just Asda shoppers.

23 What difference to the overall competitiveness to the UK
24 market scene would an acquisition of Safeway by Asda make? All
25 the evidence suggests that Safeway is the weakest of the five
26 major supermarkets, and an ineffective constraint on its
27 competitors. Since the Competition Commission's report in 2000
28 Safeway has, in fact, lost 20 per cent. of its market share in
29 the one stop grocery market.

30 We recognise that there may be some concerns that further
31 concentration in the retail grocery sector may adversely impact
32 suppliers at a national level. We already work with over 2800
33 suppliers from major multi-nationals to small businesses and we
34 aim to have long lasting, positive and open relationships with
35 all of them. That commitment will be strengthened by our
36 acquisition of Safeway. Increased volumes will benefit many
37 suppliers both large and small.

1 In addition, EDLP benefits suppliers as well as customers,
2 indeed, we believe it is the best business model for suppliers.
3 It removes the volatility that can come with high levels of
4 promotions. What we offers suppliers is the certainty of a net
5 net price, not a constant renegotiation of terms. It therefore
6 makes for more constructive relationships, the constant
7 negotiation and renegotiation of promotions can lead to
8 confrontation. The Asda EDLP model does not provide that. It is
9 far better to work together in the DLP environment and focus
10 effort and energy on driving volume up and costs down for the
11 benefit of consumers.

12 The suppliers of the enlarged group will certainly benefit
13 from increased volumes. TNS report that Asda sells a third more
14 own label products than Safeway. So the acquisition of Safeway
15 by Asda will lead to more opportunities for those suppliers who
16 tend to be small and medium sized firms.

17 An important and growing part of our business is to offer
18 local products to our stores. We are already working with a fast
19 growing number of local suppliers, and as I mentioned earlier we
20 already have 800 genuinely local products in our stores,
21 everything from Darrel's Faggots in South Wales to Killie Pie in
22 Scotland.

23 We realise that the way we work with companies like
24 Proctor & Gamble, Unilever and Coke Cola is not appropriate for
25 small, sometimes tiny, local businesses so we have adapted, we
26 have changed the way we process those particular suppliers so it
27 is easier for them to trade with us and to supply us.

28 Moving on to British farming. Support for British farmers
29 and growers is part of the Asda heritage. After all, we were
30 founded by a group of Yorkshire farmers. So, for example, when
31 others turned their backs on British beef during the 1996 BSE
32 crisis we were the only ones buying 100 per cent. British beef.

33 We have won a proven track record in sourcing most, if not
34 all, our fresh meat, poultry and produce from British suppliers.
35 Indeed, 90 per cent. of all the fresh food we can buy in the UK
36 we do buy in the UK. Only last week we welcomed 300 farmers to
37 our head office, and introduced 60 new products for this year

1 and this shows an ongoing commitment to supplying UK farmers.
2 Just to give an example: working closely with growers we will
3 extend the British carrot season to 50 weeks and the new potato
4 season by an extra 10 weeks, so reducing the need for imports.
5 Issues like this enable our British suppliers to grow their
6 businesses and let our customers benefit from lower prices.

7 So let me summarise. We have stimulated competition in the
8 UK grocery market. We are the most price competitive supermarket
9 - I think that has been confirmed by some of the other slides -
10 in the UK, and the UK's favourite supermarket. Our success is
11 built on our commitment to moving towards EDLP to all customers
12 all the time right across the country. Safeway is the weakest of
13 the five major supermarkets and does not effectively constrain
14 its competitors. Replacing Safeway with Asda, with divestments
15 to meet local competition concerns will therefore invigorate,
16 not reduce, competition. It will replace a high priced retailer
17 that has weak customer appeal with one that is strongly price
18 competitive with high customer appeal.

19 Our acquisition of Safeway will not diminish our
20 commitment to working with our suppliers. Good supplier
21 relationships have helped build the Asda business. We know that
22 our future success depends on our ability to work constructively
23 with these suppliers of all types and all sizes.

24 Just before I finish, a word about our colleagues who work
25 in our business. One of our deep rooted beliefs is that our
26 people make the difference. They are the ones who, day in day
27 out, serve our customers and provide that Asda personality in
28 our stores. We were pleased to be named the best company to work
29 for in Britain by the "Financial Times'" survey and last year we
30 were voted by the Sunday Times' survey the best company to work
31 for. So if we are able to acquire Safeway we look forward to
32 welcoming many more colleagues to our Asda team.

33 May I finish by thanking the Chairman and the Commission
34 for providing us with this opportunity to speak.

35 Thank you.

36 THE CHAIRMAN: Thank you. Well now is an opportunity for anyone in
37 the hall to raise points, observations. I am going to start by

1 inviting a representative from the National Farmers' Union to
2 speak, and then if others would catch my eye, and I have other
3 organisations who have indicated they would like an opportunity
4 to speak. We start with the National Farmers' Union - would you
5 like to come up.

6 MR TAPPER: Good morning everyone. My name is Robin Tapper from the
7 National Farmers' Union. Thank you, Chairman for the opportunity
8 to present the NFU's views on the proposed acquisition of
9 Safeway. If I may I would like also to endorse and give our
10 support to the process that both you have undertaken and,
11 indeed, the OFT undertook before you in basically creating this
12 forum today.

13 As I said, we certainly support the process which is being
14 undertaken, and we share very much the OFT's proposals that the
15 four major retailers should have been put forward to the
16 Competition Commission. Indeed, we would have wished also that
17 we had more information on what Mr Green was also asking, but
18 that is not the purpose of this meeting.

19 Certainly as far as the main principle is concerned, the
20 NFU believes that the interests of both consumers and our
21 members are best served by a broadly based, competitive food
22 retail industry. However, having said that it is understood, and
23 indeed I think recognised by most of our members that a
24 consolidation in food retailing is a likely outcome of this
25 process.

26 The NFU's preferred outcome in any of the situations that
27 we have heard today would be for a more level playing field. By
28 that we would mean a situation where Tesco inevitably would be
29 still in the lead because they got there, as we have already
30 heard, by organic growth. But we would have a situation where
31 the other three major retailers would have broadly similar
32 shares. This, we believe, would create as fair competition as
33 possible and maintain consumer choice.

34 Indeed, the NFU would be gravely concerned if the proposed
35 takeover by Safeway resulted in a situation where the UK food
36 retail market were to be dominated by two companies which
37 between them would have more than 50 per cent. of the market.

1 Such a duopoly is the least favoured option and would serve
2 neither the interest of our members nor the consumer. Indeed, we
3 believe that such a concentration of food retail power could be
4 catastrophic in terms of farmers' profitability.

5 Finally, an alternative option may be that Safeway is
6 split up. If that is the case, the NFU would very much prefer an
7 approach which is applied on a local level. This again would
8 favour consumer choice and also safeguard against the dominance
9 of two major food retailers.

10 Thank you very much indeed.

11 MR RHODES: Good afternoon, ladies and gentleman, Mr Chairman. My
12 name is Paul Rhodes. I am Chairman of Yorkshire Farmers'
13 Livestock Marketing. I am also Chairman of United Pig Marketing,
14 which are both multi-species marketing co-operatives owned by
15 farmers, and run for the benefit of farmers.

