

THE EU RETAIL SECTOR: WHEN IS A MARKET NOT A MARKET?

Briefing for MEPs – October 2007

MEP Action

MEPs are in an important position to help push for a fairer and more sustainable EU retail market which protects the rights of consumers, farmers, workers and the environment by taking the following actions:

1. **Sign Written Declaration 88/2007**, tabled by Harlem Desir MEP, H el ene Flautre MEP, Gyula Hegyi MEP, Caroline Lucas MEP and Janusz Wojciechowski MEP by 24th January 2008
2. **Write to DG Competition** asking it to set out how it intends to modernise its policies to address the new dominance of supermarkets and their abuse of buyer power
3. **Raise questions** with the Commission in Committees and in the European Parliament plenary

Throughout the EU, retailing is increasingly becoming dominated by a small number of supermarket chains.

While there is anti-monopoly legislation to stop major producers abusing market dominance, there is no EU legislation specifically designed to tackle abuses of supermarket buyer power. These retailers are fast becoming 'gatekeepers' who control farmers and other suppliers' only real access to EU consumers.

Examples of EU Member States where the top 5 retailers made up more than 70% of the grocery market in 2005

Country	Market Share
Finland	90.02%
Sweden	81.8%
Ireland	81.4%
Slovenia	81.6%
Estonia	78.8%
Austria	78.7%
Germany	70.1%
France	70.0%

Source: Global Retail Concentration, Planet Retail, 2006

This is an issue of increasing importance to voters across Europe. A growing number of civil society groups, national and European authorities have shown how big retailers' market power is damaging people and the environment. We are highlighting the negative impacts below and asking all MEPs to act to protect the rights of consumers, farmers, workers, producers and the environment both in Europe and developing countries (see recommendations on page 4).

"11.5. The buying power of the Large Multiples in the food market must continue to be a matter of concern for the competition authorities.

11.6. There is a possibility that in the future food retailing would be in the hands of a very small number of players, which could lead to less consumer choice and higher prices.

The Commission and Member State Governments need to be aware of such a possibility."

NAT/262 "The Large retail sector – trends and impacts on farmers and consumers", OPINION of the European Economic and Social Committee, 7th April, 2005.

What impact is increasing concentration in the retail sector having?

Alongside groceries, supermarkets are increasingly moving into other sectors, such as clothes, home entertainment, pharmaceuticals and banking. As supermarket chains grow in size, the balance of power between them and other actors in the supply chain, from workers through to consumers, is being disrupted, with serious consequences. A retail market that is increasingly dominated by a small number of retailers is bad for both EU consumers and suppliers wherever they are based.

The UK Competition Commission in 2000 concluded that supermarkets **"having at least an 8 per cent share of grocery purchases for resale from their stores, have sufficient buyer power [to undertake abusive practices which] when carried out by any of these companies, adversely affect the competitiveness of some of their suppliers and distort competition in the supplier market—and in some cases in the retail market—for the supply of groceries."**

Source: UK Competition Commission inquiry into the groceries market in 2000

The four largest grocery retailers in Germany (Metro, Rewe, Edeka and Aldi) together account for 68% of retail food sales.

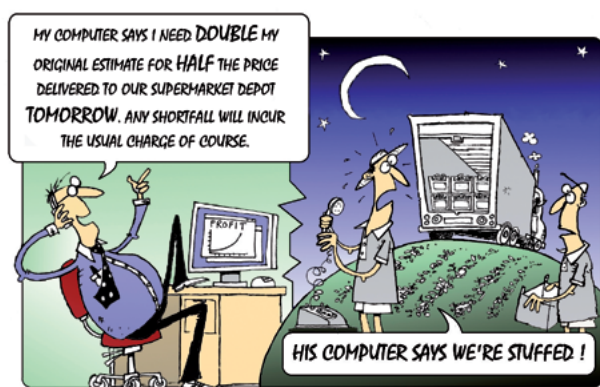
Market Share Matrix, 2003.

In the UK's clothing retail market, three supermarkets have now each reached 8% market share by volume, and their share is growing rapidly.

Drapers Record.

