Briefing Paper
Producers Module
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Benchmarking and tracking supermarkets' terms of trade with primary producers

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Note This paper is a discussion document designed to present the case for increased scrutiny and benchmarking of supermarkets' trade with primary agricultural producers, from the viewpoint of small and medium-scale producers themselves, and to present methodologies for how that benchmarking may be carried out. It has been written by the Coordinator of the Producers Module and does not necessarily represent the views of members of the alliance of organisations involved in the Race to the Top project, or the project's Advisory Group. It is a working document which is being regularly updated.

Introduction to the 'Race to the Top' project

Why is this project needed?
Questions are increasingly being asked about the integrity and safety of our food, the impact of its production on the environment and animal welfare, and the fairness of trade between consumers and workers along the food chain. In the UK and across Europe, there is an opinion that society should be much more directly involved in setting the farming and food agenda, rather than leaving it solely as the domain of government policy and market forces.

Supermarkets exert a huge influence on the rural economy in the UK and overseas, by setting farming standards and by seeking ever greater efficiencies for customers, competition and shareholder value. Their product range and siting policies affect the health of our communities and the environment. Customers trust the supermarkets to look after the environment and be good corporate citizens.

How will Race to the Top work?
The aim is to track the social, environmental and ethical performance of UK supermarkets, and catalyse change within the UK agri-food sector and beyond. An alliance of farming, conservation, labour, animal welfare and sustainable development organisations has developed several indicators of supermarket performance. These will provide comparative data to track progress towards fairer and greener food over the next five years.

By identifying and promoting best practice by supermarkets, the project will point to key issues for public policy, consumers, investors, retailers and campaigners. It will also provide objective data and analysis. An advisory group of independent experts provides advice and quality control.

There are seven groups of indicators:
- Environment
- Producers
- Workers
- Communities
- Nature
- Animals
- Health

Race to the Top will benchmark the major supermarkets annually using these indicators, and publish the results along with case studies of best practice by supermarkets and their suppliers. The RTTT project allows a consolidated, constructive relationship between civil society and supermarkets, rather than the single-issue action-and-reaction dynamic that has characterised civil society scrutiny to date. The project explores the boundary of corporate responsibility, the role for legislation, and responsibilities of consumers.

This briefing paper covers the **Producers** module. Other briefing papers are available which describe the other modules. Each seeks to identify the key issues within the module, and what actions UK supermarkets can take on these issues. There are many other issues which could be included within each module, but those identified are considered by the Race to the Top alliance of organisations to be highly significant representative issues on which retailers can act. Each of the issues is accompanied by an indicator that will be used to track positive supermarket action. It is hoped that these indicators will help to track supermarket progress towards a fairer and greener food system, and that they will provide a basis for discussion on how further progress towards this goal can be achieved.

Introduction to the Terms of Trade module

Over the course of the 20th century, market dominance by distributors and wholesalers gave way to dominance by manufacturers, followed by the current period of dominance by integrated distributor-retailers—the multiple retailers. The food service sector, especially fast food, is also growing in importance, expected to grow from current 30% of consumer spending on food to 50% by 2020.

One of the most controversial elements of supermarket's dominance of the food retail sector is their *impact on farming*. For many years there have been accusations that the big multiples are reaping excessive profits from the agri-food chain, by turning the screw on suppliers and primary producers. The squeeze on farming is, by extension, said to be affecting the resilience of the rural economy and quality of the environment. Farmers in developing countries are also complaining that their livelihoods are threatened by unjust supply chain relationships for their export production.

Although the industry has been found to be broadly competitive,[1] the sheer scale and buying power of the global retail giants makes them subject to increasing scrutiny, and a level of discontent in farming which has occasionally been expressed in militant action against stores and depots. In a structure resembling an hour-glass, around 230,000 UK farmers trade with the majority of the population via only a handful of supermarket

[1] See page 7; *Supermarkets: A report on the supply of groceries from multiple stores in the UK.* Available at www.competition-commission.org.uk/reports/446super.htm

companies, where UK consumers purchase 75-80% of their groceries[2]. The profit of all of those 230,000 farms has been roughly equivalent with the profit of just six supermarket chains in the past two years (see table).

Table 1.
Profitability of UK supermarkets compared to all of UK agriculture, 1999-2002

	Turnover in UK (£ million)[1] 2002	Profit before tax (£ million)[1] 1999	2000	2001	2002	Operating Margin (UK) 2000	Profits as % return on invested capital 2000 [4]
Tesco plc	20,052	842	933	1,054	1,201	6.0 %	11.0 %
J Sainsbury plc	17,162	888	509	434	571	3.4 %	9.0 %
Asda Group Ltd	10,819	423	500	496	n/a	4.7 %	
Safeway plc	8,560	243	167	224	248	4.9 %	7.3 %
Somerfield plc	4,646	159	-15	-7	22	-0.1%	0.8 %
Wm Morrison Supermarkets plc	3,918	170	189	219	243	5.8 %	15.2 %
Total Top 6		2,725	2,283	2,420	2781 (e)		
'UK agriculture'[2] (233,000 holdings)	15,008	2,240	1,742	2,041	2,356	11.6%	0.54 % [5]

[1] Source: Hoovers. e = estimate
[2] Total Income from Farming (TIFF): business profits plus income to workers with an entrepreneurial interest (farmers, directors, partners, spouses and most other family workers)—Source: DEFRA
[3, 4] Source: Competition Commission (2003) and IGD
[5] Based on *Farm Incomes in the United Kingdom 2000/2001* (DEFRA) as return on assets. Assets include land and buildings, machinery, crops, livestock and liquid assets, estimated at £320 billion

Food processors with strong brands also have high levels of profitability (such as net margins of 12.8% and 17.8% for Nestlé and Kraft respectively for FY 2001[3]), although they are of course not immune from supermarket buying power.

The process of consolidation in retail still has a long way to go. The likely loss of Safeway from the UK retail scenery has rekindled fears of increasing pressure on suppliers from "power gap" between farmers and a further consolidated buyer base.[4] Wal-Mart (owner of Asda) has grown to become not only the world's biggest retailer, but also the biggest grocer, with US *grocery* sales estimated at $57 billion. Carrefour, Ahold and Wal-Mart have become truly global in their reach. In 2000, these three companies alone had sales (food and non-food) of $300 billion and profits of $8 billion, and employed 1.9 million people. It is predicted that there will be only 10 major global food retailers by 2010. A similar trend to concentration is taking place in food processing and distribution, matching the scale of downstream players in order to exert countervailing power and prevent their profits slipping down the food chain.

The issue of terms of trade with primary producers has been conspicuously absent from the corporate social responsibility agenda. Even the Sustainable Cocoa Programme — a

[2] The 'multiples' (defined a grocery retailers with a turnover greater than £1 billion) and co-ops.
[3] *The Grocer*, 6 July 2002
[4] Weaker suppliers in firing line. *The Grocer* 15 February 2002. Also essay by NFU president Ben Gill in *The Grocer*, 25 January 2003.

corporate response to the severe challenge to future output posed by declining commodity prices — has focused largely on improving production methods rather than on changing the terms of trade to favour smallholder producers. The impact of retailers' buying power on the sustainability of agriculture has been muddied by the passing of blame up and down the supply chain. But the recent UK Competition Commission report *Supermarkets: a report on the supply of groceries from multiple stores in the United Kingdom* points the way forward to methods for a timely benchmarking and comparison of UK supermarkets on their terms of trade with primary production.

