

Supermarkets

Summary of two texts:

1. Myriam vd Stichele:

The challenge of the role of supermarkets for sustainable agriculture and trade related issues

The increasing role of supermarkets in developed

In developed countries, supermarkets might distribute up to 83% of the food (as is the case in The Netherlands in 2003 as compared to 77% in 1995[2]).

Recent mergers and acquisitions have reduced the number of supermarket brands per country. As a result, the major market share of retail in many developed countries is in the hands of 4 to 5 supermarkets. This level of concentration is yet far from being reached in most developing countries. However, in Latin America, roughly 60-80% of the top five supermarket chains are now multinationals that operate globally[4], such as Wal-Mart.

Buying power of supermarkets

The above trend has weakened the bargaining power of farmers and food producers and given enormous power to supermarkets to make deals to their advantage and abuse their dominant market position. For many producers and farmers, supermarkets have become their only possible outlet. For fear of losing their business, many farmers and producers accept some of the low prices offered by supermarkets and sell with low or no profit margins. In contrast, supermarkets often take very high margins on the fresh fruit and vegetable products they sell. In order to attract clients, price wars to compete against rival supermarkets sometimes take place in the fruit sector, for instance bananas. Producers however effectively bear the cost of the lost profit margin. Many farmers, domestically or abroad, are too disorganised to prevent the abusive supermarket practices. The ability to set prices and conditions is called "buying power" of supermarkets.

Fresh fruits and vegetables are increasingly being sourced through arrangements of direct and (semi-)permanent relationships with producers ("preferred suppliers"). When fruits and vegetables are imported,large farms are those most likely to meet the quantitative requirements.

Moreover, supermarkets are increasingly imposing high standards related to safety of the consumers and to meet some of the environmental and labour concerns expressed by consumers. EUREPGAP is an example of a private standard set by a group of European supermarkets. Existing forms of small farmers' organisations are sometimes not accepted for group certification by EUREPGAP. ... the losses from low prices or lost sales can be passed by the farms to their agricultural workers.

On the other hand, in cases where sales are guaranteed by the supermarket, farmers in the South might be offered attractive prices, transport to a guaranteed export market and perhaps financial or technical assistance. These conditions are appealing for farmers.

Supermarket buying power has led to particularly abusive practices[6], especially for processed food and other industrial products, such as:

- Payments to be on the list of suppliers ("listing"), and threats of (de)listing from the suppliers list.
 - Paying for advertisements, price actions and new openings of supermarkets.
 - Payment by producers (!) of a percentage of the sales by the supermarket over the year of their goods.
- A new trend is that supermarkets have created their own brands.....As a consequence of this new trend, even large food processors such as Unilever are losing profits. Again, this might have consequences for producers of the primary products.

Relationship with trade

Although, global production in fresh fruits and vegetables has expanded at a high rate since 1990, international trade in fresh fruit and vegetables still only accounts for just over 5% of global production. This means that the impact of the buying power of supermarkets is larger on producers or farmers at the domestic level. However, trade in FFV is growing more rapidly than any other agricultural commodity[7]. In many countries, including developing countries, supermarkets might find it easier to source from imports rather than from local producers. For instance in Africa, supermarkets often sell imported UHT (long life) milk in tetra packs rather than fresh milk from local small farms.

.....However, when (developing) countries liberalise supermarkets under GATS[8], governments are bound to rules that prevent them from taking measures that they might see useful when abuses and negative consequences occur. For instance, Art. XVI of GATS forbids limitations on the number of service suppliers or service operations in the form of numerical quotas. This means that governments cannot stop foreign supermarkets from rapidly expanding by creating regulations that limit supermarkets to a certain market share or a certain number of outlets per supermarket. So developing countries should try to avoid allowing supermarkets to enter their markets according to the GATS rules.

Cargill, ADM and Bunge currently dominate 90% of the world trade in grain. While they were able to establish that these companies control most of US trade in grain, but figures on the firms which have very large parts of world trade are hardly publicly available.

In other words, while the WTO negotiates world wide liberalisation of agriculture, the world agricultural markets are already structured in uncompetitive and integrated ways so that there will be hardly free markets or markets where prices for agricultural products are set. Liberalisation and phasing out subsidies might imply that the dominant firms and supermarkets will be able to source from around the whole world as cheaply as possible.

Challenges ahead

The trends described above bring new challenges. Different instruments and other trade policies will be needed to address these challenges.