Supermarkets and suppliers - the negative impact of supermarket buyer power on producers and workers:

- The dominance of a limited number of supermarkets in the European retail sector means that often suppliers are dependent on very few supermarkets to get their products to the market. In such circumstances, supermarkets are able to unilaterally dictate terms and prices to their suppliers.
- Suppliers are squeezed by retailers to reduce prices and, in turn, demand from their workers longer hours at a faster pace, with worsening working conditions and job security.
- Big supermarket chains require big suppliers to service them. Even large-scale, heavily mechanised family farms struggle to meet their demands. Farms are increasingly taken over by fewer and bigger farm enterprises, many of which dispense with local labour and employ cheaper migrants in order to meet supermarkets' demands for lower prices.
- Overseas' suppliers are subjected to the same pressures as EU suppliers. The extreme imbalances of power are having a damaging impact on poor communities, exacerbating a trend towards declining conditions for workers and contributing to widespread labour rights violations.



Supermarkets and the consumer

Supermarkets have expanded because they have been perceived by the consumer as offering increased choice and low prices. However, a closer look at their impact shows that in many cases the reverse is true:

- Although supermarkets are demanding big price cuts from suppliers, these are not automatically being translated into lower prices for the consumer (see case study 2).
- Cheap prices on a few highly visible goods are often used by supermarkets to mask high prices on less visible items, such as prepared foods, where it is sometimes difficult to compare prices between different products.
- Supermarkets offer an ever-widening range of goods to consumers in their stores - books, CDs, electrical goods and clothing. Entry into these markets is achieved through the use of footfall generated by an already dominant position in the grocery market, and cross-subsidised low headline prices such as EUR 5 jeans. In sectors such as books, supermarkets concentrate on only the most profitable, best selling lines, sometimes offering them at below cost price. This makes it impossible for conventional shops to compete. As independent booksellers are forced to close, less populist books become unavailable, overall consumer choice is reduced and EU culture is diminished.
- As shopping moves out of town, the economic lifeblood of towns is drained away and communities find themselves living in 'ghost towns'.

CASE STUDY 1 Impact of supermarket price wars on Banana production in Costa Rica



Price wars particularly between the two largest UK retailers (Asda/Wal-Mart and Tesco) have driven down prices paid to their suppliers in a number of product ranges. Hardest hit have been the so-called "Known Value Items" like bananas and bread, products whose prices are frequently monitored.

The supermarkets' buyer power has allowed them to force suppliers to sell to them at ever lower prices. As a result UK banana importers and ripeners have been driven close to bankruptcy and have laid off many permanent workers in a desperate bid to minimise costs. Today they rely on cheaper migrant labour.

The biggest supplier of bananas to UK importers in recent years has been Costa Rica. Faced with pressures to keep costs down, producers have cut wages to their own workers by a third, replaced many permanent jobs with temporary contract work and suppressed trade union rights. Costa Rican workers are worse off today than ten years ago and investment in the country's infrastructure, formerly financed by banana revenues, has plummeted. UK supermarket price wars have damaged livelihoods at home and abroad.

Source: "Collateral Damage", Banana Link, October 2006

Member State responses to buyer power

Concerns about buyer power have already been raised in a number of EU countries. Some Member States have tried to address the problem by introducing laws to, for example, regulate supplier-retailer relations; to ban below-cost selling; to stop predatory pricing and price discrimination; and to diminish dependency in trade relations.

In the UK

- The Competition Commission carried out an extensive inquiry into supermarket practices at both retail and supplier level and published a major three volume report in 2000. This report concluded that 52 practices carried out by retailers in their dealings with suppliers were anti-competitive and recommended that the big four supermarkets comply with a Code of Practice in their dealings with suppliers.
- Following further concentration in the market, the Competition Commission launched a second investigation in May 2006. This is due to report in 2008.

In France

- In order to address buyer power problems and the imbalance in supplier-retailer relations, the Loi Galland (Galland Law, 1996) instituted a ban on selling below cost [of production]. Despite pressure to change this, the ban was retained in the amendments made by the Loi Dutreil II (September 2005). Loi Dutreil II also limited retrospective payments and extra “service cost fees” (*marges arrières*) that retailers were asking from suppliers. The new law also requires that contracts between a retailer and its supplier clearly state all pricing terms with no hidden discounts, and has introduced new procedures for penalising offenders.