Clearly the RTTT project in general and the Producers module in particular must better understand the trading relationships of these supply chains and the structural changes in agriculture and food in order to design meaningful indicators and survey instruments.

Crisis in UK farming

UK farming has seen a massive slump in income since 1995 (Table 2), and is emerging from its lowest point for 60 years[5] while languishing at the bottom of the EU farm incomes league table.[6] For the year ending June 2001, the average 200 ha UK farm made £2500 from agriculture,[7] though profits for the average lowland farm recovered slightly in 2002, to £30/ha.[8] Farmers are working an average 70-hour week,[9] ie are working for 70p/hr (less than ¼ of the minimum wage), and non-farm activities are increasingly subsidising food production. UK farming is contracting, demoralised, and ageing.[10] Mid-sized professional farmers are suffering the most, being tied to the land with no chance of taking off-farm work. The crisis is spread across all sectors—cereals, dairy, egg and poultry, livestock, and horticulture. The knock-on effects of a crisis in farming, on rural employment, landscape, biodiversity, soil health, tourism etc.—especially in marginal areas with high amenity value—are considerable. The NFU has warned (June 02) of growing problems affecting Britain's farming industry which could force thousands to leave the land, with low incomes, job losses and poor prices leading to a new crisis in agriculture.

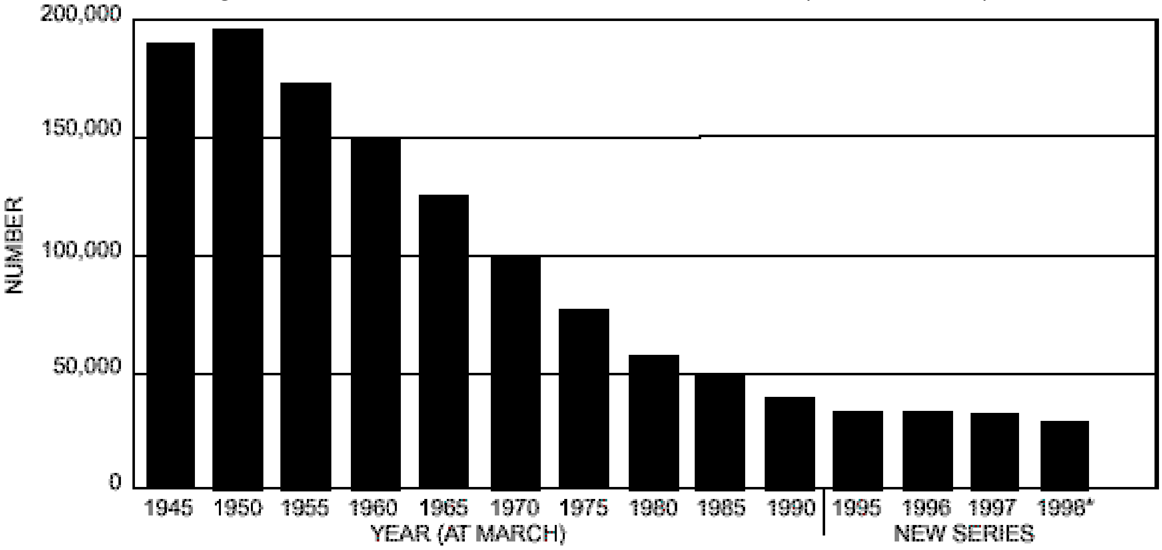
Table 2. Net farm income by type of farm, England and Wales in real terms
Indices Av 1994/95–1996/97 = 100 (Source: DEFRA)

	1994/97	2000/01	2001/02
Dairy	100	30	59
Cattle & sheep (LFA)	100	34	30
Cattle & sheep (lowland)	100	-	-
Cereals	100	13	10
General cropping	100	24	23
Pigs & poultry	100	65	36
Mixed	100	61	50
All types (ex horticulture)	100	22	29

[5] NFU Farming Fact Sheet
[6] UK incomes still bottom. *Farmers Weekly* 31 December 2002.
[7] 12th annual survey by accountants Deloitte and Touche, reported by *Farmers Weekly Interactive* 11 October 2001.
[8] Warning over slump in incomes. *Farmers Weekly Interactive* 23 October 2002.
[9] Survey by Royal Agricultural Society of England, reported in *Farmers Weekly Interactive* 11 October 2001
[10] The average age of Welsh farmers has risen to 58. A recent survey of farmers in Northern Ireland showed many people in rural areas were under extreme stress, seeing themselves as being in a hopeless situation.

By way of example, the number of dairy producers has shrunk dramatically (Figure 1), in line with the decline in farmgate milk prices which have stabilised at around 18 pence per litre.[11]

Figure 1. Number of Milk Producers in the UK (2002: 29,717)



Farmers who have attempted to diversify by converting to *organic* production have come up against similar price problems once domestic production and a flood of imports saturate markets,[12] despite evidence of high retail margins for organic produce.[13] Opportunities to by-pass supermarkets by directly marketing at Farmers Markets, which have grown exponentially since 1998 to around 440, can be overstated. The estimated total farmers markets sales of £165 million still represent only around 0.17% of total food and drink expenditure in the UK.[14]

Crisis and global marginalisation of small producers in the South

Small farms are said to be more productive per acre (returns to land and to labour), less polluting, better for employment[15] and wildlife and environmental diversity than large farms.[16]

But smallholder commodity production for export crops such as coffee and cocoa is in crisis. Coffee, for instance, has a surplus in world supply (in part due to changes in market

[11] Detailed analysis by HSBC Bank, published in March 2002, estimated milk production costs at 19 pence per litre, before taking into account the need to generate funds for reinvestment.
[12] In October and December 2001, *Farmers' Weekly* reported that the average price paid to organic dairy farmers, which was 28.5 p per litre compared with 20p per litre for conventional milk, had declined to around 23.5 ppl and as low as 22 p per litre. Organic potato prices have fallen to £220-£230/t from £280-£300/t
[13] Millis D (2001). "Price sensitive." *Organic Products*, January 2001, 16-18. See also Ross A (2002). *Organic Food Prices 2002: Comparisons of prices in supermarkets, farm shops, Box schemes and farmer markets*.
[14] NFU survey, 2002.
[15] The IFAD Rural Poverty report (2001) states that small farms employ more people per hectare than do large farms, and small farmers and their employees spend more of their incomes on employment-intensive rural non-farm products
[16] Rosset P (1999). The multiple functions and benefits of small farm agriculture in the context of global trade negotiations. Food First Policy Brief #4. www.foodfirst.org/pubs/policybs/pb4.html

structure rather than larger stocks), and farm prices have collapsed, falling below cost of production for many of the world's 20-30 million farmers who depend on the coffee harvest, 70% of whom are smallholders. But these low prices paid to some of the world's poorest and most powerless citizens are not reflected on the supermarket shelves. The drivers of cocoa and coffee supply chains are more likely to be the roasters/manufacturers, and to a lesser extent the traders, rather than the supermarkets.[17]

In contrast with coffee and cocoa, the fresh vegetable supply chain is very much retailer-driven. In Kenya the chain has shifted over the past 20 years from one of predominately small-scale producers supplying large numbers of small scale exporters who sell into the UK wholesale market, to one in which predominately large-scale producers supply a few large exporters who sell 75% of their produce directly to supermarkets' importer/category managers.[18] But the squeeze on producers affects both large and small producers in the South. Larger southern enterprises are being pushed to implement social codes and quality standards, but with no leeway in terms of margins.