► Instruments will need to be developed to deal with abuses of buying power. This could be done through changes in national or regional competition policy and much beyond, including a set of different kind of instruments that protect small suppliers, farmers and farm workers.

► Private standards are a barrier for supply of small producers to supermarkets. What are the best strategies to remove these barriers? Better help small farmers to get organised to meet the private standards? Is it possible to increase prices or improve sourcing malpractices through corporate social responsibility (CSR) (maatsch. Verantw. Ondernemen) initiatives? Would governmental standards be better which would need to be best addressed internationally and locally, with reciprocal acceptance measures and support for developing countries to implement and check the standards? Should there be international standards for fair contracts?

- Can consumers be used to press for CSR initiatives or political changes?

► There is a lack of transparency in world domination, concentration and (informal) price setting by supermarkets and multinational trading and processing companies. A lot of information is not publicly available and public authorities have shown little interest to work out the information or act on it if they have it. This has important consequences on how the agricultural negotiations are being conducted.

► The TNCs currently dominating the food market are buying up big organic/biological farm products outlets (clear example: Ben & Jerry's ice-cream bought by Unilever) so they might dominate trading in organic products as soon as it becomes profitable or mainstream._

► If trade liberalisation is strengthening the interests of TNCs, what would be needed in trade policy from the perspective of current WTO negotiations, short term reform and long term food sovereignty? **(Guus)**

This paper was written by Myriam Vander Stichele based on SOMO's current and ongoing research on critical issues in the fruit and vegetable sector, from a perspective of poverty eradication and sustainable development.

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[1] See amongst others: <http://www.agribusinessaccountability.org/>; <http://www.regoverningmarkets.org/>; B. Vorley, *Global dynamics of grocery retail restructuring: questions of governance. Regoverning Markets Issue, Paper 1*; L. Abugattas, UNCTAD 2004.

[2] E. Baas e.a., *Rabobank View on Food & Agribusiness 2004 – Changes in the food system*, Rabobank International, September 2004, p. 19.

[3] B. Vorley, 2004, based on research from in 18 developing countries in the “Regoverning markets” project.

[4] *Ibidem*.

[5] See for instance OXFAM International, *Trading away our rights -Women working in global supply chains*, 2004.

[6] See for instance: J. Blythman, “Shopped”; F. Lawrence “Not on the Label”; C. Jacquiau, *Les coulisses de la grande distribution*, Paris (Albin Michel), 2003

[7] The figures come from: E. Baas e.a., 2004, p. 7, 56.

[8] In GATS jargon: “make commitments” in the distribution sector without exceptions in the “schedules”

[9] See for instance: E. Baas e.a., 2004, p. 15

2, UKFood group:

The supermarkets have a lot of power nowadays. They are the buyers, and the ‘customer is king’, as the saying goes in the Netherlands. If you are allowed to supply them with goods, if you are on their ‘suppliers’list’, you are safe. That gives them power.

If a supplier is dropped by one of the big chains (de-listed), it is often difficult or impossible for the supplier to find another buyer. There are few other outlets for high volumes of grocery products, except the big supermarkets.

The threat of de-listing gives the supermarkets an overwhelming advantage in negotiating power over their suppliers. As the UK’s Competition Commission (CC)¹ put it, there is “a climate of apprehension among many suppliers in their relationship with the large retailers”.² Suppliers give in to supermarkets’ pressure out of fear of losing their main outlets.

Supermarkets’ effect on suppliers

Supermarkets regularly take unilateral action to the detriment of suppliers, for example, by requiring suppliers to make payments or concessions to gain access to supermarket shelf space. There are numerous examples described in detail in paragraphs 2.460-2.550 of the CC Report on Supermarkets 2000. The CC Report grouped these practices into 8 categories shown in Table 1.

Table 1: Supermarket practices concerning relations with suppliers

¹ The UK’s Competition Commission was instructed by the government to investigate anti-competitive practices carried out by the big retailers and reported back in 2000.

² see paragraph 1.9 of CC Report on Supermarkets 2000

Category of Practices	Number of practices	Number of retailers engaging in practice (min - max)	% of practices against Public Interest
Payments for access to shelf space	8	5 - 13	50
Imposing conditions on suppliers' trade with other retailers	2	1 - 4	0
Applying different standards to different suppliers	1	3	100
Imposing an unfair imbalance of risk	12	1 - 12	83
Imposing retrospective changes to contractual terms	8	1 - 7	75
Restricting suppliers' access to the market	1	10	100
Imposing charges and transferring costs to suppliers	8	2 - 13	63
Requiring suppliers to use third party suppliers nominated by the retailer	2	2 - 11	50

Numerous other supermarket practices, in particular selling below cost³ and price flexing⁴, are also severely damaging to smaller retailers and smaller suppliers and have adverse knock-on effects for consumers.

