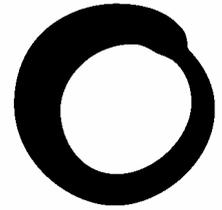


February 2003



**Friends of  
the Earth**

# Briefing

# Super markets or corporate bullies?

## Introduction

Supermarkets have been growing at an astonishing rate since the first ones appeared in the early 1950s. They are extremely popular with consumers, claiming to offer us a wide variety of cheap, convenient food. But do they really do this? And at whose expense? Supermarkets now wield a formidable power over both their suppliers and their customers; a power that appears to be frequently abused to dictate terms and prices to their suppliers and eliminate competition.

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## Super markets or corporate bullies?

### The UK Market

The top five supermarkets control over 70 per cent of the grocery market in the UK. The share of trade expenditure is Tesco (25.8 per cent), Sainsbury's (17.4 per cent), Asda-Walmart (15.9 per cent), Safeway (10 per cent), Morrisons (5.9 per cent)<sup>1</sup>. Tesco, Sainsbury's, Asda-Walmart and Morrisons are all currently vying to take over Safeway, which would further consolidate the power within the supermarket sector.

There have also been moves into the convenience store sector, with the rise of Tesco Metro, Tesco Express and Sainsbury's Local stores on the High Street. Tesco have recently added to their power in this sector with their takeover of the convenience store chain T&S stores, which includes the "One Stop" and "Day & Nite" chains. Objections were raised by the Institute of Asian Businesses and the Association of Convenience Stores, as well as environmental campaigners, but to no avail. The takeover was given the go-ahead with no detailed investigation, despite the impact it is likely to have on consumer choice and local economies.

### Global Retailers

Supermarket power is not limited to the UK. Globally the world's top 25 retailers control 16 per cent of worldwide retail sales, but by 2009 it is predicted to rise to around 40 per cent<sup>2</sup>. According to the Grocer magazine, Walmart's sales for 2001 topped \$218 billion, surpassing Exxon-Mobil for the title of the world's biggest company in terms of sales. Walmart owns over 3,000 stores in the US and over 1,000 in South and Central America, Asia and Europe.

Tesco has set its sights beyond our shores, claiming to be a market leader in six countries. It has acquired the Polish hypermarket business HIT, giving Tesco a "leading position" in Poland. It is expanding rapidly in Thailand with a target of 45 hypermarkets by the end of 2003, and recently opened up its first store in Malaysia. Tesco is also in talks with a Turkish hypermarket group, and is keen to expand into China and Japan<sup>3</sup>. However, it has not always had a smooth ride when trying to apply its 'one size fits all' approach to the global market. Tesco's head of international supply chain admitted that "*we tried to find products that would appeal to large numbers of people in different countries. We forgot that consumers weren't like that.*"<sup>4</sup>

### Reducing choice

Over the last 30 years, supermarkets have come to dominate the food retail sector, to the extent that in many towns there are few independent food shops left<sup>5</sup>. Small food shops find it hard to compete with retailers who use cheap imports from abroad and can pick and choose between suppliers in different countries.

The Competition Commission carried out an enquiry into the supermarkets in 1999. The results of their investigation were published in October 2000, identifying some serious concerns including supermarket buying power adversely affecting the competitiveness of some suppliers (see **unfair trading**, below) and smaller retailers (see **destroying local economies**, below). They found that smaller suppliers were afraid to introduce new products and smaller retailers were squeezed out, reducing consumer choice.

They also found that in some locations the supermarket giants have massive market shares: over 50 per cent for Tesco in Uxbridge, Milton Keynes, Cambridge, Twickenham and Salisbury, or Sainsbury's in SW London and Safeway in Dumfries, giving people little choice of where to shop<sup>6</sup>. The Commission recommended that a new system of planning approval be implemented to generate competition and give consumers more choice. The Commission was also concerned that certain chains were stifling competition by snapping up land on which rivals could build. Tesco were found to have the greatest land bank of sites for development<sup>7</sup>.

### **Increasing social exclusion**

A report by think tank Demos notes that "the food retailing system caters better for the time poor, cash rich than the time poor, cash poor", and goes on to say that "when food retailing left the high street the poorest found themselves without adequate local food shops. Now that some local shops have returned, they are set up to cater for a very different segment of society"<sup>8</sup>. Out of town supermarkets can normally only be reached by car, and the new metro supermarkets in town centres are aimed at commuters and richer single person households, not those on a low income.

And are supermarkets really so cheap? The Competition Commission found that supermarkets were putting prices up in areas where there was no strong competition<sup>9</sup>. Supermarkets have also been in trouble with the Advertising Standards Authority (ASA) on numerous occasions for misleading advertisements<sup>10</sup>, and in October 2001 the Observer revealed that Tesco had raised the price of goods just before a new £100 million, heavily publicised price cutting campaign, in order to make the cuts seem more dramatic<sup>11</sup>.