What influence and impact do supermarkets have on the farm crisis?

Laying the problems in UK agriculture at the doorstep of the multiples is to overlook other drivers such as an *oversupplied world market* (with large volumes of food commodities trading at below production cost), *exchange rate* differentials with the EU[19], the *BSE crisis*, *new technology*, and the *dismantling of supply management mechanisms* such as the Milk Marketing Board, a relatively low level of cooperative producer organisation, and inertia within agriculture in *responding to changing consumer habits*, such as the trend towards preparing meals in under 15 minutes at home.

But with over three-quarters of the UK grocery market in the hands of supermarkets, it is not surprising that the finger of blame for the crisis in UK farming has partly shifted from government to the big 'multiple' retailers. Similar trends are noticeable in Ireland[20], France,[21] Spain[22] and Switzerland. A subset of farming is profiting from trading preferences within dedicated supermarket supply chains. But many farmers—especially mid-sized family farmers[23], feel marginalised by the collapse in the wholesale market, a lack of alternative markets, the selling of goods below cost of production, and a perceived disconnection between farmgate prices and retail prices.[24] There is a suspicion among UK

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[17] Work of Rafael Kaplinsky (IDS Working Paper) and Ponte S (2001) The "Latte Revolution"? Winners and Losers in the restructuring of the Global Coffee Marketing Chain. CDR Working Paper 01.3, June 2001. Centre for Development Research, Copenhagen. Available at http://www.cdr.dk/working_papers/wp-01-3.pdf . Fitter, R and Kaplinsky, R (2001). Who gains from producer rents as the coffee market becomes more differentiated?: a value chain analysis Institute of Development Studies (IDS), Sussex, UK**.** Available at
http://www.ids.ac.uk/IDS/global/pdfs/productrents.pdf
and NRI Value Chain study reference on cocoa.

[18] Tallontire A (2001).

[19] Farm subsidies are paid in Euros, so that the appreciation of Sterling against the Euro from the mid-90s has significantly affected the value of subsidy payments.

[20] 'We're being fleeced'. *The Grocer*, 25 January 2003.

[21] Farmers target supermarkets. *The Guardian* 22 November 2002.

[22] Spanish farmers and food producers outraged over huge retail mark up disparity as fruits and vegetables average 227% while meat products average 154%. *Food Production Daily*.

[23] 'Can we save 'agriculture of the middle?' editorial by Fred Kirschenmann, Leopold Center for Sustainable Agricvulture. www.ag.iastate.edu/centers/leopold/newsletter/2003-1leoletter/director.html

[24] Eg. Farm-retail price spreads have been recorded by the US Department of Agriculture for many years, tracking the long-term decline in the farm-value share of retail price. The decline in the farm share of added value to food is in part due to the greater degree of processing further down the chain, including the trend towards pre-prepared meals and eating away from home.

farmers that supermarkets are earning too much of their margin from suppliers (through charging for shelf space, charges for listing new products etc.) rather than from earning it off consumers.[25]

Concentration in processing and retail exposes fragmented primary producers to trading conditions heavily influenced by retail buyer power. This came to a head in 1998 when a slump in finished lamb prices at livestock markets was not translated into supermarket prices, and again in 2001 with a slump in milk prices. The cost structures of these chains—especially the need for processors to cover their fixed costs (which have increased due to health and safety regulations)—have a considerable bearing on farm-retail spread.[26] But the perception remains that multiples enjoy a gatekeeper role, which has been variously described as a "stranglehold" (*New Scientist*, 19 Dec 99), an "armlock" (PM Blair, 30 April 2001), and a "whip hand" (Dobson, 2002b).

This is echoed by mainstream farm commentators, most strikingly for products with little post-farm processing such as milk, apples and potatoes.

> "The income generated at the farmgate is a fraction of that taken at the supermarket checkout. In our [2001] survey, dairy farmers achieved an average price of 18p a litre for milk," said Mr Hill. "Even a large 4-pint container of milk costs nearly three times that [per litre]." Note that the average cost of production for milk is 21p a litre.
> *Mark Hill, leader of Deloitte & Touche's Food & Agriculture team.*
>
> "A large number of dairy farmers have felt the direct impact of the power of the supermarkets, as they are left with fewer and fewer alternative outlets for their produce.. We are concerned that as primary producers, our margins are being squeezed to a point where most farmers are losing money, whilst the supermarkets appear to be able to maintain their margin at any price."
> *Email from Director of large SW dairy farming business, March 2001*.
>
> "Supermarkets and their associated companies effectively have the farmers over a barrel. You either accept their prices or you don't trade. And that reflects in lower prices at markets."
> *Writer and meat analyst Richard North, quoted in* The Sunday Telegraph*, 20 September 1998.*

For potatoes, farmers are frustrated with low farmgate prices[27] and are calling for "equality in the food chain":

> "Retailers cannot deny the truth about profiteering on potatoes. With meat they can hide behind processing charges and differences in the value of various parts of carcasses. Potatoes are processed and delivered in retailers' own bags. All they have to do is display the product and collect a huge mark up at the tills."
> *Jane Howells, Farmers Union of Wales,* Farmers' Weekly *9 July 1999*

[25] On average, supplier rebates contribute approximately 4% of industry pretax profits—industry analysts consider a high figure (such as a recent estimate of 12% for one company) to reflect a weak consumer 'offer'.

[26] In September 1998, finished lamb at livestock markets fell to 75.6 p/kg, while average supermarket prices stood at £4.58/kg, a mark up of £3.82/kg on the price paid to farmers—*Farmers Weekly* 21 September 1998. This is explained by a temporary glut of lamb in the UK market and loss of valuable export markets for subsidiary products such as skins, which caused processors to reduce their farmgate prices while maintaining their supply prices to supermarkets in order to cover their fixed costs.

[27] For instance, in Wales in 1999 potatoes were £45/tonne or 2p/lb, while the supermarket visible from the farm was charging over 20p/lb

"Growers are leaving the industry, never to return, because there is so little margin in it. Growers need a price that doesn't just keep their heads above water, but allows them to reinvest, for the future good of the industry."
Graham Nichols, NFU Potato Committee chairman, Farmers' Weekly 23 January *2002*

Dedicated farmer-suppliers also complain that supermarkets have such a hold over their business that they can dictate prices and product promotions:

"What you get is a telephone call on a Thursday saying 'We're going on promotion next week so the price is going down by £30 a ton or £40 a ton or £50 a ton and we're on promotion for two weeks.' And you do the 2 weeks and the following week you're still on the same price even though the retail price may go up."
Richard Bingham, Brassica grower in Lincolnshire, interviewed on Panorama "Are you Being Served" 23 November 1998.

