

Summary of the hearing with the Scottish Executive held on 6 September 2006

Collaborative supply chains

1. The Scottish Executive told us that collaborative supply chains were ones where long-term relationships and trust were built up between producers, processors and retailers to their mutual benefit and in the interests of an economically sustainable supply chain, whilst also recognizing that they were separate entities. It considered that, in a collaborative supply chain, one part of the chain would not make a profit at the expense of another part of the chain.
2. The Scottish Executive said that some retailers appeared to take a very short-term view by negotiating as low a price as possible with their suppliers, whereas others took a longer-term view that it was in their interests to ensure that other parts of the supply chain were successful. One consequence of retailers trying to buy as cheaply as possible would be a decline in Scottish production with implications for consumer choice in the long term.
3. Allegations had been made to the Scottish Executive regarding suppliers having to pay for retailers' in-store promotions, but it did not have any facts or figures on this. If such arrangements were to the mutual benefit of suppliers and retailers, this could be an example of collaborative behaviour in the supply chain, but not if the supplier had no choice about funding such a promotion.
4. In addition to various mechanisms by which the Scottish Executive offered financial support to businesses, the main way in which it considered it could encourage collaborative supply chains was through its ability to convene and facilitate discussions between different parts of the chain. In this context, it noted the existence of its agricultural strategy and the industry-led Scottish Food Industry Strategy Group.

Market developments

5. The Scottish Executive said that the reform of the Common Agricultural Policy meant that, with the single farm payment, production was not itself directly subsidized.
6. It considered that there was an increasing awareness that companies were not just competing with other companies in Scotland, but in a global market, and that this was adding weight to the case for trying to achieve stability within the supply chain so that Scottish companies collectively could compete effectively within the UK and wider markets.
7. The Scottish Executive was interested in food producers not just as enterprises like any other in the Scottish economy, but also because a successful and prosperous Scottish agricultural sector would bring benefits for the Scottish rural economy and improved capability to manage the environment on the ground.
8. There were a large number of rural areas and small towns in Scotland. There were some indications that larger retail developments were squeezing smaller independent retailers out of some small towns, and that the larger retailers appeared to be focusing on these smaller towns now, because the larger towns had already been covered. Many people supported such large retail developments because they provided access to goods and facilities that might not otherwise be available in these smaller towns, but there were also implications for small-scale independent retailers because the larger developments attracted customers away.

9. The Scottish Executive was aware of particular issues with retail butchers, although it had recently had evidence that there appeared to be a shift back to consumers buying their meat from retail butchers.
10. It had been put to the Scottish Executive that pressure from the supermarkets on suppliers' prices had resulted in suppliers charging higher prices to smaller outlets, with consequential adverse effects on the viability of those smaller outlets (the waterbed effect), although it had received no hard information. It encouraged the CC to talk to businesses in the food processing and wholesaling sector in Scotland to determine whether the costs to wholesalers of supplying small retailers, particularly in rural communities, was becoming prohibitively high due to the loss of economies of scale, as the independent retailing sector shrunk overall.

Innovation

11. The Scottish Executive said that there was some innovation among food producers, and highlighted its Food Processing and Marketing Grant Scheme under which grants of about £60 million had been made over the last five years to assist with investment in processing and marketing activity. This included some dairy companies which the Scottish Executive had supported to diversify into the production of yoghurt and ice cream.
12. About 45 per cent of Scottish milk was sold as liquid milk, and most of the remainder went into the production of commodity dairy products such as cheese and butter, with a relatively small amount going into higher-value areas such as yoghurt. The Scottish Executive identified the high cost of developing new brands as a hurdle to entry into those markets for smaller competitors. It had been told that the UK competition regime prevented mergers taking place in Scotland and elsewhere in the UK, whereas the more liberal competitive environment elsewhere in Europe had led to the emergence of much larger European dairy businesses, with resources to invest in developing brands, and with which Scottish companies had difficulty competing.

The supermarket code of practice

13. The Scottish Executive had been informed of behaviour which appeared to contravene the code of practice, although it did not have access to the detail of the issues involved. It identified concerns among suppliers in relation to enforcement of the code and lack of confidence in making complaints.

Planning

14. Planning policy was very similar in Scotland and England, including enhancing the vitality and viability of existing town centres. Planning policy related to the use of land and did not take into account the retail brand planned for a particular site, nor did it deal with competition issues. However, there was an argument that, as planning policy encouraged town centre development where development costs were higher, major retailers may have more opportunity.
15. In England, the 'needs test' was used in planning, ie the need for a development was assessed as part of the decision-making process. In Scotland, although account was taken in broad terms of how much development was necessary in an area, the quality of the proposed development (including design quality), access to facilities for deprived parts of the community and access to transport facilities were also important factors. In the case of the approval of development of two 'big four' supermarket sites in Huntly in Aberdeenshire (population about 4,500), the Scottish Executive pointed

out that the planning applications were not made in the names of the supermarkets themselves. It also noted that sites could be sold on once planning permission had been granted.

16. The Scottish Executive considered that, as in England, it tried to ensure that planning was plan led, with local authorities producing plans that indicated where development should be rather than reacting to individual planning applications.
17. It said that the planning system was sometimes used as a vehicle for addressing wider public policy issues because there were no other channels in place for dealing with them, even if planning officials might not have experience of these issues. The Scottish Executive's aim was to leave planning decisions to local authorities' discretion as much as possible within the overall policy it established, and it became involved in a relatively small number of cases. Any developments over a certain size were automatically referred to the Scottish Executive, and it was also notified if the local authority had any financial or other interest in the development and objections were received to the application.
18. It was difficult to understand how the planning system could take competition issues for retail developments into account, and no other parts of the planning system (eg planning permission for new housing developments) worked in this way. Planning approvals could be granted subject to conditions which, for example, restricted the range of goods sold in a store, and enforcement action could be taken where these conditions were breached. There was evidence that some retailers were increasing internal floorspace in order to widen the range of goods sold and legislation was being brought forward in Scotland (as in England) to require planning approval for the installation of mezzanine floors.
19. The Scottish Executive said that, in large parts of Scotland, the petrol station was often the local shop, and that planning conditions would aim to prevent the shop growing into a superstore.
20. It said that local authorities tended to push for (and developers tended to offer) 'planning gain' agreements whereby developers would agree to fund other facilities within a town, and that these were supposed to relate to the form, nature and size of the development for which planning approval was being sought.
21. The Scottish Executive told us that there was a Planning Bill going through the Scottish Parliament [Bill completed in late November 2006]. It considered that it was not appropriate to provide for third party rights in the planning process because it would lengthen the process unacceptably, and there were other complexities, for example deciding whether third parties would include members of the public and/or business competitors.
22. In the Scottish Executive's view, the major retailers were reasonably content with the current planning regime.