

Supermarkets: frequently asked questions

Why is Traidcraft campaigning on supermarkets?

Developing countries earn £7 million a day from trading goods that are sold on the shelves of UK supermarkets. Millions of people, most of them women, in developing countries earn desperately needed incomes as they grow, pick and pack the goods that we buy and eat every week.

Part of Traidcraft's mission is to ensure that UK companies trade fairly and that workers and farmers overseas get a fair deal. But a recent enquiry by the UK Competition Commission found that supermarkets are continuing to exploit overseas suppliers.

Why have supermarkets been investigated?

In May 2006 the Office of Fair Trading (OFT) referred the Groceries Market to the UK Competition Commission to investigate features of the market that might be preventing or distorting competition and thereby harming consumers. In particular the OFT was concerned with issues associated with the fact the food retailing sector has become dominated by a small number of very big companies.

This is the third investigation by the Competition Commission into the supermarket sector since 2000.

What is the UK Competition Commission?

Previously known as the Monopolies and Mergers Commission, the Competition Commission is an independent public body. It exists to help ensure healthy competition between UK companies that will benefit consumers, companies and the economy. All its investigations are independent and open. Following an investigation the Commission is able to propose remedies and has certain powers to implement change.

What did the Commission find?

In the course of its investigations the Commission found evidence that food retailers in the UK pass on "excessive risks and costs" to suppliers – both in the UK and overseas.

This might involve:

- making last-minute changes to orders that leave suppliers with surplus stock they can't sell;
- finalising order volumes at the last minute meaning workers must put in un-planned, unpaid overtime to meet increased orders and suppliers are unable to plan effectively;
- refusing to pay the full cost agreed;
- insisting that suppliers take the hit when consumer demand changes;
- charging suppliers a disproportionately high amount per customer complaint, and not being clear with supplier who is responsible for damage to the item.

These pressures get passed on to workers in the form of low wages, poor conditions and long hours.

The Commission found evidence of similar practices in a previous investigation in 2000 and many of those identified 8 years ago are still ongoing, despite the establishment of a voluntary code of conduct. For example, a review of email exchanges between suppliers and Asda and Tesco over just a five-week period in 2007, the Commission concluded that at least 20 of the 52 practices identified in the 2000 investigation continue to be practised.

The primary focus of the Commission's investigation was whether supermarkets offer customers a fair deal. It's notable that they felt compelled to point out that such bad practices are ultimately bad for consumers because they stifle competition and innovation.

What did the Commission recommend?

The Commission recommended the creation of a stronger Code of Practice for Supermarkets to follow (the Grocery Sector Code of Practice) and the creation of a new Ombudsman to oversee the Code and deal with complaints by suppliers. This is exactly what Traidcraft and other organisations working on this issue have been calling for.

Which products will the new Grocery Code and Ombudsman cover?

The investigation was into Groceries sector which was defined to include all food which is sold for consumption outside of the store, plus pet food, drinks (alcoholic & non-alcoholic), cleaning products, toiletries, & household goods.

How will a new supermarket Code and Ombudsman help poor people overseas?

Supermarkets will be encouraged to sign up to the new Grocery Code of Practice which will lay out standards and rules that they should follow. If they stick to these standards and rules it will minimise bad practice and mean farmers and workers overseas will benefit from better working conditions and terms of employment. This could make a dramatic difference to their standard of living and ability to plan for the future provide for their children. The new Code and Ombudsman will also prevent supermarkets from exploiting their UK suppliers.

The terms of reference for the Ombudsman are still being refined but its role would be to oversee the Code and deal with complaints which suppliers would be able to make in confidence. Traidcraft also believe it should have the power to fine supermarkets that are found guilty of violating the Code.

The Ombudsman should act as a powerful deterrent. And it would mean that for the first time, suppliers who feel they have been exploited could raise the

issue in confidence with an independent authority.

Isn't this more red tape, shouldn't grocery stores regulate themselves?

The grocery sector has been regulating itself and it isn't working. The voluntary Supermarket Code of Conduct established in 2001 for Tesco, Sainsbury, Asda and Morrison's (previously Safeway) is not strong enough and the Commission has found clear evidence that abuse of the supply chain is continuing. The Commission is recommending stronger regulation as the only remedy to ensure that supermarkets treat suppliers fairly and consumers get a fair deal.

Why do I need to contact my MP?

