

**Traidcraft Policy Unit
Unit 306
16 Baldwin's Gardens
London
EC1N 7RJ**

**Tel: 020 7242 3955
Fax: 020 7242 6173**

Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD
Email: groceries@cc.gsi.gov.uk

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Dear Mr Freeman

Competition Commission investigation into Groceries Market - Amended

Thank you for the opportunity to make a submission in relation to competition issues in the grocery market.

1. About Traidcraft

Traidcraft is one of the UK's leading fair trade organisations. Traidcraft was established in 1979 and comprises two operational organisations: the trading company Traidcraft plc and Traidcraft Exchange, an international development charity.

Traidcraft plc sells food, household products, soft furnishings and clothing from nearly 100 producer groups based in 31 countries in Africa, Asia and Latin America. It had a turnover of £16 million in 2004/5, including sales into supermarkets totalling some £2.2 million. It also sells to independent retailers and wholesalers and so is able to compare supermarket purchasing behaviour with that in other channels.

Traidcraft Exchange is an international development charity whose work spans capacity building amongst producers in developing countries, promoting market access for small producers (including into the UK market), policy development and advocacy. Through its Policy Unit, Traidcraft Exchange seeks to influence government policy and business practice in the North and the South to the benefit of the poor in the developing world.

Traidcraft received a Queen's Award for Enterprise: Sustainable Development in 2006. It also received the ACCA's award for the Best Social Report produced in the UK in 2005. These awards indicate recognition of the quality of our work alongside small producers, and in particular highlighted the quality of our stakeholder dialogue processes.

2. Supplier feedback on the impact of supermarkets on suppliers in developing countries

Traidcraft believes that it is possible for trade to reduce poverty in the right circumstances. However we are concerned that the dominance of a few retailers in the UK grocery market is extremely problematic. In the UK four supermarkets have approx 80% market share of the food sold. Tesco has more than 30% of the UK groceries market.

These few supermarkets effectively control suppliers' access to UK consumers. Suppliers have increasingly less choice of who they sell their products through, and so increasingly accept unfavourable terms 'proposed' to them by supermarkets. In this situation of imbalance, supermarkets are able to pass disproportionate risks onto their suppliers, who then pass risks onto workers and smallholders/farmers.

Evidence of this has come from overseas suppliers who have raised the following concerns with Traidcraft. These practices all have implications for people working in supermarkets' supply chains:

- Changing volumes at short notice (e.g. final order volume may only be communicated through to a supplier at 11am on the day of a night flight to the UK. The fresh produce to be air freighted will have had to be harvested the day before the final order specification is made, on the basis of a supplier's estimate);
- Agreeing the value of a delivery of products after delivery;
- Demanding 'loyalty' donations from suppliers (e.g. when a retailer or individual buyer is about to miss their profit target);
- Lack of transparency and poor communications about what is stocked in the shops and what is not, and how promotions are run;
- Disproportionate and unclear charging for customer complaints;
- Invoices are not paid in full, but sometimes deductions which have not been agreed are made from payments;
- Refusing to enter into long term contractual relationships;
- Finding fewer buyers for their products (retailers and first tier suppliers of the retail sector), as the market has consolidated;
- Finding the remaining few buyers in the market want large volumes, which small-scale producers are unable to supply.

Traidcraft Exchange has been working to increase market access for developing country products into the UK market, particularly from small-scale producers. However once such overseas suppliers have gained access to the UK market they have found themselves to be part of an extremely unbalanced trading relationship – this not only increases poverty in developing countries but also reduces the competitiveness of the UK retail market.

- Consumer choice is reduced because small suppliers are prevented from supplying supermarkets, in part due to unreasonable demands and practices by the supermarket. For example, slow payment or the expectation that suppliers have expensive IT systems to link into supermarkets' systems.
- Suppliers selling into supermarkets are unable to plan effectively, and feeling more vulnerable as they lack a diversified sales base, become less likely to invest in production.
- Suppliers find themselves earning less than the cost of production owing to purchasing practices by supermarkets associated with changes to terms and promotions. This has implications for how these suppliers in turn treat their workers and suppliers, and undertake product development.
- As suppliers realise lower returns from dominant supermarkets, suppliers will seek to reduce their costs (by standardising their product offering) and so increasingly will offer less choice to their customers (resulting ultimately in less choice to consumers).

3. Comments on previous investigations/reviews of grocery sector

The Competition Commission Report in 2000 listed 52 kinds of abuse. The OFT's 2004 review of the Supermarket Code of Practice found that 80 to 85 per cent of respondents claimed the Code has failed to bring about any change in supermarkets' behaviour. This means respondents perceive that abuses by supermarkets are still continuing. The current Code is not an effective mechanism for dealing with supermarket/supplier relationships: suppliers' dependency on supermarkets to sell their products to the majority of the UK public makes them unwilling to raise a complaint. In particular, concerns remain in relation to payment times and prices, as explained above.

