

Research note: The Food Supply chain

December 2014

Introduction

Over recent years increasing concern has been expressed about the relationship between large grocery retailers and primary producers. There have been a range of measures to regulate this relationship and ensure both suppliers and retailers get a fair deal.

This research note gives an overview of the measures taken, the effect they have had on suppliers and retailers as well as the more recent changes in the food retail market and their consequences.

The Groceries Code Adjudicator

Following concerns raised about the relationship between supermarkets and suppliers, the Competition Commission investigated the supply of groceries in May 2006. This investigation led to the drafting of the Groceries Supply Code of Practice (GSCOP) in 2009¹. This was countersigned by ten of the major supermarkets² who currently share 98.8% of the UK grocery market.³ The code of practice contains a number of measures which apply to the retailers briefly summarised below:

¹ UK Government, **Groceries (Supply Chain Practices) Market Investigation Order 2009** [accessed 23 October 2014]

² Tesco, Sainsbury's, Asda, Morrison's, Marks & Spencer, The Cooperative, Waitrose, Aldi, Iceland, Lidl

³ Kantar Worldpanel, **UK Grocery Market data**, 21 October 2014 [accessed 23 October 2014]

- Prohibiting retrospective adjustments to terms and conditions of supply;
- Requiring retailers to deal fairly and lawfully with their suppliers;
- Prohibiting arrangements with suppliers which result in suppliers being held liable for losses due to shrinkage or wastage;
- Requiring written records of all agreements with suppliers to be kept;
- Limiting retailers from charging suppliers for stocking their products;
- Limiting the power to make suppliers pay for promotions;
- Limiting power to “de-list” suppliers;
- Requirement of binding arbitration for dispute resolution with issues arising under the code of practice; and
- Requiring the appointment of in-house code compliance officers (CCO) to ensure compliance with the code and train staff on the code.

The original proposals suggested that retailers set up a voluntary ombudsman. However, as this did not happen, the UK Government established the role of the Groceries Code Adjudicator (GCA) to enforce the code. The *Groceries Code Adjudicator Act*⁴ received Royal Assent on 25 April 2013, it gave the GCA the powers to monitor, advise and arbitrate on issues surrounding compliance with the code. Guidelines for arbitration were also published to ensure transparency. To ensure compliance, the GCA was given investigatory powers and the ability to impose sanctions in the form of financial penalties.⁵

Under the code of practice, either direct or indirect suppliers may confidentially file complaints concerning the actions of a supermarket to the GCA.

⁴ UK Government, **The Grocery Code Adjudicator Act**, 25 April 2013 [accessed 23 October 2014] UK Government,

⁵ The Groceries Code Adjudicator, **Arbitration Policy**, 01 April 2014 [accessed 23 October 2014]



The GCA will then investigate any trends observed. The first groceries Code Auditor, Christine Tacon was appointed to office 25 June 2013.

Review of efficacy in 2014

One year after appointment, the GCA published a report on progress and recommendations surrounding the code of practice.⁶

In this report, the GCA identified five key areas in which the highest number of claims had been received:

- Suppliers felt that a forensic attitude to retrospective auditing presented a significant cost and undermined goodwill.
- Discrepancies between amounts listed by supplier and retailer upon delivery.
- Forecasting services and setting of purchasing levels. Suppliers felt that retailers did not share this data with suppliers leading to increased risk in stock management.
- Request for lump sum payments upfront.
- Charges implemented by retailers for packaging and design.

The GCA also highlighted the need for wider participation to ensure that the system gains momentum. The reluctance of stakeholders to raise issues was identified as a barrier to progress and the GCA emphasised the forms available to ensure accessibility.⁷

The message that the GCA has a legal duty to preserve the anonymity of any claimants was also reinforced to encourage engagement.

