

## **Summary of the hearing with Tescopoly held on 11 October 2006**

1. Tescopoly is an alliance of nine non-governmental organizations (NGOs) concerned with the negative impact of Tesco and other grocery retailers on the supply chain at home and abroad. The nine founder members are Banana Link, Labour Behind the Label, Friends of the Earth, The New Economics Foundation, The National Group of Homeworking, Women Working Worldwide, GMB London, Small and Family Farms Alliance and War on Want.
2. The Tescopoly alliance emerged from the Breaking the Armlock Alliance which is a network of 18 NGOs relating to the impact of supermarket power, and from correspondence received from people who were concerned about Tesco in their locality. The founder members believed that there was a need to provide a resource to respond to these concerns. Tescopoly had five key demands:
  - a block on any new takeovers by Tesco or other major supermarkets;
  - recommend stronger planning policies to protect local shops and high streets;
  - introduce a stronger and legally binding code of practice to ensure that all suppliers throughout the supply chain at home and overseas are treated fairly;
  - appoint an independent watchdog to ensure the grocery market is operating in the interests of consumers, farmers and small retailers; and
  - recommend rules to hold supermarkets accountable for internationally recognized workers' rights throughout their supply chains.

### **The market**

3. A lot of Tesco's expansion in the convenience sector had been relatively recent so the impact, in terms of choice and diversity on the high street, might not be seen for four or five years. However, the effects of the Tesco store in Stalham were already being felt. Since it opened four years ago the trade at the local DIY shop (which had been trading for 30 years) and chemists had fallen to such an extent that both businesses were virtually unviable.
4. The power of the supermarkets was a problem and needed to be curbed. If the multiples continued to gain market share and become more dominant it would become increasingly difficult for independent retailers to survive because the multiples would be able to exert greater price pressure downwards. The loss of smaller retailers was already having an effect on the wholesalers that supplied them. Data from the Department of Trade and Industry showed that between 1997 and 2002 there had been a 10 per cent drop in the number of wholesale providers in the UK. Tescopoly believed that at some stage a tipping point would be reached at which the number of surviving independent stores would no longer be sufficient to support the wholesale distribution network. This would leave a grocery retail market in which there was very little choice for the consumer.
5. Smaller retailers needed a level playing field so that they could purchase and compete properly. Profits were being squeezed all the time and to such an extent that it was difficult to reinvest and improve a stores offer to the community. The small shops that were disappearing were the very stores that low-income and disadvantaged communities, which did not have access to cars, relied on. These stores

played an important role in the lives of people who were socially excluded. These shops were being replaced by stores, such as Tesco Metro and Sainsbury's Local, which were inappropriate (in terms of the food offered, ie ready meals and a low proportion of fruit and vegetables), which offered less lines than independent stores, and which were out of their price range.

6. Tescopoly informed us of research about consumer attitudes by the Food Standards Agency that found that consumers preferred to shop in a local store as opposed to a supermarket. In separate research, the National Consumer Council found that shoppers wanted small shops to be given support to improve and to lower their prices rather than being replaced by a supermarket. Consumers felt that the benefit derived from small shops outweighed any benefit arising from the entry of a supermarket.

## **The supply chain**

7. In many cases the supermarket multiples did not negotiate with their suppliers. The multiples had such a large percentage of the UK grocery market and had been so effective in consolidating their supply chains that they were able to dictate prices to their suppliers which were dependent on them. Tescopoly told us that the prices paid to suppliers did not reflect production costs. There was not a consistent relationship between what farmers and other suppliers received and the price the consumer paid. Suppliers were expected to subsidize the supermarkets' cheap pricing but increases in retail prices were not passed back to farmers and suppliers. The effects of the multiples' pricing strategies was also felt by the workers of overseas suppliers. Tescopoly believed that the multiples were not concerned about suppliers going out of business because they were able to find others to take their place. Tescopoly, however, was worried about the long-term viability of suppliers. Farmers were going out of business and were giving up farming because they were losing money. This, combined with the fact that consumption of world grain had exceeded production during the last five years, meant that at some point the price of food was going to increase steeply because the supply would not be there, especially as self-sufficiency in food in the UK had dropped over the last ten years.
8. There were strong indications that the multiples were abusing their buyer power and that the Supermarket Code of Practice (SCOP) was being breached. This was having a damaging effect on the economic viability of suppliers from developing countries. In one case a couple of years ago Tesco, Asda and Sainsbury's negotiated long-term contracts with their banana suppliers. When the cost of producing bananas increased due to adverse weather conditions, the supermarkets did not take account of this in terms of the price they were paying their suppliers. At the time, there were concerns that these suppliers would go out of business. In another instance, an avocado supplier from South Africa, who did not have a written contract, did not know the price he would receive for his produce until a few weeks after it had been shipped.
9. Most of the contracts between the supermarket multiples and suppliers were verbal. A lot of the time business was conducted through a third party to distance the supermarkets from their suppliers. This was an increasing trend and meant the supermarkets could deny that any action taken by the intermediary was as a result of their instruction.
10. Suppliers did not want to speak out because they feared losing their business. Farmers' complaints tended to be unique and as such they could be easily identified. Farmers were also reluctant to complain about grocery retailers even when they no longer supplied them. For example, supermarkets might be able to apply pressure to a supplier who was selling his farm on retirement, by threatening not to purchase

from the new owner of the farm if the retiring farmer spoke publicly about supermarket practices after he had sold the farm. If both the buyer and the seller of the farm knew this, then the seller of the farm would risk devaluing the farm considerably by speaking out and the buyer would most likely ask for a clause in the purchase contract forbidding the seller to speak out with a heavy financial penalty if he did so. Such was the level of fear that often it only had to be implied that there could be a problem to ensure silence, from both those still supplying and even from those no longer doing so.

## **Planning regime**

11. The size and power of the supermarket multiples enabled them to exert pressure through the planning process in a number of ways. For instance, there had been recent cases where stores had been built up to 20 per cent larger than the size originally agreed (eg Tesco Extra, Portwood, Stockport) or where a local authority had negotiated a mix of goods that would be available in those stores only for that to change following retrospective planning permission. Very often local authorities did not have the resources to fight a planning application from one of the multiples, even if they did not feel it was what the local area needed.
12. Tescopoly believed that there was a need for proactive planning and all-encompassing retail strategies, in addition to the current guidelines within PPS6 which would genuinely promote town centres and diverse retail options and consider the needs of the community, rather than defaulting to the more powerful superstores simply because they had the financial resources and planning know-how.

## **Supermarket Code of Practice**

13. Tescopoly told us that there were two problems with the SCOP. The first was that suppliers were not prepared to make complaints because they feared retribution in the form of de-listing from the supermarkets. The second was the wording. Words such as 'reasonable' and 'unless' need to be removed from the SCOP as they were open to interpretation and it needed to be strengthened to take account of possible new practices that were being used by the supermarkets. Tescopoly believed it should be applied as far down the supply chain as possible to ensure that the practices the multiples engaged in were not adopted by others. To be effective, the SCOP needed to be monitored by a proactive regulator.