In Germany

- In June 2005, competition legislation was reformed in relation to trading activities to ensure large companies were not allowed to use their market power anymore to demand “unjustified and repeated” special terms and conditions from their suppliers. In April 2007 the Cabinet adopted a new law that prohibits supermarkets selling food below the wholesale price.

These national initiatives are positive steps, that go some way towards addressing abuses which can occur due to the power imbalance between retailers and suppliers. However their impact is limited due to the international nature of retail sourcing and selling.

The need for an EU response

With similar trends in the retail sector being witnessed across the EU, there is a clear need for the European Commission to investigate the growing power of supermarkets and to see whether new checks and balances are needed. Although some Member States have begun to take action, today modern retailing chains operate across national borders. Because abusive buying practices usually originate in the supermarket’s ‘home’ country, the producer country affected by these practices have no way of tackling the problem. Many of the top supermarkets in Central and Eastern Europe are the same as those dominating the former EU-15, for example Tesco, Metro and Carrefour. Harmonised regulation is needed to cover the whole Internal Market. The growth of European buying groups, in which individual supermarkets from different countries join forces to purchase supplies, has also increased the retailers’ buying power and the potential for collusion through information exchange across EU member states’ borders.

CASE STUDY 2 The growing gap between the farm-gate price and retail price in the fruit and vegetable sector.

An investigation carried out by the Spanish farmers’ union, COAG (the Coordinación de Organizaciones de Agricultores y Ganaderos), revealed that while inflation in the grocery sector increased by 3.7%, prices paid to agricultural producers remained stable and low. However, margins taken by supermarket groups continued to grow. In 2004/5, retail prices for clementines, were almost eight times more than the farm-gate price. Across a broad range of products, retail prices were on average more than four times the farm-gate prices. More generally, while prices to consumers continued to rise in 2004/5, agricultural incomes declined to levels below those seen in 1990.

These figures form part of a general trend found across the EU. People and enterprises producing goods are being paid less while supermarket chains steadily increase their profits.

Source: “Quien se queda lo que tu pagas?” 19th January 2006, COAG, Madrid

In 2005 all of largest eight retailers (Carrefour (Fr.), Metro Group (Germ.), Tesco (UK), Rewe (Germ.), Schwarz Group (Germ.), Edeka (Germ.), Auchan (Fr.), Aldi (Germ.), were active in both East & Central and Western Europe, with the exception of Edeka. The first four retailers listed above are the largest 4 supermarkets by market share in both West, and Central and Eastern Europe.

EU Competition Law exists to stop large producers establishing monopolies. The massive expansion of supermarkets and hypermarkets over the last two decades is a relatively new phenomenon **and no legislation exists to limit the control a few giant retailers have over access to consumers and the market distortion this can cause.** Specific action must be taken through modernising Competition Law to tackle the negative impacts of supermarket buyer power and to give Competition Law and other policies the tools to cope with structural changes to the Internal Market which have already taken place.

For more information contact:

EUretail@responsible-purchasing.org

The Agribusiness Accountability Initiative (AAI) European Supermarkets Group

This group was set up in 2004, in order to establish a European wide alliance of organisations, campaigning for EU Institutions to develop a new regulatory framework, capable of tackling overly powerful supermarkets.

Responsible Purchasing Initiative

The Responsible Purchasing Initiative is co-ordinated by three European fair trade organisations, supported by an advisory group comprising purchasers, investors, trade unions, consumer organisations, and trade associations. We share a commitment to fighting poverty through trade and to engaging constructively with other businesses to work towards improving purchasing practices, and to work with governments to shape the public policy environment in which businesses operate.

Key Recommendations

- DG Competition to investigate the impacts that concentration of the EU supermarket sector is having on suppliers, workers and consumers and in particular to assess any abuses of buyer power which may follow from such concentration.
- The Commission to propose regulation to protect consumers, workers and producers from any negative impacts which are identified in the course of this investigation.

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