16 I will concentrate mostly on the pig sector which has seen
17 significant traumas in the past six years. The pig industry,
18 unlike much of agriculture is not supported by Government
19 subsidies, and survives purely on what is obtainable from the
20 market place, and is possibly a good example of what can happen
21 when there are many sellers and few buyers in an unregulated
22 market.

23 Since 1997 there has been a significant reduction in the
24 percentage of retail value of the pig returned to the farmer
25 from over 50 per cent. to as low as 34 per cent. - currently it
26 is running at about 38 per cent. There has also been a reduction
27 in the total value of the meat due to retail price deflation.
28 This has resulted in farmers receiving a dwindling proportion of
29 a dwindling cake. This is clearly non-sustainable with well over
30 35 per cent. of the pig industry going out of production and the
31 remaining industry in a total mess, either on the verge of
32 bankruptcy, or just simply packing up.

33 We have virtually surrendered our bacon market, now only
34 supplying 22 per cent. of it, and to date only 26 per cent of
35 the manufacturing meat used in added value products is of UK
36 origin. With a great deal of our industry being exported to
37 other countries with considerably lower production standards

1 such as Holland from where 50 per cent. of their loins are now
2 imported into the UK.

3 Why has this happened? There have been various health
4 problems obviously with Foot and Mouth which, although did not
5 directly impact on UK production, had an enormous impact on
6 price. The key factor is the price obtainable by the farmer in
7 the UK is less money than the cost of production and has been
8 for some time. Why is this? Are UK farmers inherently
9 inefficient? The answer is definitely "no". The strength of the
10 Pound has not helped, obviously, with the Pound strengthening
11 from a low of Dm2.24 to a peak of over Dm3.2.

12 Ten years ago the UK pig industry was the envy of many,
13 exporting breeding stock globally and production levels were
14 some of the best in the world - in short, a world class
15 industry. We have seen additions to our cost of production due
16 to welfare and environmental legislation which, on the whole,
17 has been unilateral within the UK, and we do lead Europe in
18 terms of production standards. However, the buying power of the
19 retailers has to be a major contributory factor, and a further
20 concentration of this buying power can only spell disaster for a
21 demoralised fragile industry. With great power comes great
22 responsibility. Unfortunately the short term business aims of
23 multiple retailers driven by City shareholders does not always
24 sit comfortably with sustainable primary production.

25 With the exception of a few regional supermarkets such as
26 Waitrose and Morrisons, who have adopted a more integrated food
27 chain approach, many of the major retailers have spoken kind
28 words but however the culture operating in their buying rooms is
29 such that their desire, if genuine, to see sustainable livestock
30 production has not yet been realised. The culture of EDLP can
31 only result in every day less pigs! [Laughter]

32 The maintenance of a sustainable livestock sector has to
33 be the responsibility of Government and its agencies. A further
34 misuse of power is seen within the confusion at times as
35 deliberately misleading labelling and packaging of pig meat and
36 pig meat products. Due to the high standards of welfare operated
37 in the UK we have higher cost of production - it is inevitable.

1 If I were to keep pigs in the UK in the same way as they do in
2 Holland, say, in stalls, or in France where they are tethered, I
3 could go to prison. So to avoid this my own family business
4 spent £50,000 we could not afford on new buildings to reduce our
5 production by 20 per cent. and add a further 10p per kilo to our
6 costs. Our pigs are happy, they are kept in straw - if people
7 came in to see them they would realise this. It is therefore
8 somewhat disappointing to find Dutch bacon products packed in
9 red, white and blue, even flying a Union Jack in some cases,
10 purely because it is sliced and packed in the UK. I do not
11 believe that this is in the best interests of the consumer who
12 is being prevented from making an informed choice by this
13 labelling.

14 Thirdly, a further concentration of retail power will
15 result in greater centralisation of food distribution. This
16 cannot be good for the environment, and inevitably leads to
17 fewer larger suppliers with greater miles travelled for
18 livestock in terms of the reduction in the number of
19 slaughterhouses, and a further distance travelled for food
20 products, and the environmental cost that this will increase. It
21 may also, and probably will, lead to a greater buying of imports
22 which may be not of the same high standards operated by British
23 Agriculture.

24 A greater degree of regionalisation will lead to more
25 sustainability and would be better for the environment. The UK
26 pig industry at present is at a knife edge. If the UK consumer
27 wants to buy the best, fresh, locally grown British pig meat it
28 is essential - no, vital - that the retailers act in a way to
29 maintain a sustainable UK pig industry. I believe that a form of
30 balance being maintained in the retail sector is essential with
31 four evenly matched retailers rather than one or two retail
32 giants dominating the market. Further concentration of buying
33 power in the wrong hands will reinforce the downward trend in
34 the UK pig industry, and the livestock sector as well and will
35 not be in the better interests of the UK consumer.

36 The livestock sector will and can respond to the
37 consumers' needs providing it is sustainable in the long term.

1 Thank you for listening.

2 MR GILLEN: Good afternoon. I am Leo Gillen, I have Gillen's
3 Supermarkets in Hartlepool, and I am also a main board director
4 of Nisa/Todays which is a buying group representing 6,500
5 independent grocers. The important issue here is that I would
6 not want to see any consolidation into the top three
7 supermarkets, and this session now is about UK competition and
8 suppliers. I do not mind competition but I dislike unfair
9 competition and in your 2000 report you managed to inform me
10 that the big three are buying 11 per cent. better than myself.

11 Now, in my sector I am taking similar drops to the smaller
12 Safeway stores, Tesco Express, and One Stop which Tesco have
13 just bought. I buy bigger than them and I am paying 11 per cent.
14 more, and now they are charging more again. The offers that I
15 take through Nisa beat the major supermarkets, beat them
16 regularly, real headlining offers and our basket is only a
17 couple of percent. more than Tesco and Asda, and as we saw in
18 that slide earlier on they have had the same price across a
19 broad basket for the past two years. It was there, they charge
20 the same amount of money, and they brought the issue to this
21 forum that they are cheap. Well, they are not cheap. It is a
22 massive margin that they are taking out of the sector in the
23 whole country. If you compare them to like suppliers in Europe,
24 they are working on much greater margins and a greater cost to
25 serve, so they are not cheap. That is the message that is coming
26 out but they are not. It is a protected market amongst the "Big
27 Three", and I think that is wrong. The people in the South East
28 know it is right because they are all hopping across the Channel
29 once a month to do their shop and I think you have to look at a
30 fair competition for us all, particularly independents, because
31 we are now paying more because suppliers have to come to us
32 because they cannot react to the massive buying power of the Big
33 Three supermarkets. So we suffer and this is not fair, and I do
34 not believe unfair competition.

35 Thank you.

36 THE CHAIRMAN: Thank you. That may be something that representatives
37 of the main supermarkets may want to respond to later on in the

1 summing-up and indeed, any points they might want to make about
2 the pig industry. The representative from USDAW [Union of Shop
3 Distributive and Allied Workers] please.

