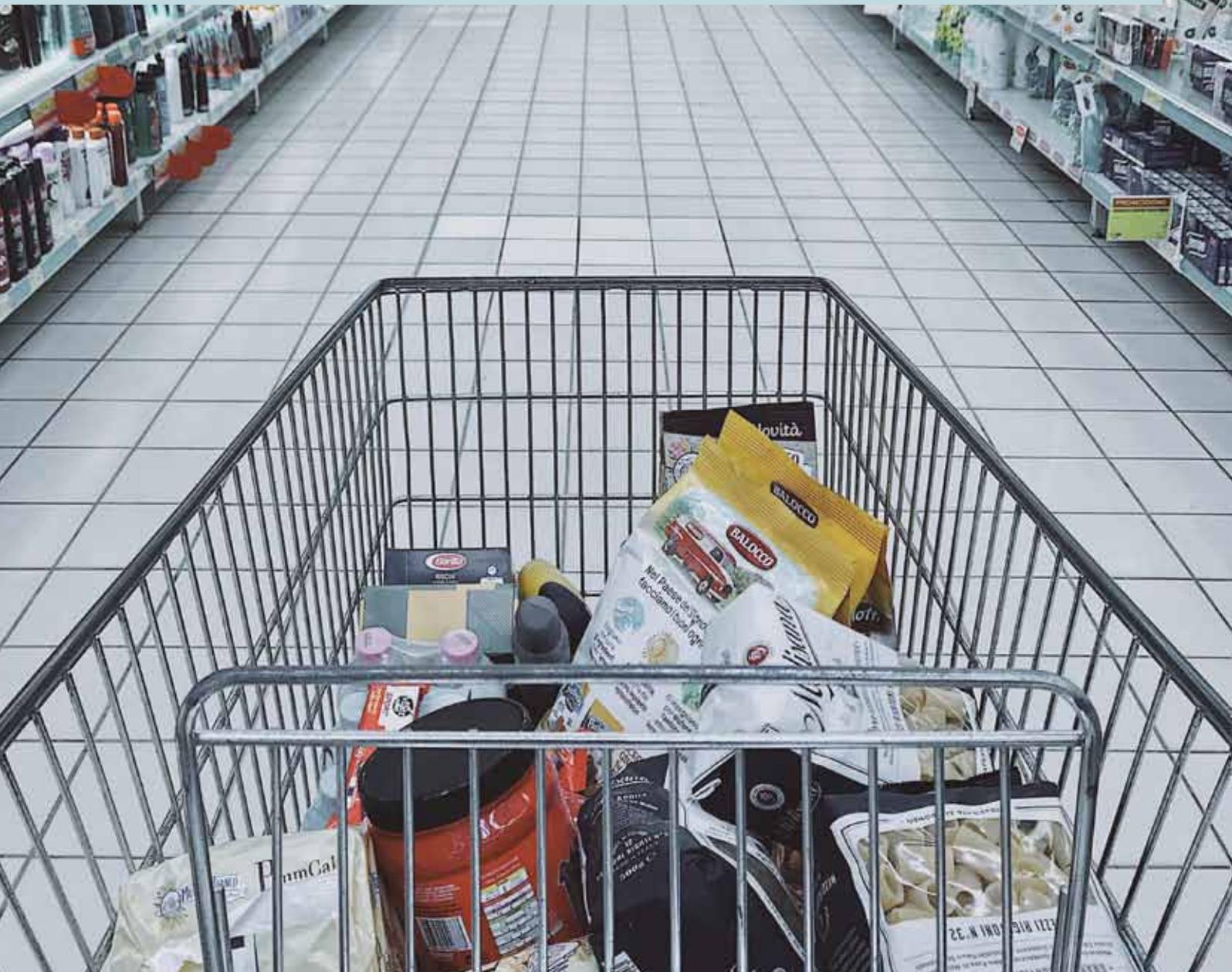


Briefing

Super Market Failure

Low wages, high pay disparities and unfair trade – is this what we want from food retail?



Summary

We like to think that British values include a sense of fair play; however our food system is often deeply unfair. Low wages and high pay disparities are the norm, meaning that millions of people are locked into poverty.

Meanwhile, unfair trading practices persist, meaning insecure livelihoods for farmers and suppliers. Against this backdrop we also have major changes in the retail sector including a proposed merger of Asda and Sainsbury's, aggressive new players such as Amazon and rapidly growing levels of online shopping.

We set out to examine some of the causes of unfairness in our food system, looking at the pay and practices of the UK's leading supermarkets. Using survey responses, independent studies and data sources, Sustain assessed how the UK's 13 top supermarkets (by turnover) play fair, using three key indicators:

- Does the supermarket pay at least the real Living Wage for all employees and agency workers?
- What is the ratio between the lower paid workers and the highest paid executives?
- What is the supermarkets' approach to grocery market regulation, which was designed to cultivate a fair and level playing field?

This briefing summarises the findings and makes recommendations for action.

On the real Living Wage, our research suggests that there is almost no take-up of an accredited Living Wage scheme by the UK's top supermarkets. Whilst some supermarkets are providing a form of wage that relates to living costs, and some (constituted as co-operatives) give their workers a share of the profits, overall there is inconsistency. Independent findings suggest that low pay is a major issue for hundreds of thousands of people employed in food retail: fuelling poverty, undermining social mobility and putting costs back onto the welfare state.

