



The Tesco Takeover



Friends of
the Earth

The Tesco takeover

Why market muscle is bad for business

It's a British business good news story. Over the past 10 years Tesco has become a giant among the world's retailers. But the Tesco bonanza comes at a price.

Race to the bottom: Tesco's mission to deliver "unbeatable value" for shoppers has pushed down prices so far that some UK farmers are on the brink of bankruptcy. And research among its suppliers overseas reveals that some pay workers wages which keep them in poverty and have only minimal health and safety protection in place.

High-street takeover: As Tesco gobbles up convenience stores, currently opening a new Express store every working day, and sells ever more types of non-food produce, from kettles to financial services, existing retailers, local food and the very character of Britain's high streets are under attack.

Environmental damage: Our environment is paying the price of Tesco's success. Its stores are energy-intensive eyesores. Its food is flown from all over the world, so contributing to climate change.² And the company's demand for ingredients like palm oil is turning natural forests into wildlife deserts.

Misleading claims: Tesco, and its influential chief executive Sir Terry Leahy, makes much of its social responsibility but two independent rankings of top companies in 2004 named Tesco one of the worst offenders on social and environmental issues and heavily criticised its Corporate Social Responsibility (CSR) report for being incomplete and inadequately verified.³ Sir Terry Leahy says:

“We recognise our impacts on society, on the economy, and on the environment... Corporate responsibility is not an additional burden or a distraction from serving our customers; it is an essential part of sustaining ourselves as a responsible company.”⁴

So why does Tesco's market-leading position rest on unfair and unethical trading practices and leave a trail of environmental and social mayhem?

Friends of the Earth believes that Tesco has become too big and that its activities and growth must be controlled. This summary reviews the impact of Tesco plc and gives a voice to those affected by its operations. It reveals for the first time, a broad picture of social and environmental injustice which Friends of the Earth believes show why the Government must take immediate action to regulate this sector.

Tesco and suppliers

In 2002 the UK Competition Commission observed that the bigger a retailer is, the better able it is to extract lower prices from suppliers.⁵ Since then Tesco has shown just how.

In the UK farmers have described their relationship with Tesco as one of "master and servant". Most are afraid to speak out about the way the company treats them in case they jeopardise their contracts.



“Tesco has driven down the price of meat, vegetables, everything, because they have such a huge share of the market. It's a monopoly position...they can simply go and find someone else who will supply them at the price they want”

Michael Hart, tenant farmer, Cornwall

Tesco has signed up to the Government's Supplier Code of Practice but a survey of suppliers by the Office of Fair Trading in 2004 found "a widespread belief that the code is not working effectively."⁶ Farmers complain of orders being cancelled at the last minute and getting prices below the cost of production. One large vegetable supplier, Kettle Produce of Fife, Scotland, prominent in the Tesco CSR report, has recently had to lay off over 100 staff as a result of cut price imports and low prices – a common picture across the UK.⁷

Tesco also makes exacting and often unnecessary demands on farmers to ensure uniform products which, with a third of the market, inevitably become the national standard. Tesco claims to promote "regional" produce. In fact only 20 per cent of what you find on Tesco's shelves is from the UK regions.

Tesco boasts about its commitment to fair trade. Sir Terry Leahy says: "We know that more and more of our customers want to buy products that benefit farmers and growers in developing countries." But the company is accused of charging overseas suppliers to cover the cost of its ethical initiatives; and of pushing down prices below cost of production, forcing suppliers to rely on cheap seasonal labour, paying poverty wages, and exposing workers, particularly women, to unacceptable working and living conditions.⁸

Tesco workers

At home, working in store remains a low pay option. Tesco is even trying a scheme to stop workers' sick pay on the first three days taken off. Tesco claims to create more jobs but the figures do not add up. In 2004, small grocery shops had a turnover of around £21 billion and employed more than 500,000⁹ whilst Tesco, with a £29bn turnover, employed just 250,000 people¹⁰

When Tesco announce annual worker 'bonuses' they fail to stress this is related to earnings. As one ex-employee put it:

“[it] was kind of a running joke, customers would come in to stores about this time every year and congratulate the staff on our wind fall....[but] the average checkout girl gets a big sack of peanuts.”

Tesco down your street

“A Tesco store increases choice and doesn't mean that local businesses will suffer” – that's the Tesco claim. Former shop owners in Beverley, North Yorkshire, where an edge-of-town store with an additional bakery, café and non-food lines opened two years ago, might have a different view. The town has already lost four small retailers and locals fear that more will go.

With its enormous share of the grocery retailing market Tesco is able to secure low prices and undercut smaller shops. Corner shop specialist Londis has admitted that it is cheaper for it to buy stock from Tesco than to buy wholesale.¹¹ By cornering the market in cheap basic foodstuffs and selling non-food items like books, Tesco takes away vital everyday income from more specialist and smaller suppliers.

