

MPs Briefing



**Friends of
the Earth**

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Every Little Hurts: Why Tesco needs to be tamed

Introduction

Tesco controls more than a quarter of the grocery market (27%) in the UK, giving it a very powerful position. But recent reports from the Competition Commission and Office of Fair Trading indicate that the company is abusing its power [1]. This briefing sets out some of the growing evidence that Tesco's success is coming at a high price to local communities, UK farmers and overseas workers, in stark contrast to the claims Tesco is making in its new Corporate Social Responsibility (CSR) report produced ahead of this year's annual general meeting (AGM) on 18th June. The briefing also includes the voices of some of the local traders and communities, farmers and overseas workers who are losing out as Tesco profits.

Friends of the Earth believes that the interests of suppliers, smaller retailers, local communities and consumers would be better protected if the large supermarkets were more tightly regulated. Tesco, as the UK's market leader, with a presence in many countries around the world, is able to lead national price wars based on unfair and unethical trading practices. What it does, others will follow.

Evidence shows that the voluntary codes meant to protect suppliers and workers are ineffective. Tesco is still gaining planning permission for new stores that wipe out smaller shops and high streets, which is not only detrimental to the local economy but also to consumers, who are left with no choice of where to shop or who cannot get to the new store without a car. Tesco has been allowed to increase its power by taking over chains of convenience stores with no investigation of the impacts.

Tesco needs to be tamed, but there is no one simple solution. Government action is needed on a number of fronts:

- to tighten planning policies, including a cap on retail floorspace
- to introduce a stronger statutory supermarket code of practice with an independent supermarket watchdog to enforce it;
- to stop further Tesco takeovers.

In addition stronger corporate accountability legislation would ensure that Tesco and other companies would have to report on real environmental and social impacts in future CSR reports and take steps to reduce those impacts. In seeking tighter controls over the biggest supermarkets Friends of the Earth is not alone. An alliance of 15 farming, consumer and environment organisations [2] are campaigning for a new supermarket code of practice and watchdog; the campaign already has the support of more than 80 MPs.

Tesco harms local communities

In this year's CSR report, Tesco claims that it supports local communities and creates jobs for local people. But it does not say how many other jobs in local communities may be lost as a result of its new superstores opening as local shops close down. It also fails to describe the impacts on a community that loses its local shops or vital services like post offices. More than 13 thousand specialist stores, including butchers, bakers, fishmongers and newsagents, closed between 1997-2002 leaving many communities without accessible shops and services [3].

Strong planning policy is crucial to protect town centres and local shops but the Government is currently considering introducing policy changes that would favour large stores located on the edge of town centres [4]. This would be a disaster for market towns and local shops. Already local planning authorities are giving planning permission for stores even though it is clear that there will be a negative impact on the town centre. Two cases in North Norfolk where Friends of the Earth has talked to local traders (see box) highlight the need for more robust planning policies.

1. A Tesco opened in **Stalham** two years ago and has already affected local shops' trade so much that some shops have closed down and others are thinking of selling up. Stalham is a market town but Tesco built its car park on the market site promising that the market could continue on Tuesday mornings. But once its store was open, Tesco backtracked on this promise and the council re-located the market to a much less suitable site where it has now dwindled to a few stalls.

2. About 20 miles away in **Sheringham**, Tesco recently gained planning permission for a large store on the edge of the town centre. Local traders told Friends of the Earth that two high street shops have closed already. Others fear for their livelihoods because the location of the new store would deter people from going to the high street, especially holiday makers, who bring a lot of trade to the town. Tesco's idea of helping the local community is to relocate the community centre, currently located on the Tesco site, to a less accessible site further out of town. In Sheringham, traders feel let down by the local council because although the proposal was originally refused planning permission by an area planning committee, it was subsequently approved by the full committee after Tesco threatened to go to appeal and claim costs from the council if the application was refused.