On pay ratios, many of the UK retailers show a discrepancy between the highest and median wages, between lower paid workers and the highest paid executives. Large and widening pay gaps appear to have become the norm for all but those operating under worker ownership (the Co-op and Waitrose). Given the profits that supermarkets make, it is hard to accept that they cannot afford to work towards a fairer balance of pay.

We found it challenging to assess each supermarket's approach towards grocery market regulation.

Most of the supermarkets we asked failed to respond to our survey. However, we welcome the insights provide by those who did respond (Waitrose and Marks & Spencer) and who explored the barriers to taking more action on fairness in supply chains here and globally.

We conclude that action is needed to support a new food trading model that is, by mission and design, able to deliver a fairer system for producers, workers and consumers. We make policy recommendations for:

- Current grocery supply chain regulation
- The draft Agriculture Bill
- Wider competition policy including mergers and anti-trust measures
- Support for better and more diverse retail and trading enterprise growth
- Planning policy that can better support diverse retail and tackle dominance
- Policies for tackling unfairness in global supply chains.



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Why should supermarkets care about fairness?

Fairness matters, both to individuals and to society. Numerous surveys have shown that British people care about fairness. Typically, they believe that fairness is about people getting what they deserve and what they need to live a decent life; and that the right to enjoying fair treatment comes with responsibilities associated with fair play and reciprocity.²

Research for the Fairtrade Foundation³ undertaken by the polling company Globescan found that:

- A very large majority of British consumers (92 per cent) believed that it is the responsibility of food companies to ensure food production is fair and sustainable, while 85 per cent also believed government should take responsibility.
- A majority of British consumers agreed that both UK farmers and those in developing countries are underpaid for their produce (63 per cent and 64 per cent, respectively).

Unfortunately, there is often a public perception that – in general – the big UK food retailers are not playing fair, meaning that farmers and workers lose out, both here and abroad. This can also result in other damaging effects such as more workers needing welfare support from the government to be able to afford basic living costs, and high levels of business risk and food waste. Supermarkets have been dogged over the years by headlines about British farmers having to pay the cost of supermarket price wars, smaller food and farming enterprises going out of business, and stories of shocking working conditions and even slavery that lie behind the attractive labels on the supermarket shelf.⁴

“Decades of cheap food policy leave primary producers with few options other than to adopt the intensification of farming systems.”

Robert Craig, Cumbrian dairy farmer, writing for the Sustainable Food Trust¹

Can fairness be a core business goal for supermarkets? And if not, how can we achieve a fairer food system, where everyone benefits, from farmers and farm workers, through processors, manufacturers and retailers, right through to consumers? How can we achieve a better balance, spreading the food risks and rewards? Consumers - paying an ever smaller amount for food - have had a role in the development of cheap, globalised food systems and this will need to change.

People commonly say, “I want to know where my food is coming from.” In reality, the answer for most of us is: “From Tesco, Sainsbury’s, Asda or Morrison”. These are the top four supermarkets in the UK, providing us with nearly 70 per cent of all our groceries. Having this level of buyer and seller power concentrated in such a few hands has resulted in a number of worrying trends in UK retail in terms of fairness in the supply chain. Concentrated power generally results in low pay, inequality, unfair trading practices, large amounts of food waste and business risks for smaller players.

Shop workers are paid some of the lowest wages in the UK - many employees work at or just above the National Minimum Wage, which does not cover the basic cost of living and is therefore subsidised by in-work social security benefits, for example to cover people’s rent. Many shop workers also work part-time or as agency workers. The difference in pay between the lowest and highest earners has also received considerable attention and shareholder concern.

In addition, the very limited market choice for farmers and suppliers of who to sell to means they end up as price takers – they have little or no ability to negotiate. They have to absorb the costs and risks of unfair trading practices (supermarkets and others in the supply chain) including buyers cancelling orders at the last minute, making deductions from invoices, or asking suppliers to pay unexplained fees.⁵

Such a powerful set of buyers and price competition inevitably squeezes business income. Farmers’ share of the total pot of money spent on food is around 8%, compared to 26% for manufacturers.⁶ This in turn puts downward pressure on wage levels and conditions for workers in the food sector – the biggest employer in the UK with 3.7 million farm workers (1.12 million working directly for supermarkets). This was explored in more detail in Sustain’s report “*Why would anyone want to pick our crops?*” on the impact of inadequate policy and unfair trading practices on worker conditions and wages.⁷

The current Groceries Code of Practice introduced in 2009, and associated Groceries Code Adjudicator (GCA) in 2013 was formed to curb the worst supermarket behaviours. In January 2016, the Groceries Code Adjudicator found that Tesco had seriously “breached the legally binding code governing the grocery market” after the supermarket had delayed payments worth millions of pounds to suppliers. Feedback has identified huge issues in global supply chains where UK

supermarket specifications, prices and treatment have led to wasted food and also reduced income for rural communities in Kenya.⁸ Their analyses show the role UK supermarkets play in the overproduction and subsequent waste of food on UK farms.⁹

There has been progress over the years (see box); however, the legal process only covers the top 12 supermarkets and their 'first tier' suppliers – i.e. those companies that they buy food from directly. Most farmers and many smaller food businesses that supply ingredients for the food on supermarket shelves do not deal directly with the supermarkets, so they are not legally protected. Hence, the GCA has not stopped all unfair practices, nor can it deal with consistently low prices or problems elsewhere in the supply chain.