4 MR HANNETT: Chair, can I first of all make clear our interest in
5 these matters. I am here as a representative of USDAW, the Union
6 of Shop Distributive Allied Workers. My name is John Hannett,
7 USDAW's deputy general secretary. I am here to deputise for our
8 General Secretary, Sir Bill Connor, who would be here himself
9 but for an unbreakable commitment to our Union's annual
10 conference elsewhere today.

11 I also want to stress the significance which we attach to
12 this event and to the Commission's inquiry into the acquisition
13 of Safeway. I would also add that my Union has a particular
14 interest, as you might expect, in the acquisition as it affects
15 thousands of people on the Safeway payroll and, in particular,
16 the 23,000 members of ours who currently work for Safeway. It is
17 in their interests, and in the interests of a healthy
18 competitive retail sector, that I would like to make three
19 points.

20 First, my Union was extremely surprised by the decision of
21 the Office of Fair Trading to refer the Morrisons bid to the
22 Competition Commission. Tesco currently lead the market with a
23 turnover of around 25 billion. Sainsbury's follow with 18.2
24 billion. Asda are third with 11.5 billion. Then Safeway and
25 Morrisons at 8.7 billion, and 1.7 billion respectively.

26 My point is that the acquisition of Safeway by Morrisons
27 would produce a new corporate body which an appropriate 10.5
28 billion turnover and very significantly a fourth major food
29 retailer in the position to challenge and compete with the
30 remaining Big Three. It would have around 20 per cent. of total
31 national market share which is slightly behind Asda and then
32 Sainsbury's, and some way short of Tesco's 32.5 per cent. of
33 national market share.

34 In other words, a new corporate body well able to inject a
35 serious competitive edge into a market increasingly dominated by
36 fewer and fewer players. In our view, instead of minimising
37 competition the acquisition of Safeway by Morrisons would give

1 customers, suppliers, and employees a real four choice in a
2 market currently dominated by only three major businesses. I
3 would also add in passing that an acquisition by Morrisons would
4 also mean relatively fewer store disposals to satisfy local
5 competition needs.

6 My Union quite naturally believes that the Commission
7 should make an assessment of any proposed acquisition which
8 relates to its impact on the Safeway workforce. A healthy market
9 should benefit employees as well as customers.

10 A number of possible takeover options would involve
11 substantial store sell offs and job losses that would have a
12 detrimental effect on local economies.

13 Morrisons have already stated that they do not expect job
14 losses amongst store staff. They have also given assurances that
15 employment terms and conditions, including pension arrangements
16 would be protected in a successful merger, and it is our
17 principal view that the workforce and local communities in and
18 around Safeway stores should see Safeway's future being resolved
19 in a manner that minimises disruption of job losses and stores.
20 It is for these reasons that we would recommend to the
21 Competition Commission that Morrisons should be the preferred
22 company in the acquisition of Safeway.

23 My second point refers principally tot he possible
24 acquisition by Asda Wal-Mart. We have already submitted our more
25 detailed views in writing to the Commission, but I just want to
26 make clear here today my Union's very deep concerns about the
27 impact which Wal-Mart can and does have, not only on local
28 competition, but on nationwide competition as well.

29 Wal-Mart is an extremely large, wealthy and powerful
30 corporate entity. It can, in my Union's view, and does abuse
31 that wealth and power. In our view, any assessment of an
32 acquisition that has an unhealthy impact on competition must
33 look at how the company in question uses, and perhaps abuses, a
34 lead position in a market.

35 In our view there is much more than enough evidence of
36 Wal-Mart's impact on local and national competition to suggest
37 its bid should not be allowed to succeed.

1 Thirdly, I have already covered my Union's views on two of
2 the bidding companies and offered our support to the Morrisons
3 bid, but I realise that there are two other interested parties
4 as well. Should the Commission choose to consider either Tesco
5 or Sainsbury's as a favoured bidder, then we would urge you not
6 to disregard Tesco solely on the basis of its current leading
7 market share. We have a long and healthy relationship as a Trade
8 Union with Tesco, in fact, one of the most modern, far reaching
9 partnership agreements, and a detailed understanding of its
10 relationship not only with its staff but also with its
11 suppliers.

12 It is that experience that leads us to testify to Tesco's
13 proper performance and behaviour in the market. So if the
14 Commission were minded to consider existing market share as a
15 determining factor in its eventual decision, we would urge them
16 not to be unduly distracted by changing percentages and
17 arbitrary thresholds. In our view, there is no evidence to
18 suggest that either Tesco or Sainsbury's ever would abuse their
19 positions in pursuit of healthy competition.

20 Sir, that concludes my three principal points around these
21 issues. My Union would be very please to elaborate on them
22 further at any other time if that would be helpful and I thank
23 you for your time and attention today.

24 MR HANDLEY: My name is Mike Handley, chief executive of McBride
25 Plc. I should declare that we supply all the potential bidders,
26 and the receiver of the bid.

27 I would just like to make a couple of comments. In the
28 European and more so a global context the UK itself is, of
29 course, a local market and takes on a different context in the
30 local issues we are discussing here today. From our perspective
31 in McBride it is by far the most professional, efficient, and
32 quality focused retail market in the world, and we include
33 Australia, South Africa and the United States in our
34 comparisons, not just Western Europe.

35 As I have said, McBride supplies not only all the UK
36 retailers but also all Western European retailers in all
37 countries and we have operations in all those countries. The UK

1 is at least, **at least** I stress, as intense in its competitive
2 terms and behaviour as any other retail market we trade in,
3 including France and Germany. Germany was commented on by one of
4 the speakers. Germany is worth a comment where hard discounters,
5 better known as "Aldi" and "Lidl" in terms of fascia names, plus
6 others, have over 30 per cent. of the market and which has grown
7 rapidly in the past three years. Hard discounters are purely
8 price focused, and very basic in their offer, with limited
9 ranges, limited facilities, and a shopping experience based upon
10 pure price, we supply them.

11 This kind of competition has been helped in Germany and
12 the conventional UK style of mixed retailing is not helped
13 because of significant regulatory intervention in retail freedom
14 of opening outlets and protection of small retail outlets.

15 The second point I would like to make is that all of the
16 potential bidders have addressed the inquiry today and, of
17 course, that is the scope of your inquiry, and I have not heard
18 one of them say that prices will go up in Safeway stores post-
19 acquisition. So the retailer is looking at offering better value
20 which ever one succeeds, whichever composite solution may
21 eventually take place. But there is a bidder outside of the
22 inquiry's reference and I would like to make a comment about
23 that because all of these retailers that are bidding will be
24 able to realise synergies whether they be buying synergies or
25 structural synergies, or operational efficiency and scale
26 synergies. In McBride's view a financial bidder would not have
27 such synergies available to him. He would, however, need to
28 lower his prices. He would need to be more competitive and I
29 would worry significantly about the employees, about the
30 communities and about the suppliers in particular having to fund
31 a financial bid.

32 Thank you for listening to my comments.

33 MR BRETMAN: Chairman, thank you. Good afternoon ladies and
34 gentlemen. My name is Ian Bretman, I am deputy director of the
35 Fair Trade Foundation. My organisation operates the Fair Trade
36 Mark, which is an independent guarantee that products from
37 developing countries have been produced sustainably and traded

1 fairly. A big part of this is a guaranteed minimum price that
2 covers the real cost of production for producers in developing
3 countries.

