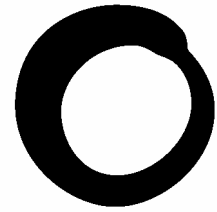


Media Briefing



**Friends of
the Earth**

TESCO: EXPOSED

Friends of the Earth will be attending the Tesco AGM on Friday 13th June 2003 to expose the company's record of putting profit before people and the environment, despite the claims in its Annual Report and Corporate Social Responsibility report. We will be joined by individual farmers, as well as representatives from Bananalink, Corporate Watch, *farm*, Grassroots Action for Food and Farming, the Small and Family Farms Alliance, and the National Sheep Association.

Farmers, who have obtained shares in Tesco with the help of Friends of the Earth, will get the chance at the AGM to ask Tesco to change their ways. But Friends of the Earth and farming organisations believe that simply seeking changes in the behaviour of retailers will not be enough. This briefing reveals how Tesco continues to make huge profits at the expense of farmers, communities and the environment. Tesco is abusing the power that results from its huge market share (25.8%). Clearly Tesco cannot be trusted to change its practices voluntarily. Friends of the Earth is therefore calling on the Government to:

- legislate to ensure that retailers trade fairly with their suppliers by imposing a new stricter Code of Practice on the biggest supermarkets, and appoint a watchdog with teeth to ensure it is being complied with
- stop any further consolidation of power by blocking all the Safeway merger bids
- introduce changes to UK company law to place duties on directors to minimise significant negative social and environmental impacts from business activities, and enable local communities to hold directors accountable when they fail to uphold such duties, as proposed in the Corporate Responsibility Bill, supported by Friends of the Earth. See: www.corporate-responsibility.org/

Friends of the Earth wants to see all the supermarkets, and indeed UK companies, held to account for their impacts on people and the environment. That is why we are attending UK company AGMs with affected stakeholders to highlighting the impacts companies have [1].

FARMERS RESPOND

Tesco says: *"We have a long-standing commitment to source as much UK produce as possible"* Tesco refers to its *"commitment to UK farming"* and claims that it has *"consistently supported British farmers over recent years. As our business has grown, so has that of our suppliers"*. *"We have developed long term working relationships with our suppliers and by working together to meet customer needs we have both grown our market share"*.

Michael Hart is the chairman of the Small and Family Farms Alliance:

Michael Hart says that the increasing gap between farm gate and retail prices is in some cases down to "clear profiteering". For example, in 1991 the farm gate price of potatoes was 9p per kg and the retail price was 30p; a 21 pence difference and a 233.5% mark up. In 2000 the farm gate price was 9p per kg but the retail price was 47p per kg; the difference now being 38 pence - a huge mark-up of 425%. The same applies to cauliflower's farm gate price of 24p in both 1990 and 2000 with a retail price of 73p in 1990 and 98p in 2000; an extra 25p per cauliflower and a profit increase of 35% [2]. Michael Hart comments that "*Both of these products require no processing other than grading and packing, both of which are done by the farmers before being put on the supermarket shelf, so clearly the increase in the farm gate to retail difference is due to supermarkets wishing to increase profit margins at the farmers expense. This is a clear abuse of their power in the food chain and a practice which is and will cause severe damage to UK farming.*"

"British farmers have delivered the higher and higher standards demanded by supermarkets but have been rewarded for doing so by supermarkets forcing down farm gate prices to levels which cause immense hardship among farming families, to the extent that agricultural charities are now paying out record levels of support for farming families and the number claiming state benefits are at previously unseen levels."

"The low farm gate prices being paid to farmers by supermarkets are destroying any chance we have of a sustainable farming system in Britain. Without profitable farming the environment, landscape and rural communities suffer. It is clear that supermarkets are using their near monopoly position in the food chain to make excess profits at the expense of both farmers and consumers."