This is why new measures to generate greater costs transparency and to develop statutory contracts for more of the supply chain are included in the new Agriculture Bill¹⁰, and why the European Union has developed a new set of rules for fairer trading by retailers and the whole supply chain.¹¹ However, it is not yet clear how either of these approaches will be implemented in the UK.

It is also worth noting that consumers lose from retail concentration. When farmers and suppliers are squeezed they are unable to invest in better practices, new or better products than would otherwise be the case. Food safety may potentially be compromised, while those grocery retailers with strong local market positions earn additional profits due to weak competition in those markets.

There are also considerable environmental and health implications of the way in which our food retail system has evolved. These include environmental damage caused by excessive transportation and intensive food growing, high energy use, reliance on car-based travel, and high levels of waste in food and packaging. Smaller shops face impossible trading conditions, and many neighbourhood retailers have gone out of business, especially in lower income areas, resulting in food deserts. Our food retail system also favours unhealthy processed foods and does not prioritise the fresh, affordable and local produce that would support both our health and our farmers.

Such systemic issues are explored elsewhere, by many specialist members of the Sustain alliance. Ethical Consumer investigate, score and rank the ethical and environmental record of 13 supermarkets on a large range of issues.¹² For this briefing, Sustain is looking specifically at issues related to farmers and workers and fairness in the supply chain.

We used our own survey, independent surveys and desk research. We compared performance of the top 13 food retailers in the UK, and make policy proposals to tackle unfairness in the retail sector.

Fairness regulation in UK Groceries

The Groceries Code Adjudicator was established in 2013 by an Act of Parliament to ensure supermarkets treat their suppliers lawfully and fairly through adherence to a Code. It is clear that the work of the GCA is starting to make a difference: in its 2016/17 report, the adjudicator reported an improvement in compliance with the Code since 2013. Yet in 2017, the GCA highlighted ongoing reports of 'shocking' tactics to obtain money from suppliers including claiming delivered goods never arrived; asking suppliers to pay to keep goods on the shelves; and charging the supplier up to £55 if a customer complains about a product. Equally there is weak regulation of global supply chains for UK retail - despite some progress with the Modern Slavery Act in driving action on the worst cases – given the increasingly globalised and complex nature of ingredients and food supply.



What we looked for

We wanted to find evidence of the approach of supermarkets to fairness. We looked at the top 13 supermarkets (by market share) in terms of their policies and actions on three main measures of fairness: the real Living Wage; pay ratios; and support for to supply chain regulation in favour of a level playing field on fair trading practices. We undertook a short review of each supermarket's data and policies available in the public domain, and third-party material, and also sent a survey to each supermarket chief executive or equivalent. The specific issues we looked at were:

1. Living Wage accreditation – whether the company was or planned to be accredited by the Living Wage Foundation¹³ and so certified in ensuring their employees and contractors (outsourced workers) earn a wage that meets the costs of living. This helps to tackle the rising problem of people paid less than what they need to make ends meet. 4,700 companies, including many smaller food companies, were accredited as of January 2019. Note: the Government's 'national living wage' is not calculated according to what employees and their families need to live. It is also worth noting that the highest users of the Working Tax Credit (WTC) - a benefit paid to workers with a low family income - was retail (£1.3bn) of which 37% is food related.¹⁴ High recipient numbers in retail reflect both high employment in the sectors and a high proportion needing social security support.¹⁵ We also asked about agency workers, as this can be a route to reduce responsibility for workers' welfare. To gain Living Wage accreditation employers need to confirm outsourced workers, who perform functions that may have previously been performed by employees, have the same benefits.

2. Pay ratios – we asked for pay ratio data, including agency workers, comparing the annual income of the highest paid people in each company with the lowest paid. The publishing of pay ratios, and a commitment to work towards more equitable pay ratios, demonstrates a company's commitment to social responsibility and to fair treatment of workers. Pay ratios are one way of illuminating inequity in the food system (where pay disparities happen to be wide). Publishing such analysis also boosts transparency on 'price transmission' – i.e. the question of where the money goes. Where the pay gap is shown to be high, publication of a pay ratio may catalyse improvement of pay for those on the lowest income. Lots of organisations, including in the financial sector, now urge publication, and it has been required of publicly-funded organisations. High executive pay has become a political issue in the UK, with the Prime Minister Theresa May describing it in August 2017 as 'the unacceptable face of capitalism' which 'damages the fabric of society'.¹⁶

3. Attitude to groceries regulation – we asked whether the Groceries Code Adjudicator should cover more retailers and if it should enforce the code across the whole supply chain – all retailers, manufacturers and other intermediaries - to protect farmers and growers (here and overseas) which are not currently covered. We also asked for views about other ways to tackle unfair trading practices in the supply chain, the major factors driving the business to implement fairer UK worker and trading practices such as customer, public or shareholder concerns, reputational risk, NGO activities, or resilience of supply. Finally we asked about barriers holding the company back on taking action to tackle unfairness in the supply chain, such as difficulties in assessing the issues, low prioritisation by the company's management board or customers, and increased costs.



What we found

The results of our research are shown in Table 1, but first, here are our headline findings.