4 We are part of an international standards and
5 certification network that works with around five million people
6 through 350 organisations in 36 countries and Fair Trade
7 products are sold in 17 countries across Europe and North
8 America. In Britain sales of Fair Trade products have increased
9 by around 40 per cent. a year for the past five years, and
10 consumers spent £63 million on quite a narrow range of product
11 in hot beverages, fresh produce etc. in 2002. So I am asked to
12 speak today on behalf of both the producers that we work with,
13 but also the consumers - perhaps "citizens" might be a better
14 word - who support our work.

15 I would also like to note that we seek to work very much
16 in a partnership with retailers, and I believe we have developed
17 effective partnerships with all the national supermarkets. We do
18 not want Fair Trade to be charity. We aim for sustainability,
19 and we see that as meaning viability for the retailer and value
20 for consumers as well as a fair deal to producers. That approach
21 has enabled us to achieve distribution of Fair Trade products in
22 virtually all national supermarket chains. The extent to which
23 they are stocked partly I think reflects the customer
24 demographics of those chains, but also their marketing
25 philosophy. Some supermarkets have taken a lead on Fair Trade,
26 some have responded as the market had grown, some have been
27 quite resistant to the idea.

28 But while we can guarantee that Fair Trade products are
29 bought at a fair price in a wider context we have to say that we
30 have seen the increasing concentration of retailing combined
31 with a very heavy priority on price as a competitive tool,
32 leading to a consolidation of suppliers at a wholesale level,
33 but also intense price pressure passed back along the supply
34 chain, ultimately reaching primary producers who can least
35 afford it.

36 I am not suggesting that there was any deliberate strategy
37 by supermarkets to drive farmers out of business, or to

1 disregard the human rights of workers. Many of the national
2 supermarkets actually take a very positive approach to trying to
3 improve standards through organisations like the Ethical Trading
4 Initiative, and in partnership with the Fair Trade Foundation.
5 But I do think that it is very hard for individuals within the
6 context, within the culture of a national supermarket chain to
7 understand fully the needs of small farmers - especially small
8 farmers in some of our poorest countries in the world who have
9 so few options in today's global markets, that they have to try
10 to continue in business at all costs. If supermarkets do not
11 like the price they were offered for a product there is always
12 somewhere else they can go. For many of the producers that we
13 work with, if they lose the supermarket's business they cannot
14 sell at all.

15 I would like to just give a brief illustration of this in
16 terms of bananas, which is one of the key products that we work
17 with. It is not only Britain's favourite fruit, I believe it is
18 still the highest value grocery item sold by the supermarkets,
19 behind only petrol and lottery tickets.

20 We estimate that the top three supermarket multiples
21 account for over 50 per cent. of banana sales in this country.
22 Over the past 18 months, since December, 2001, the retail price
23 of bananas generally has come down from about £1.08 pence per
24 kilo to about 81 pence per kilo, and there are indications that
25 supermarkets are seeking to reduce that even further.

26 We estimate that the price that suppliers receive in this
27 country - that the ripeners and distributors receive - has
28 fallen from over 70 pence per kilo to under 50 pence per kilo.
29 That means that of the 27 pence per kilo saving for consumers,
30 only around 5p has been funded by retailers. The crazy thing
31 about this from our perspective is that we cannot see who wins
32 out of this. Banana sales have not increased. Market shares have
33 changed only marginally. Supermarkets have not made any more
34 money. The supply chain of bananas is not making any more money
35 - we are not sure the consumers have even noticed the price
36 difference but for many farmers and workers around the world
37 these price cuts are stretching marginal living standards to the

1 absolute limit.

2 So in that context we are very concerned about further
3 consolidation of the supermarket sector. I think a previous
4 speaker has mentioned that the power that the supermarkets have
5 in the British market brings with it responsibilities, and while
6 we acknowledge that many companies are making very strong
7 efforts to acknowledge those responsibilities, what we see is
8 that they are always doing this with an eye to the competition
9 and when competition is not just about price this can have a
10 positive effect on all sorts of social, environmental issues. We
11 have seen with Fair Trade products that competition can help to
12 increase sales, as retailers compete to be at the forefront of a
13 trend that interests consumers, and even the average performers
14 will respond to this over time, but when price is the overriding
15 factor we think that it is very important that there are
16 mechanisms to protect the leaders in responsible retailing from
17 the average, and the average from the people for whom price is
18 the beginning and the end of everything, and we very much hope
19 that the Commission will take these issues into account in its
20 deliberations.

21 Thank you.

22 MR RAE: Mr Chairman, can I thank you for the opportunity to speak
23 to the Commission today. My name is David Rae, and I am chief
24 executive of the Association of Convenience Stores. ACS
25 represents 30,000 convenience stores throughout the UK. Our
26 members are multiple retail groups, independents trading through
27 buying groups and under symbol fascias, and also independents
28 who operate independently in their own right.

29 Throughout our membership we have a concern based on all
30 the bids under consideration by the Commission. It seems evident
31 from what has been said today that to a greater or lesser extent
32 there will be some divestment of stores as a result of
33 acceptance of any of these bids. The most likely beneficiaries
34 of this divestment of stores will be the unsuccessful bidders,
35 which only strengthens their hand and creates larger companies
36 with more buying power. We have also heard today how at least
37 two of the bidders are moving into the convenience sector, and

1 it is a major concern to our members that the enhanced buying
2 power that will be represented as a result of the acquisition of
3 the Safeway chain will bring that extra buying power, and focus
4 it on the convenience market.

5 We believe that the Competition Commission should ensure
6 safeguards are in place to protect smaller operators, their
7 customers and particularly the communities that they serve. Now,
8 this can be achieved, we believe, at least as a starting point
9 by introducing a ban on persistent, below cost selling backed by
10 transparent pricing from manufacturers. This would follow on
11 from the identification of this problem by the Commission itself
12 in the year 2000.

13 It will create therefore, opportunities for retailers to
14 work together to achieve better buying prices while protecting
15 them from the excesses of below cost selling. It will also,
16 through transparent pricing, create a basis upon which below
17 cost selling itself can be judged and looked at.

18 Thank you very much for the opportunity.

19 MR McCARTNEY [Thomas Food Partnership] Good afternoon. I am Chairman
20 and part owner of a food manufacturing company based in South
21 Yorkshire. We supply the major retailers with a range of chilled
22 pastry and party products. Over the last 10 years since the
23 company was founded we have supplied all the companies involved
24 in this inquiry and are currently supplying products to Safeway
25 and two of the bidding companies.

26 Over the last 14 years I have also been involved in
27 corporate rescue and appraisal work on behalf of a number of
28 venture capital companies across the food manufacturing
29 industry.

30 We are supporting the Morrison bid on the basis of two
31 specific public interest issues.

32 Firstly, it is our contention that the creation of a
33 fourth strong retail group will provide better short and long
34 term opportunities and support for a larger number of innovative
35 and creative SME manufacturers.

36 It is critical for the survival of new food companies to
37 have a retail listing. They must have a sufficient level of

1 sales to service the heavy initial set up investment and also to
2 meet high costs of producing to the stringent Technical and Food
3 Safety Standards necessary. Clearly, any market rationalisation
4 limits the number of potential buyers to approach, but four
5 equal groups would certainly be better than three.