While Tesco stores may bring a wider choice of products, in the long term the effect is to reduce the number of retail outlets and remove customer choice that way. **Across the UK more than 13,000 specialist stores, including butchers, bakers, fishmongers and newsagents, closed between 1997 and 2002 leaving many communities without accessible shops and services.** More than 2,000 corner shops have closed over the past year alone representing a 500 per cent rise in the annual closure rate.¹²

There is little evidence that Tesco is particularly cheap despite appearing to be across the range of products. Extensive loss-leaders and loyalty cards get people inside the stores and rely on “inertial monopoly” to charge them above average for other goods.

In 2000, Castle Douglas in Scotland decided to market itself as a Food Town, celebrating the range of available local produce. The town has around 80 independent shops and many of the food shops get their produce from local farms and the local fishing industry. Now Tesco has decided it wants to open in the town and more than 1,200 residents have signed a petition opposing the opening of the store.

“ We are a thriving rural economy. It seems that the only people who will benefit from Tesco coming to Castle Douglas is Tesco who want to reorganise retailing in Dumfries and Galloway for their own convenience.”

Alistair Livingston, local resident.

But local communities often have little say when it comes to planning decisions about Tesco stores. The company has considerable experience of working with local councils to ensure it gets what it wants, often investing in a long campaign

to develop its proposal before applying for planning permission. In the case of Castle Douglas, councillors voted for the store, fearful of a costly fight with a well-resourced legal department.

“ They are too big and powerful for us. If we try to deny them, they will appeal, and we cannot afford to fight a planning appeal and lose. If they got costs it could bankrupt us ”

says John Sweeney, leader of North Norfolk District Council after losing an eight-year battle against a Tesco application.

Tesco claims to create employment. Yet the stores employ far fewer people by turnover than the smaller ones they threaten.¹³ Dependency on one store does not necessarily provide sustained employment nor broad training opportunities.¹⁴

Tesco and the environment

The environment is strangely absent from Tesco's corporate responsibility “values” but this is perhaps less surprising when you consider Tesco's impact on the planet.

Climate change: Despite financial incentives and government grants, Tesco failed to achieve its target of cutting carbon dioxide emissions by 4.2 per cent in 2004 – because, it says, of unexpectedly high sales growth.

Indeed Tesco's business could be seen as one of the drivers behind the rise in UK CO₂ emissions. Tesco transports millions of tonnes of produce around the world, contributing to climate change through transport emissions. Its stores are some of the most energy-inefficient buildings in the retail sector.

It would take more than 30 corner shops and greengrocers to match the carbon dioxide emissions from one average sized superstore.¹⁵ Tesco also encourages shoppers to travel by car. One in 10 car journeys in the UK are now to buy food, and Tesco recently started selling flights in its stores in Hungary.

Waste: Tesco boasts about its progress on reducing waste, and how it is following a market trend to introduce degradable plastic bags. But grocery packaging still makes up roughly a quarter of household waste, and the UK's biggest supermarkets distribute some 15 billion plastic bags, which end up in landfill.

Farm chemicals: Tesco says it works with suppliers to keep pesticide residues in fruit and vegetables to a minimum. Yet Government data shows that the company made no overall reduction in the level of pesticide residues in its food between 1998 and 2002. As well as posing a threat to human health, pesticide use results in pollution of farmland and water supplies.





Myrthe Verweij/Milliendenseis

Forests: Tesco is contributing to deforestation through its reliance on palm oil, a cheap vegetable oil found in more than 1,000 products that the store sells. Palm oil plantations are now the major cause of rainforest clearance in Indonesia and Malaysia, threatening some of the world's richest wildlife forests and endangering native species including the orang-utan and the Sumatran tiger.¹⁶ Palm oil plantations are linked to hundreds of cases of social conflict and human rights abuses.

In February 2005 Friends of the Earth asked Tesco to agree minimum standards, trace palm oil and join a roundtable on sustainability in palm oil. Despite the commitment to improve standards, given in their CSR report, the company refused to do any of these.

“a big problem is the huge number of oil palm plantations which have taken our lands and cut down our forests....not just destroying our lands, but also our cultures.”

Volunteer with Indigenous People's alliance, Indonesia.

GM foods: Tesco are still sourcing genetically modified animal feed for some of its own brand animal products, like milk, and it is unlabelled.

Tesco and ethical trading

“We are now the biggest seller of Fairtrade products in the UK,” says Sir Terry Leahy. He does not go on to say that Tesco uses Fairtrade products to supply a niche market, often at a premium price, while failing to ensure that similar standards apply across the entire product range. **Just 90 out of a total of 40,000 products, only 0.2%, are Fairtrade accredited.**

Tesco is failing its very own standards for the Ethical Trading Initiative by making suppliers pay the costs. Banana price cuts in store have led to a 30 per cent reduction in the amount Tesco pays to banana importers in the UK – making it practically impossible to earn a living wage on some plantations in Latin America.¹⁷

According to supply chain experts:

“Ethics are increasingly marketed as consumer choice rather than a corporate standard; fairness and justice in trading, for example, is niched as fair-trade-labelled speciality products and not main-streamed into business practice, where many would argue it should be.”¹⁸

Time for change

Tesco is a British success story – it has used the global market place to push down prices for consumers and grab more market share.