Although general food prices have increased by less than average in the UK, the price of healthy foods has increased by more than average<sup>12</sup>. Supermarkets are doing little to help matters. Key items such as bread and milk are certainly cheaper in supermarkets, because they are used as 'loss leaders' to entice customers into the store. But not all products are so cheap, a simple comparison of fresh produce shows you can often get it cheaper at a local independent store. Our recent survey of apple pricing exposes the myth that supermarkets are cheap, showing that on average, a kilo of Cox apples cost 43 pence more in a supermarket than on a market stall. Greengrocers were also shown to be cheaper than supermarkets in most cases<sup>13</sup>. A survey for Sustain in 2000 found that fruit and vegetables were around 30 per cent cheaper at market stalls than supermarkets<sup>14</sup>.

When looking at the special lines offered by supermarkets, a survey of Britain's leading supermarkets found that the majority of items being promoted were fatty and sugary processed foods. In another survey, two baskets of food, one more healthy, the other less so, were priced in several supermarkets in a deprived inner London area and in a more affluent London suburb. The healthier basket cost more than the less healthy one in both areas, but this 'health premium' was greatest in the supermarkets in the low income areas<sup>15</sup>. In addition, the best bargains in supermarkets are usually for bulk buys, which is not much use if you can't afford them and don't have a car to take them home in.

Such unhealthy offers may also be aimed at children. The Food Commission found that Sainsbury's and Tesco were offering money-off vouchers to mothers of young children for lunch box products such as sweets, hot dogs, sweetened cereal, jelly, chocolate, crisps and soft drinks in Autumn 1999, and found little had changed by 2000<sup>16</sup>.

### **Destroying local economies**

Between 1995-2000 we lost roughly one fifth of our local shops and services. If current trends continue, we will have lost a third of what is left in the next ten years, and many communities in the UK of 3,000 people or less will no longer have any local institutions such as corner shops, grocers, post offices and pubs. Losing such local facilities can lead to creation of food and enterprise deserts, loss of financial literacy, loss of employment, loss of outlets for local products and services, reduction of diversity of cultural and retail environments, and environmental impacts due to car-based shopping.<sup>17</sup>

The arrival of a supermarket has a huge impact on the viability of a rural community. It has been estimated that a supermarket opening will cause the closure of all village shops within a seven mile radius<sup>18</sup>. Supermarkets tend to import food into the region, whereas smaller food shops tend to buy food from nearby farmers and producers. In a survey in Ludlow, more than 80 per cent of food shops sold some local produce, and for many it was a large proportion of their sales<sup>19</sup>. Money spent in supermarkets does not therefore stay in the community the way that money spent in local businesses does. A study in 2001 found that £10 spent on a local organic box scheme in Cornwall generates £25 for the local economy, compared with £14 if spent in a supermarket<sup>20</sup>.

As well as killing off bakers, butchers and greengrocers, supermarkets have now extended their ranges to include pharmacies, opticians, dry cleaners, photo developing, petrol stations hairdressers, and even weddings. The British Retail Planning Forum found that every time a large supermarket opens, on average 276 jobs are lost<sup>21</sup>.

### **Unfair trading**

The Competition Commission report of 2000 raised concerns about the power of supermarkets over their suppliers. Tesco were found to pay the lowest prices to their suppliers<sup>22</sup>. In 2000, Tesco introduced international 'reverse' auctions for its suppliers – food suppliers from all over the world are asked to bid to undercut each other until Tesco gets the lowest price<sup>23</sup>. Farmers and other suppliers are put under enormous pressure to cut their prices, even blow the break-even point<sup>24</sup>, or lose their market.

Supermarkets use their power to dictate how, where, when and for how much their food is produced, packaged, stored and delivered. The Competition Commission report cited 52 ways in which supermarkets exploit their dominant power over suppliers. A major problem is the lack of binding contractual agreements, leaving suppliers without redress if supermarkets pull out of deals. They also use practices such as paying invoices very late, and may pass costs back to suppliers for transport, packaging, food wasted at the store, in-store promotions, artwork, market research and the supermarket buyer's expenses<sup>25</sup>.

As a result, farmers are frequently paid less than the cost of production for their goods. An NFU survey in September 2002 found that for a basket of food (beef, eggs, milk, bread, tomatoes and apples) which would cost £37 in the supermarkets the farmers would only get £11<sup>26</sup>. A recent Friends of the Earth survey of supermarket apples revealed a significant mark-up on the farm gate price, despite the fact that supermarkets were charging more than greengrocers and market stalls<sup>27</sup>. And a survey of apple and pear growers revealed the extent of the over-zealous standards required by supermarkets, which led to wastage of perfectly edible fruit. Yet growers didn't feel they could complain about supermarkets, as

making a fuss can lead to being dropped as a supplier, or 'delisted'. One respondent to the survey said they'd love to give contact details, "but if leaked to supermarkets I would be delisted and so forced out of business"<sup>28</sup>. A supplier giving evidence to the Competition Commission confirmed this, saying "it would be commercial suicide for any supplier to give a true and honest account of all aspects of relationships with retailers."<sup>29</sup> The Competition Commission referred to the "*climate of apprehension*" among suppliers<sup>30</sup>.