6 A strong, vibrant diverse manufacturing base is essential
7 for the health of the UK food industry. New start-ups and
8 developing SMEs are the life blood of our industry and therefore
9 need to be nurtured and carefully considered when major
10 structural changes are being contemplated.

11 In order to be successful each new start-up must have a
12 point of real difference, enthusiasm, unshakeable determination
13 and some good fortune. In return they offer retailers a stream
14 of innovative product concepts:

- 15 • to meet the desire of customers for new products and higher
16 quality,
- 17 • to maintain the status of our retail market which is regarded
18 as amongst the best and most innovative in the world.

19 Secondly, the creation of a fourth strong retail group
20 with a different selling proposition will add significantly to
21 consumer choice.

22 To allow any of the three larger bidding groups to enhance
23 their respective market shares through the acquisition of
24 Safeway would merely provide more of the same. The Morrisons bid
25 allows the rapid extension of a different retail style across
26 the country. Their retail philosophy is uncomplicated,
27 distinctive, and offers a proven selling proposition which a
28 wide range of customers have found appealing.

29 It could be argued that a contributory reason for Safeway
30 being a current bid target is that they have failed to find a
31 clear retail identity for their customers despite several new
32 formats and strategies. In the same period Morrisons have shown,
33 through their corporate results and their very high Stock Market
34 rating that they have found a successful formula which suits
35 both consumers and investors.

36 I have expanded further on these points in a written
37 submission. Thank you.

1 MR LOUVEAUX [Friends of The Earth]: Thank you, Mr Chairman, members
2 of the Panel. I am standing in for Pete Riley who,
3 unfortunately could not stay. I work in the legal department of
4 Friends of the Earth. As the Competition Commission is well
5 aware of from its supermarket report of 2000, there is a problem
6 within the supermarket sector, namely, one of a complex
7 monopoly.

8 The supermarket report identified a number of areas where
9 this operated against the public interest. It sought to make a
10 number of recommendations and those recommendations were acted
11 upon by the Secretary of State in introducing the Code of
12 Practice.

13 It is the Friends of the Earth position that the Code of
14 Practice has made no difference whatsoever. Therefore, Friends
15 of the Earth is extremely concerned that the proposal is now to
16 increase the concentration of the major players within the
17 supermarket industry even further if any one of the bids was to
18 go through. Four companies would, between them, control 75 per
19 cent. of grocery shopping.

20 Now, the Code of Practice was referred to by the OFT in
21 recommending that the Competition Commission look into these
22 mergers. It declined to comment specifically on the Code of
23 Practice saying it was outside of its remit. It is Friends of
24 the Earth's position that it is very much within the remit of
25 the Competition Commission to look at the effectiveness of the
26 Code or, as Friends of the Earth would put it 'the
27 ineffectiveness of the Code'.

28 Friends of the Earth has recently conducted its own survey
29 of farmers. Of the 161 responses from farmers, over half of the
30 farmers who responded were unaware that the Code existed. The
31 overwhelming view of all farmers is that the Code has made no
32 difference at all. It is very much for the Competition
33 Commission to satisfy itself as to whether the Code of Practice
34 has made any change at all in the supermarket sector. The reason
35 Friends of the Earth submits that it is very much within the
36 Competition Commission's remit is that in order to assess the
37 likely impact of a merged Safeway with one of the other

1 supermarkets you have to consider whether the Code of Practice
2 would have any effect on that merged entity. It is Friends of
3 the Earth's position that it is unlikely to have any impact at
4 all because if one looks at the factors that were identified by
5 the competition Commission in its 2000 report those factors
6 still exist today and nothing in that respect has changed. But I
7 would invite the Competition Commission to satisfy its own mind
8 as to whether indeed the Code of Practice has had an effect, and
9 whether it would have an effect on any merged supermarket entity
10 containing Safeway.

11 Lastly, just to raise why Friends of the Earth is
12 concerned in the first place. It is concerned in the first place
13 because the increased buying power of what would then be four
14 major supermarkets does have an effect on suppliers. This does
15 have a knock-on effect on consumers as the Competition was well
16 aware, mainly in terms of reduced choice, but I need not go
17 through the various points raised in the Supermarket Report. It
18 does have an impact on the environment, and it does have an
19 impact on local economies. All of this was contained more or
20 less in the Supermarket Report of 2000, so Friends of the Earth
21 would very much encourage the Competition Commission to consider
22 the Code of Practice and whether or not it would be effective or
23 not, and we would invite the Competition Commission to conclude
24 and have a look at certainly our research that shows that it has
25 had no effect whatsoever, and that there is still a complex
26 monopoly and that allowing any of these mergers to go through
27 would only make the matter worse.

28 Thank you very much.

29 THE CHAIRMAN: Thank you. It may help if I just respond in terms of
30 our approach to the Code. Clearly, if any of the individual
31 mergers raised concerns about relationships with suppliers, but
32 those were concerns that should be dissipated by the existence
33 of the Code, presuming it is working effectively, and then at
34 that point whether the Code is working effectively would become
35 relevant to this inquiry, but it is only, I think, if it is in
36 the context of a proposed bid that we would look at that.

37 The second point is just to say, as I think many of you

1 may know, the Office of Fair Trading is currently looking at the
2 effectiveness or otherwise of the Code, so that certainly is
3 being examined by the competition authorities.

4 A third point I should just stress is that the Code covers
5 relationships between the supermarkets who are covered by the
6 Code, and their immediate suppliers. The investigation by this
7 Commission in 2000 was not able to look at the whole supply
8 chain - that was not part of its remit, and therefore, it is
9 possible, of course, that there are people in the supply chain -
10 in particular maybe farmers - if they do not deal directly with
11 supermarkets whose immediate relationships are therefore not
12 covered by it. But all of that we will certainly be
13 considering.

14 MR LOUVEAUX: In your considerations will you be taking into account
15 the sales' performances of existing stores, because that is
16 probably the best indicator we have for how the consumer thinks.
17 Secondly, will you also be considering the ability of each of
18 the retailers to successfully implement their integration
19 strategy and thereby release the synergies to the consumers and
20 the lower prices that all of them are promising. What assurance
21 do we have that they will be delivered?

22 THE CHAIRMAN: I think all I can say at this moment is that we would
23 certainly consider any submissions that related to those two
24 points, but I would not be able to express a view on whether
25 that would influence our final findings at this stage. It is
26 simply not something that we would have as yet considered.

27 MR EVANS [CONSUMERS' ASSOCIATION]: I now know what it is like to
28 be a motivational speaker! I do apologise for being a little
29 late this morning, but no invitation from the Competition
30 Commission can make my daughter dress any more quickly in the
31 morning! [Laughter]

32 What I am going to focus on now is essentially the issue
33 that I raised first thing this morning. The first point I would
34 like to make, which I think has been emphasised a number of
35 times already is that this is, in a sense, "it" for many years
36 to come. What happens in this merger will decide the shape of
37 this sector for, I would assume probably a decade in terms of

1 the ability of anyone else to get into the market and make a
2 significant organic growth, given the existing shape. So we have
3 to get it right and it is an enormously difficult job to do.

