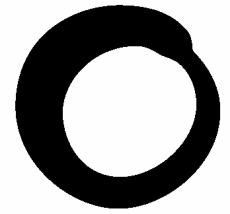


Media Briefing



**Friends of
the Earth**

December 2006

Farmer survey 2006

SUMMARY

In October 2006 Friends of the Earth carried out a survey of farmers and growers to find out more about how they are being affected by the current market conditions. The purpose of the new survey was to gain evidence for submission to the Competition Commission's inquiry into supermarket practices. It follows a previous survey carried out in 2003.

The 2006 survey results suggest that supermarkets are still driving down the prices paid to farmers to unsustainable levels and that the Supermarket Code of Practice introduced in 2002 to redress the balance between supermarkets and their suppliers has not been effective.

Key findings include:

- More than a third of all farmers (35%) said that they received the same as or less than the cost of production for their produce. The vast majority of those being paid more than the cost of production were only being paid "just over".
- A significant proportion of farmers (39%) said that their dealings with supermarkets were having a negative financial impact on their business.
- Supermarket trading practices had forced nearly a third (29%) of all farmers to put investments and innovations on hold.
- Nearly one third (32%) of respondents had complained to the supermarkets or their intermediaries about trading practices but only one felt that their complaints had been dealt with satisfactorily.
- Almost a quarter (23%) of all farmers had been forced to waste packaging or re-package products as a direct result of supermarket actions. One farmer was left with over 20,000 obsolete bags due to a supermarket changing its poly-bag design.

Friends of the Earth is concerned that as more and more British farmers go out of business, Britain will become more dependent on food imports. The only farmers that will be able to survive will be the biggest most intensive businesses which could result in greater environmental damage to our

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farmed land and food will have to travel further to reach us, resulting in more and more food miles.

BACKGROUND

In May 2006 the Office of Fair Trading referred the grocery market to the Competition Commission (CC). Friends of the Earth welcomed the decision as it had called for a new investigation into the dominance of the major supermarkets, with the backing of the Association of Convenience Stores, the National Federation of Women's Institutes and FARM.

Friends of the Earth was concerned that the biggest retailers were using their market power to engage in unfair trading practices with suppliers, resulting in smaller suppliers becoming unviable, and making it hard for suppliers to meet ethical and environmental standards. These trends harm consumers by lowering the quality and choice of goods available; consumer polls reveal shoppers want to be able to buy local and British food. To satisfy the market, British farmers need to be able to make a viable living.

In their previous study in 2000 the Competition Commission recommended that a Supermarket Code of Practice be introduced after it found evidence that the biggest supermarkets (Asda, Safeway, Sainsbury, Somerfield and Tesco) adversely affected the competitiveness of some of their suppliers. The Code was introduced in March 2002.

But a Friends of the Earth survey of the market conditions for farmers and growers in February 2003 found evidence that the Code was ineffective. The results showed that the supermarket Code of Practice was failing to protect suppliers from the trading practices which the Competition Commission had identified in 2000. An OFT review of the Code in 2004 recognised significant problems with the Code but failed to take any action to strengthen it. Friends of the Earth views the current Competition Commission inquiry as the best opportunity since the Code was introduced for action to be taken to provide stronger protection for suppliers but the Commission has indicated that it needs evidence in order to act.

THE SURVEY

Ninety nine farmers were sent the survey. These farmers had said they were happy for us to contact them again following the 2003 survey [1]. These had been originally selected from commercial databases and through farming organisations.

The Respondents

Friends of the Earth received 33 responses. Two of these farmers had ceased farming so were not included in the figures. The respondents included a range of farmers and growers, including fruit and vegetable growers, dairy farmers, livestock farmers and arable farmers. The farms covered ranged in size from 5 to 3000 acres.

A number of the farmers had ceased supplying supermarkets or intermediaries, to instead concentrate on "pick-your-own" or local farm shops. These farmers were included in the calculations.

Other respondents supplied supermarkets through intermediaries such as milk co-operatives and dairies. The majority of respondents (60%), whether they supplied supermarkets directly or not, considered that supermarkets have the most influence on the price they receive.

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Price Received

The survey asked farmers about the price they received for their crops/livestock compared to the cost of production:

- More than a third of all farmers (35%) said that they received the same as or less than the cost of production for their produce. Of those being paid more than the cost of production, 83% are receiving “just over” the cost of production. This situation was also found in the Competition Commission’s 2000 report on supermarkets [2]. The report also stated that the buyer power of the supermarkets meant that the burden of cost increases in the supply chain fell *“disproportionately heavily on small suppliers such as farmers”* [3]. The buyer power of the multiples was also said to *“affect the competitiveness of their suppliers – for good or ill”* [4].
- Farmers in some sectors of the industry are being paid even less than the cost of production. More than half of livestock farmers (62%) said they received the same as or less than the price of production for their produce, double the 2003 figure [1]. The remaining farmers only received just over the cost the cost of production.