Peter Lundgren is a Sussex dairy farmer's son and has a 95-acre arable farm in Lincolnshire. His farm is worked by contractors while Peter and his wife run a more profitable retail business. Peter was a founding member of *farm*. Responding to Tesco's claims about supporting UK farmers Peter comments:

"Supermarkets are using their dominance of the food chain to fleece both the farmer and the consumer. And for what? Short term short-sighted profit. Tesco claims to care about its farmer suppliers but their pricing policy is not just damaging family farmers, it is also damaging the environment and rural communities as well. The farming industry is losing over 11 farmers a day; farmers who created and maintain the British countryside, and who support the rural economy and the rural communities. The loss of these farmers will mean the loss of so much more besides. It's time for Tesco to put its money where its mouth is and initiate policies that ensure UK farmers receive a fair farm gate price for producing safe wholesome food to the high welfare and high environmental standards demanded by the consumer"

Exposed: Tesco Fat Cats

The company's directors certainly seem to be doing well at the expense of its suppliers. **The £2.8 million pay, benefits and share options package of Tesco boss Terry Leahy is about 255 times larger than the average income of a UK farmer.**

Terry Leahy's 2003 pay package £2,838,000 [Tesco Annual Report]
Salary £916,000
Benefits £65,000

Other performance related benefits and share options £1,857,000

Estimated average farmers income 2002, including subsidies £11,107 [DEFRA statistics]

Tesco profits [2002-03] £1.4 bn [Tesco Annual Report]

Estimated total farming income [2002] £2.36 bn [DEFRA]

John Thorley is the Chief Executive of the National Sheep Association. These comments on the pay package of Tesco directors are taken from a speech on 4th June 2003 at the NSA's North Sheep event.

"So where does the money come from to pay Sir Terry? From producers and consumers. The cheaper he can buy from producers and the more he can get from consumers the more money he has for his shareholders and of course for himself. Not rocket science or brain surgery – just pure old fashioned trading brought into the 21st century, except that his 'grocery' business is so large it dominates the market and puts enormous pressure particularly on primary producers and his other supply lines"

"I am deeply concerned by a system which allows wages of the size I have described to be paid to an individual who is, at least partly responsible, for the comparatively low prices being paid to farmers. I wonder at its morality and to use a word currently in vogue with Government, I wonder at its 'sustainability'". "Maybe if Tesco and its fellow travellers paid a consistently higher price for the top quality produce of British farmers, the farming business would prosper and with it we could look for sustainable futures for the farmers of today and tomorrow"..

John Turner farms 250 acres in the South West corner of Lincolnshire with his brother and their parents, producing organic milk, some cereals, sugarbeet and medicinal herbs. He is a founding member of farm.

"Tesco's commitment to source as much UK produce as possible means very little unless there is an equal commitment to maintain fair & sustainable prices paid to farmers. Supermarkets have to recognise that there is a point at which their methods of continually driving down suppliers' margins have a negative impact on farming methods and animal welfare standards. Farmers are now calling for a transparent pricing policy that ensures fair returns for those involved in providing produce to the standards that Tesco's customers expect, and that it is no longer acceptable for supermarket buyers to abdicate their responsibility for the devastating effect on farmers' incomes that their pricing policies can have."

Exposed: Tesco fails to support UK farmers

In October 2002 at the height of the UK apple season a Friends of the Earth survey found that less than half of apples on Tesco shelves were UK sourced.

Friends of the Earth's February 2003 survey on the Supermarket Code of Practice, [which was meant to redress the balance between the biggest supermarkets and their suppliers], found that for farmers it is business as usual. The big four supermarkets, including Tesco, were still using the same unfair trading practices that the Code was meant to stop.

The Small and Family Farms Alliance points out that since 1990 there has been a widening of the

gap between farm gate and retail price for many products.

FAIR TRADE?

