



The Competition Commission
Victoria House
Southampton Row
London WC1B 4AD

Dear Sirs,

Groceries Market Investigation – Statement of Issues

I enclose the response of Uttlesford Local Agenda 21 to the Statement of Issues on which you requested comments. We feel that, for the investigation to have any value, your interpretation of the terms of reference should be as wide as possible.

Yours faithfully,

Chairman
Uttlesford Local Agenda 21



**Groceries Market Investigation
Statement of Issues**

Response by Uttlesford Local Agenda 21



Uttlesford Local Agenda 21 is concerned about the impact of the present competitive structure of the grocery market on sustainable development. We believe that it has local, regional, national and global implications and that, contrary to the assertion in paragraph 5 of the Statement of Issues, these do not lie outside the Commission's terms of reference.

1. The statement of issues makes the assumption that competition is an end in itself. We believe that any structures and processes maintained by the State must be justified in terms of the benefits they bring to society as a whole. It needs to be spelled out exactly what benefits to society competition in the grocery market is designed to achieve. It is our contention that the present structure of the grocery market, while ostensibly benefiting the consumer by driving down the price of goods and the range of goods available, does so in a way that is socially and environmentally unsustainable because the social and environmental costs (the externalities) are not reflected in the price paid by the consumer. The principal issue which should be investigated is whether the present competitive framework is ensuring sustainable development. It is Government policy that sustainable development should be at the heart of all economic activity and should thus be the central purpose of competitive practices. **We therefore recommend that a Sustainability Appraisal is carried out on the present way in which the grocery market operates.**
2. It should also be noted that a perfectly functioning market depends on perfect information. In respect of the social and environmental effects of the present system this is clearly not the case. It cannot be said that consumers are able to make an informed choice between retailers and products in respect of information that may be relevant to them as concerned citizens, such as the effects referred to in paragraph 5 of the Statement. Lack of this information and the appropriate reflection of externalities in the price of goods is a clear case of market failure and is thus relevant to your investigation.
3. We maintain that a sustainable system of grocery retailing should preserve the vitality of communities and town centres, promote social cohesion and inclusion through equal access to necessities, while reducing the environmental impact of the production system and the supply chain, and guaranteeing a reasonable price for the primary producer. These are the issues which concern the citizens of the UK. It would be useful to recognise that people are more than just consumers and are entitled to expect that the price and choice benefits of competition do not dominate our society to the detriment of wider social and environmental issues.
4. The domination of the grocery retail market by a few very large and very powerful supermarkets exercising an unequal power relationship over their suppliers both in this country and overseas is justified as leading to lower prices for the consumer.

However, the primary purpose of this strategy is not to benefit the consumer, but to maximise market share for the retailer. The market failure of the refusal to internalise the social and environmental costs of this strategy imposes serious long term social and environmental costs on the citizen, who is one and the same person as the consumer who is supposed to benefit.

5. We do not believe that, unless the terms of reference of this enquiry allow the consideration of the impact of the present competitive structure on these issues, the Competition Commission will have much that is useful to say about the current situation. A holistic approach is clearly needed.

6. Supply Chain issues

We nevertheless agree with the supply chain issues identified in paragraph 10

Para 11: The detrimental effects on consumers from the above issues might include reduced viability of a small town centre as a whole. This will lead to the closure of retailers offering goods and services which are not offered in supermarkets, but will consequently become unobtainable in the locality as a direct result of supermarket retailing.

You should also consider the plight of the elderly, those lacking access to out of town supermarkets by reason of lack of transport, and the creation of 'food deserts'. The transport and CO2 emission implications of obliging people to travel to a distant supermarket are additional externalities which narrow competition considerations will not consider.

7. Market Definition

Para 14: The geographic size of a product market will vary according to the density of the population in an area and the size of the hinterland it serves. In a market town there is likely to be room for only one supermarket, so that the element of competition must come from a flourishing smaller retail grocery sector in that town. If this cannot survive there is effectively a monopoly for the supermarket. It is no solution to encourage a second supermarket to open in such a restricted potential market. The solution might have to involve restriction of the size of the supermarkets involved in order to ensure that supermarket power does not overwhelm the alternatives which a significant number of people might wish to be able to choose.

Para 15(d): It is by no means certain that grocery retailing and the strategies which grocery retailers have developed in recent years are justified as being in response to changes in consumer demand or shopping behaviour. It is equally likely that consumer demand and shopping behaviour have changed in response to grocery retailing strategies. The growth of the ready meal market, the belief that all fruit and vegetables should be both perfect in appearance and available all year round are cases in point.

The enquiry should investigate and assess the implications of the creation of demand and for whom it is beneficial. It is often said that consumer demand has driven the growth of organic food sales, but the evidence that this is being maintained as a high mark-up niche market should be investigated.

8. Market concentration

Para 17: The separation of the one stop shop and the convenience shop into two separate sectors has allowed supermarkets to approach complete dominance because as a result of that separation it is possible for (for example) a Tesco Express to be regarded as a competitor for a Tesco supermarket, which is clearly not the case.

Para 18(b): It is disingenuous to regard the highly concentrated nature of grocery retailing through a diminishing number of large supermarkets using their power over suppliers to undercut and drive out smaller retailers as 'normal market evolution'.

9. Other aspects of competition in the market

Para 20 You should consider the extent to which 'consumers' preferences' are truly expressed freely in their shopping behaviour and to what extent they merely reflect the choices that are available to them.

10. Planning, land use and other barriers to entry

The planning considerations outlined in para 27(a)(i) and (ii) are essential constraints to the development of large retail outlets because they precisely consider the sustainable development issues addressed in section 1. above. Any recommendation that these should lose their force would represent an unacceptable example of the competitive demands of two or more large supermarket retailers riding roughshod over the wider concerns of citizens whose elected representatives have developed such planning policies to protect such concerns. When two elephants fight everything else gets trampled.

11. We very much hope that, in considering the evidence of the pressures which supermarkets are claimed to place on producers by reason of their overwhelming power to control the supply chain, dictate the terms of contracts and renege on those contracts when it suits their purposes, the Commission will take account of the reluctance of producers to provide information which might put their livelihoods at risk.

12. In conclusion we reiterate that, in its investigation of the effects of the present operation of the groceries market, we hope that the Commission will consider the social and environmental costs to the citizen as a whole and not just to the consumer.

Uttlesford Local Agenda 21

11.12.06.