Action on the real Living Wage

The food retail sector is a major employer and contractor, with 1.12 million employees in the UK. Unless supermarkets pay fair wages, many people will not be able to cover even their basic costs of living, let alone save money. This also has implications for UK taxpayers, who effectively subsidise the shortfall through social security welfare payments including tax credits and Housing Benefit (or the equivalent within Universal Credit).

On paying the real Living Wage, supermarkets have a long way to go though most have made some moves to address low pay for employees. In our research, the discount food retailer Lidl was the only UK supermarket we found to have a publicly stated commitment to paying at least the real Living Wage to their employees (though not for contractors). Aldi in the UK *reported* paying their direct employees the real Living Wage rate, whilst according to Oxfam research,¹⁸ Tesco, Morrison's and Marks & Spencer reported paying a rate just below this. No food retailer had extended this commitment to contracted workers, which is necessary to become accredited as a real Living Wage employer.

In May 2018, a report by the Trades Union Congress (TUC) presented evidence that the UK is suffering the longest squeeze on wages in modern history. Workers in supermarkets and distribution centres are no exception to this trend: according to a survey by the Union of Shop, Distributive and Allied Workers (USDAW) they are financially worse off than five

“It feels like you’re working, working, working,” she told me early on in our conversation. “And there’s nothing back.”

Laura,
Sainsbury's worker, using a food bank¹⁷

years ago and low wages are being propped up by social security welfare payments.¹⁹

None of the supermarkets completed our survey question on the real Living Wage, so we obtained information by other means, via other surveys, public statements and industry reports, reflected in our analysis above. However, we were unable to access any data on pay or policy towards agency workers. Outsourcing work to agencies is clearly a huge opportunity for cutting costs and pushing risks out of the company, to the detriment of agency workers.

Action on pay ratios

None of the supermarkets were able to give specific data comparing the annual income of the highest paid people in their company and those paid the lowest wage. We had to use independent data which, where available, are not always comparable. However our analysis of the information we were able to glean suggests that there are huge discrepancies in pay levels across the food retail sector from 1,188:1 to 48:1, comparing highest to median pay. Just to be clear – this means that some supermarket leaders are being paid over one thousand times more than the people who work in their shops.

It is worth noting that the Co-op and Waitrose and Partners (a John Lewis company) are both structured as workers' cooperatives. They have welcome corporate commitments to fair treatment, fair pay and distributing rewards among staff.²⁰

Sustain's own pay ratio

In parallel to our supermarket research, Sustain undertook our own pay ratio analysis, to explore methodologies and to ensure that we are 'walking our talk'. In our first analysis, in 2018, Sustain's pay ratio was calculated as 2:1 when comparing our highest staff salary to our lowest staff salary; and 3:1 when comparing our highest staff salary to the London Living Wage, which is the rate paid to the people who clean and service Sustain's office. This is well within the benchmark of 8:1 considered to be good practice by the international WageMark Foundation, and the UK third-sector average of 10:1. It is also less than the average for local authorities at 15:1, and very considerably less than the ratio typical in large commercial companies, such as those in the FTSE 100, at 130:1. Sustain is committed to monitoring our pay ratio, and a range of other measures of fairness, and to keeping our pay ratio within a sensible limit, well below the WageMark benchmark. Sustain has published information on its approach to pay ratios on its website.²¹

Their own data suggest more equitable pay ratios, but these are not readily comparable or verifiable, so we are not able to comment further.

In future, pay data will be more accessible as the Government will require companies to report on the ratio of pay between the company chief executive and their average UK worker. Given the profits that supermarkets make, it is hard to argue that many of these companies cannot afford to work towards a fairer balance of pay.

Action on fairer trading practices

As noted above, the Groceries Code Adjudicator, introduced in 2013, has been helpful in improving fair trading practices to some degree. It is also encouraging that the UK Government is seeking to provide itself with the powers to require provision of data, and to regulate the food supply chain through powers in the new the Agriculture Bill and that the EU is introducing new supply chain regulation. However, it is not yet clear to what extent the UK Government will exercise such powers in practice, if at all.

Our research suggested that supermarkets themselves are not actively seeking to be advocates of this approach, and indeed many are likely to resist further regulation relating to fairer trading in supply chains. Back when the Competition Commission consulted on the formation of a new regulator overseeing the Code it was reported that major UK retailers Waitrose and Aldi supported the establishment of a retail ombudsman, while Tesco, Sainsbury's, and a number of other major retailers did not support its establishment.²²

Waitrose confirmed in their

response, their commitment to the Groceries Code Adjudicator (GCA), from its inception. Marks & Spencer agreed regulation should cover all retailers, queried the practicalities of covering the whole supply chain, but suggested a technical solution. They also provided some detail on influences and barriers including the difficulties of sourcing in countries with low national minimum wage and how multi stakeholder collaborative action with government can help to raise wages. Changes in legislation, external investors and other stakeholders' inquiries and benchmarks, customer insight and ongoing supplier engagement and strategic continuous improvement are all major factors driving business to implement fairer UK worker and trading practices.

