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The challenge of the role of supermarkets for sustainable agriculture and trade related issues

The increasing role of supermarkets

The rapid spread of supermarkets in terms of market penetration and geographical reach has resulted in an important restructuring within the agri-food system in many countries around the world. Supermarkets have increasingly become the dominant outlets of agricultural products, from fresh vegetables produced by farmers to foods processed by multinational companies (TNCs).

Agri-food experts[1] more and more recognize that supermarkets influence the rest of the agricultural chain up to the farmers' level. This means a power shift in the distribution chain from suppliers and wholesalers towards retailers. This can have an effect on how developing countries' products can actually enter markets in industrialised countries, even in liberalised world markets, and on the income or value added for farmers and food producers in developing countries. In developed countries, supermarkets might distribute up to 83% of the food (as is the case in The Netherlands in 2003 as compared to 77% in 1995[2]).

During the last years, the role of supermarkets in food distribution in developing countries is increasing, even for fresh fruits and vegetables. The level of domestic and foreign supermarket penetration is not the same in all developing countries, with the Latin American region the most advancing. Increasing food retail by supermarkets, depending on the product, mostly begins in countries and areas with rich consumers, and then spreads to poorer countries and consumers. Fresh fruit and vegetables can be the last segment to be incorporated in the supermarket sales in developing countries, or it can be a segment that attracts customers who want quality and convenience that is not offered by wet markets. The overall picture is clearly one of increasing role of the supermarkets in food retail in developing countries[3].

Recent mergers and acquisitions have reduced the number of supermarket brands per country. As a result, the major market share of retail in many developed countries is in the hands of 4 to 5 supermarkets. This level of concentration is yet far from being reached in most developing countries. However, in Latin America, roughly 60-80% of the top five supermarket chains are now multinationals that operate globally[4], such as Wal-Mart.

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[1] See amongst others: http://www.agribusinessaccountability.org/; http://www.regoverningmarkets.org./; B. Vorley, Global dynamics of grocery retail restructuring: questions of governance. Regoverning Markets Issue, Paper 1; L. Abugattas, UNCTAD 2004.
[2] E. Baas e.a., Rabobank View on Food & Agribusiness 2004 – Changes in the food system, Rabobank International, September 2004, p. 19.
[3] B. Vorley, 2004, based on research from in 18 developing countries in the "Regoverning markets" project.
[4] Ibidem.

Buying power of supermarkets

The above trend has weakened the bargaining power of farmers and food producers and given enormous power to supermarkets to make deals to their advantage and abuse their dominant market position. For many producers and farmers, supermarkets have become their only possible outlet. For fear of loosing their business, many farmers and producers accept some of the low prices offered by supermarkets and sell with low or no profit margins. In contrast, supermarkets often take very high margins on the fresh fruit and vegetable products they sell. In order to attract clients, price wars to compete against rival supermarkets sometimes take place in the fruit sector, for instance bananas. Producers however effectively bear the cost of the lost profit margin. Many farmers, domestically or abroad, are too disorganised to prevent the abusive supermarket practices. The ability to set prices and conditions is called "buying power" of supermarkets.

Fresh fruits and vegetables are increasingly being sourced through arrangements of direct and (semi-)permanent relationships with producers ("preferred suppliers"). When fruits and vegetables are imported, such relationships are also built with suppliers from developing countries. Because supermarkets are avoiding wholesale markets and need huge quantities of particular products, large farms are those most likely to meet the quantitative requirements. Consequently, small farms are being marginalised from exporting to Northern markets dominated by supermarkets. These trends can have a significant impact on farmers' income and possibilities to produce – and on what they produce.

Moreover, supermarkets are increasingly imposing high standards related to safety of the consumers and to meet some of the environmental and labour concerns expressed by consumers. EUREPGAP is an example of a private standard set by a group of European supermarkets. However, supermarkets provide little financial and other means for meeting those standards while the cost of demonstrating compliance is difficult to bear for small producers. Existing forms of small farmers' organisations are sometimes not accepted for group certification by EUREPGAP. Many of those standards do not have strong requirements or monitoring mechanisms in regard to labour standards or the impact of low prices. When supermarkets do not provide contracts that set fair prices and do not guarantee buying the produce of (big) farms, the losses from low prices or lost sales can be passed by the farms to their agricultural workers. This results, amongst others, in poor working conditions, long hours and very low wages for agricultural workers on export farms, including for women who are often at the end of the chain[5].

On the other hand, in cases where sales are guaranteed by the supermarket, farmers in the South might be offered attractive prices, transport to a guaranteed export market and perhaps financial or technical assistance. These conditions are appealing for farmers.

Supermarket buying power has led to particularly abusive practices[6], especially for processed food and other industrial products, such as:

- Payments to be on the list of suppliers ("listing"), and threats of (de)listing from the suppliers list.
- Paying for advertisements, price actions and new openings of supermarkets.
- Payment by producers (!) of a percentage of the sales by the supermarket over the year of their goods.