4 I think all of us who have worked on this from any of the
5 parties, or any of the advisers, or any of the poor members of
6 the panel, there is a phenomenally difficult merger to work on.

7 What I would like to focus on really is what does it mean
8 for consumers? What does competition mean for consumers on a
9 national basis and on a local basis and how do the two interact.
10 I will end with a question to the bidders on that basis.

11 Our view is very much that it is a combination of two
12 factors, the first of which is just simply the stores that you
13 can visit - how many can you get to in a given time frame, and I
14 know everyone is mentioning the dreaded word "Isochrones" and I
15 do not have a favourite Isochrone system - I know everyone does
16 have their own favourite isochrone, it is definitely for the
17 aficionados that one. But it is definitely the choice that you
18 have as a consumer of the number of fascia that are out there.
19 But I think also importantly the effectiveness of that
20 competition. I think that was something brought out in the OFT
21 work, again for the aficionados, the numbers equivalent
22 Herfindahl index. But it is very much "how effective is the
23 competition out there? It is not just that you have a number of
24 places to go, but that you have effective competition which
25 effectually gives you a decent choice.

26 So for us the question, in looking at the mergers is do we
27 want to aim for the least negative of all of the bits - or
28 those bits that have the least negative implications, or do we
29 want to go for the most positive. In a sense it is the
30 difference between the lowest common denominator in terms of
31 investments or the highest common factor in terms of positive
32 benefits to consumers.

33 That brings us back almost again to a numbers issue - in
34 many ways this all boils down to numbers. If we have got four
35 can we keep four? And, generally, four is better than three, and
36 I think in most competition analysis and most markets it is
37 better to have more than fewer as a base line. That is not to

1 say that having three alone is wholly negative and I think the
2 work the Competition Commission did under the complex monopoly
3 inquiry showed that actually three can work quite effectively
4 and the nature of those three can have a significant impact upon
5 the strength of that competition, but logically it is more
6 likely that having four is going to be better for consumers in
7 terms of both aspects of the choice both in terms of the number
8 of stores to visit and the effectiveness of the competition.

9 So on balance we feel that the best local competition does
10 combine that effectiveness and the numerous local fascia and the
11 choice is what is the likelihood amongst the bidders that that
12 choice will emerge, or that choice will stay in the sense of
13 having that effectiveness and that wide choice with three large
14 is relatively small, where the chance of having that with four
15 large is significantly better. In many ways it is a very simple
16 argument. It may be an enormously complex and analytical
17 process, but it is a relatively simple argument.

18 I have a question to the bidders about the national
19 pricing policy - it is hopefully not a trading secrets question
20 - but on what basis are national prices set. This is what I was
21 trying to raise earlier this morning. If national prices are
22 set on the basis of a cost-plus argument, in the sense that you
23 have a margin on top, how comfortable is that margin and what is
24 the basis of that comfort? Is the basis of the comfort the
25 degree of competition you face in local markets and the number
26 of multi-market contacts you have with other retailers. If that
27 is the case - it may well not be the case - but if that is the
28 case what does this merger mean for the ferocity of competition
29 that will be faced in multi-market situations, and therefore
30 what impact will that have on the comfort factor in the margin
31 above cost that sets the national pricing policy. Therefore,
32 will national pricing policies become lax as a result of this,
33 or will they become tighter, and will those margins become
34 tighter?

35 Thank you.

36 MR DONALDSON: I am Harry Donaldson, I am from the GMB National
37 Trade Union. We are here obviously with vested interests and I

1 am obviously going to make that point clear at the start. We
2 have members within both Asda and Safeway within the regional
3 distribution sector.

4 In terms of listening to the debate and presentations this
5 morning, it was maybe slightly difficult there in terms of one
6 of my colleagues, and maybe slightly inappropriate language in
7 terms of the context in what you were saying that Asda has been
8 driving the competitive performance in the competition by
9 growing market share, and the comment was used that that was
10 "used and abused". I do not think I actually heard that from any
11 of the presentations this morning in terms of the major players,
12 so maybe that was slightly inappropriate language.

13 My comment really is based on the concern that everyone
14 has talked about people being key elements in this whole process
15 and being a trade unionist you would expect that I would come
16 from that perspective. I would like to suggest that in terms of
17 the Commission considering all the bids, we also consider the
18 fact that the major players should be requested as part of that
19 process to put some form of local plan in context within that in
20 terms of the basis of the divestments, and the potential impact
21 for people involved in communities, in terms of their economic
22 and social stability. So I think from our perspective it is not
23 coming out and saying any preferred bidder, it is the issue
24 about at the end of the day the Commission will always take into
25 consideration everything that is there, but the key factors have
26 to be about people, employment, choice and communities, and that
27 has already been touched on. We would hope that that would be
28 something that the Commission would seriously consider in all
29 the bids.

30 MR CLARKE: I am Jack Clarke. I work in the research department in
31 the Transport & General Workers Union. I would like to make a
32 couple of points highlighting where the T&G stand on this. We
33 are the largest food Union in the UK, and obviously our members
34 work throughout the food chain and have a considerable interest
35 in the outcome of any acquisition of Safeway. The T&G seeks to
36 take account of the best interests of all its members, and
37 recognises that the offer made by Morrisons does provide a good

1 geographical fit.

2 However, we feel that the final outcome may be determined
3 at a higher price range. Our members within the agricultural
4 industry are particularly anxious about consolidation within the
5 sector. We would prefer to see a situation where Sainsbury was
6 given the go ahead to grow its business by a total acquisition
7 of the Safeway business. In our view this would bring it to a
8 size no larger than the existing largest company in the retail
9 food supermarket sector.

10 Our reasons for favouring Sainsbury's include they
11 recognise the need for a healthy domestic agricultural industry,
12 they place great emphasis on buying British products. We are
13 impressed with the partnerships they have developed with the
14 domestic, dairy, and poultry industries, and we strongly support
15 their focus on quality.

16 In respect of Wal-Mart, our colleagues in the United
17 States, the United Food & Commercial Workers' Union have had
18 many concerns, where they have a reputation for being strongly
19 anti-Trade Union in their activities.

20 Finally, the decision the Competition is taking will shape
21 the food retail industry for many years to come, and we
22 sincerely hope that you bear in mind the representations that
23 we have made.

24 Thank you.

25 MR THOMAS: My name is Ian Thomas, I am a shareholder in Safeway.
26 We have focused a lot on what has happened if someone takes over
27 Safeway - who it might be, what might happen. I would like to
28 urge the Panel to look at what happens if nobody takes over the
29 company?

30 Most of the statistical references are from a T&S
31 presentation to the "Grocer" conference held in February this
32 year. The strategy that Safeway has is a high/low price
33 strategy. Most of the items you will find in a Safeway store are
34 a higher price than, say, Asda or Sainsbury's. Their strategy is
35 to bring the customers in with a unique low priced offering on a
36 very low line of goods.

37 From what T&S were presenting they are saying a typical

1 customer at Safeway comes in just to buy those goods
2 specifically. The one they mentioned as an example was customers
3 buying as much as a kilogramme of coffee at one time because it
4 was on offer.

