

A raw deal? Supermarkets and their suppliers

International trade can bring huge benefits to producers in developing countries, creating valuable jobs where few other opportunities exist. But the unprecedented power of UK supermarkets means producers are not always enjoying a fair share of the benefits. It's time for government action to redress the balance.

Boom and bust

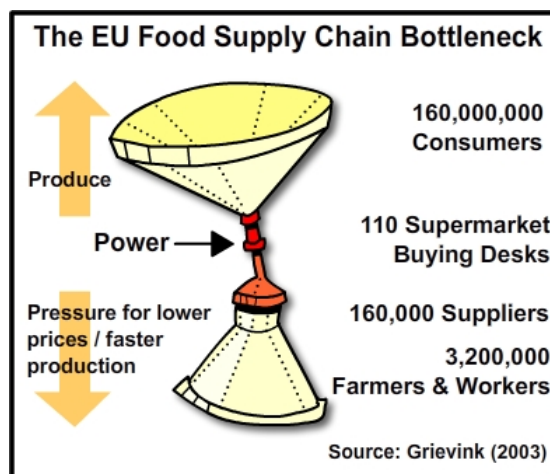
Supermarket profits and turnover are booming. Driven by consumer demand for lower prices and convenience, and shareholder demands for better returns, they hold an increasingly dominant position in the UK marketplace. Nearly one third of the groceries bought in the UK now come from Tesco alone.¹ But while Tesco reported record annual profits of more than £2.5bn in April 2007, very little money finds its way to those who actually produce our food - and the way supermarkets operate in a competitive environment, as well as their sheer size, can make things worse.

When they increase their demands on the companies who supply them, all too often it is poor people thousands of miles away who pay the price. Internationally accepted standards for working conditions may be flouted and livelihoods can be hit. Sometimes workers are put at risk. The end result can be no food on the table for families, no money for medical costs and children taken out of school.

Links in the chain

The journey from field or factory to finished products on supermarket shelves is known as the 'supply chain'. The start of the supply chain is often labour intensive, with local people mining raw materials, harvesting food, or doing other basic work like assembling and packing. Their products then pass through the hands of intermediary companies sometimes based in developing countries. Known as 'suppliers', these companies process, package, label and deliver the goods to the UK and transport them to supermarket depots.

Let me make you an offer you can't refuse...



When supermarkets squeeze their suppliers, the pressures are often passed to the bottom of the chain - producers and their families.

At the root of the problem is an extremely unbalanced trading relationship. As supermarkets have expanded, and often merged, there are fewer and fewer companies for overseas suppliers to sell to. To reach 75% of the UK grocery market, suppliers must work with one of the UK's four biggest supermarkets – ASDA, Morrisons, Sainsbury's or Tesco. Suppliers have little bargaining power, so the supermarkets effectively dictate the terms of business.

Producers and suppliers are often left with a painful choice - to sell on poor and unpredictable terms, or not to sell at all. Although they may not be able to make a profit or may face long hours working in unsafe conditions, there are few alternative ways to earn a living for communities with no safety net to fall back on in hard times.

¹ <http://business.guardian.co.uk/story/0,,1994730,00.html>

The big squeeze

Supermarkets want the flexibility to change orders at the very last minute, so they can meet their latest forecasts for consumer demand. This increases supermarket profits, but means the business risk is passed to suppliers, farmers and factory workers. Farmers, for example, often lack the information and long-term commitments from supermarket buyers that they need to plan effectively, so they must take the risk of planting too little or too much. They then have little choice but to accept whatever price they are offered at harvest time – even if it does not cover the cost of production or a living wage for workers on the farm.

'I look at my children and I think how hard my life is. I wouldn't want them to have such a tough life as mine.'

Kenyan farm worker Billy Ndungu, interviewed in March 2007

There are a number of ways in which suppliers are forced to bear extra costs and business risks. And every time their business is squeezed, the supplier is inevitably under pressure to pass it down to farmers and workers.