Tesco says: *“Tesco supports the work of the Fairtrade Foundation”. “This year we launched our own brand Fairtrade bananas sourced from the Windward Islands”.*

With increasing consumer demand for Fairtrade products it is not surprising that Tesco has decided to sell Fairtrade bananas. However for the majority of bananas that go through Tesco's checkouts, 'Unfairtrade' would be a more fitting logo. Bananalink estimates that Tesco makes about one million pounds profit per week from banana sales, enough to employ 30,000 full-time banana plantation workers at a living wage (which would be about twice what they're paid currently).

Exposed: Unfair trade

Banana plantation workers are paid just a penny for every pound's worth of bananas sold in Tesco, not enough to feed their families. Tesco takes 40p. The UK importer/ripeners is barely breaking even just to stay as a Tesco supplier.

If banana suppliers make a mistake in the packaging requirements or date, they have to pay Tesco £25,000 ("Emergency Product Withdrawals").

Tesco demands payments from its suppliers to cover the costs of its compliance with the Ethical Trading Initiative. According to a letter leaked to 'The Grocer', Tesco demands £69.50 per quarter per supplying site, a demand which, according to one supplier hits smaller businesses hardest since they are more likely to have a number of sites.

Information from Bananalink & The Grocer

Supermarkets including Tesco use bananas as a key item in their price wars but it's not Tesco who bears the cut in price. Bananalink estimate that at least 80% of the profits taken along the chain stay with them, even after a 25% cut in retail prices since last August. Bananalink point out that the new Tesco banana contract in place from 1st June 2003 pays prices which inevitably mean that suppliers cannot pay legal minimum prices in most banana exporting countries and are forced to supply fruit from the most socially and environmentally exploitative sources (Ecuador, Cameroon).

COMMUNITIES

Tesco says: *“Tesco invests in all types of communities throughout the United Kingdom, providing jobs and careers for local people” “Making jobs and economic activities stay in, or close to, local neighbourhoods starts to boost the local economy”*

Exposed: The British Retail Planning Forum found that every time a large supermarket opens, on average 276 jobs are lost [3]. It is perverse that Tesco can argue that it boosts the local economy when what a new supermarket does is likely to be the opposite. It has been estimated that a supermarket opening will cause the closure of all village shops within a seven mile radius [4]. Supermarkets tend to import food into the region, whereas smaller food shops tend to buy food from nearby farmers and producers. In a survey in Ludlow, more than 80 % of food shops sold some local produce, and for many it was a large proportion of their sales [5]. For the supermarket giants like Tesco local sourcing is more likely to be a niche market only. A study in 2001 found that £10 spent on a local organic box scheme in Cornwall generates £25 for the local economy, compared

with £14 if spent in a supermarket [6].

CONSUMERS

Tesco says: *“Our flexible store formats improve access to good quality, affordable, fresh food”* and also claims that it *“aims to create the best Healthy Living product range so that we are the retailer that customers trust to meet all their healthy living needs. We will promote ‘healthy living for all’ ensuring that a healthy lifestyle is accessible and affordable, and appeals to all our customers”*

Exposed: According to a recent Which? report [7] Tesco’s “Healthy Living” range is not so healthy. For example Tesco “healthy” custard creams contain less fat than the standard options but they contain more sugar and more salt – hardly a healthy choice. And Tesco’s “Healthy Living” apple juice only contained 67% apple juice – the rest is made up with water and sweeteners. As Which? points out *“this reduces the sugar level, but it means that you are getting less apple juice than in the standard product. Is this really better for you?”*

Tesco fresh produce may also contain an unhealthy dose of pesticides. Government data shows that between 1998 and 2001 nearly half (48%) of Tesco fruit and veg tested contained pesticide residues. The latest results (published in June 2003) show that potatoes from Tesco contained pesticide residues over the safety limit for toddlers and that a sample of pears from Tesco contained seven different pesticides [8].

Tesco may be the leader of many a supermarket price war, but this is not the same as offering healthy food at an affordable price. Key items such as bread and milk are certainly cheaper in supermarkets, because they are used as ‘loss leaders’ to entice customers into the store. But not all products are so cheap.