5 I know a little bit about competition theory and I know
6 that there is a significant lessening of competition - I know
7 the two theories that people look at are rogue prices and the
8 effect that they have, and I think probably Safeway is in that
9 category. There is also the doctrine of failing firm, where you
10 allow a merger which might otherwise be anti-competitive because
11 there is a danger that the firm in question might go bankrupt,
12 and I would not suggest for a minute that Safeway is in that
13 category, but as the gentleman from the Consumers' Association
14 mentioned, "this is it for the next 10 years".

15 What I would urge the Panel to think about is what happens
16 in 10 years' time? Will we all be here again, looking at a
17 takeover of Safeway, but a very lessened Safeway given that its
18 strategy seems to be, on the basis of the finances anyway, not
19 as successful as, say, Tesco.

20 One final point, and I think Sir Peter Davis mentioned it
21 during his presentation, when he left Sainsbury's Tesco and
22 Sainsbury's were a similar size. Now obviously Tesco is
23 substantially greater on a number of measures. Clearly Tesco are
24 doing something right, and I am not advocating who buys Safeway
25 at all - I have no particular view on that. But clearly someone
26 is doing something right, and someone isn't. All I would urge is
27 that you give proper consideration to no action being taken and
28 the effects there.

29 As I said, the other thing, I guess everyone here is a
30 customer of one of these stores at least at one time in their
31 lives. I live a good easy 10 minute drive from a Safeway and I
32 would not pretend that I do the shopping in my household but as
33 a family we would not dream of going there, it is just the
34 offering, it is the perception of the store.

35 To sum-up, as I said, I have no axe to grind, I am a
36 shareholder in the company - it would be nice to see it go for
37 the highest price possible [Laughter] but, as I said, I would

1 urge you to think about the effect of doing nothing or, rather,
2 in your case blocking all the bids. Will we be here in 10 years'
3 time looking, or maybe even bemoaning the death of Safeway?

4 Thank you.

5 THE CHAIRMAN: I think in view of the time I would like to give the
6 four bidders an opportunity to respond to the extent that they
7 wish to. Sir Terry, do you wish to comment on any of the points
8 raised at all?

9 SIR TERRY LEAHY: Just very briefly on some of the issues around
10 price that were raised. I think in terms of hearing the
11 contributions, you hear the accusation that supermarket prices
12 were not low enough from one contributor, and the accusation
13 that they were too low from another contributor, and I think
14 this is a very familiar pattern. It is extremely difficult. The
15 Commission will have at its disposal a whole body of information
16 that allows it to look, as it did in 2000, about the movement of
17 prices of the goods that we sell over time, and decide whether
18 in fact prices are coming down as a result of a competitive
19 market, and whether in fact cost savings are being passed on to
20 consumers.

21 On the Consumers' Association point about how our national
22 price is set, in our case we do have a national pricing policy,
23 the price is the same in all Tesco stores irrespective of the
24 competition. The objective is to reduce prices. In a sense it
25 is an never ending journey, it is played out over a very
26 extended period of time. But competition is not about price
27 alone and that is something that has come out today, I think.

28 Our pricing policies nationally are always set in the
29 context of an overall offer to consumers or groups of consumers.
30 You are actually concentrating on maximising the value for money
31 mix as was used by the 2000 inquiry, rather than any one
32 dimension, and the objective of that actually is to win customer
33 loyalty over time. I hope that is helpful, that is the approach
34 we take in setting national prices.

35 Finally, on farming, I think all of the supermarkets, and
36 this was picked up by the gentleman from the Fair Trade
37 Association, do recognise the enormous difficulties that the

1 farming industry has gone through in the last several years. I
2 think farmers in the UK had their record ever income in real
3 terms as recently as 1995 and, of course, all of the
4 supermarkets represented here today were their main customers in
5 1995. But what has changed in that time, of course, is much of
6 their income (which comes in Euros) has been reduced in value.
7 They have had the tragedies of foot & mouth and BSE to deal
8 with, where many of their export markets were closed, and also
9 additionally the appreciation of sterling has meant that imports
10 are cheaper.

11 What I would say is that in my experience all of the
12 supermarkets, not just one or two, have done what they can in
13 difficult circumstances, whether it is during BSE or Foot &
14 Mouth, to react responsibly. It is in our interests to make
15 sure that there is a healthy innovative, energetic supply base,
16 providing a good choice, but overall safe food to consumers.

17 SIR PETER DAVIS: You will be pleased to hear that I am not going to
18 repeat any of the points I have made already, I am just going to
19 deal with a couple of the questions that arose.

20 On Consumers' Association and pricing we would be very
21 happy to sit down and go through again with CA our pricing
22 policy. We have a national pricing policy. We also charge
23 slightly higher prices in our convenience stores because of the
24 cost of operating, but we clearly demonstrate that with a brand
25 name difference.

26 It is a balance, it is not about cost-plus - clearly not
27 about cost-plus - it is about balancing a competitive pricing
28 offer to the customer and in our case significant investment
29 because of our need to catch up on investment in our
30 infrastructure supply chain and at the same time balance the
31 demands of shareholders in the City. It is a balance between all
32 of those things, and we would be happy to go through that again
33 and supply information to the Commission if they wish.

34 I thought the banana question was a very good one. I think
35 it is worthy of further study because I think it demonstrates
36 one of the questions that has been asked today. The issue on
37 bananas has arisen because of the fantastic buying power that

1 Wal-Mart have and doing what I believe to be a single deal with
2 a central American country, have been able to drive down the
3 consumer price - in the interests of consumers, lower price -
4 but the net effect on other countries that produce bananas has
5 been significantly detrimental.

6 I do think that, not at the last minute at this meeting,
7 but I do think it is worthy of some investigation. Low prices
8 but at what cost is an issue which I think needs to be
9 addressed.

10 I thought the question concerning pigs was a very good
11 one too. In Sainsbury's we still sell 97 per cent. of fresh pork
12 as "British Fresh Pork". Bacon, I am afraid, has slipped from
13 those sort of percentages some years ago and it demonstrates the
14 dilemma that all of us have in the retail trade. There has been
15 a shortage of herds of pigs in this country for various reasons.
16 There has been less UK supply of product. There has been
17 plentiful supply from Danish and Dutch pig farmers at
18 considerably cheaper prices. Do we say to our consumers "You may
19 only have British product available at higher prices"? No, of
20 course not, we say to them "There is a choice". We have British
21 product in every variety and an alternative imported product at
22 what is often a lower price reflecting those lower cost prices
23 to us, and then the customer makes the choice. I do not see
24 what other role the retailer has in that, but I would be very
25 happy to discuss that in more detail at any time.

26 Finally, the point about labelling that was raised is a
27 good one - in the Curry Commission we recommended that should be
28 addressed. I do not believe that any of the four companies here
29 do it, namely, to bring in imported product and claim it is
30 British produced because it has been either processed or
31 packaged in this country. It does happen in some parts of the
32 trade - I do not think it applies to any company here. It is
33 something that we ought to give more information to the consumer
34 about where the base product was manufactured or grown, and then
35 where it was processed. It is perfectly possible to do it, and
36 many of us already do it, and I think it is probably something
37 which is outside the remit of this Commission, but it is

1 something which I know that DEFRA and the Food Standards' Agency
2 are looking at and I think it is a very good point.