1. Last minute orders and sudden promotions

- Orders can increase dramatically without warning. In the worst cases suppliers must deliver produce less than 24 hours after receiving a final order - but fresh produce must have been harvested 1-2 days earlier to allow for transportation time.
- Suppliers may be charged if they cannot meet an order in full. Yet sourcing too much may mean having to find another buyer quickly, or wasting the excess. When a supermarket decides to take less than planned, suppliers may even be tempted to reject farmers' produce unfairly as below standard, in an effort to wriggle out of any commitments they have to buy their produce.

'We have to insist that the [supermarket] buyer gives us better planning data, so we can plan our planting.'

Vegetable exporter in Kenya.

2. Poor terms of payment

- Payment may be delayed or deductions made that were not agreed in advance. Suppliers may even have to agree the value of a delivery after making it.
- There may be no commitment to keep buying from a supplier. In the worst cases less than a week's notice may be given to end supply of a product, with serious consequences for farmers, employees, and their families.

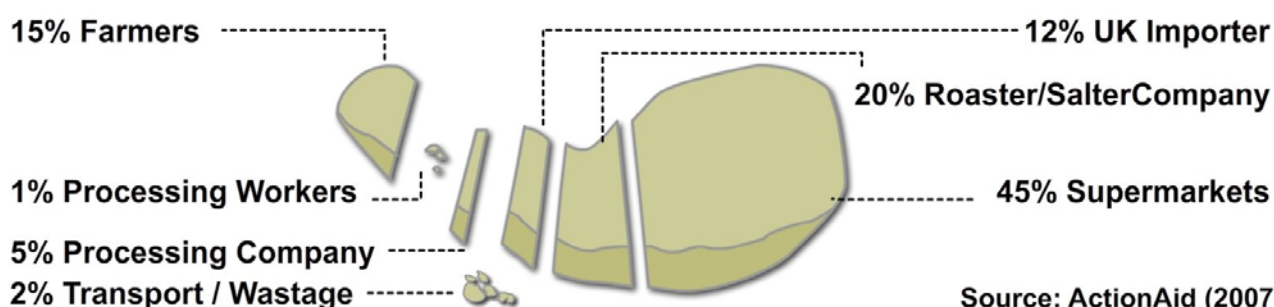
3. Unfair charges

- 'Loyalty' donations or 'marketing costs' may be sought from suppliers when an individual buyer working for a supermarket is about to miss their targets.
- Every separate customer complaint can mean sizeable costs passed on to the supplier – even if the cause of the complaint lies in how the goods were treated in store.

4. Costly certification standards

- Certification can ensure that products are safe to consume and can be traced back if problems arise. But in some cases the cost of meeting and maintaining food safety standards can be a huge burden for smaller farmers. For example, they may have to find large sums of money to invest in specific chemicals or facilities, even if the same result can be achieved in other ways.

A fair share? Who gets what from the price of a cashew nut ...



Source: ActionAid (2007)

Whose choice?

Supermarkets often defend their behaviour by arguing that they offer customers a wider choice of goods combined with low prices. They tend to offer basic goods such as milk, bread and bananas at very low prices, even below what they paid for them, and make sure they are highly visible – a technique known as ‘loss-leading’. This brings customers through the door, but lower prices paid to suppliers may not necessarily be translated into lower prices throughout the shop. Mark-ups can be hidden on products such as prepared foods, where prices are harder to compare; and similar goods may be available cheaper at local markets, independent shops or through small businesses.

There are also questions about whether consumer choice is best served only through supermarkets, particularly with growing demand for ethically-sourced goods and organic vegetable boxes. To cut costs some suppliers are supplying a smaller range of products, in larger volumes, to more than one supermarket, but using different packaging. It is now common to find books and DVDs in supermarkets as well, but typically only the best-sellers or chart-toppers, which can guarantee profits. Meanwhile supermarket expansion has squeezed out many local grocers and corner shops, with an estimated 20% of independent shops going out of business between 2000 and 2004.² The result is ultimately less choice for consumers as independent shops close down and there are fewer routes into the UK market for suppliers in developing countries.