This has had a devastating impact on UK farmers and growers. Charles Secrett of Thames Valley Growers claimed that "Supermarkets have had a devastating impact on our industry," in a newspaper article. "They have virtually decimated what were rich, varied production areas by taking their business abroad. Growers have been de-skilled and de-tooled. Fewer and fewer crops are grown in the UK, which was once self-sufficient in fruit and vegetables....As long as people continue to buy their fruit and vegetables in supermarkets, I really don't think UK growing has much of a future."<sup>31</sup>

### Environmental impacts

Three quarters of supermarket customers travel by car and it is estimated that a typical out of town superstore causes £25,000 worth of air pollution and associated damage to the local community every week, not including economic losses caused by congestion<sup>32</sup>.

Supermarkets are totally reliant on fossil fuels; they need road infrastructure to transport products from farms, ports and processing plants to their network of distribution depots and then on to stores. The 'just in time' delivery system sees products rushed to stores as and when they're needed. Supermarkets are designed with centralised distribution in mind - they do not have the infrastructure to purchase and sell locally. According to the Institute of Grocery Distribution, Tesco's vehicles, clocked up 224 million km last year, Sainsbury's 115.7 million km, and Asda-Walmart 147.9 million km<sup>33</sup>.

There is also a massive movement of food globally. Global free trade allows supermarkets to play farmers around the world off against each other so that they can get the lowest price, aided by the fact that there is no taxation on aviation fuel. Long distance transportation of food produces vast amounts of pollution, excess packaging and use of chemical preservatives, uses up large amounts of fossil fuels and thus contributes significantly to climate change. The distribution of one kilogram of apples from New Zealand sold in the UK accounts for its own weight in carbon dioxide emissions<sup>34</sup>. Our recent survey of the sourcing of apples in supermarkets showed that supermarkets were sourcing on average only 40 per cent of their apples from the UK at the height of the British apple season. Greengrocers and market stalls managed to source more from the UK, and although the supermarkets did offer a wider variety of apple types, this was mainly due to imported varieties. A significant proportion were imported from beyond the EU, from Australia, New Zealand and USA<sup>35</sup>. Yet 84 per cent of shoppers say they want supermarkets to give preference to British produce when it is in season<sup>36</sup>.

Strict requirements on uniformity and cosmetic appearance of fresh food mean that farmers may be forced to use more pesticides. Our survey of apple growers confirmed this, with more than half of respondents saying that they had to apply more pesticides to meet the cosmetic standards of the supermarkets<sup>37</sup>. Excessive use of pesticides can lead to pesticide residues in our food and water pollution. Government tests for pesticide residues show that 46 per cent of apples sold in supermarkets between 1998-2001 contained pesticide

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residues, and 18 per cent contained the residue of more than one pesticide<sup>38</sup>. Supermarkets also tend to choose varieties of fruit and vegetables based on their shelf lives and appearances, rather than for taste or the ability to resist disease<sup>39 40</sup>. If supermarkets opted for varieties more resistant to disease, this could cut the amount of pesticides applied to our food. Although some smaller supermarkets such as Co-op, Waitrose and Marks & Spencer have made commitment to reducing pesticides in their food, there has been no such commitment from the biggest chains, Asda and Tesco being notably resistant to action<sup>41</sup>.

## **Government response**

In March 2001, Tony Blair told farmers that “*the supermarkets have pretty much got an arm-lock on you people at the moment*”, promising that it was “*something we have got to sit down with them and work out*”. However, there has been little action to follow these words so far. The 2000 Competition Commission enquiry report called for an enforceable code of practice to ban damaging practices such as demanding payments from suppliers for buyers’ visits, charging them for the cost of refurbishing stores and changing agreed prices retrospectively or without notice. But the supermarkets were left to draw up their own voluntary code of practice and dispute settling mechanisms. As a result, the Code is so weak that it has had little effect on unfair trading practices, if anything it has legitimised them. There is plenty of anecdotal evidence that it is not working. One supplier to supermarkets, commenting on the Code said that “*mine went straight in the dustbin. Unless you legislate to ban below cost selling, or listing fees, or retrospective reductions to supplier payments, nothing will change.*” But the Government is still insisting in its farming strategy published in 2002 that the Code will deliver a fairer trading relationship between supermarkets and their suppliers, albeit with some additional monitoring.

## **Conclusion**

The Supermarket Code of Practice simply isn’t working. Supermarket behaviour is not changing, unfair trading continues to be the norm, and this situation is unlikely to change unless action is taken. A strong regulatory approach is needed to bring the power of the supermarkets under control, protect small independent shops and get a fair deal for farmers for their produce. At the same time, there is a need for greater support for alternative and innovative ways of selling groceries including local food schemes.

### **What can consumers do?**

- Buy fresh produce locally and direct from the grower whenever possible.
- Support local independent retailers.
- Ask your supermarket how much they pay the farmer for the goods you buy
- Buy UK produce when it is in season. If it’s not available, ask why not?

### **What can the Government do?**

- Support local food initiatives, in particular to help growers set up direct marketing ventures.

- Regulate to stop unfair trading practices of the supermarkets and protect both consumer and public interests.
- Support and encourage the provision of a diverse range of local shops in both rural and urban areas.

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