A new trend is that supermarkets have created their own brands. These 'house' brands are cheaper because supermarkets have little costs to advertise or develop the products, in contrast with manufacturers of processed food. As a consequence of this new trend, in addition to supermarket

[5] See for instance OXFAM International, Trading away our rights -Women working in global supply chains, 2004.
[6] See for instance: J. Blythman, "Shopped"; F. Lawrence "Not on the Label" ; C. Jacquiau, Les coulisses de la grande distribution, Paris (Albin Michel), 2003

dominance and abusive practices, even large food processors such as Unilever are loosing profits. Again, this might have consequences for producers of the primary products for processed food from whom traditional processing companies are sourcing and for producers sourced for the new house brands.

Relationship with trade

Although, global production in fresh fruits and vegetables has expanded at a high rate since 1990, international trade in fresh fruit and vegetables still only accounts for just over 5% of global production. This means that the impact of the buying power of supermarkets is larger on producers or farmers at the domestic level. However, trade in FFV is growing more rapidly than any other agricultural commodity[7]. In many countries, including developing countries, supermarkets might find it easier to source from imports rather than from local producers. For instance in Africa, supermarkets often sell imported UHT (long life) milk in tetra packs rather than fresh milk from local small farms.

Trade liberalisation and cheap imports might already have undermined small producers' supply to local wet markets or their organisational capacity, which leaves them in no strong bargaining power with (new) domestic supermarkets or importing supermarkets from abroad.

GATS negotiations are dealing with the issue of entry of foreign supermarkets. The WTO members are not discussing this subject in the current agricultural negotiations. One of the strategies to avoid damaging implications, also for agriculture, from rapidly expanding foreign supermarkets, might be for (developing) countries to avoid allowing supermarkets to enter their markets according to the GATS rules. Even without GATS, supermarkets can enter lucrative markets in the South. However, when (developing) countries liberalise supermarkets under GATS[8], governments are bound to rules that prevent them from taking measures that they might see useful when abuses and negative consequences occur. For instance, Art. XVI of GATS forbids limitations on the number of service suppliers or service operations in the form of numerical quotas. This means that governments cannot stop foreign supermarkets from rapidly expanding by creating regulations that limit supermarkets to a certain market share or a certain number of outlets per supermarket.

The growing expansion and concentration ("consolidation") of supermarkets and their buying power adds up to the still growing domination and concentration of a few multinationals in processing of, and trade in, some basic agricultural products[9]. For instance, Mary Hendrickson and William Heffernan estimate that Cargill, ADM and Bunge currently dominate 90% of the world trade in grain. While they were able to establish that these companies control most of US trade in grain, they discovered that figures on the firms which have very large parts of world trade are hardly publicly available. Such consolidation leaves very little possibilities for small farms to have bargaining power for increasing their prices, or to diversify their outlets, since little competition exists. Many experts conclude that farming is more and more driven by large multinational companies.

In other words, while the WTO negotiates world wide liberalisation of agriculture, the world agricultural markets are already structured in uncompetitive and integrated ways so that there will

[7] The figures come from: E. Baas e.a., 2004, p. 7, 56.
[8] In GATS jargon: "make commitments" in the distribution sector without exceptions in the "schedules"
[9] See for instance: E. Baas e.a., 2004, p. 15

be hardly free markets or markets where prices for agricultural products are set. Liberalisation and phasing out subsidies might imply that the dominant firms and supermarkets will be able to source from around the whole world as cheaply as possible.

Challenges ahead

The trends described above bring new challenges. Different instruments and other trade policies will be needed to address these challenges.

► Instruments will need to be developed to deal with abuses of buying power. This could be done through changes in national or regional competition policy and much beyond, including a set of different kind of instruments that protect small suppliers, farmers and farm workers.

►Private standards are a barrier for supply of small producers to supermarkets. What are the best strategies to remove these barriers? Better help small farmers to get organised to meet the private standards? Is it possible to increase prices or improve sourcing malpractices through corporate social responsibility (CSR) initiatives? Would governmental standards be better which would need to be best addressed internationally and locally, with reciprocal acceptance measures and support for developing countries to implement and check the standards? Should there be international standards for fair contracts?

► The abusive practices of supermarkets are little known by consumers who are interested, also in developing countries, in buying fresh fruits and vegetables and other food from supermarkets because they look attractive or are much easier available. Can consumers be used to press for CSR initiatives or political changes?

►There is a lack of transparency in world domination, concentration and (informal) price setting by supermarkets and multinational trading and processing companies. A lot of information is not publicly available and pubic authorities have shown little interest to work out the information or act on it if they have it. This has important consequences on how the agricultural negotiations are being conducted.

►The TNCs currently dominating the food market are buying up big organic/biological farm products outlets (clear example: Ben & Jerry's ice-cream bought by Unilever) so they might dominate trading in organic products as soon as it becomes profitable or mainstream.

► If trade liberalisation is strengthening the interests of TNCs, what would be needed in trade policy from the perspective of current WTO negotiations, short term reform and long term food sovereignty?

This paper was written by Myriam Vander Stichele based on SOMO's current and ongoing research on critical issues in the fruit and vegetable sector, from a perspective of poverty eradication and sustainable development.

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