The Competition Commission does not have the power to create the new Ombudsman. It is seeking support from the retailers but ultimately it needs government support for its recommendation to become a reality.

We want to raise awareness of the Competition Commission's findings and recommendations within Parliament so that the government can't just ignore them. We also need to ensure that the government prevents the Commission's recommendations from being watered down by the supermarkets which is what happened after the previous enquiry in 2001.

Supporting the creation of the Ombudsman is a real opportunity for the government to demonstrate its commitment to delivering a fairer deal for overseas producers.

Which shops did the Competition Commission investigate?

The Commission's enquiry covered the entire grocery sector including large, medium, and small shops; independent stores and those which are part of international chains.

Following their investigation they are recommending that the 11 largest retailers with a groceries' turnover more than £1billion per year need to abide by the proposed Groceries Supply Code of Practice and Ombudsman.

These include:

- Aldi
- Asda
- Co-operative Group Limited (including Alldays)
- Lidl
- Iceland
- M&S
- Morrisons
- Sainsbury's
- Somerfield
- Tesco (including One Stop, Day & Nite, Europa, Harts, Cullens)
- Waitrose

Should I avoid particular shops?

Traidcraft does not recommend avoiding particular stores. We want to ensure that all the retailers involved in the Commission's investigation sign up to the new Code of Practice and support the creation of the Ombudsman. That way we can ensure they work with existing suppliers to improve their business practices and ultimately deliver a better deal for workers and farmers on the ground. It is also important that there is a level playing field where all the major retailers abide by the same standards, and are not concerned that they will be undercut by unethical or "sharp" business practices of a competitor.

What happens if retailers refuse to agree to the new Ombudsman?

The Competition Commission has the powers that it needs to implement the new Code of Practice. However it does not have the powers it needs to implement the proposed new Ombudsman without the supermarkets' agreement.

The Commission will ask the supermarkets to voluntarily support the Ombudsman. If they fail to do so the Commission will refer the implementation to the Government – the Department for Business, Enterprise and Regulatory Reform (BERR).

We are calling on the government to publicly support the Commission's findings now and to ensure that the Ombudsman is created with sufficient powers to implement the new Code and deter bad practice.

Won't all this put up prices in the shops? UK consumers are struggling at the moment too!

At a time of rising food prices globally, the cost of groceries is a major concern.

However, a supermarket Ombudsman would not raise food prices for UK consumers. The Ombudsman would not set prices between supermarkets and suppliers. Its focus would be to ensure 'non-price' terms of business, such as changes to contracts, are fair, and it would not intervene over day-to-day price negotiations.

The Competition Commission recommended that the Ombudsman should be paid for by supermarkets. The Commission estimates it would cost retailers around £3 million per year, which is negligible to an industry worth £120 billion per year. The fact that supermarkets compete intensely with each other to keep retail prices as low as possible will make it extremely difficult for them to pass on any potential costs caused by an Ombudsman.

We believe these basic running costs are worth the guarantee they would bring to thousands of workers overseas. Small farmers and workers in developing countries who supply the food we eat are some of the most disadvantaged people in the world today. They have very little power to negotiate or improve their conditions – they have a right to be treated fairly and this is a real opportunity to make that happen.

Other sectors are now regulated in a similar manner to that proposed by the Competition Commission and have absorbed the costs without increasing prices. For example, the insurance ombudsman was set up following recognition by insurance companies that they needed to be regulated to regain public confidence.

The biggest costs of the Ombudsman would be incurred when suppliers make a complaint or the Ombudsman conducts an investigation. If a supermarket is found guilty of bad practice they would be expected to bear the costs of the investigation as well as pay any fine and reimbursements. The costs of running the Ombudsman's office will therefore be proportional to the number of 'guilty offenses' that a retailer is investigated over.

Shouldn't we be supporting local producers in the UK?

The Competition Commission's proposals would benefit both UK and overseas suppliers. The Commission found evidence that supermarkets exploit suppliers in the UK and overseas and their recommendations are designed to help all suppliers.

Many of the fresh products supermarkets source from overseas are goods which are not easily grown locally and trade with supermarkets provides essential employment and income to millions of the world's most vulnerable people.

Traidcraft's remit is to support producers in developing countries. However we also understand the huge pressures faced by many farmers in the UK which can be similar to those faced by people we work with overseas. For example, many UK farmers have been at the sharp end of the unfair practices identified by the Competition Commission.