

Summary of the hearing with Ulster Farmers Union held on November 2006

1. The Ulster Farmers Union (UFU) represents over 12,000 farmers, growers and primary producers in Northern Ireland. Its members are drawn from representatives of a number of sectors including sheep, dairy, beef, pigs, poultry, vegetables, potatoes, eggs and cereals. Most of the UFU's members do not supply grocery retailers directly; their main customers are processors and intermediaries, most of which are located in Northern Ireland. The UFU works closely with the NFU, NFU Cymru, NFU Scotland and the Irish Farmers Association.
2. The UFU said that a lot of producers were hesitant about providing the Competition Commission with evidence relating to abuses in the supply chain because they feared reprisals (for example, being de-listed) from retailers and suppliers: only an organization such as the UFU, which would not be affected directly, could speak openly.

The market

3. Great Britain was the biggest market for UFU members. The UFU told us that about 80 per cent of Northern Ireland products were supplied to Great Britain.
4. The main grocery retailers operating in Northern Ireland were Tesco, Sainsbury's, Asda and Marks and Spencer. The discount stores were only just starting to enter the Northern Ireland market.
5. The UFU told us that concentration of power in the hands of a few large grocery retailers, and their fixation with growth and market share, had a detrimental effect on diversity, quality of life and competition, particularly in rural towns and villages.
6. The UFU welcomed consumer choice in terms of where people could shop, the range of products that could be purchased and the variety which differing farming systems could bring to the eating experience for the consumer. The UFU was keen for consumers to gain value for money. In this regard, the farming industry had made significant advances in terms of increasing output and reducing management costs which had contributed to consumers enjoying the lowest spend on food as a percentage of income for a long period of time.
7. The UFU thought the reform of the Common Agricultural Policy and the removal of the beef export ban should open up opportunities and improve conditions for producers who had been in a captive market for ten years. Prior to 1996, Northern Ireland had exported a large proportion of its meat products outside the UK. The UFU was actively looking to export products to other EU countries including Italy, Spain and France.
8. Intervention by the competition authorities had in some cases prevented farmers and processors from realizing their supplier power through cooperation and consolidation. The abolition of the Milk Marketing Board, for example, had had a major impact on prices in the dairy sector. The UFU believed that suppliers needed scale to improve efficiency in the supply chain and give them more bargaining power with the retailers.

The supply chain

9. The UFU told us that the key reason for the imbalance of power in the supply chain was the scale of the five or six largest supermarkets, which accounted for 75 per cent of food sales in the grocery market, compared with the very large number of farm businesses in Northern Ireland (27,000) and in the UK as a whole (400,000). The UFU believed that this imbalance was reflected in the difference between the price farmers received for their products and the retail prices charged by the supermarkets.
10. The UFU highlighted the case of milk. It told us that the farmgate price had decreased from 24.5 pence per litre (ppl) in 1995 to 18.5 ppl in 2005 while the retail price of milk had increased (and hence the gross margins of the retailers) dramatically (from 42.1 ppl to 50.9 ppl) during the same period. The UFU considered that processors were subjected to similar price pressure from the supermarkets but were able to maintain their margins by passing the costs down the supply chain to farmers.
11. The UFU said that producer prices had fallen significantly across all sectors during the last ten years while costs had escalated considerably. The UFU estimated that farmers received 23 per cent less for their contribution to the food basket in 2005 than in 1988. Since 1998 food prices had increased by 8.5 per cent (well below inflation) while the prices of non-food items had risen 22 per cent.
12. The UFU told us that there was a real danger that primary production in Northern Ireland and Great Britain would, due to the financial imbalance in the supply chain, continue to contract and would eventually reach a point where supply and therefore choice could no longer be taken for granted. In Northern Ireland, for example, the beef cow herd had declined 5 per cent during the last ten years, breeding sheep had reduced by 4 per cent and the UK dairy industry was also declining. The UFU told us that if the situation did not change, local production would cease in a lot of areas. The UFU said that consumers would be disadvantaged in the long term because they would not have the same level of choice in terms of local produce or prices.
13. The UFU said that the imbalance of power in the supply chain was manifested in the following ways:
 - It was common for grocery retailers to change agreed terms of trade (there were no written contracts), often with little or no notice, and in some instances retrospectively. In some cases the supermarkets applied price reductions to their suppliers across the board with little warning and very little discussion.
 - Suppliers were often asked to pay a percentage of their turnover to the retailer as an incentive to retain its business. These payments were often retrospective and were generally applied without any negotiation. A supplier might not necessarily be de-listed for refusing to make these payments but the demand for its product would decline over a period of time.
 - Suppliers were commonly asked to contribute to retail promotions, such as buy-one-get-one-free offers, which very often for seasonal products took place at the wrong time of year. As a result, this incurred additional costs for the supplier.
 - Supermarkets distorted the supply chain by cross-subsidizing grocery products. The UFU believed that aggressive price discounting, such as that on milk, at 59p for 2 litres (which normally retailed at £1, and for which the farmgate price was

somewhere between 34 and 36 ppl and the total cost of production around 40p) could only be accounted for by cross-subsidization.

- The level of innovation and investment that suppliers and small food producers could make was seriously restricted by the pressure exerted on them by the grocery retailers. In some cases, grocery retailers insisted on suppliers sourcing all their packaging and labelling materials from a recognized list of companies. Many small food producers and processors were not prepared to do this, which had a detrimental impact on consumer choice.
- If a supermarket received a complaint about a supplier's product, the supplier had to pay the retailer £25, whether the complaint was justified or not, and cover the cost of its return. Often the supplier did not get to see what the problem actually was.
- Processors required producers to supply products to specific standards. There would be situations where these products competed with an imported product which was not produced to the same quality standards. Imported products were being used to pressurize UK farmers and push prices downwards, but there was often a quality differential in these products.
- In some instances farmers were required to supply working capital to the supermarkets. The UFU was aware of farmers who might be asked to make payments to retailers for the use of equipment supplied to facilitate the delivery of a farmer's product.
- Suppliers were asked to pay for the cost of retailer audits but had no choice in the audit company selected by the supermarket.

Supermarket Code of Conduct

14. The UFU believed the Supermarket Code of Practice (SCOP) had been largely ineffective, certainly from a Northern Ireland perspective, since its introduction in 2002. The UFU was not aware of it having been used. It told us that suppliers were worried about using the SCOP because they feared reprisals from the grocery retailers.
15. The UFU told us that in light of the SCOP's inadequacies, the NFU and NFU Cymru had attempted to develop a buyer's charter within which suppliers and retailers could work, but the retailers were not prepared to engage in this process. The UFU strongly believed that some sort of regulatory control, which included the relationship between processors and producers, was necessary to protect the interests of suppliers and consumers.