

# ANDREW GEORGE MP

T J Oyler  
Inquiry Secretary  
Groceries Investigation  
Competition Commission  
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Our ref: 06/15.1/ag/je

6<sup>th</sup> June 2006

Dear Mr Oyler,

## **Re: GROCERY MARKET INVESTIGATION**

Thank you for letter of 16<sup>th</sup> May in which you invite initial representations regarding the Grocery Market Inquiry by 7<sup>th</sup> June.

I am aware that the Breaking the Armlock alliance has submitted a response including proposals to strengthen and improve the Supermarket Code of Practice. I entirely endorse their comments. Indeed I have long argued for the creation of a Food Trade Inspector to operate within the OFT to proactively monitor a strengthened Code. I would also like to add a few additional comments at this stage.

The ability of supermarkets to dictate the terms of business with suppliers (and the incapability of suppliers to resist) needs to be addressed. As the EFRA Select Committee stated in December 2003, the DTI should revisit the supermarket/supplier relationship and that 'a more interventionist approach may be needed.'

It is clear that the squeeze applied to suppliers by supermarkets is having a detrimental effect upon the suppliers and their communities. The ability of supermarkets to dictate market conditions is increasing. This is directly contributing to the following:

- 11 farms are forced out of business every day.
- Dairy holdings over the last seven years have reduced from 35000 to 25000.
- Farmers employed in the dairy industry have fallen by 7000 since 1997.
- The level of innovation amongst food suppliers is extremely low. The inability to invest in new technologies is having a serious impact upon the international competitiveness of the industry.

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- The human cost is significant with the rates of suicides amongst farmers at their highest in recent history.
- Tony Blair admitted ‘that supermarkets have pretty much got an arm lock on you people (*farmers*)’ (March 2001). The Government’s Strategy for Sustainable Farming and Food recognised the need to redress the power imbalance between farmers and retailers.
- The EFRA Select Committee concluded that they were convinced that the dominant position of supermarkets in relation to suppliers is a contributory factor in creating an environment where illegal activity by gangmasters can take root. In their view the intense price competition put great pressure on suppliers and gave them little opportunity/incentive to check the legality of the labour.
- The Committee also noted that there is a public demand for Fairtrade products.

The Supermarket Code of Practice has failed to protect suppliers from the trading practices identified in the CC’s report of 2000 and I would urge the Panel to ensure that this should be a key part of the CC’s investigation on this occasion.

I know from my own experience and contact with suppliers that there is already evidence that the Code is not at all effective. It is entirely understandable that suppliers do not want to come forward because the Code does not protect their identity and therefore from the likelihood of commercial reprisal.

As you are no doubt aware, the OFT ‘Supermarkets Code of Practice’ report reviewed the operation of the Code, which covers Asda, Safeway, Sainsbury and Tesco. The report found that 80-85% of respondents said ‘the Code has failed to bring about any change in the supermarkets’ behaviour’; it concluded 73% of respondents ‘reported a fear of complaining amongst suppliers.

I would hope that suppliers would be willing to provide examples of breaches of the Code to the Commission in confidence. I also endorse Friends of the Earth’s call for an amendment to the Code so that for the dispute resolution process is made truly independent of the supermarkets and individual suppliers cannot be identified.

It is also crucial that the Competition Commission clarifies how the Code can best protect overseas suppliers that supply UK supermarkets. At best this is at present unclear. I understand that evidence gathered by Action Aid, Bananalink and others shows that the trading practices identified by the Commission in its 2000 report are being used by the supermarkets in their dealings with overseas suppliers. No doubt these suppliers are in an even weaker position than their counterparts in the UK. This can result in unacceptably low wages and unsafe working conditions.

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I would strongly urge the Commission not to conduct its investigation looking solely at the issue of retail price. While I accept that such issues are not directly the responsibility of the Commission, they are important to consumers wishing to make more ethical purchases. Consumers do not want cheap goods at any price. The Commission should consider what effects any lack of competition has on the consumer directly but also on the supplier. In the medium to long term, a reduction in the number of suppliers can only harm choice and competition.

I am also concerned that a significant amount of development of large format stores still takes place out of town and on the edge of town centres. National planning guidance (PPS6) needs to be revised because it encourages the provision of sites for large format stores on the edge of town centres. I agree with Friends of the Earth's representation to you that planning policy contains a bias in favour of big supermarkets and other retailers that operate out of large stores. By favouring large supermarkets this inevitably distorts competition against smaller retailers.

Allowing rival chains to open in locations where one or two large supermarkets already exist will not do anything to increase genuine consumer choice but could cause the loss of independent and smaller retailers.

I look forward to hearing your views on the matters I and other have raised.

With every good wish,