Exposed: healthy food costs more

A Friends of the Earth survey of apple pricing in 2002 found that on average, a kilo of Cox apples cost 28 pence more in a Tesco store than on a market stall and 23 pence more than in a greengrocer.

Getting a low price in a Tesco store also depends on whereabouts in the country you live. The Competition Commission found that supermarkets, including Tesco, were putting prices up in areas where there was no strong competition [9].

Tesco’s new “flexible store formats” means that they are moving back into the high street, and as a result making it hard for remaining local shops to survive. But these new style Tesco stores do not serve “all communities”. A recent report by Demos [10] showed that the growth of supermarkets at the expense of smaller local shops has been detrimental for low income households because supermarkets target the “cash rich, time poor” shopper. One low-income customer said that although bargains could be found at Tesco *“I couldn’t do a weekly shop there”*.

And it is the producer that takes the cut in price when promotions are offered, not Tesco. As one grower commented to us *“There is no indication that supermarkets have refrained from delisting farmers and growers if they do not toe the line eg. accept the two for one promotions where it is the producer that suffers the loss of income not the supermarket”*.

ENVIRONMENT

Tesco says *“Tesco is committed to protecting the environment by doing what we can to reduce our*

impact”

Packaging

Tesco says that it “aims to minimise the amount of waste by recycling wherever possible”

Exposed: The best way to minimise packaging waste is to minimise use of packaging materials in the first place rather than to recycle the materials after use. Although in its CSR report Tesco says that it is “*looking for ways to minimise product packaging*” there is little evidence of this. Like other major supermarkets Tesco imports a lot of fresh produce over long distances requiring additional packaging to protect the items in transit.

Tesco’s recycling claims do not relate to the products on the shelves - its stated success rate of recycling nearly 80% of its packaging waste relates to waste from its own operations, mainly relating to cardboard (presumably used in transit to the store), so customers are still taking home and disposing of a huge amount of consumer packaging from Tesco products. In fact 60% of household waste comes from packaging waste. Much of this is plastic, of which only 7% is recycled. Companies like Tesco should stop over-packaging items and reduce the amount of plastic they use.

Climate Change

Tesco claims it is “committed to reducing its energy consumption and emissions of greenhouse gases responsible for climate change”

Exposed: Tesco’s delivery lorries clock up 224 million km a year doing 1.15 million journeys [11] and it flies in fresh produce from all over the globe. So how can Tesco claim to be reducing its emissions of greenhouse gases? Flying green beans from Kenya produces 3878.3 grams of carbon dioxide per kilogram of food [12].

NOTES

[1] A full briefing is available from Friends of the Earth’s press office or see www.foe.co.uk/campaigns/corporates/resource/media.html

[2] Parliamentary Question response from Elliot Morley MP to Mr Colin Breed MP, 18th March 2002. who asked for a list the average farmgate and final consumer price of a number farm products in the UK in each year since 1990. Source Hansard WPQ 18th march 2002

[3] Competition Commission 2000, Supermarkets, a report on the supply of groceries from multiple stores in the United Kingdom Volume 2: Background Chapters

[4] Breed C, 1998, Checking out the Competition in retailing, Liberal Democrats, House of Commons, London

[5] Ludlow Green Party, 1995, Ludlow food shops survey, Ludlow

[6] Plugging the Leaks, the newsletter of Plugging the Leaks, Edition 3, July 2001, New Economics Foundation

[7] Which? April 2003 Food Report

[8] Pesticides Residues Committee, quarterly residue reports, www.pesticides.gov.uk

[9] Competition Commission 2000, Supermarkets, a report on the supply of groceries from multiple stores in the United Kingdom, Volume 1: Summary and Conclusions

[10] Hitchman, Christie, Harrison, Lang, 2002, Inconvenience Food, The struggle to eat well on a low income,

Demos

[11] IGD research 2002

[12] Jones, 2001, Eating Oil Food Supply in a Changing Climate, Sustain

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