To analyse each supermarket's commitment to fairer trading practices, we relied mainly on two external sources of data: the GCA annual supplier survey 2018; and data from the 2018 Oxfam report "*Supermarket Supply Chains*" on global supply chains, scoring against benchmarks based on international standards and best practice on transparency and accountability, and on the treatment of workers, small-scale farmers and women in supply chains. Aldi scored highest in the former and lowest for the latter analysis, showing the difficulty of comparing metrics and possibly differences in global and UK policy. Tesco scored the highest with a low

score of 23%, so it seems clear that all UK multiple supermarkets have a long way to go.

The Oxfam research undertaken over 2017 and 2018 provides useful insight. Their report concludes that the huge buying power of supermarkets allows them to exert consistent pressure on their suppliers to reduce costs whilst still demanding exacting quality requirements – this often includes a number of unfair trading practices. Oxfam stated that in none of the countries they surveyed were farmers or workers earning enough, on average, for a decent standard of living. Across a range of consumer markets, the average share reaching small-scale farmers and workers was less than 5% for several products, including Brazilian orange juice, Ecuadorian bananas, Kenyan green beans and Thai canned tuna.

Our analysis is a snapshot in time and so the information should be viewed in that light as illustrating the level of progress made in these three areas. We were disappointed with the low level of responses to our survey – only two responded with any detail, yet still with insufficient data to make comparisons. We thank Waitrose for their response and particularly thank Marks & Spencer for providing the fullest answers and entering into the spirit of the survey, exploring ideas for change.



Table 1: Research findings

Supermarket	Market share, 30 Dec 2018 (note a)	Response to survey (note b)	Real Living Wage accreditation (note c)	Pay ratio (note d)	Supply chain (note e)	Position in latest GCA scoring * (note f)	GCA (note g)
Tesco	27.8	said no	no	324	23%	5	2
Sainsbury's	16.2	no	no	212	18%	7	4
Asda	15.2	no	no	1,188-to-1	17%	8	8
Morrisons	10.6	no	no	339	5%	6	5
Co-op	5.9	no	no	1:48 to 1:96	NA	9	9
Aldi	7.4	no	no - but pays highest average	NA	1%	1	1
Waitrose	5	yes by letter	No	75-1 capped	NA	2	3
Lidl	5.4	no	no - but commits to RLW for employees	NA	5%	4	6
Iceland	2.3	no	no	NA	NA	10	10
Ocado	1	no	no	50	NA	NA	NA
Marks & Spencer		yes by letter	no -says "by 2025 aiming for a living wage for all our direct employees"	64	NA	3	7
Amazon		no	no	59 to 1	NA	NA	NA
B & M		no	no	NA	NA	NA	NA

Key

- a) Kantar Worldpanel: <https://www.kantarworldpanel.com/en/grocery-market-share/great-britain>
- b) Survey sent to headquarters of the top 13 UK supermarkets in June 2018
- c) Based on responses to survey and other media sources. For Andi source The Grocer 9/7/17; Lidl <https://www.independent.co.uk/news/business/comment/lidl-supermarkets-living-wage-minimum-wage-outsourcing-living-wage-foundation-trolleys-cleaners-a8618666.html>
- d) Data not all comparable as there was no data available for all supermarkets – the figures given are from High Pay Centre briefing November 2018 based on CEO/median employee pay ratio, unless otherwise stated: http://highpaycentre.org/files/living_wage_briefing.pdf. Asda figure from Bloomberg: <https://www.bloomberg.com/graphics/ceo-pay-ratio/>; Amazon figure from Business Insider: <https://www.businessinsider.com/ceo-pay-vs-typical-worker-amazon-mcdonalds-facebook-2018-12?r=US&IR=T#amazon-ceo-earned-59-times-the-median-worker-3>; Co-op figure from their own publication on AGM motions: <https://assets.ctfassets.net/5ywmq66472jr/4IKWzwakesU8M8ow4KKCGc/90a52ac6a30468b15c85c775917fab61/you-said-we-did.pdf>; Waitrose figure from: <http://highpaycentre.org/blog/is-it-time-for-a-maximum-pay-ratio>
- e) Oxfam scorecard on UK Grocery, UK Supply Chains 2018 overall ranks retailers on the strength of their policies and practices to address human rights and social sustainability
- f) GCA survey - trading relationships conducted in good faith and without duress (a score of 1 is best). Ocado is not covered and Amazon and B&M have only just come under the GCA remit.
- g) GCA survey - Overall assessment of compliance with the Code (a score of 1 is best). Ocado is not covered and Amazon and B&M have only just come under the GCA remit.

We need a new trading model alongside strong regulation

Our research illustrates aspects of the concentrated, multiple supermarket model which are deeply troublesome. There are many more issues which members of the Sustain alliance and others work on, including animal welfare, public health and food standards, impact on local economy and high streets, climate change, and so on.

There is no doubt that the supermarkets have been a huge boon to many, providing accessible, convenient and affordable food, in abundance (with the shelves never empty), an ever increasing choice, and food considered safe and delivered in a well-organised, efficient way.

But all of these attributes have had downsides which have become increasingly obvious – the price squeeze affecting workers and producers being a major but not the only issue. In the first decade of this century the backlash against the dominance of Tesco²³ grew in response to its rapid expansion and dominance, with local protest groups springing up around the country to object to new out-of-town developments and the decline of the high-street. Brand loyalty has been a growing issue for all the supermarkets since the rise of the ‘discounters’ who now have a significant market share, others have to fight hard to keep customers loyal.