A survey of over 100 British apple and pear growers in 1999 showed that 85% felt that the multiples were not giving them a fair deal.

Farmers don't have a right to be paid to produce commodity products in the face of an oversupplied market. And chain intermediaries such as integrator-suppliers or processors play a role in shaping the trading relationships along the chains. But the use and abuse of *buyer power* by supermarkets is clearly influencing farmers' livelihoods, both in terms of their share of the retail price their costs of doing business with supermarket-driven chains. Buyer power has benefited consumers at the expense of suppliers and farmers. Farmers feel that supermarkets have been quick to react to technologies that alienate *consumers* (such as genetic modification), but not to marketing practices that alienate *suppliers.*

Standards and 'a level playing field' for domestic producers
UK and European countries have higher standards at an additional cost to the primary producer. For instance, meat products that are imported onto the shelves of the food retailers to compete with homegrown produce may be produced under a very different regulatory regime. UK pig farmers, for example, have been frustrated that the stall-and-tether ban imposed by government has not translated into a premium for their higher welfare product when compared to imports. Import penetration in the meat sector rose from 25% in 1990 to 33% in 2000, and the UK pig industry has continued to decline. What further irks UK pig farmers is that Country of Origin labelling standards on pork are weak, and allow product which has been raised abroad and received minimum processing in the UK to be labelled as British. Until legislation matches that already in place for beef, they want supermarkets to unambiguously inform their customers where pig meat was raised. Apple growers feel strongly that supermarkets require British farmers to be Farm Assured, but they fill shelves up with non-assured fruit from New Zealand and elsewhere in the middle of the UK season.[28]

"The agriculture timebomb created by the government and the supermarkets has finally exploded. The government's role has been to force farmers into high costs (welfare, feed, traceability etc) with no mechanism to enforce the same standards on imports. Imports are, therefore, cheaper and replace home production.. The supermarkets force high standards on the farmer and then base the price on how cheaply they can buy imports"
Letter to Sunday Times *from Fred Henley, Seaton Ross, York, 4 March 2001*

"There's frustration with the supermarkets… They're using farm assured logos, and that should protect our products, but consumers see these next to products that aren't farm assured, and just because the retailer is selling it, they assume that they

[28] Appendix to 11 November 1999 News Release from BIFGA

all conform to the same standards. The retailers aren't playing fairly, though they're a great place to sell our products."
William Goodwin, dairy farmer from West Sussex, The Grocer*, 11 August 2001*

Such was the frustration about supermarkets obliging farmers to join Assured Produce Schemes, which impose additional costs and obligations without adding any commercial value, that the Federation of Small Businesses lodged a complaint of restrictive trade practice at the Office of Fair Trading in 2000.

Assurance schemes—for farming systems and environmental protection, food safety, and/or animal welfare—can be a good discipline for farmers, but they have a cost. But 'greening' and assurance of supermarket food supplies is usually achieved through passing added requirements, private standards and Codes of Practice down the line to growers with no contribution from retailers to extra cost or extra risk (Fox, 2000). Exercise of buyer power in this manner is applied across a whole range of standards including health and safety, packaging, and labour.

But if the same standards are required of imports as of domestic produce, then any differentiation of domestic produce from compliance with the standard is lost. *A level playing field for standards may not be in the interests of UK agriculture*. Supporting national standards for environment, animal welfare, traceability etc which impose extra costs on UK producers is probably best handled through national legislation to compensate for the reduced competitiveness caused by higher standards, rather than pushing this responsibility onto supermarkets. Domestic standards are not always higher than standards in countries exporting to the UK. There is a danger of the standards issue being clouded (and non-tariff barriers being constructed) by arguments for national preference rather than for sustainability.

For instance, African horticultural producers are constantly monitored for compliance with strict standards, and are likely to have to comply with EUREP-GAP (a Farm Assurance equivalent) in the near future. Suppliers from developing countries are also struggling with a plethora of different individual standards with little standardisation across the retail sector, which leads to a bias in favour of large export farms to the detriment of small farmers, who risk continued marginalisation. UK supermarket buyers find that a concentrated supply base facilitates the ease of traceability and better guarantees of due diligence, and gives a better quality product.

Retail concentration and supplier welfare

In assessing impact on *consumers*, competition authorities traditionally focus on the anticipated effect of mergers and concentration on *retail price*. If consumer prices are not projected or shown to be adversely affected, then no further analysis is undertaken. Competition between the multiples for consumers is intense, and levels of profitability in theindustry, while higher than continental Europe, are not considered to be excessive and are much lower than food manufacturing. Food prices are falling relative to household incomes, freeing up disposable income to spend on other goods and services.

A *managed market* with a *complex monopoly* of *power buyers* may defy standard economic analysis and provide a big challenge to competition analysis. Under these conditions, industry concentration does *not* always result in higher prices or greater profits. Profit alone, however measured, is an *incomplete measure of power*. Economies of scale are passed on to consumers in order to capture larger market share (Vorley, 2003).

Those "economies of scale" are achieved in part through bringing buying power to bear on suppliers. We must look at the impact of buying power on the terms of trade between retailers and producers, in which *farmgate prices become regularised (capped) against retailers' precise gross margins*. This is achieved through the *systematic coordination of the supply chain* using direct contracting, rather than competitive pricing structure, and the use of (or threat to use) imports. Farmer/growers say that they are left with "take it or leave it" deals with a few integrators. The closed contract production systems preferred by supermarkets and their first tier integrators for sourcing own-label produce are now such a large part of the livestock and produce industries that there is no *competitive* market (eg live auctions) where real market prices can be 'discovered.' The wholesale market represents the price of *residual* production (and lower quality production) surplus to supermarket requirements. Farmers who supply wholesale markets, especially in marginal areas, are the most economically endangered sector of UK agriculture.

The demise of wholesale markets and arms-length trading relationships is not necessarily a bad thing. The retail revolution of the 1980s, characterised by the rise in own-label products, marked the rise in *associative relationships* involving a high level of collaboration between retailers and their supply chains, whether food manufacturers or fresh produce suppliers.[29] In a post-BSE era, dedicated supply chains allow *traceability* to ensure safety, quality and brand differentiation. Contract pricing, as opposed to the vagaries of open livestock markets, can also facilitate farmers' long-term business planning. The question is then, whether concentrated buying power by the retail sector is generating excessive consumer surplus at the expense of producer welfare (and hence, the health of the rural economy)[30]. In terms of relationships, the question is "will retailers, from a position of increased market power and under conditions favouring more stable relationships, use their growing influence to create truly associative relationships, or will they use their power to reinforce relationships of long-term domination."[31] In terms of economic efficiency, the question is whether the apparent one-sidedness of the relationship between buyers and suppliers (arbitrary power of buyers to change the rules, demand payment for promotions, etc.) can be justified on efficiency grounds, or whether this one-sidedness is the result of abuse of power.[32]

The importance of looking beyond profits and consumer prices was acknowledged by the Competition Commission report, which broke with tradition by considering *supplier* welfare as well as consumer welfare.