It is not only producers overseas who have felt the squeeze. Supermarkets' margin on fresh milk has increased dramatically in the last decade, while UK dairy farmers struggle to make ends meet. On average, three UK dairy farmers now leave the industry every day.³ Our choice to do so much of our shopping at supermarkets can mean that producers at home and overseas are left with no choice.

‘If people abroad can buy at a good [fair] price, we can farm well and give them good produce. We don’t fear work.’
Farm worker in Kenya

Positive change

Change can happen. The fair trade movement shows that being part of a supply chain can be a very positive experience for workers, bringing vital jobs to communities around the world. Traidcraft's trading arm – Traidcraft plc – focuses on trading with poor and marginalised producer groups, helping them develop skills and sustainable livelihoods. They receive fair prices that cover the cost of production and allow them to save, plus a premium is paid which is reinvested in projects that benefit the whole community, such as new water supplies.

Just as importantly, fair trade aims to build up long-term relationships, rather than chopping and changing suppliers for short-term commercial advantage. This means that fair trade companies like Traidcraft will stick with their suppliers and help them to develop, for example by helping them to invest in alternative products if their existing products see a fall in sales or providing credit if it's needed to meet orders. At the heart of the relationship is the encouragement of fair treatment of all workers, and good working conditions, throughout the supply chain.

With millions of shoppers choosing fair trade, some supermarkets have recently announced initiatives on particular products:

- Sainsbury's is moving to selling only Fairtrade bananas with no increase in price for the consumer.
- Since 2005, dairy farmers supplying Marks & Spencer receive a stable price for milk set 6 months at a time. This enables farmers to plan effectively, avoiding fluctuating prices. Tesco has recently followed suit with a similar commitment.
- The Co-op swapped all its ‘own brand’ chocolate to Fairtrade and saw its sales rise by 30% almost immediately.

Chop or change?

It is crucial that supermarkets seek and support steady improvement over a sustained period, rather than dropping suppliers if any risks or problems are identified. But supermarkets do have a responsibility to end business if a supplier is unwilling to improve the way they treat workers, farmers and suppliers over a reasonable period.

² <http://business.guardian.co.uk/story/0,,2064162,00.html>

³ <http://business.guardian.co.uk/story/0,,1994730,00.html>

These are small steps – affecting just a few products – but they point to an exciting potential for change when supermarkets feel pressure. As highly successful businesses, supermarkets can be quick to respond to changes in consumer tastes. The way you shop can help to transform the lives of producers and their families – bringing better wages, safer working conditions and more stable livelihoods.

But left to market forces and voluntary action by companies alone, supermarkets are unlikely to make changes on anything like the scale that is needed. At the moment, if they adopt more ethical practices that are potentially more costly, they risk being undercut by their cheaper and less ethical rivals. We need government regulation to deal with the consequences of supermarket power and the business environment they operate within, so that trading with supermarkets promotes better livelihoods for small producers rather than exploitation.

What are we calling for?

Traidcraft is calling for tougher government regulation to ensure a level playing field for business, which will enable all goods sold through all UK supermarkets to meet minimum standards for treatment of overseas producers.

In the shorter term, the UK Government must also act to redress the imbalance of power between supermarkets and their suppliers and establish mechanisms to penalise unfair behaviour. We believe that the best way to achieve this is to establish an independent watchdog that has the power to:

- monitor and adjudicate relationships between supermarkets and their suppliers, right through the supply chain
- enforce a confidential complaints procedure that allows suppliers to come forward without fear of losing contracts
- initiate investigations and impose penalties where appropriate
- regularly review the rules to keep pace with changes in commercial practices

For up-to-date information on what Traidcraft is calling for, and how you can take action, please read the enclosed insert or visit www.traidcraft.org.uk/campaign.

August 2007

This briefing paper series is supported by:



Methodist Relief &
Development Fund

Traidcraft Exchange
Unit 306, 16 Baldwin's Gardens
London EC1N 7RJ
policy@traidcraft.org.uk
www.traidcraft.co.uk/policy

