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Information relating to the Competition Commission's investigation of the supply of groceries by retailers in the United Kingdom

Oxfam is submitting evidence to the Competition Commission about the supply of groceries in the United Kingdom. We urge the Competition Commission to specifically investigate the impact of supermarket buyer power on suppliers, in particular those based overseas.

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Background to Oxfam's submission

Oxfam conducted research in June-December 2003 with fresh fruit and wine producers in South Africa and Chile who were supplying UK supermarkets, among others. Oxfam's research aim was to understand the extent to which supermarkets are placing pressures on their suppliers and in what ways producers are passing these pressures on to their workers in the form of more precarious terms and conditions of employment. Many of the quotes and findings that arose during our research are relevant to the issue of the code's implementation, or to other supermarket practices that are ultimately undermining workers' rights.

Our research found that while retailers expect producers to meet their ethical codes of conduct on labour standards, these retailers own purchasing practices – such as imposing additional costs and risks on suppliers, requiring flexibility in ordering, and demanding products under high time and speed pressure – undermine producers' ability to meet these very labour standards.

Farmers and pack house managers pass the supply chain pressures on to workers as poor terms and conditions of work. As one South African fruit farmer interviewed summarised the situation, "*the only ham left in the sandwich is our labour costs. If they [UK supermarkets] squeeze us, it's the only place we can squeeze.*" The pressure is typically passed on to workers in terms of:

- increasing use of temporary contracts despite long term employment
- lower piece rate pay and long hours
- poor health and safety conditions especially for temporary workers
- poor relations with and respect for trade unions and other workers' organisations.

All of the information provided below is drawn from Oxfam's research in 2003 and is all in regard to UK supermarkets, unless otherwise stated. It is either quoted directly from producers and suppliers (indicated by quotation marks) or is presented as reported speech.

Examples of UK supermarkets' excessive power over and pressure upon overseas producers and suppliers:

1. Lack of agreed prices, and hence price cuts without reasonable notice

Quote from a fruit supplier in South Africa:

“UK retailers are driving fresh produce prices down to bring people into their stores. There are no price guarantees for suppliers or growers. Fresh produce is marginal in the UK now”.

Quote from an apple farmer whose exporter is selling to UK supermarkets:

“The thing with the fruit is that they have a projected price. Then a month later that is down: the price is down because of the war, because there is too much fruit, whatever. Then the demands are for fruit that has bi-colour; both red and green.... In terms of the fruit business: you have some exporter over there who sees that the market is oversupplied and says: I’d better get rid of the fruit and so he drops the price. Then he comes back to me and says, ‘Sorry, the market was oversupplied and this is the only price I could get’”.

Quote from a wine producer in South Africa:

“We are out of supermarkets. It’s not because of trade barriers, it’s really that we don’t want all our eggs in one basket. They are also so frivolous when it comes to ordering. They will say that they want 10,000 cases and then suddenly they don’t want any of your wine.

There is also no relationship with them. You end up dealing with wine buyers and they prostitute themselves to retailers. Your only contact with retailers is through buyers. Unless you are a really large brand like Jacob’s Creek where they need you; then things are different.

So we have made a conscious decision to stay away from retailers. It’s also because what they can do to your brand. £5.99 a bottle is an important price point; they have very little patience with it and if it doesn’t sell they will discount it. They will destroy your position and your pricing. It also makes the smaller outlets upset when you are supplying both; it means that the same wine is selling much cheaper in the [supermarket?] stores.

Interview with a South African fruit supplier:

The pre-packer acts as a category manager and adds value through final packing of the fruit into small promotional packages. Farmers find that the pre-packer is the gatekeeper for [Supermarket A]. [Supermarket A] does not allow farmers to supply more than one of the major pre-packers. This restriction increases [Supermarket A]’s control over competition by keeping the pre-packers competing with each other on price (and also ensures [Supermarket A] has diverse supply in case of shortages in one country)

Interview with a South African avocado producer (X):

X is pushing for a seasonal minimum price rather than one that is set in response to the market. Currently, market prices, which are set while the avocados are being shipped, are extremely problematic for farmers who, having shipped, have no bargaining position. Under the current pricing structure, X is not provided with any proof of the price that the agent receives from the supermarket. He is only aware of

the selling price once his payment arrives in South Africa, as told to him by the agent. –

Quote from a former senior buyer of meat at [Supermarket C]:

“Promotions – buyers may know they will miss the profit target so instead they go all out to get their turnover target so they run promotions at short notice. they are competing with other supermarkets but also with their own colleagues selling pears. Poor practices don’t happen all the time. It is when there is seasonality or the end of the financial year – external pressures then the buyer is under pressure and all these things happen.”