Both of these cases involve large stores on the edge of town centres. It is vital that new retail planning policies (which will be set out in planning policy statement 6 (PPS6)) give local planning authorities the confidence to refuse such developments without fear of costs.

Tesco harms local traders

"This is a family business, trading for 34 years but we've had a 35% drop in trade in the last two years (since Tesco opened), I don't want to sell up but I don't think I can stay in business much longer"

James Cawdron, Butcher, Stalham

"Tesco's aim is to kill the High Street" Mike Brakenbury, Baker, Stalham

"Tesco will totally devastate this town" Steve Fulcher, Greengrocer, Sheringham

"The Council's approval of Tesco was based on fear not democracy. The town is like a beehive now, but if Tesco opens people won't come into the town, it will cut the town off"

James Wright, Ironmonger, Sheringham

"Before Tesco opened Stalham was a thriving market town, but now nobody walks to the high street, my business is down 40%"

Candy Sheridan, shopkeeper, Stalham

"These bully-boy tactics leave the competition no room for survival"

Ian Proudfoot, store owner, Withensea

Competition policy is also failing local shops. In **Withensea**, North Yorkshire, Ian Proudfoot, owner of a chain of long-established local stores called on the Office of Fair Trading to intervene when Tesco opened a store nearby and cut prices by 40%, saying that Tesco was trying to put him out of business. The OFT has said that it will not investigate this case [5]. In 2000, the Competition Commission warned that the massive buyer power of the big supermarkets made it hard for smaller shops to compete. Yet the competition authorities have allowed Tesco to take over a further two convenience store chains, increasing their market power and their presence on many local high streets

Pensioners in **Witney** in Oxfordshire were angry when Tesco took over local convenience stores and then said they would close the post offices which had been operating in the shops. Pensioner Margaret Wardell, campaigning against the post office closures, told Friends of the Earth they would leave 10,000 people in Witney without a local post office. She described how many pensioners depend on the post office to withdraw money, pay utility bills and council tax. It is too far to walk to the main post office for Margaret and she cannot stand for long in queues. Community nurse Richard Dossett-Davies also told Friends of the Earth that the post office closures will cause great problems for the people he helps [6]. Tesco may close up to 50 post offices around the country as they convert convenience stores to the Tesco Express format.

Tesco harms local communities

"I am a pensioner and disabled and will be in difficulty if Cogges Post office closes. Altogether the closure of Cogges Post office will make difficulties for many people on the estates, especially for the elderly. I cannot agree with Tesco's claim that they are coming to serve the local community. It seems to me that the community is being sacrificed to the god of money".

Margaret Wardell, pensioner, Witney commenting on Tesco's closure of two post offices in their stores.

"The closure of the post offices in Witney by Tesco will cause great problems for the people I help as a community nurse. Our community will be poorer for Tesco moving in"

Richard Dossett-Davies, community nurse, Witney

"They appear to have no community conscience whatsoever"

Councillor Frank Smith, Witney

Overseas farmers and workers

Tesco says that it aims to "act responsibly" in its commercial and trading activities and says that it is committed to the principles of the Ethical Trade Initiative, a voluntary code that is meant to ensure certain standards for the treatment of overseas workers in retail supply chains. But evidence from South Africa and Latin America of the conditions for workers on farms and plantations supplying Tesco, shows that workers are not getting some basic rights.

Recent research by Oxfam and its partners in **South Africa** [7] reveals how Tesco loads many of the costs and risks of its fresh-produce business onto farmers, who are passing them on to workers – especially women – in the form of temporary and sporadic employment without basic rights. The research reveals that overseas suppliers are facing many of the same problems as UK suppliers, the sort of trading practices that were meant to be addressed by the Supermarket Code of Practice introduced in 2002. The recent review of the code concluded that it was ineffective in terms of

protecting UK suppliers, but even though the Code applies to overseas suppliers too, they were not included in the review. Some of the practices experienced by South African fruit and wine suppliers would sound very familiar to suppliers in the UK:

- Receiving payments below the cost of production.
- Having to pay the supermarket a fee (£100,000 was quoted by one supplier) for them to sell wine in a higher price range to reflect the price of production.
- Having to meet unreasonable demands for uniform colour and size of fruit
- Being required to make last minute changes to packaging at the suppliers cost.
- Cost savings of using cheaper labour to pack fruit in South Africa not passed on to the supplier

Tesco squeezes overseas suppliers

"It's important that they [Tesco] actually realize what the true costs are. They start negotiating prices which are below production costs – that can't continue because you are going to force guys [farmers] out of business"

UK importer of South African fruit

"The worst thing for us is the additional requirements retailers give us. Now they want the fruit packed in a plastic tray and that becomes expensive"

South African fruit grower

"We have asked for protective clothing but...they say it is too expensive for the farm and we should pay for the clothes"

Kartyn, 35, worker on farm in South Africa supplying Tesco

"Tesco never asked us about what we pay our labour or what our cottages [workers' housing] look like"

Wine-grape grower, South Africa

"We have met all the technical and social standards in Tesco's code but instead of buying more of our fruit, they still go to other farms around here that have not. And then they ask why we are supplying their competitors. What do they expect us to do?"

Table-grape grower, South Africa

Source: Oxfam

Banana Link told Friends of the Earth that Tesco's price slashing is having serious impacts on workers. Between January 2002 and January 2004, Tesco cut the retail price of loose conventional bananas by over 30%. In order to preserve its own margins in a banana retail price war with the other major multiples, it cut the prices paid to British importers by the same amount. The knock-on effect on plantation workers in **Latin America** is that they are now receiving well below the 'living wage' to which Tesco has committed itself for all its supply chains. In some plantations supplying Tesco, workers do not now even receive the legal minimum wage for the hours they work. Workers who join trade unions are systematically harassed. This is in violation of the Base Code of Conduct of the Ethical Trading Initiative, of which Tesco is a member.

UK Farmers

Tesco claims that it is "backing British agriculture". The farming organisations that Friends of the Earth talked to give a very different message, as do the official reports of the competition authorities. According to the Competition Commission's report on supermarkets in 2000, Tesco paid the lowest prices to suppliers. Although a Supermarket Code of Practice was introduced in 2002 to stop unfair

trading practices, the Competition Commission and Office of Fair Trading have found that it has made no difference to the way Tesco operates. Tesco says that it "already abides by the key principles of the Code and has always made it clear that it fully supports it". Evidence suggests otherwise. In 2003 the Competition Commission's report on the Safeway mergers said that suppliers said their negotiating strength with Tesco had been 'much reduced' over the last four years.

Peter Lundgen of FARM told Friends of the Earth that the impact on farmers has significant wider implications: *"The crisis is forcing 40 farmers and 30 farm workers off the land every day, the loss of these farmers will mean the loss of so much more besides. The environment is suffering. Farmers know that the hedges need replacing and the wetlands and pastures recreating; but with non-existent income how can farmers countenance the investment in environmental enhancement? Rural communities are suffering as farmers shed labour to reduce costs. Rural communities are losing the people needed to support local services. We are seeing the disappearance of the village school, the village shop, and even the village pub. And all because Tesco, and the other supermarkets, will not allow the farmer a fair share of the retail price"*

Tesco is not backing British farmers

"Last year FARM, amongst others, attended the Tesco AGM to challenge the board on its failure to pay a fair price to producers. Sadly Tesco has ignored our representations and chosen to ignore the plight of its farmers and growers"

Peter Lundgren, founding member of FARM

"Having travelled to many countries to meet farmers it was very clear that supermarkets treated all farmers equally... unfortunately that is equally badly and it was the name of Tesco which came up time and time again. If we are to have a future as farmers and sustainable agriculture in the future then we need to control supermarket power. We need to have a code of conduct which is compulsory and is enforceable "