Sir Terry Leahy says: “If we are not profitable, we cannot do the things we - and our stakeholders - would like to do. We operate in a free market and we believe in the power of the market to deliver worthwhile change.”

But the social and environmental costs of Tesco's behaviour are clear. That's why Friends of the Earth is calling on the Government to act now to stop the Tesco Takeover and bring this market giant under control. It is not enough to expect shoppers to revolt and shop at their local stores to keep them going as long as possible. The public should be able to rely on regulation to maintain fair trade and a diverse high street.

There is also a clear need to make companies accountable for their impacts so the UK Government must do more to stop UK companies exploiting people and the environment in search of profits.

Friends of the Earth wants to see:

- **a stricter Code of Practice** to ensure that all suppliers in the supply chain, at home and overseas, are treated fairly, ensuring sustainability, and labour and health standards
- **an independent watchdog** to ensure the grocery market is operating in the interests of consumers, farmers and small retailers
- **an immediate investigation** into Tesco's monopoly position and a moratorium on mergers and acquisitions in retail.
- **corporate accountability legislation** to make UK companies accountable for their impacts on communities and the environment worldwide, including duties on directors, to ensure that appropriate standards are met
- **local planning decisions** protect retail diversity and local food economies.

For more on Friends of the Earth's campaign on supermarkets and actions you can take, see www.foe.uk/campaigns/real-food

For more about Friends of the Earth's campaign for corporate accountability see www.foe.uk/campaigns/corporates

Also see www.tescopoly.org

¹ TNS Superpanel, April 2005 ² DEFRA, 2005 ³ Accountability/CSRNework 'The Accountability Rating', June 2004 ⁴ Tesco's corporate responsibility website www.tesco.com/everylittlehelps ⁵ Competition Commission 2002 ⁶ OFT, 2004 ⁷ The Courier, 13 April 2005 ⁸ ActionAid 2005 ⁹ The Grocer, 15 May 2004 ¹⁰ Baker N. (2004); Tesco, 2005 ¹¹ Rachel Shabi The Guardian 26/1/04 ¹² IGD, 2005 ¹³ N Baker, 2004 How green is your Supermarket ¹⁴ A Dixon, Newcastle University ¹⁵ From data of Sheffield Hallam University, 2002 ¹⁶ Greasy palms, Friends of the Earth, 2005 ¹⁷ www.bananalink.org.uk ¹⁸ www.racetothetop.org

The Tesco takeover

It's a British business good news story. Over the past 10 years Tesco has become a giant among the world's retailers. Around **one in every three pounds** we spend on groceries in Britain is at Tesco. And with sales still growing and 600 new store openings in 13 countries, and its range of goods and services ever widening, Tesco is set to tighten its grip.

With more than **£2 billion profits** made in 2004, Tesco has not only netted a huge share of the market but has also become a darling of the investment community.¹

But the Tesco bonanza **comes at a price** which we may only just be beginning to realise – **for farmers, our town centres and the environment**. Friends of the Earth believes that this has been possible because Tesco has been allowed to get **too big** and **too powerful**.

Friends of the Earth wants to see:

- a **stricter Code of Practice** to ensure that all suppliers in the supply chain, at home and overseas, are treated fairly, ensuring sustainability, and labour and health standards
- an **independent watchdog** to ensure the grocery market is operating in the interests of consumers, farmers and small retailers
- an **immediate investigation** into Tesco's monopoly position and a moratorium on mergers and acquisitions in retail.
- **corporate accountability legislation** to make UK companies accountable for their impacts on communities and the environment worldwide, including duties on directors, to ensure that appropriate standards are met
- **local planning decisions** protect retail diversity and local food economies.



Banana price cuts in store have led to a 30 per cent reduction in the amount Tesco pays to banana importers in the UK – making it practically impossible to earn a living wage on some plantations in Latin America.



Tesco encourages shoppers to travel by car. One in 10 car journeys in the UK are now to buy food, and Tesco is now selling flights in its stores in Hungary.



ActionAid investigations show how Tesco pushes down the cost of produce from South Africa exposing workers, mainly women, to unacceptable working and living conditions.



Tesco is dominating UK retailing. More than 2,000 independent shops have closed over the past year alone – a 500 per cent rise in the annual closure rate.



Some of the world's richest wildlife forests and endangered species like the Sumatran tiger are threatened by Tesco's use of palm oil from Indonesia's plantations.

Friends of the Earth inspires solutions to environmental problems, which make life better for people

Friends of the Earth is:

- the UK's most influential national environmental campaigning organisation
- the most extensive environmental network in the world, with around 1 million supporters across five continents, and more than 70 national organisations worldwide
- a unique network of campaigning local groups, working in more than 200 communities throughout England, Wales and Northern Ireland
- dependent on individuals for over 90 per cent of its income.

Friends of the Earth, 26-28 Underwood Street, London N1 7JQ

Tel: 020 7490 1555 Fax: 020 7490 0881 E-mail: info@foe.co.uk Website: www.foe.co.uk

Friends of the Earth Trust Company number 1533942, registered charity number 281681

C Printed on paper made from 100 per cent post-consumer waste