News Release

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GROCERY INQUIRY GOES LOCAL

The Competition Commission (CC) is to focus its attention on local markets across the UK as the next stage in its investigation into the market for the supply of groceries.

In its emerging thinking document, available at www.competition-commission.org.uk, the CC summarizes the evidence gathered so far in areas such as the supply chain, planning and land banks and outlines its next steps in the inquiry. The document is accompanied by eight working papers and a survey of suppliers.

Peter Freeman, Chairman of the CC and Inquiry Group Chairman, said:

> Our principal concern now is to focus on competition between retailers at the local level, where it most matters to consumers, as this is where many of the potential concerns we have would be evident. We have now gathered a large amount of evidence about the overall picture in this market, and having gathered this information, we can now look in detail at the situation locally.
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> We need to see what choices shoppers have in particular areas and how competition works between retailers of different sizes. We know about the extent of retailers' land holdings, but it's how these are used at local level, and the related effect of the planning system, that matters. It would be a cause for concern if supermarkets, either individually or collectively, were in a position to increase prices or lower their offer in any particular locality or region because of lack of effective competition.
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> We are not here to punish success or individual retailers but we are concerned with whether Tesco, or any other supermarket, can get into such a strong position, either nationally or locally, that no other retailer can compete effectively.
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> There have been many often contradictory claims surrounding many issues in this investigation. Our first job has been to obtain and present the facts objectively.
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> We have considered the evidence supplied concerning relationships between grocery retailers and their suppliers. Whilst these haven't indicated widespread problems in the supply chain, there are still concerns. We have found that bigger buyers do not always appear to get better terms from suppliers, and food and

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drink manufacturers and processors, as well as wholesalers, seem to be in reasonable shape. However, we have some concerns about farmers and we have not received as much specific evidence about unfair treatment of suppliers as we might have expected. There may well be many more examples out there but we need to hear them otherwise we would have difficulty coming to a conclusion. So we would appeal once more for suppliers with examples to come forward and assure them that requests for confidentiality will be taken on board.

This document is a progress report and these are not our conclusions on any issue. We haven't closed the door on any line of inquiry but it allows everyone to assess what we've learned so far and to respond accordingly as it progresses.

A summary of the document is as follows.

Supply chain

- Have looked at food and drink manufacturers, wholesalers and primary producers.
- Economic viability of food and drink manufacturers and wholesalers (and hence that of the supply chain to smaller retailers) as a whole is not in question
- No clear evidence that supermarket buyer power is reducing supplier innovation.
- Assessment of primary producers has, to date, focused on those two sectors where most concerns raised with us—dairy farming and pig meat.
- The number of dairy and pig meat farmers has declined in recent years indicating significant difficulties in those sectors. Average incomes are now rising but supermarkets are retaining an increasing share of the retail price for milk (the situation is less clear for pig meat). We will be looking at this further as well as other primary produce sectors.
- Still examining the 'waterbed effect' (ie whether smaller retailers are paying higher prices to suppliers than larger retailers).
- At the moment we see no clear correlation between the size of buyers (measured by share of national retail sales) and better buying terms.
- Many general assertions made about the activities of and the power held by supermarkets but less specific evidence than might have been expected. Not clear that this is all down to 'fear factor', given our comprehensive procedures to deal with this. Picture so far of supply chain practices is varied and not always bad for the consumer.

Land and planning

- Investigation has concentrated on finding out the facts about supermarkets' land holdings, their purpose and how the planning systems affect retailer development.
- This shows that Tesco holds most land, but other retailers are actively increasing their holdings also. Implications of this will now be considered as part of the analysis of competition between retailers.
- Conflicting evidence on effect of planning controls; some say they are too restrictive, others that they are not restrictive enough.

Retailer competition

- Will concentrate on this over the next few months. Having collected comprehensive data on who owns and does what and where, this will be analysed in detail, bringing in land and planning aspects also.
- The main focus will be on local areas (ie are prices higher in some areas than others, is quality lower in some areas than others and what might be causing this).
- Evidence of below-cost selling and price flexing by retailers. We will assess the effects on smaller retailers as part of the analysis of local areas and following up individual cases reported to us.

Related issues

- Those brought to the CC's attention have been principally environmental (food miles, traffic congestion, waste products) but also character of town centres and the 'high street', the need for thriving rural and urban communities, the need for healthy diet, animal welfare standards, treatment of overseas suppliers and their workforces—some of which are relevant to competition, some less so.
- Consumers may not be aware of these costs in all cases. In a competitive market, as consumers become more aware of these issues and wish to change their purchasing patterns, supermarkets would need to alter their behaviour or lose sales and profits. We need to be sure that the market is sufficiently competitive.

Process

- The Inquiry Group has visited stores and facilities throughout the UK and held formal hearings in England, Scotland, Northern Ireland and Wales. It has been careful to take full account of the situation in each country of the UK. So far, all parties have cooperated and we appreciate the provision of the large amount of data that we have called for. We are still seeking evidence in some areas (eg primary producers' experience in particular sectors, effects of pricing practices, further details of land holdings) but from now on we are moving more to put issues to retailers and get their responses.

The CC has not yet reached any conclusions on the issues discussed in this document. The Group's thinking is further advanced in some areas than in others and the areas where we have significant further work to do are identified in the document. The purpose of the document is to expose the direction of our thinking and to elicit further evidence from parties in relation to these matters.

The CC would like to hear from all interested parties, in writing. To submit evidence, please email: groceries@cc.gsi.gov.uk or write to:

The Inquiry Secretary
(Groceries Market Investigation)
Competition Commission
Victoria House
Southampton Row
LONDON
WC1B 4AD

Notes for editors

1. Under the Enterprise Act 2002 the Office of Fair Trading (OFT) can make a market investigation reference to the CC if it has reasonable grounds for suspecting that competition is not working effectively in that market.

2. The inquiry was referred by the OFT on 9 May 2006. This market reference follows an initial OFT study into the sector and public consultation. The CC is carrying out a comprehensive investigation to see if any features of this market prevent, restrict or distort competition and, if so, what action might be taken to remedy these.

3. The CC is considering whether features of this market or markets prevent, restrict or distort competition. If so, it will find an adverse effect on competition and consider whether action should be taken to remedy or prevent the adverse effect or any resulting adverse effect on customers in the form of higher prices, lower quality or less choice of goods and services, or less innovation. The CC is required to publish its final report by 8 May 2008, but is aiming to publish its final report by November 2007.

4. The members of the Inquiry Group are: Peter Freeman (Group Chairman), Jayne Almond, Barbara Donoghue, Alan Gregory, Alan Hamlin and Bruce Lyons.

5. Further information on the CC and its procedures, including its policy on the provision of information and the disclosure of evidence, can be obtained from its website at: www.competition-commission.org.uk.

6. Enquiries should be directed to Rory Taylor (email rory.taylor@cc.gsi.gov.uk) on 020 7271 0242.