4. Our conclusions

4.1 The existing OFT Code is failing to protect overseas suppliers or to promote decent working conditions for workers in the developing world

The supermarket sector is so concentrated it is difficult for overseas suppliers not to trade with supermarkets if they want to sell into the UK. This reduces the suppliers' ability to resist the practices prohibited by the Code. Suppliers tend to respond in three ways:

- They charge higher prices to other retailers, if they can, to balance their books, leading to an uneven market place for consumers;
- They find other ways to reduce costs, which inevitably involves cutting corners e.g. health and safety, labour standards, and quality;
- They reduce their product offering to reduce their cost base, resulting in less choice for consumers and reducing their ability to develop sustainable diversified businesses.

The UK Government promotes market access, but when developing country producers start to supply the UK supermarkets they are often forced to accept prices below the cost of production, to cover the cost of discounts, and to make 'donations' at the whim of the supermarkets. This will act to counteract the benefits that trade should bring to producers in developing countries.

The public exposure of extensive labour rights abuses within supermarket supply chains has not led to any major voluntary improvement in labour standards. Traidcraft has witnessed this lack of improvement through our involvement in the Ethical Trading Initiative. In fact the purchasing practices of retailers undermine the ability of suppliers to bring about labour standards improvements when suppliers receive less than the production cost for products sold.

Paying the cost of production is a key enabling factor if labour rights (set out in the International Labour Organisation's core conventions) are to be respected overseas. These labour rights cover working hours, regular employment, non-discrimination and child labour. However as supermarkets pay less and have shorter lead times this directly leads to longer, unpredictable working hours, and such low wages that children in families may be compelled to work to contribute to the family's income. For example, bananas are among the highest volume items sold in supermarkets, and yet the prices paid to suppliers make it impossible to pay workers a living wage on some plantations supplying the British market. Trade in this context is increasing rather than reducing developing countries' vulnerability.

4.2 Supermarket entry into convenience store sector should be resisted

The grocery market is one market, and cannot legitimately be separated into convenience and supermarket sectors. (A customer is unlikely to buy milk or bread in one type of shop and then repeat purchase the same item because it is a different shop format). Supermarket entry into the convenience store sector has increased the market share of the largest retailers, enabling them to make more demands of their suppliers. It has led to smaller buying groups, reducing the ability of smaller convenience stores to compete on price and threatened their survival. As more independent and smaller convenience stores are taken over or close this in turn reduces the opportunities for overseas suppliers to access the UK market and reduces the choice available to consumers.

5. Our recommendations to the Competition Commission & HMG

The implications of inaction on public policy (reduced consumer choice; poverty impacts from un-balanced supply chains) are so severe that the Competition Commission and HMG need to establish mechanisms to reduce the imbalance of power between suppliers and supermarkets and protect suppliers in the grocery sector.

We believe that excessive concentration of the retail market is creating a major imbalance of power with detrimental effects on both consumers and suppliers and that it is therefore appropriate to explore a competition policy solution.

We call on the Competition Commission to explore the following options:

- **Implementing a stricter, more tightly worded Statutory Code of Practice.** This would help to protect supermarket suppliers and counter restrictive business practices.

- **Establishing an independent Retail Regulator to enforce the Code.** Any solution needs to recognise that in the current context where supermarkets have so much power, suppliers need a form of 'witness protection'. Under the current system suppliers must put their livelihoods at risk if they report a complaint, as the complaint has to go through the retailer and may lead to de-listing of their products. An independent regulator would allow suppliers to bring forward complaints in confidence. Such a regulator would be proactive, independent and would maintain the confidentiality of the suppliers. The establishment of a Regulator might be backed up by a fund to compensate suppliers who are de-listed as a result of an investigation.
- **Re-evaluating the percentage of market share a single retailer is permitted.** Retailers with too great a market share, who are thereby able to exercise "Buyer power", should be required to sell retail outlets to reduce their market share, and therefore ability to exercise buyer power. (Buyer power can be defined as the point at which a supplier is unable to say no to a 'request' from a supermarket buyer. The Competition Commission 2000 report suggested Buyer power could be exercised at 8% market share.)
- **Increasing co-operation with competition authorities in other countries.** This would better facilitate joint investigation between UK and source countries into reports of abusive practices applied to suppliers in source developing countries by supermarkets with sales outlets in the UK. In addition, we believe there may be useful learning for the UK about control of Buyer power from competition authorities in France, Indonesia, South Korea, USA and South Africa.

I hope you find this response helpful. As a small-scale supplier to supermarkets and as a supporter of small businesses overseas we would be happy to discuss these issues with you further.

Yours sincerely

Fiona Gooch
Policy Unit
Traidcraft

For more information about Traidcraft – please visit our website www.traidcraft.co.uk, or contact the Policy Unit directly.