Trading practices

In their current investigation the Competition Commission is specifically seeking information on *“whether the behaviour of grocery retailers towards their suppliers affects competition among suppliers of groceries”* [5]. Friends of the Earth asked farmers about their experiences of supplying supermarkets, either directly or through intermediaries:

- 39% of all farmers said their dealings with supermarkets were having a negative financial impact on their business, ranging from moderate impacts to “finding it hard to make ends meet” (13%). A number of the farmers surveyed have no dealings with the supermarkets or intermediaries so this figure would be even higher if they were not taken into account.
- When asked if they had noticed any difference in the way in which supermarkets (or their intermediaries) conducted business with them over the past two years, 47% of those who answered claimed that things were worse, with the remainder saying that they had noticed no difference.

We also asked farmers how the nature of their business was affected by the trading practices of the supermarkets. Many of these were linked to the financial situation they faced.

- 29% of all farmers had been forced to put investments or innovations on hold due to the impacts of their dealings. This issue is specifically listed in the Competition Commission’s statement of issues for their current investigation [5]. One farmer said that *“in the end profit was so low, no investments have been made.”* As a result this farmer was forced to sell his dairy herd.
- In some cases farmers were putting routine developments on hold, not just innovations. Farmers stated that there was *“no money left for redevelopment”* and that *“cash for necessary maintenance is difficult”*.

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- Other farmers had been forced to limit the number of products they were producing, particularly fruit farmers. This too is specifically mentioned in the Commission's statement of issues [5]. This may be related to the fact that the supermarkets have not been supporting native fruit varieties [6]. One farmer stated that certain apple varieties had been de-listed and therefore had to be grubbed. Another was grubbing all pear orchards and many of his apple orchards because the price paid by the supermarkets was well below the cost of production.

Friends of the Earth also asked farmers about specific practices, some of which had been identified by the Competition Commission in their 2000 report on supermarkets. In its report the Competition Commission found that when a multiple engaged in the practices below, the result was to *"adversely affect the competitiveness of some of its suppliers"*, to *"restrict or distort competition"* and create a *"monopoly situation"* [7].

The Competition Commission also concluded that the practices would mean suppliers were less likely to be able to *"build up their brands"* and that *"innovation is likely thereby to be reduced"*. Such practices therefore directly contribute to our findings on investments and innovations [8]. Our survey found that:

- 23% of all farmers had been forced to waste packaging or re-package products as a direct result of supermarket actions. One farmer was left with over 20,000 obsolete bags due to a supermarket changing its poly-bag design.
- 19% of all farmers had been required to make last minute changes to orders without receiving adequate compensation.
- 19% of all farmers had been required to meet the cost of a forecasting error, such as having to accept a lower price because a retailer overestimated demand.
- 16% of all farmers had found that promotional agreements with supermarkets caused unfair disruption or costs to their business.
- 23% of all farmers had been made to wait more than 30 days for an invoice to be paid.

Other issues identified included

"Rebates paid to supermarkets for the privilege of supplying them (1-2.5%). The rebate on sales would obviously have been invested". Sainsbury's and Tesco were named in this instance. This practise was among those identified by the Competition Commission in 2000 as distorting competition.

"Supermarkets with whom we have sold fruit reject it for no reason".

But a number of farmers did not answer these questions and "don't know" was a fairly common response. For some farmers these particular questions were not relevant because they did not supply directly to supermarkets.

Friends of the Earth also asked farmers about whether they had complained to supermarkets and

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how that complaint had been dealt with. The lack of formal complaints brought by suppliers under the Code of Practice has been cited by supermarkets as an indication of compliance. But the Competition Commission and the OFT recognised that suppliers are often afraid to complain for fear of the consequences. We found that several farmers have complained to supermarkets or intermediaries although it is not clear whether they have formally complained under the Code of Practice.

- Nearly one third (32%) of respondents had complained to the supermarkets or their intermediaries.
- Of those who said they had not complained, reasons included the *“Fear of delisting”, “Will be seen as unfriendly behaviour and future orders will be reduced”, “Not a large enough producer to carry any clout”,* and simply *“There is little point”*. In their 2000 investigation the Competition Commission concluded that the multiples’ buyer power led to this *“climate of apprehension”* [4].
- Only one respondent who had complained said that their complaint (to an intermediary) had been resolved to their satisfaction.