Michael Hart, chairman of Small and Family Farms Alliance

The recently published EFRA Committee report on milk pricing [8] raised concerns about the practices of both retailers and dairy companies but it identified supermarket power as a key issue. It concluded that *"there remains a fundamental imbalance of negotiating strength between supermarkets and most of their suppliers"* and that the supermarket code of practice *"appears to have been ineffective in redressing this imbalance"*. It suggests that *"Supermarkets should carefully examine the way in which they exploit their buying strength and establish whether this is compatible with their oft-stated aim of supporting British agriculture via supply chain partnerships"*.

Tesco says it sold more British apples than any other supermarket last year. This is not really surprising since it is the market leader in the UK, but that does not indicate a loyalty to British fruit growers. Friends of the Earth's surveys have shown that at the height of the UK apple season, more than half of Tesco's apples are imported [9], and that they reject perfectly good British fruit for no good reason.

Environment

Tesco says that it has reduced waste in its internal systems, but it still generates huge quantities of packaging which ends up in landfill sites via its customers' bins. Grocery packaging makes up nearly one quarter of household waste. Fresh produce is often dumped because it does not meet the high shape and appearance standards demanded by Tesco. Tesco says it's reducing its CO₂ emissions but its pursuit for cheap food available all year round means that food is transported over large distances causing pollution. Imported fresh produce is often flown halfway round the world. Large supermarket buildings are also inefficient, using up a lot of energy and creating more CO₂ emissions.

Tesco has failed to demonstrate any real effort to reduce the amount of risky chemicals in its food and other products. While other supermarkets have signed a pledge to take action to deal with risky chemicals, Tesco has not. In fact it did not even bother to reply to a Friends of Earth questionnaire on this issue. Despite claims that it is reducing pesticide use, our analysis of government brand named data for five years from 1998 to 2002 showed that Tesco had made no overall reduction in pesticide residues in its food. Over the five years, an average 45% of Tesco fruit and vegetable samples tested contained pesticide residues.

Action needed to tame Tesco

- More robust planning policies to protect town centres and high street shops including a cap on retail floorspace.
- A much stricter code of practice to ensure that suppliers are treated fairly
- A supermarket watchdog to ensure that grocery market is operating in the interests of consumers, farmers and small retailers.
- A moratorium on Tesco taking over any more shops including convenience store chains.
- Corporate accountability legislation which makes companies accountable for their effects on communities and the environment

Action that MPs can take now

Please sign **EDM 817** calling for a stricter Code of Practice and a Supermarket Watchdog that properly protects the interests of farmers, local shops and the environment. Please also raise these concerns with Secretary of State for Trade and Industry Patricia Hewitt.

References:

- [1] Evidence from the Competition Commission reports in 2000 on Supermarkets and in 2003 on the Safeway merger inquiry, and the Office of Fair Trading report on the Code of Practice in February 2004.
- [2] Banana Link, British Independent Fruit Growers Association, FARM, Farmers for Action, Farmers' Link, Farmers' Union of Wales, Friends of the Earth, Grassroots Action for Food and Farming, IIED, National Federation of Women's Institutes, New Economics Foundation, Pesticide Action Network UK, Soil Association, Small and Family Farms Alliance, WyeCycle
- [3] New Economics Foundation, 2003, Ghost Town Britain II Death on the High Street
- [4] Friends of the Earth's response to Draft Planning Policy Statement 6 is at http://www.foe.co.uk/resource/consultation_responses/consultation_on_draft_plan.pdf
- [5] Letter from OFT to Ian Proudfoot
- [6] Statements available from Friends of the Earth
- [7] Oxfam, 2004, Trading Away our Rights, women working in global supply chains
- [8] House of Commons, 2004, Environment, Food and Rural Affairs Committee, Milk Pricing in the United Kingdom
- [9] http://www.foe.co.uk/resource/briefings/apples_short_supply.pdf

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