The Competition Commission Report

The current round of inquiries into supermarkets was initiated by the Office of Fair Trading (OFT) in July 1998. The Director General of Fair Trading referred the investigation to the Competition Commission in April 1999, primarily from a consumerist approach, i.e. on complaints that profits and food prices were unreasonably high in the UK ('rip-off Britain') compared to continental Europe and the US. But it included the relationship between supermarket operators and suppliers following initial investigations by the Office of Fair Trading in 1998/9, which heard complaints from farmers and growers that they were being threatened by excessive or unreasonable demands of supermarket contracts. The large chains spent about £20m defending themselves between the launch of the enquiry and the

[29] Neil Wrigley and Michelle Lowe (2002). *Reading Retail*. Arnold, London See Chapter 3—Reconfiguration of retailer-supply chain interfaces.
[30] In other words, the issue in 'terms of trade' is not one of farming's share of the retail 'pie', but rather the *size of the pie itself*.
[31] Dawson and Shaw, 1990, cited in Wrigley and Lowe (2002).
[32] Dr Shira Lewins-Solomons of Cambridge University is investigating this particular question.

final report.[33] The big six all developed their own codes of conduct to pre-empt the findings of the Report. [34]

The Commission's report,[35] published in October 2000, dismissed claims of overcharging customers and making excessive profits, and concluded that the industry is *broadly competitive*. But as a 'secondary concern' the Commission unearthed 52 ways in which supermarkets are said to have misused market power. This included 'requests' for 'over-riders' and retrospective discounts, 'requests' for promotion expenses,[36] making changes to contractual arrangements without adequate notice, and unreasonably transferring risks from the main party to the supplier. They also found a "climate of apprehension" among many suppliers in their relationship with the main supermarkets.

> "In a competitive environment, we would expect most or all of the impact of various shocks to the farming industry to have fallen mainly on farmers rather than on retailers; but the existence of buyer power among some of the main parties has meant that the burden of cost increases in the supply chain has fallen disproportionately heavily on small suppliers such as farmers. "
> *Summary of Competition Commission report.*

Appendix 11.2 of the Competition Commission report ("Response on the smaller suppliers questionnaire") makes particularly important reading on the pressures which suppliers find themselves under.

The Commission did not impose any sanctions, but recommended that supermarkets be made to abide by a legally binding *Code of Practice* on their dealings with suppliers. A draft code was proposed in the Commission report, which included stipulations on timely payment; notice of intention to change price, volume or specification of goods, or to hold a promotion; prohibition on operators seeking lump sum payments or better terms as a condition of stocking or listing existing products, or for better positioning of any products within a store, or for increasing shelf space; prohibition from requiring suppliers to contribute towards buyer's visits, packaging design, market research, store refurbishment and store hospitality; and prohibition on retailers requiring suppliers to use particular third party suppliers of goods or services where the retailer receives a payment from that third party supplier in respect of that requirement, etc.

The draft Code was welcomed by many farm groups. Details of the Code were then negotiated between the major supermarkets and the OFT, in order to find something workable given the diversity of the sector. Instead of a list of proscribed practices, the OFT proposed that supermarkets should agree on what is acceptable and then apply a "reasonableness test", with the sanction of external mediation and ultimately reference back to the OFT. Suppliers have the right to complain anonymously through their trade associations. But the final Code[37] from the Department of Trade and Industry (DTI), which came into effect on 17 March 2002, and which is (on the insistence of the Commission)

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[33] BBC Business, 9 October 2000.
[34] "*Working Together—Code of Best Practice*" presented to Nick Brown on 28 July 2000
[35] *Supermarkets: A report on the supply of groceries from multiple stores in the UK.* Available at www.competition-commission.org.uk/reports/446super.htm See Chapter 11 and Appendix 11.3
[36] In 1999 the NFU strongly criticised Safeway for 'requesting' £20,000 donations per product line towards in-store promotion, in order to guarantee the availability of key products—NFU press release 17 November 1999.
[37] Available http://www.dti.gov.uk/cp/pdfs/codeofpractice.pdf including supermarket undertakings

applicable only to the top four supermarkets[38], was roundly criticised for the inclusion of 'weasel words' that allow wide interpretation by retailers. Responding to perceived weakness of the code, a 'Fair Deal Group' has been set up by a grouping of trade associations (including the Country Land and Business Association, the British Print Industry Association and the British Packaging Federation) to "help small suppliers make their complaints about unfair trade practices used by supermarkets anonymously."[39] The CLA sees the failure of competition policy to limit the capacity of those with market power to abuse that position as a barrier to rural revival.

The Policy Commission on the Future of Farming and Food's recent report[40] welcomed the Code, while regretting its limited coverage and appreciating concerns about the lack of means for dispute resolution and redress. The commission called on all retailers to sign up to the Code, and stated that "A Code is only effective if compliance is monitored." A survey of farmers and suppliers within the Race to the Top project is a powerful form of independent monitoring, provided that the issues covered in the survey correspond to the issues raised in the Competition Commission report. The existence of a Code of Conduct on relations between retailers and suppliers makes it more rather than less important to have civil society scrutiny of supermarket's terms of trade with farming. It must be said, however, that the Office of Fair Trading's central mandate is consumer welfare, and the OFT will be reluctant to intervene to protect suppliers from retailers and consumers. In fact, Kevin Hawkins of Safeway claims that the OFT warned against Safeway's call for a milk price increase that would be passed down the chain to cash-strapped dairy farmers, when milk prices dropped below cost of production, because it would count as collusion under the 1998 Competition Act.[41] Safeway have also launched an initiative to plug a perceived loophole in the Code, by making it apply to processing and packing companies as well as supermarkets.[42]

By late 2002 is had become clear to all parties that the Code as it stood was fatally flawed. In February 2003, the OFT launched a review of the code.

The role of intermediaries and suppliers

How far can the declining farm share of retail food price and the marginalisation of small and mid-size farming in the UK and abroad be blamed on the misuse of supermarket market power? Except for some very short supply chains such as poultry, farmers are often 2-4 steps away from the supermarket shelves. Some very large supplier-integrators such as Marshalls and Mack Multiples act as primary suppliers or even sole 'category managers' for supermarkets, and have grown in power to match the concentration in their retail customers. Clearly these intermediaries must be analysed in any research on terms of trade. Much of that analysis depends on whether these primary suppliers are viewed as 'associated companies' or independent operators.

The multiples point to high levels of concentration in the processing/packing industry (the integrators), and state that the multiples have little control over the trading relationship between farmers and the processors. It should also be stressed that unscrupulous behaviour by supermarket buyers arises because they can exploit offers from competing

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[38] The Competition Commission's findings and recommendations relate to those supermarkets with 'buyer power', which they defined as 8% or more of the groceries market. Only Asda, Safeway, Sainsbury and Tesco now fall into this category.