The multiple retail sector argues it has to deal with a hugely competitive marketplace with powerful new global entrants like the online shopping platform Amazon. The typical response has been to merge²⁴, to cut services (such as Tesco cutting staff and fresh food counters²⁵) and to lower prices even further. These are all part of a race to the bottom, especially for consumers (choice, quality) and suppliers (ever lower prices and unfair demands).

“Our model for economic resilience is founded on the principle of ordering from farmers in a regular, consistent and timely way, according to the seasons, and paying promptly and fairly – sharing the risks and reward of ecological food production. This is the way we will be able to feed ourselves fairly and sustainably in the future – through food trading with values.”

Julie Brown, Growing Communities, which also helped to establish the Better Food Trading network²⁶

This all suggests we have been heading for some time in the wrong direction with this centralised and increasingly globalised model of food retail where consumers and suppliers are led very much into being choice and price takers and the retailers gain a considerable profit at citizens’, farmers’ and the planet’s expense. Solutions need to be multiple and across different policy areas.

In addition to strong and effective regulation of all the supply chains to stop abusive practices and over-dominance, Sustain is keen to see alternatives grow to provide a more sustainable and equitable choice for farmers to sell to, and for consumers to buy from, to challenge the prevailing model. This also needs to take account of livelihoods and wages to ensure all those working in supply chains – from farmer and farm worker to shop workers and shelf-stackers are able to live a decent life.

We recognise this is a long-term shift, given the huge investment and cost of changing complex supply, distribution, retail and marketing

systems. But such change needs to happen. Sustain proposes policy shifts in a number of areas to help support the growth of new and alternative retail options and to regulate the existing multiple and global retailers to both play fair and pay for the true costs of their operations.

Better food trading

There are tens of thousands of food enterprises around the UK motivated to support local farmers, and maintain a supply of local, fresh and sustainably produced food, often supporting other values such as wildlife-friendly organic farming, fair trade and animal welfare.

Trading is a key element of the local food agenda, not only to provide consumers with fresh, healthy and sustainable food supply, but also to create viable new routes to market for farmers and growers. Such enterprises are interested in cultivating jobs and incomes along the supply chain that are not reliant on external funding, nor beholden to the concentrated

power, value-draining and unfair trading practices prevalent in many mainstream supermarkets.

Better food trading initiatives are those involved primarily in selling local food from farmers and growers to consumers. These can be commercial, social enterprise, co-operative, run by employees or volunteers, or more charitably motivated ventures. The trading element, as opposed to purely production or supply of goods, can help to ensure economic resilience and better returns for all involved to help tackle unfairness. Research suggests local food systems can have a major economic impact (see box).²⁷

Sustain has supported many initiatives over the years to help communities make connections with farmers and to cultivate viable trading schemes that can be sustainable in the longer term. We have supported food co-operatives,²⁸ Real Bread bakers,²⁹ veg box schemes, farmers' markets and local food distribution hubs,³⁰ as well as town- and city-based food strategies³¹ that can help urban consumers organise themselves to provide a better market for local and sustainable farmers. Recently, we have been working with the Better Food Traders Network, which aims to *“create sustainable, resilient food systems that feed us well if we work together as communities and food producers to take back control of the way food works”*.

A recent briefing “Good Food Retail” by Sustain and its London initiative London Food Link - produced³² in response to references to ‘Good Food Retail’ in the refreshed London Food Strategy³³ in 2019 - illustrates better retail initiatives and ways in which local councils can and should

support such initiatives. This can include support for a diverse range of retail enterprises that:

- Sell sustainably produced meat, dairy and fish, wholegrain foods and Real Bread
- Are less likely to serve highly processed fatty, salty and sugary foods and sugary drinks
- Provide safe and nutritious food for diverse needs
- Treat employees and suppliers fairly
- Develop collaborative relationships with suppliers
- Reduce environmental impact

This argues that new models of delivery, including on-line, should be supported as long as they are fair. There is potential for such initiatives to boost the market for sustainably produced food like organic but the key is farmers and producers being paid a fair price.

Examples of better food trading - where a core aim is to reduce the siphoning of profit to intermediaries so better food can be supplied - include Growing Communities³⁴ trading food in London, and Riverford³⁵ and Farmdrop³⁶ which are both national direct farm-to-consumer initiatives. Commitment to giving a fair deal for their farmers is common to all. Growing Communities is an accredited Living Wage employer and has founded the Better Food Traders Network.³⁷

Local food system economic impacts

An useful analysis of local food systems was by CPRE in 2012,¹ based on intensive local food webs research in 12 geographical locations, undertaken as part of the Big Lottery funded Making Local Food Work programme. This found that the local food economy in England then had an estimated worth of £2.7 billion in sales, with £6.75 billion re-circulating in the local economy, supporting 61,000 jobs and supplying 16.3 million customers.



What we recommend

Much effort has been made by public interest groups over the years, including Sustain, to encourage, benchmark, cajole or sometimes force supermarkets to improve their products and practices, across a wide range of issues – from sugar content of children’s food, food labelling, profligate antibiotic use in meat and dairy production, to fairness in supermarket supply chains. Some supermarkets have responded, and some ground has been gained. Whilst Sustain applauds these efforts and those showing leadership, progress has been very slow for a very long time.