3 The last point that was made by the questioner is a very
4 good point. I am not sure if it is possible to put Safeway back
5 in their box after this extended process and I think we do have
6 to look at - at the Competition Commission and other places -
7 whether there is an alternative and viable future for Safeway
8 alone, or whether the combination of a couple of bidders in some
9 way or some break up of the business in a controlled manner in
10 the interest of local competition would, in some way, be better,
11 but that may be outside the brief of the Competition Commission.

12 THE CHAIRMAN: Thank you. I should just say that we have had some
13 submissions relating to the supply of bananas, and also to say
14 at the time of the last Commission report we did look into this
15 somewhat curious issue of product that was sourced from overseas
16 but was nonetheless described as British because processing
17 occurred here. My understanding was that the Government was
18 looking at that, but we will have to see whether that has
19 continued. I doubt, as you say, that it would relate directly to
20 this merger proposal.

21 SIR KEN MORRISON: I would like first of all to declare a slight
22 interest. I am a very small and extremely unsuccessful farmer
23 in my spare time, so I do have a sympathy with the farming
24 community. My in-laws are also good farmers, producing pigs and
25 else in the dairy industry and they are not doing too badly at
26 the moment. It is a sustainable business.

27 One thing that is always overlooked in Britain is the
28 climatic disadvantage that we have. If you talk to one of the
29 old-fashioned rural farmers, not an industrial farmer, he will
30 tell you that the only crop that you can grow in Britain
31 competitively is grass! (Laughter) We are not able to grow oil
32 seed economically, we cannot really grow corn competitively, so
33 the future of the farming industry is not entirely in the hands
34 of the supermarket business. It is a much wider ranging
35 problem.

36 The question of setting prices is a fairly simple exercise
37 really because, as retailers, we are purely an agent between the

1 producer, the grower, the supplier and our customers. There are
2 two ways of getting to the pricing situation. We have to earn a
3 living if we wish to stay in business and there are two ways of
4 getting there. You can do it in sympathy with one another,
5 recognising the problems, or you can do it in conflict. Our
6 policy is always to try and achieve the first. We do have our
7 moments, we have to admit that, when people appear to be
8 unreasonable, but most of these things are resolved very
9 amicably and the question of setting margins is really what
10 value can we offer to the consumer, because that is our prime
11 role in life. We don't really have any other purposes. It is a
12 very simple business when viewed like that.

13 I think that concludes my remarks. Thank you for the
14 time.

15 THE CHAIRMAN: Thank you. Finally, Mr DeNunzio.

16 MR DENUNZIO: Perhaps I could just pick up some of the points that
17 were raised without repeating the points which have previously
18 been covered; there were one or two direct comments, I think,
19 about Asda and Wal-Mart.

20 First of all, we have a recognition agreement with the
21 GMB; we do not have a recognition agreement with USDAW. The
22 UK's best place to work: we could not have achieved that if we
23 treated our colleagues badly. We have won that award and we
24 have been in the top ten in the Sunday Times for the last three
25 years. In the latest survey we came seventh. We were top for
26 flexibility and in a more recent survey, which was done by the
27 Financial Times, we remain one of the top ten employers in
28 Europe and the top employer in the UK. You do not achieve that
29 by treating your workers or your colleagues badly. That is very
30 simple.

31 Moving on to one of the other points that was raised
32 regarding farming, I think all of us collectively try and
33 support the farming community. As I mentioned in our
34 submission, over 90 per cent of the fresh meat that we sell we
35 buy in the UK, and often we buy it in the UK when the price is
36 higher in the UK than it is abroad to support British farmers.
37 We are particularly concerned about improved labelling, as Sir

1 Peter mentioned, and we recently have re-launched our labelling
2 programmes to make sure that the customer can see very clearly
3 that the product is produced in the UK and is British. So they
4 can make that choice.

5 We are members of the ethical trading initiative and we
6 clearly support that move. It is very important to us. Many of
7 our stores sell Fairtrade bananas. In our switch of banana
8 suppliers, yes, we did reduce the price to the consumer so the
9 cost saving that we achieved directly benefited the consumer.
10 The supplier is currently Del Monte. They have not reduced the
11 terms to their growers and they have not reduced the wages to
12 their employees. It is the customer that has benefited and the
13 growers and the employees have not been disadvantaged by a
14 switch in supply base.

15 On the code of practice, as I mentioned, we are happy for
16 the code of practice to be reviewed. Our business model EDLP is
17 actually the spirit of the code of practice. We have one net
18 price, not lots of re-negotiations, don't keep going back asking
19 for money, agree the price, share information, take costs out of
20 the system and then drive prices down to customers. So we
21 support that review.

22 The final point which was made by the Competition
23 Commission: whoever wins Safeway, prices will come down and the
24 consumer will win, and that has to be good news, whatever
25 happens. So I think the consumer will be the winner at the end
26 of the day.

27 Thank you for listening.

28 THE CHAIRMAN: Thank you very much. I think it just remains for me
29 to conclude.

30 Let me first say thank you very much to everyone who has
31 contributed. It has been a very interesting morning and we have
32 clearly had a very wide range of views expressed and a very wide
33 range of issues have been raised. I hope that will be helpful
34 in terms of the further stages in the investigation that we will
35 be holding with the main supermarkets and with other interested
36 parties.

37 Perhaps I will just say a little bit more about where we

1 go from here. Most immediately, the Commission members will be
2 available for a press briefing in about five minutes' time. We
3 are moving towards preparing, as we regularly do, an issues
4 statement summarising what appear on the basis of the initial
5 submissions to be the key issues in these bids, and today of
6 course has been very helpful in forming our views for that.
7 That will be published fairly shortly. We will be conducting a
8 series of private hearings, both with the main bidders and with
9 any other interested party who has a major point or points to
10 raise with us.

11 If we reach the point where we think that remedies might
12 be necessary - and, of course, we are nowhere near reaching
13 finding on that point yet - then we would again publish a
14 statement about possible remedies - there has been discussion
15 today about store divestments and so on - so that any such
16 proposals or discussion would go into the public domain and
17 allow people to comment again.

18 As I mentioned at the beginning, we are aiming to complete
19 this report by the deadline given to us, which was 12th August.

20 You will have seen that there are a very substantial number of
21 issues and, even taking just one, namely local competition,
22 there is a huge amount of detail involved, so it is going to be
23 quite difficult.

24 I was going to say by way of light relief - I am not sure
25 I should say that - you will have heard of the famous isochrones
26 that are drawn round 2,000 or 3,000 stores in the UK. We think
27 it now is possible, because of advances in databases and
28 technology, actually to draw isochrones round every individual
29 household in the United Kingdom, approximately 25 million of
30 them, and carry out our local Competition Commission analysis on
31 that basis. So, just as you have understood your textbook on
32 store isochrones, you have to move on to what are called
33 consumer-centric isochrones. Please pass the aspirins!

34 (Laughter)

35 We will attempt to deliver all that by the deadline. I
36 hope we can. May I end by reiterating my thanks to all of those
37 who contributed. Thank you.

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