[39] CLA News Release 28 May 02. Available at www.cla.org.uk

[40] Policy Commission on the Future of Farming and Food (2001). *Farming and Food: A Sustainable Future*. Available at www.cabinet-office.gov.uk/farming

[41] "OFT in way of retailer moves to push up prices to farmers." *The Grocer* 2 March 2002; and "Safeway answers your questions" *Farmers Weekly Interactive* (www.fwi.co.uk)

[42] "Loophole in code needs plugging" *On Track*, Royal Agricultural College 10, WinterSpring 2002.

suppliers.[43] Of course, much of that concentration is driven by the supermarkets themselves; they are actively seeking fewer suppliers in part to achieve their quality assurance and traceability objectives. They prefer to deal with a small number of suppliers (five to 15) for fresh produce. This reduction in suppliers is expected to continue, to a level of only 3-4 suppliers per multiple for each commodity. And supermarkets' own statements would seem to demonstrate a large influence over suppliers' trading relationships. Responding to accusations of profiteering from FMD and a predicted glut in British meat, the multiples insisted that they "have told their large processors [that] they expect them to hold cost prices at pre-crisis levels as well as maintain prices paid to farmers" (*Grocer*, 10 March 2001, pg 16). Asda said that it had "instructed suppliers to pay farmers the same as they were before the crisis broke" (*Farmers Weekly*, 9 March 2001, pg 23). Some farmers and growers consider that workers in dedicated Primary Marketing Organisations which supermarkets use for integrating their supply "may as well be wearing the same uniforms as the supermarkets."

What happens when supermarket buyer power meets 'sustainable' products?
Dynamism within mainstream markets of more 'sustainable' food has largely occurred within concentrated chain structures. Processors and retailers have welcomed the chance to de-commodify fresh produce with 'organic', 'Fairtrade', 'free range' and 'local' branding.

<u>*Fairtrade.*</u> The *Fairtrade* scheme is designed to ensure that farmers are paid a fair price for their goods, and consumers are increasingly willing to pay the higher prices charged by supermarkets, on the understanding that premium is passed back to farmers and their communities.

If supermarkets were interested in growing the niche to its full potential, and maximise the sales of sustainable produce, they would accept an equal or lower margin on Fairtrade labelled products. But if the Fairtrade niche were treated as a way to move, say, bananas from being a Known Value Item (KVI) to a product with weaker consumer price-awareness, then conventional marketing practice is to greatly *expand* the retail margin.

A recent report[44] suggests that for most of Britain's supermarkets, an expanded retail margin is indeed the case. For bananas, a much higher slice of the £0.78-0.90/kg Fairtrade premium was found is going to supermarkets (£0.35-0.65) than to farmers (£0.24)—a clear example of the appropriation of rents, even taking the higher costs associated with stocking and developing niche products. As Renard (2003) notes, the trend towards retailers creating their own Fairtrade labels suggests the possibility of *replicating conventional trading relationships*.

<u>*Organics and animal welfare*</u>. In the UK organic market, supermarkets account for 82% of sales. Organic and high-welfare production is not a refuge for smaller scale producers in modern agrifood systems. The reality of supply chain management and the consolidation of supermarkets' supply bases mean that major suppliers to the UK multiple retailers, with preferential market access, are extremely well placed to meet retailers' demands for organics, by establishing parallel conventional and organic production systems within unified chain elements of logistics, quality control and traceability.

The largest integrated suppliers of fresh produce in the UK, such as MBM and Greenvale in potatoes, and Langmead Farms in salad crops are industrial-scale companies leading the race for organics, rather than organics providing alternative niches for smaller scale chain actors. The same is found with eggs; Deans, with a massive 35% market share, claims to

[43] Lord Haskins writing in *The Grocer*, 12 October 2002.
[44] John McCabe (Connector Global) as reported in the *Sunday Times* 29 June 03

have been at the forefront of the development of free-range and barn production and, more recently, organic systems. In France, SBS—part of Smithfield Foods, the world's biggest pork producer—is active in production of 'organic products and products that carry certificates that specify the origin of their raw materials... These products allow SBS to differentiate itself from the competition and grow market share and margins.'[45]

Ethical trade. The Ethical Trading Initiative was set up in the wake of a campaign by Christian Aid on labour standards in developing country suppliers to UK supermarkets. It has evolved into a collaboration between supermarkets, NGOs and Trade Unions to implement a code of conduct for good labour standards. An interesting example of the interplay between ethical trade and retailer power over suppliers occurred recently (May 2003), when Tesco was anonymously accused of demanding a payment of £278 per year per site from *all* primary suppliers to cover the costs of its compliance with the ETI code. The letter to *The Grocer* said that suppliers would be wary of approaching the Office of Fair Trading with complaints because of the risk to their business.

How does the 'Race to the Top' project measure *trading integrity* between supermarkers and producers?

Three broad indicators of supermarket performance in their trading relations with their suppliers and producers have been defined for this module of the Race to the Top project: (1) Trading integrity with the supply chain--standards and codes of practice; (2) Fair trading relationships--integrity of the trading relationship with UK farmers and suppliers; and (3) Support for smallholder producers in developing countries--availability of and promotion of Fairtrade Marked products. A supplementary question, common to all project modules, asks about board-level responsibility, as an indicator of corporate commitment.

INDICATOR 2.1
Issue: Corporate commitment to trading integrity with the supply chain
Indicator: Board-level responsibility for trading integrity

Rationale. For trading integrity with primary producers to be a reality rather than an aspiration, it has to be driven by top management and ingrained in the parts of the company which deal with suppliers, notably the buyers.

How the indicator is measured and scored
The main RTTT measure of the integrity of trading relations with UK farming is an opinion survey of farmers and suppliers (Indicator 2.2). But Indicator 1 supplements the survey with a direct question to supermarkets, asking whether they have a board member (or equivalent) with responsibility for the integrity of trading relationships with their suppliers and primary producers in their supply chains, and for details of this responsibility.

Why is this a good indicator?
The indicator explores corporate policy and potential disconnects with buying practice. Claims made in this section will be compared with suppliers' own experiences (Indicator 2.2).

INDICATOR 2.2
Issue: Trading integrity with the supply chain
Indicator: Standards and codes of practice

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[45] www.smithfieldfoods.com/Understand/Family/bretonne.asp

Rationale. Many commentators have pointed to a large gap between corporate statements on trading practices and real-life practices by buyers, caused by inappropriate targets, lack of training, high staff turnover, and double standards applied to UK-sourced and imported produce.

What influence do SMs have in practical terms to address this issue, and what is the desired supermarket action on this?

Trading integrity with the supply chain. While UK competition regulations prohibit supermarkets from dictating terms of trade of their suppliers with farmers, an 'ideal' supermarket would commit via *codes of practice*, in the *training and management of buyers*, and in its *selection and monitoring of first tier suppliers*—to *integrity in trading relations and fair pricing for produce*, covering cost of production and a reasonable return on producers' capital and labour. This should apply across the global supply base.