Back in 2004, Sustain contributed to the large-scale Race to the Top programme commissioned by the then government and initially involving all of the major supermarkets, which sought to track and encourage ‘progress towards a fairer and greener food system’, through comparing the achievements and progress of the participating supermarkets. Despite considerable efforts and investment, and some examples of good practice, the Race to the Top initiative failed. An illuminating report on the causes of this failure remains required reading.³⁸

The Race to the Top process revealed why supermarkets cannot be expected to compete their way out of knotty systemic issues such as climate change and reliance on cheap labour. Companies are unlikely to tackle issues that do not save them money or gain them brand advantage, when their competitors continue to take advantage of those cheaper and damaging practices. Solutions must therefore come from government creating a level playing field and sensible regulation, to help normalise the more equitable and less damaging practices that are now essential.

Hence, whilst Sustain will continue to encourage supermarkets to take steps to improve their practices, to prove that change is possible, we

“We have sacrificed communities for convenience.”

The Portas Review, an independent review into the future of our high street⁴⁸

remain firmly opposed to voluntary approaches as a long-term solution.

As the retail sector undergoes a major shift there are opportunities to start developing long-term changes to retail to remove weak policies, address unpaid externalities (such as environmental harm) and invest in food retail and trading systems that reward farmers and workers adequately, whilst paying for the true costs of production.

1. Grocery supply chain regulation and the Agriculture Bill

We need measures to curb unfair trading practices in the whole supply chain and for all sectors and farmers here and overseas. There is also a need for price transparency in the supply chain through improved data collection and data sharing. With more transparency on costs and pricing, farmers, growers and other suppliers will be able to respond more effectively to market signals, strengthen their negotiating position at the farm gate and seek a fairer deal.

There have been consistent calls to extend the role and remit of the Groceries Code Adjudicator. (GCA) so that it has the powers and resources to tackle problems where they occur in the supply chain. Sustain was a co-founder of the Groceries Code Action Network, coordinated by Traidcraft, working with farming associations, the National Farmers Union, Fairtrade Foundation, Friends of the Earth, Feedback Global and others. Unfortunately, the recent government review declined to do little more than ensure more retailers were added to the 10 already covered by the GCA, but

we are heartened that Defra has included a Fair Dealing Clause in the new Agriculture Bill, making its way through the parliamentary process during 2019.

The current draft Agriculture Bill contains clauses related to price transparency and fair dealing. This could provide an enforced statutory code of practice for purchasers from all producers, here and overseas. At present, this covers only ‘first purchasers’, so does not cover the whole supply chain. As currently drafted, there is also no obligation to ensure all sectors are covered, and government has indicated that it is inclined to look more at some than others – with meat and dairy a priority, for example, but not necessarily other important food sectors such as edible horticulture. Sustain is calling for this clause to be strengthened to make it a duty to ensure problems in the whole supply chain for all sectors can be tackled.³⁹

Sustain also wants the UK to bring into UK law a new EU directive on unfair trading practices (UTP) in business-to-business relationships in the agricultural and food supply chain⁴⁰ The new Directive defines 15 practices that qualify as UTPs and are therefore outlawed and it would not be difficult to combine the wider reach of this new regulation with the UK’s current Code and GCA remit. Its inclusion would ensure a better outcome for more producers as it covers most of the supply chain and could be partly achieved via a better wording of the Fair Trading clause in the new Agriculture Bill.

2. Wider competition policy

Action on mergers would help to address (alongside planning

policy) some of the problems of concentrated market power. Possible recommendations could be to cap grocery market dominance at 25%, or to introduce a more stringent public interest test into merger tests (defining public interest as more than just consumer price, so including sustainability, fairness, and other social interest. Globally, competition policy has failed badly to ensure consumer protection and a decent life for all. The Fair Trade Advocacy Office report “Addressing the Broken Links” outlines how European competition policy has been failing producers, society at large and the environment for many years. The authors argue for a major overhaul competition regulation to address imbalances of power and allowing social and environmental issues to be tackled through interpretative, institutional and regulatory changes.⁴¹

New research from the Fairtrade Foundation on Competition Law and Sustainability suggests that the major retailers cannot unilaterally raise the low prices paid to farmers because they fear breaking competition law.⁴² Competition policy is a real or perceived barrier to cross-industry collaboration for achieving key sustainability goals. They recommend that government should give a strategic steer to the Competition and Markets Authority (CMA) to help guide markets to be sustainable in the long-term. They should inform companies and retailers on how they are allowed to collaborate for sustainability purposes to address low farm-gate prices in ways consistent with competition law.

They also want to see a report on progress on this in relation to Sustainable Development Goals and UN Guiding Principles on Human Rights and they identify future research areas on issues such as supply chain transparency and traceability.⁴³ Sustain is

supportive of these calls, as an integral part of our Campaign for a Better Food Britain.⁴⁴

3. Supporting better retail and trading enterprise growth

To encourage and stimulate fair food retailing, a supportive policy framework will be needed alongside new and better retail resources at national, regional or local level. These should ensure new trading and retail enterprises can find accessible training, advice, facilitation support, grants, loans and other forms of investment.

Cooperative approaches also can ensure better returns for farmers and need to be actively encouraged. It is worth mentioning here the very long-established and quietly successful wholesale workers’ cooperatives, such as Suma and Essential Trading. These have both demonstrated over a period of decades years that it is possible to provide environmental and ethical food, and profitably.