2. Excessive post-delivery time for payment of orders

Quote from an apple farmer in South Africa:

“50% of the fruit goes to supermarkets (some indirectly). The thing is that payment terms for the supermarkets are 120 days, which is way too long – we want 14 days maximum. It’s always difficult to get money out of them. So we sell to someone else who will pay upfront, though you do lose the commission.”

3. Retailers attempt to restrict suppliers from selling to their competitors

Interview with a South African apple and pear farmer:

Apples are commodities, and commodities survive on supply and demand. Oversupply means the price does not rise. You have to have an export market. You need a relationship with an exporter who has a programme. Retailers are reducing the number of suppliers. [Supermarket B] has one category manager. Retailers determine whether service providers can sell to their competitors (depends if they are seen as a threat or not). They’re moving away from supplying to selling.

Quote from a South African table grape grower:

“We have met all the technical and social standards in [Supermarket A]’s code but instead of buying more of our fruit, they still go to other farms around here that have not. And then they ask why we are supplying their competitors. What do they expect us to do?”

Quote from a fruit supplier in Chile:

“They [UK supermarkets] have different packing standards, different boxes, each supermarket has its own box. The English are very annoying. They are interested exclusively in their own business, they do not want me to sell to another supermarket: Either I sell to him or I sell to him. If I want to sell to another supermarket, I hear: “Well, then stay with them.” What have we done? In the end, we have reached an agreement because we also have to

diversify our own risks; we cannot rely on only one customer. We are making a box for [Supermarket A], a different one for [Supermarket C], and so on. We are identifying different boxes, which implies complex logistics. Well, such are the barriers they impose.”

4. Demanding unreasonable prices, or raising requirements for no additional price.

Quote from a South African apple pack house manager:

“The worst thing for us is the additional requirements that retailers give us. Now they want the fruit packed in a plastic tray and that becomes expensive. They also chip and change their minds constantly. It takes us a month to get the fruit there, but it takes them two minutes to change their mind. Then they tell us there is no market for galas and that we need to change our supply; that galas aren’t really selling. And then the only thing we can do is dump it somewhere else... They also change prices: £1.49 is the price then suddenly they put it on sale and make it 99p. Then they sell it in bulk. The [technical] codes of conduct don’t cost us half as much as these things do.”

Quote from a South African wine producer

“The [UK] supermarkets are promotion driven. They ask producers, “So what proportion of your costs are going to promotions?” Australia[n wine producers] learned horrible lessons. The first question they ask you is: do you have a promotional budget... They were billed some ridiculous amount for promotions and it actually broke the farm. The UK specialists [ie wine specialist stores] are different. They allow promotions but don’t force it. In 1998 we went in and out of [Supermarket C] but otherwise we are not in the supermarkets. We went in and had to honour the order. But at the London Wine Fair the buyer started trying to negotiate with us to reduce the price points. We compromised, but stopped supplying after that. In the US the distributors deal with negotiating with the retailers. They go to the agent to discuss, and there is no direct contact with the producer. The retailers there don’t sell under cost.”

Interview with a South African exporter of citrus fruit:

UK retail is difficult. Europe is completely different – more flexible and not as saturated – also they do not have such high compliance and quality standards. International producers are finding it harder and harder to supply the UK. Codes of conduct, quality, packing, pricing and other stipulations make it very difficult for the farmer to make a profit. This supplier is wondering if the farmers will choose to shift their supply to Europe and feels that if the Japanese or Chinese markets open up, most farmers would prefer to supply them.

At the beginning of the year the retailer will set a programme with the Category Manager. It will stipulate the quantity and quality required throughout the season. Often the retailer will set a ceiling price. For example grapefruits will be sold by the

retailer for no more than 19p/each during the entire season. The farmer must agree to this price ceiling. The price security only works in favour of the supermarket- 'one-way fixed price'. It there is a shortage of supply and the price of grapefruit goes up, the farmer will still only receive the farm gate value for a grapefruit that is sold by the retailer for 19p. However if there is a surplus in supply and the price of grapefruits goes down, the farmer will be expected to offer a promotion which will enable consistent sales for the supermarket.

Quote from a UK based supplier of fresh fruit from South Africa and Chile:

"What they ([Supermarket A]) are beginning to understand is what are the true costs – this is happening now, where they have to understand the true costs of production and the supply chain and the prices that have sometimes been negotiated are below cost. And they have to appreciate that. And I think that is something that is coming more and more to the fore. We're involved with suppliers around the world who are getting involved with this value chain – we had a meeting recently and it's a good debate to have so they (the multiples) actually realize what the true costs are involved and what the prices actually mean. It's important that they know what the costs are. They start negotiating prices which are below production costs - that can't continue because you are going to force guys (growers) out of business."