Country of Origin. Consumers expect meat labelled "produce of…", "product of…", "produced in …", "origin:…", "British", "Scottish", "Welsh" etc to come from animals that have been born, reared and slaughtered there, and have been subject to that country's standards for animal welfare etc. Preston-based Booth's Supermarkets have shown how a retailer can implement best practice on country of origin labelling. Such best practice has been spelled out in the Food Standards Agency's October 2002 document on origin labelling. The FSA's recommended best practice states that terms like "produce of…", "product of…", "produced in …", "origin:…", "British", "Scottish", "Welsh" etc "only be used where all the significant ingredients come from the identified country and all of the main production/manufacturing processes associated with the food occur within that place or country." Origin labelling of meat introduces an additional complication because livestock may be born, reared and slaughtered in different countries. Beef and veal is already subject to detailed rules. The FSA recommends that labels for meat other than beef and veal (which are already subject to detailed rules) make clear when it comes from animals that have not been born, reared and slaughtered in the same country.

Margins on sustainable produce. Commitment to produce with improved sustainability, such as produce from organic production systems or Fairtrade labelled produce, is demonstrated by a commitment to market them with the same or lower profit margins as conventional produce, rather than treating them as high-value niche products.

How the indicator is measured and scored

Code of Practices on relationships with suppliers. Supermarkets are asked if they have adopted the DTI Code of Practice on relationships with their suppliers, and/or whether they have an internal code which is more rigorous. They are also asked their buyers are trained to implement the code, and the company requires *their* 1st tier suppliers to in turn implement the code with their (ie 2nd tier) suppliers, including farmers.

Country of origin labelling. This issue will be addressed with one simple question to supermarkets, asking whether they have implemented FSA Best Practice on Country of Origin Labelling on meat and dairy, including Avoiding Misleading Labelling, and best practice on product origin and declaration of products and ingredients. Verification will be possible with shelf surveys, though the methodology has yet to be determined. Like terms of trade, this indicator has the advantage of being grounded in UK government policy, i.e. the FSA Country of Origin labelling guidelines.

Margins on sustainable produce. Supermarkets are asked if their companies are committed to not making higher profit margins on organic and Fairtrade produce compared to conventional produce.

INDICATOR 2.3
Issue: Fair trading relationships
Indicator: Integrity of the trading relationship with UK farmers and suppliers

What influence do supermarkets have in practical terms to address this issue, and what is the desired supermarket action on this?

Despite the indirect nature of most trading relationships between farmer/growers and supermarkets, it is clear that some supermarkets have higher reputations than others among primary producers for their fairness and integrity in trading. A good reputation is not always a price issue. Cultivating personal relationships with growers, and having buyers in place for many years, and a commitment to using (and sticking to) long-term contracts are viewed very positively by farmers who need this stability in order to plan and build their businesses. As the Competition Commission report implied, a good reputation is also built on supermarkets not exploiting their access to consumers, by demanding shelf fees, demanding that suppliers use packaging and transportation from supermarket-nominated companies, setting unreasonable conditions and giving little notice of changes in specifications. This is especially important in these days when all bagging and labelling costs are borne by the grower.

How the indicator is measured and scored
At first glance, terms of trade between primary producers and supermarkets could be compared by measuring the *share of retail price passed back to farmers* for selected commodities. But this is clearly impossible, due to the confidential nature of business transactions, variations in quality criteria, and the number of intermediaries between farm and supermarket. Another approach is to rate supermarkets more highly when they use the same method as the Fair Trade movement in setting prices, based on 'cost plus.' This ensures a living wage by calculating production costs and building on a margin which covers a reasonable return on labour and investment. Asda claim to be "working to create ways of paying farmers that are based more on what a crop costs to grow rather than the dropping market price."[46] But some farmers complain that 'cost plus' is just another exercise in market power, a way of ratcheting down farmgate prices by forcing growers to open their books and "share efficiencies" with their buyers, and this certainly seems to have been the experience of suppliers to Wal-Mart.[47] One east Anglian farmer reported that he had the recent experience of having to submit minimum costings in order to remain a supplier and was then forced down to the costings supplied.[48] Since then costs have risen but "no account has been taken of that" by the customer.

Because of the key roles of intermediaries, balance of supply and demand, and quality in setting price, *price* alone is a very difficult indicator to get robust, defendable comparisons of supermarkets.

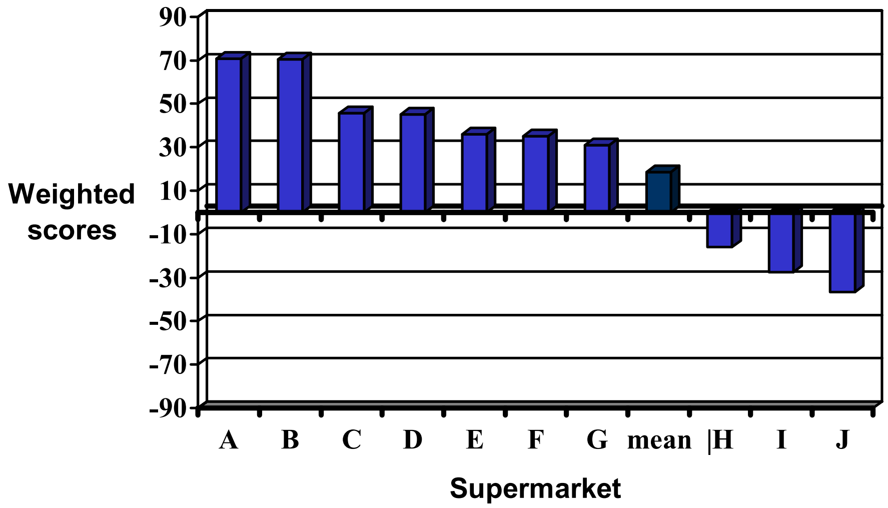
So we have decided to use a quantitative *surveys of suppliers*, asking first tier suppliers to evaluate their UK supermarket customers on the aspects of *integrity of their trading relationship with suppliers and ultimately farmers/growers*. The survey has been designed by the Centre for Food Chain Studies at Imperial College (Wye), based on extensive qualitative research with the apple and pear, milk, potato, red meat, poultry and pork

[46] *Daily Express* 23 November 2000
[47] "Wal-Mart suppliers have learned quickly that it isn't business as usual. Wal-Mart requires that some suppliers work off a system called 'cost plus' which means producers must open their books. That's a kind of business relationship that exceeds the comfort level of many." Doing Business by Wal-Mart's Rules. *Top Producer* magazine, November 2001.
[48] See also "Asda asks suppliers to reveal all" *Sunday Times* 11 August 2002.

chains—see report Fearne A, Duffy R and Hornibrook S (2002) “Methodologies for quantitative comparison of UK multiple retailers’ terms of trade with primary producers”. Great care is taken to ensure complete confidentiality to respondents. The method is grounded both in organisational theory (concepts of distributive and procedural justice) *and* the Competition Commission’s findings. The survey rightly starts from the premise that *price* is not the only driver of supplier satisfaction or dissatisfaction, compared to process issues such as the sharing of information, adequate notice of changes, and rapid turnover and poor knowledge of supermarket buyers.