Sustain and New Economics Foundation surveyed local food practitioners and national coordinators in 2018 and found a third (34%) said that they wanted to increase income from trading in food, with a quarter (24%) wanting more and better outlets for trading food.⁴⁵ Some common factors that food traders need to succeed (depending on size, activities and access to facilities) included: access to skills and training; infrastructure; more start-up funds; access to software and ordering systems that meet business needs; recognition within local and regional plans; Crucially, over 65% of local food initiatives said that they wanted to see more government support and local authority funding for their type of work. Shared Assets have also assessed the needs of the local food economies showing how food growing supports local economic

development and the challenges they face creating sustainable businesses and livelihoods.⁴⁶

Sustain’s Good Food Retail briefing identifies a range of ways that local authorities and local food partnerships can support better food retail⁴⁷ including through providing land, premises, market stalls, business advice, tax/business rate incentives and other support to help enterprises start-up, become established and expand. Importantly, councils and Business Improvement Districts (BIDs) can enable cooperation along values-led supply chains and help to connect good food retail outlets with food producers and community food growers.

4. Planning for diverse retail

High street decline has been well documented, attributed to the growth in out-of-town stores and online shopping. However, there are some welcome signs that food is returning to many UK high streets after a long period of decline. According to one study by theSaid Business School, independent food specialists are undergoing something of a modest resurgence, with multiple small format and convenience stores making up a large portion of the growth.⁴⁹ However it is also clear that barriers to new trading and independent retail are significant and local initiatives will still find it hard to compete with the powerful multiple retailers for space and customers and are always likely to struggle against economies of scale in buying produce.

Planners can encourage more retail diversity by ensuring that planning policies include statements of support for better (and non-multiple) food retail. This will then help strengthen planning decisions made in favour of encouraging specific types of food retail, as well

as giving support for other policies that encourage retail diversity.

This is a complex area but it has been clear for many years that multiple food retail has been favoured via planning, tax and other policies. Planning guidance now needs to favour retail diversity so local authorities are able to support new and alternative food trading.

One tool, recommended in the 2008 Competition Commission report was a 'competition test' to be applied, as part of the planning process, to proposed new stores (and proposed extensions to existing stores). The competition test will favour new entrants and grocery retailers other than those which already have a significant local market share.

Giving preferential treatment to values-led better food retail initiatives that are connecting farmers and growers with customers in a positive way should be a priority in retail planning. Councils, local partnerships or initiatives such as a Business Improvement Districts (BIDs) or Local Enterprise Partnerships (LEPs) should support and promote Good Food Retail and local food economies. Some good practice examples such as Bishopthorpe Road in York - show how high street retail diversity can be recreated through local partnerships.⁵⁰

5. Global supply chains

Everyone in the supermarkets' global supply chain needs to be treated with dignity and receive fair payments for their work. We need independent assurance from UK retailers that they are treating everyone with dignity and providing fair pay for all. Oxfam suggests that a fundamental shift is required in the way that UK supermarkets do business, to one that is built on greater respect for human and labour rights globally. They ask supermarkets to support a living wage and living income for people

throughout the supply chain, engage with employees in collective bargaining and work towards being an accredited Living Wage employer.

Other accreditations are driving some actions and can reveal positive and negative impacts of these retailers such as the Corporate Human Rights Benchmark⁵¹ and the new Modern Slavery statements assessment by the Business and Human Rights Resource Centre.⁵²

Oxfam also calls on investors to use Oxfam's Supermarkets Scorecard to engage companies on supply chain transparency and human and labour rights issues. Traidcraft recently reported on an initiative to show how all stages of the supply chain becoming engaged in a listening and learning process can deliver significant benefits for all. Over the three-year project working with smallholder farmers and workers in a green bean supply chain in Kenya tested better ways of working to build trust and mutually beneficial outcomes.⁵³

But voluntary measures will inevitably be small and vulnerable to market conditions. Governments need to intervene to protect small-scale farmers and workers against powerful buyers. The UK Government needs to:

- strengthen the Modern Slavery Act, enforce compliance and better support survivors of modern slavery;
- measure decent work rather than employment levels alone, in accordance with the Industrial Strategy;
- reform company law so that directors must act primarily in the interests of all stakeholders not just their shareholders; and
- support the adoption of a UN binding treaty on business and human rights that holds companies legally accountable for human rights violations along their supply chain.
- ensure trade deals are not undermining employment or other standards and standards enhancement (food safety, environmental, animal welfare) so we avoid facilitating a damaging race to the bottom. With Brexit, the UK has to develop an independent trade policy for the first time in decades; this could be an opportunity to champion fair trade and decent food, farming and fishing livelihoods on the international stage, as British values to be proud of.



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Briefing

Super Market Failure

Low wages, high pay disparities and unfair trade – is this what we want from food retail

A Sustain publication
March 2019

Sustain: The alliance for better food and farming, advocates food and agriculture policies and practices that enhance the health and welfare of people and animals, improve the living and working environment, enrich society and culture, and promote equity. It represents around 100 national public interest organisations working at international, national, regional and local level.

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Sustain: The alliance for better food and farming
sustain@sustainweb.org
www.sustainweb.org

Sustain, The Green House
244-254 Cambridge Heath Road
London E2 9DA
0203 5596777

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