Effects in the Global South

..... The required standards and large volumes make it difficult for small farmers in the South to supply them, thus marginalising them from export opportunities.

Concerns about retail outlets:

Independent specialist shops are forced to close..... The distance travelled to shops increases (pollution)....Price differentials between the big three in Britain and smaller retailers are much bigger than can be justified by larger quantities, so smaller retailers can't compete -.... The wholesale sector (grossiers) has become marginalised.

In 2000, the competition Commission recommended a Code of Practice which listed 12 provisions (e.g. retailers should not request suppliers to contribute to the retailers' costs'.)

In response, the Office of Fair Trading negotiated a voluntary code of practice for the four large supermarkets. Many of the 12 original provisions were weakened. The same OFT concluded in 2003 that this voluntary code was not working, probably mainly because the suppliers didn't dare to complain. The OFT now suggests a detailed independent audit. That will probably be released in Feb. 2005-09-12

Civil society groups are pleading for a law which would put this code of practice into a legally binding form, and for an independent supermarket watchdog. They have used supplier case studies to highlight the 'human' story., which have increased media interest. The alliance website is www.breakingthearmlock.com

They give examples from laws regulating supplier / retailer relations from 7 countries (not the Netherlands).

³ Retail price resulting in a negative gross margin

⁴ In which a supermarket chain sells the same products in different shops at different prices in order to gain a competitive advantage locally (e.g. it may sell more cheaply where there is a rival supermarket in a locality and more expensively where there is not)

5. What is needed?

It is clear that there are concerns about growing retailer power throughout the EU and beyond. There is a need for responses to be decided, and appropriate measures adopted, at national level. However, as the larger supermarket chains (like Tesco, Carrefour, Ahold and Walmart) are expanding to become pan-European and even global operators, rather than merely national chains, we believe that there is a need for NGOs and producer organisations to respond to this trend by themselves developing an international alliance, starting with Europe. This would need to focus, in particular, on the issue of buyer power, with the aim of influencing the European Commission to take action on some or all of the following points:

- Below cost selling (banned in many countries already);
- Predatory pricing;⁵
- Transparency of purchase prices (so that consumers can see the disparity between what farmers or other suppliers receive for their produce and what the supermarket charges);
- Unilateral changes in contract terms at short notice (which can devastate small suppliers);
- Demanding discounts which are not justified (a widespread practice, at least in the UK);
- De-listing without adequate cause (widespread in every country);
- Limiting acquisitions of smaller stores by large supermarket groups.

Also, NGOs could object to the European Commission's and the member states' support of the expansion of European supermarkets into developing countries through the current GATS negotiations in the World Trade Organisation.

Building alliances across Europe

Members of the UK Alliance would like to work with other organisations to curb supermarket power. In the short term, we specifically want to raise awareness of the issues at the EU Parliament and, in turn, exert pressure on the EU Commission to do something to address our concerns. Three UK MEPs from the Green Party, the Labour Party and the Liberal Democrats have expressed an interest in submitting a "Written Declaration" at the European Parliament. If 50% of MEPs support this declaration a debate in the parliament will be automatically triggered and the Commission can be pressurised to take action to address the concerns expressed. We hope that organisations in other EU countries will want to help us to encourage their national MEPs to sign up to the Declaration, so that this 50% target can be achieved.

We are also keen to share our experiences and support others trying to introduce legislation at the national level. In return, we would welcome information on your national campaigns/initiatives to tackle supermarket concentration.

We are planning a meeting in Europe in **June 2005**, in conjunction with the Agribusiness Accountability Initiative (AAI)⁶ forum and would like to invite representatives from organisations concerned with supermarket power from as many EU countries as possible to attend this meeting.

⁵ Cutting prices aggressively to force short run losses on existing competitors

⁶ AAI is an international network of activists and researchers concerned about the increasing concentration and market distortions in the agri-food industry www.agribusinessaccountability.org

We have established an email discussion AAregulatingsmks@yahogroups.com to share strategies and help build an EU-wide alliance of civil society groups. **To join please email judith@jwhateley.fsnet.co.uk.**