Pilot testing of the survey instrument in 2002 proved its viability and revealed clear differences between the top 10 UK supermarkets (Figure 2).

Figure 2. Weighted scores of UK supermarkets in pilot of ‘Race to the Top’ supplier survey, 2002



Why is this a good indicator?
The real strength of this indicator is its legitimacy based on the Competition Commission’s findings. Comparative measurement of supermarkets’ trading integrity can thus constitute a unique form of oversight of the DTI Code of Conduct.

Limitations of this indicator
It could be argued that this indicator does not get to heart of the pricing issue. First tier suppliers are the part of the supply chain which supermarket buyers deal directly with, and measurement of the integrity of this relationship is a far more accurate comparative measure of supermarket performance than opinion surveys at farmer level. But opinion surveys of ‘suppliers’ views’ may be seen as not a robust benchmarking methodology, and it gathers the opinions only of those producers who are included in the supermarket supply chain, excluding those who do not supply supermarkets, perhaps as a result of many of the issues that we are trying to measure. At the other extreme, suppliers with exclusive and/or ‘category management’ relationships with supermarkets may be so tightly integrated into the retailer’s operations that they are no longer objective respondents to a supplier survey. In the future we may seek to supplement supplier surveys with measures of farmer satisfaction, where there is transparency in the supply chain and the supermarket end-customer can be accurately identified.

Supplier surveys also bias the assessment to UK-originating chains; supermarkets with high dependence on imports may escape the careful scrutiny which the survey can apply within the UK.

INDICATOR 2.4
Issue: Support for smallholder producers in developing countries
Indicator: Availability of and promotion of Fairtrade Marked products

Rationale - why is this an important issue?
UK supermarkets have several thousand supply chains which deliver their fresh and processed food products from countries of the South (Africa, Asia-Pacific, Caribbean and Latin America). These supply chains rarely involve direct producer-retailer relationships. In practice, many Southern producers supplying UK supermarkets are the more capital-intensive, medium- to large-scale, export-oriented enterprises; a trend encouraged by the investments associated with complying with hygiene, labour and environment standards required by the supermarket 'governors' of supply chains.

If primarily rural economies of the South are to benefit from trading with the North, these trading relationships must be expanded to the smallholder sector.

Again, this is a supply chain and not just a supermarket issue: exporters, importers and processors along supply chains are also responsible for this price gouging. But the RTTT project seeks to 'reward' retailers that adopt policies and practices, which specifically encourage fairer trade with smallholders in the South.

In order to arrive at a quantitative indicator to at least partially describe the relationship of retailers with the large number and diversity of Southern producers, we have necessarily to choose a proxy measure. By choosing sales of 'Fairtrade' labelled goods, it is possible to develop an indicator that is both measurable and verifiable.

The Fairtrade label is the only one of the current generation of initiatives on voluntary social standards which is directly visible to consumers in the food sector. This gives the advantage of an indicator over which consumers have a direct influence through individual purchasing choices. It is also an indicator over which the supermarket can have a direct influence through its choice of pricing and promotional policies. Certified producers of Fairtrade labelled products are nearly all small-scale, exporting products such as coffee, cocoa, bananas, honey and sugar. The label guarantees that a minimum price has been paid to the producers and the higher social (and, in some cases, environmental) standards are being met through the payment of a 'fair trade premium' to the producer organisation.

How the indicator is measured
The supermarkets will be asked to provide data on the proportion of stores stocking at least one Fairtrade Marked product in various categories, how many Fairtrade Marked products are sold in total in each category, and whether any of these are own-brand. They will also be asked to describe activities which they undertake to promote consumer awareness of Fair Trade issues and products. The Fairtrade Foundation also piloted a store survey during Fairtrade Fortnight, in partnership with RTTT, this can provide a means of triangulation of data provided by the supermarkets, but needs to be developed methodological before it is suitable as a scored part of this module.

Limitations of this indicator
Fairtrade labelled produce represents only a limited percentage of total market share of products from the South. Fairtrade branded products are viewed by some sectors as a poor proxy for breadth of commitment to small producers in developing countries. A clear

limitation of a focus on Fairtrade labelled products is that it passes the responsibility for business ethics onto consumers. Most consumers don't want fair trade (or wildlife, or labour standards, or animal welfare), to be relegated to a high price niche market; they want it to be a policy of the supermarket company itself and apply to the entire product range—a company standard. But it *does* offer a measurable indicator of a retailer's willingness to offer consumers a product where the terms of trade are not solely determined by market forces.

The most important limitation of this indicator is the fact that retailers with a high income customer demographic will inevitably rank high on availability of Fairtrade Marked products, because their customers seek out these higher priced ethical products. Likewise, supermarkets with a C2DE demographic will automatically be penalised. It is also harder for supermarkets with smaller store formats where shelf space is at a premium to justify stocking large number of lines of FT products. Judging stores on the number of FT product lines skews results in favour of companies with megastore formats and discriminates against smaller store formats.

These effects can partly be circumvented either by weighting scores, or (prefgerably) by 'rewarding' supermarkets that are committed to *growing the market*, not just responding to it. Commitment can be measured in *promotions*, *proportion* (rather than number) of lines, and development of *own brand products*.

Supplementary information

Retailers will be able to volunteer any information they have on the following, which may be used as case study material in RTTT communications:

- Activities and policies which ensure that primary producers who directly or indirectly supply your company receive an adequate price for their produce, i.e. that covers the cost of production and a reasonable return to producers' capital and labour.
- Activities (training, incentive structures etc.) to ensure long-term relationships between specialist supermarket buyers and suppliers.
- Activities to encourage supplies from small farms and co-operatives, including technical and organisational support, smallholder-friendly quality assurance schemes

Relation and trade-offs with other modules

Communities

The encouragement of smaller scale and family farming, for instance by encouraging and sourcing from small co-operatives, is an integral part of promoting local sourcing of regional products.

Workers

Labour standards in the supply chain, including plantation agriculture, are covered by the Workers module. The Workers module may extend its benchmarking to codes of practice applied to the smallholder sector in subsequent years.[49]

Nature

A potentially serious trade-off between terms of trade and nature conservation arises with the application of standards for farm biodiversity and sustainable agriculture. Standards and associated farm assurance schemes may be scale-biased and *regressive* instruments

[49] NRET Theme Papers, especially #3 'Implementing Codes in the Smallholder Sector'

with relative higher costs and complexity—especially in determining conformity to technical regulations—falling on the smallest operation. There are concerns that standards are accentuating prevailing inequalities, and excluding small firms and producers from participating in market growth, marginalising small-scale primary producers or entrepreneurs. It is for this reason that the Nature module asks whether retailers provide any support to these producer suppliers to help them to develop and implement the farm environment audits (and plans), financial or otherwise.

Animals

Note that competitive pricing of meat requires live auctions, which adds to the number of *animal movements*. If supermarkets instruct their abattoirs to source animals with a maximum of two movements, then the trend towards sidelining auction markets and undermining competitive price discovery could be worsened.

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