Quote from a South African table grape producer:

"[Supermarket A] wanted us to change their grape packaging from open to sealed bags. The new bags were three times as expensive – from 2.8 rand to 8 rand per carton. And the productivity in the packhouse went through the floor because it took workers twenty to thirty percent longer to seal those bags. But the price stayed exactly the same – it wasn't even discussed. And then the other supermarkets all demanded it too. That's the way it goes."

5. Product orders changed or terminated with unreasonable notice time

Quote from a South Africa wine producer:

"I have exported through [Supermarket A] but also through buyers in Holland (Gall & Gall). Gall & Gall sell to wine shops (4 500 cases) and is our biggest stable customer. [Supermarket A] is very different. Our brands are X and Y. But we couldn't register the brand in the UK because someone had already done it in the early 1990s. Then the English company started selling its wine here and in the UK under the Z label; wine that it had sourced and bottled here. They were sourcing low class wine from the co-ops here and bottling it. They were also shipping it to [Supermarket C] and [Supermarket A]. We could have shut them down if we'd wanted to but instead we decided to negotiate with them. Let's do a deal: you can continue to sell here but we want to get our wine into the UK. So they agreed and they sent in their flying wine maker associated with IWS. So the organisation would buy the wines, not under the X and Y label but under two new labels, A and B. In the first year it was 1680 cases and in the second it was up to 3267 cases. We really thought we were on a run here.

“But suddenly one day after two years [Supermarket A] decided to discontinue the Rylands label; after two years growth. Then they requested Shiraz under the A label (a [Supermarket A] label) and they wanted our wine for that brand. They got the flying wine maker to make the wine, but he did it in a very different way to our wine maker. He used higher filtering methods and essentially took the guts out of the wine. They did it at Stellenbosch Vineyards. During this time the local market for Shiraz grew, and we ended up running short of Shiraz for this deal. We hired a farm in the Devon Valley with grapes and we farmed his Shiraz for the A label because the grapes did not have to come from our farm for that label. The agreement with the farmer on the Shiraz was for three years. After a year of supplying [Supermarket A] with Shiraz they decided to discontinue the A brand. Bottles of Shiraz with plastic corks were then sitting at Stellenbosch Vineyards with no place to go. Luckily the bottles hadn’t been labelled so we can still put another label on them, but they do have plastic corks, which was [Supermarket A]’s demand and the wine was produced under their standards and specifications. Now local agents have to sell that wine with plastic corks, which is difficult. We were never paid for the wine and now it is stuck in our warehouse. It also has a different wooding than we would have liked and it has this plastic cork. We use the lowest filter necessary that allows us to give the wine some body; they used excessive filtering and took the guts out of the wine because that’s what they think their customers like. We’ve also had to discontinue farming that farm with the Shiraz. We only had verbal contracts with IWS so we had no legal case. In the meantime, [Supermarket A] has discontinued all three labels (A, B and Z).”

“All our other markets involve very strong trust based relationships. But with the chain stores it is impossible to establish those relationships. They don’t know you personally, and shift as they wish. They’ll just drop you, actually they don’t really drop you they drop the label. Now we’ve got three years of Shiraz and no market for it. “

Quote from a South African wine producer:

“With the UK supermarkets, we don’t distribute to them because you become flavour of the month to them. Marketing is a personal thing. In the big supermarkets, buyers don’t remain for long. Suddenly the buyer that you have developed a good relationship with goes to lingerie and the new buyer likes Chilean wine better. So the house brand now goes to Chile.”

6. Absence of written contracts

Quote from a South African producer of high end wine:

“I’ve been selling in the UK for 25 years (mainly on-consumption), but really to the retailers since the end of sanctions. I export 60%. Eight buyers cover the whole of the UK so they are more aggressive. The business doesn’t have contracts; it’s all based on a gentleman’s agreement. They are obviously in a

better bargaining position. They dictate terms. In Germany things are different because there are 50 buyers there and the market is much more fragmented. They don't have as much leeway to pressurise producers.”

Conclusion

From this research, Oxfam found that UK supermarkets are clearly making excessive demands on overseas producers and suppliers. Their purchasing practices illustrated above – in terms of cost of risk, time and speed of delivery and uncertainty of demand – have very clear implications not only for the viability of the producers' business but, further, for respect for workers' rights.

In the light of these findings, Oxfam urges the Competition Commission to include the impact of supermarket buyer power on suppliers, in particular those based overseas.

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