Other comments

Friends of the Earth asked farmers to give any further details of their experiences. The additional comments illustrate some of the knock on effects of supermarket power, including other food manufacturers having to cut prices to match supermarket low prices and the loss of small shops which could be important alternative outlets for farmers. Comments included:

- *“The majority of food is now sold in supermarkets - no doubt they manipulate the prices to ensure that they make a vast profit eg. with milk there is more profit per litre than we receive for production.”*
- *“I gave up growing wheat for bread as the premium over the “feed” or animal feed wheat price is not enough to cover the costs of growing the crop. These price reductions were solely based on the price of a loaf of bread on the supermarket shelf.”*
- *“I do not supply to supermarkets as they only buy from large producers. They have destroyed all the small shops who used to buy our produce.”*
- *“As relatively small soft fruit producers, we totally gave up supplying supermarkets three years ago and now are P.Y.O only. The reason we gave up was that there was nothing remotely enjoyable or profitable about selling to supermarkets.”*
- *“I supplied Tesco until 1984 and decided to cease trading with any supermarket as it was obvious even then that we would be servants and not masters of our own future. They have been instrumental in causing massive damage to all branches of farming and many other sectors.”*
- *“I rent my orchards to a very large farming operation, but I understand that fruit prices are well below expectations this year considering that there is not an over plentiful crop both here or on the continent.”*

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- *“When the supermarkets think they can get milk cheaper elsewhere they terminate the contract they have with their processor supplier. This supplier then has to look round for someone else to buy the large quantity of milk they have on their hands, and their usual method is to offer their (our) milk to another outlet at a price lower than it is now paying another processor. The processors then tell the producers that we must accept a lower price. This domino effect seems to go on almost indefinitely, with each new contract being at a lower price.”*
- *“Basically the supermarkets are the main problem, but the dairy processors seem to make very little attempt to stand up to them, so they are also guilty.”*

CONCLUSIONS AND RECOMMENDATIONS

Friends of the Earth has identified numerous supermarket practices which the Competition Commission previously deemed to “adversely affect competition”, including those specifically identified for consideration in the current investigation. If the Competition Commission looks into these cases in more detail it may find that some of these practices are in breach of the Supermarket Code of Practice. But whether or not there are technical breaches of the Code the important message from this survey is that the Code has not put a stop to the unfair trading practices identified over six years ago in the original Competition Commission report. It is clear that the Code must be strengthened. Friends of the Earth’s recommendations regarding the Supermarket Code of Practice are outlined in more detail in the organisation’s previous response to the Commission and includes the following key points [9].

- Friends of the Earth found that farmers’ dealings with supermarkets have not improved, and in many instances have become worse. This is a clear indication that the Code is failing. It should be strengthened in line with the original recommendations made by the Commission in 2000, and put on a statutory footing, making it more effective than the existing Code.
- The survey findings show that the “*climate of apprehension*” identified in 2000 regarding the complaints process [4] still exists. In amending the Code a key change must be for the dispute resolution process to be made truly independent of the supermarkets so that individual suppliers cannot be identified.
- Many farmers do not supply supermarkets directly, instead going through subsidiaries such as dairies. But their businesses are still greatly affected by the actions of the supermarkets. Even though supermarkets are the main outlet supplied by only 19% of farmers, 60% of farmers told us that supermarkets have the most influence on the price they receive. Friends of the Earth is therefore asking the Competition Commission to consider how the code could be applied to farmers who do not sell direct to supermarkets, especially where they supply via large companies such as dairies.

Friends of the Earth also urges the Competition Commission to clarify how the Code can best protect overseas suppliers supplying UK supermarkets.

Friends of the Earth, as part of the Breaking the Armlock alliance has also recommended that a retail

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Regulator or Ombudsman be appointed to oversee the Code of Practice and to take on a wider role in investigating and resolving problems arising from abuse of power by the big supermarkets in their dealings with suppliers.

NOTES

[1] Farmers and the Supermarket Code of Practice, Friends of the Earth, March 2003

http://www.foe.co.uk/resource/briefings/farmers_supermarket_code.pdf

[2] Paragraph 2.320, Supermarkets. A report on the supply of groceries from multiple stores in the United Kingdom, Volume 1: Summary and Conclusions, Competition Commission, October 2000

<http://www.competition-commission.org.uk/inquiries/completed/2000/index.htm#supermarkets2>

[3] Paragraph 2.319, Supermarkets. A report on the supply of groceries from multiple stores in the United Kingdom, Volume 1: Summary and Conclusions, Competition Commission, October 2000

[4] Paragraph 2.440, Supermarkets. A report on the supply of groceries from multiple stores in the United Kingdom, Volume 1: Summary and Conclusions, Competition Commission, October 2000

[5] Paragraph 10, Statement of issues, Groceries Market Investigation, Competition Commission, 2006

<http://www.competition-commission.org.uk/inquiries/ref2006/grocery/index.htm>

[6] "Britain's supermarkets still not supporting native apples", Friends of the Earth, November 2005

http://www.foe.co.uk/resource/media_briefing/applesurvey.pdf

[7] Paragraph 2.539, Supermarkets. A report on the supply of groceries from multiple stores in the United Kingdom, Volume 1: Summary and Conclusions, Competition Commission, October 2000

[8] Paragraph 2.543, Supermarkets. A report on the supply of groceries from multiple stores in the United Kingdom, Volume 1: Summary and Conclusions, Competition Commission, October 2000

[9] Friends of the Earth's response to the Competition Commission: Grocery Market Investigation, friends of the Earth, June 2006

http://www.foe.co.uk/resource/evidence/cc_submission.pdf

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