YouGov Poll

Alongside the internal GCA review, YouGov conducted a survey, interviewing a range of direct

⁶ The Groceries Code Adjudicator, **Annual Report 2013-2014**, 24 June 2014 [accessed 23 October 2014]

⁷ UK Grocery Code adjudicator, **How to raise an issue with the GCA**, 18 December 2013 [accessed 23 October 2014]

and indirect suppliers across the UK as well as trade organisations and farming unions.⁸

The survey took a benchmark in understanding of the code and identified areas of misunderstanding on the role and powers of the GCA.

It identified the same issues as reported in the GCA study as well as particular concerns surrounding retailers' promotions of loss leaders.

In analysing the reluctance in raising an issue with the GCA, fears of reprisals by retailers, a lack of clarity and doubts surrounding the powers of the GCA were identified as sources. The survey identified that although only 23% of respondents had raised an issue with the GCA, 80% had experienced issues.

Retailers

At the one year review, some of the retailers presented their case on code implementation.⁹ Morrisons stated that it had urged suppliers to get in touch directly with their CCO to ensure issues are resolved quickly and amicably. Morrisons outlined that its CCO had integrated awareness of the code into training and advocated the promotion of better communication between retailers and suppliers. Tesco stated that its CCO had focussed on the buyer training programme which had been developed surrounding the issues that GSCOP has raised.

Food Producers in Wales

In Wales the food production sector employs 44,600 people¹⁰ and has an annual turnover of £5.7bn¹¹ so is an important component of the Welsh economy.

NFU has commented on the use of the code across the UK. It has encouraged members to submit claims to the GCA more readily. The NFU has emphasised the fact that action will only be taken when the GCA identifies trends across suppliers.¹²

⁸ Yougov, **A survey of the groceries supply chain**, 24 June 2014 [accessed 24 October 2014]

⁹ The Groceries Code Adjudicator, **Supermarket Presentations**, 24 June 2014 [accessed 24 October 2014]



FUW has also underlined the benefit of entering direct contracts with retailers to ensure short supply chains and that the best prices can be negotiated. The FUW states that this will ensure that Welsh farmers are directly protected by the code.¹³

Food processors in Wales

As the code only explicitly protects direct suppliers, some producers are not covered by it. In certain industries the farmers often sell on their produce to a processor who then supplies the retailer. To ensure that the GSCOP can be used most effectively, the GCA has encouraged producers who are not covered by the code to raise any concerns. The GCA argues that this will provide more data on which to base investigations and allow greater response from the GCA.¹⁴

Recent market changes

Recently the farmgate prices in key agricultural sectors have fallen and the income received by producers has decreased.

In the Welsh dairy sector, farmers have seen a decrease of up to 20% in prices paid for their milk over the last four months.¹⁵ The latest figures for milk released in 2011 showed that farmers received 35% gross margin of the retail price.¹⁶

¹⁰ Welsh Government, **Priority Sector Statistics**, 18 September 2014 [accessed 23 October 2014]

¹¹ Ibid, 1.3

¹² NFU, **Grocery Code Adjudicator reports success**, 26 June 2014 [accessed 23 October 2014]

¹³ FUW, **FUW president warns supermarkets of need to support Welsh and British beef**, 18 May 2014 [accessed 1 September 2014]

¹⁴ The Groceries Code Adjudicator, **Annual Report 2013-2014**, 24 June 2014 [accessed 23 October 2014]

¹⁵ Dairy Co, **Dairy CO Datum** [accessed 27 October 2014]

¹⁶ Dairy Co, **Liquid Milk Margins** [accessed 03 November 2014]

In the red meat sector, which currently accounts for approximately 40% agricultural output in Wales, the UK farmgate prices have consistently decreased over the last year. Price changes over the past 12 months are summarised in Table 1 alongside the current percentage of the retail price that producers are paid.

Table 1: Prices and Margins paid to red meat farmers

	Farmgate Price change ±(%) (Sept'13- Sept'14)	% retail price paid to producer(Sept 2014)
Beef ¹⁷	-15.2 †	47.3 †
Pork ¹⁸	-8.17*	41.7*
Lamb ¹⁹	-9.14*	52.2*

*UK Data, † Welsh Data

Welsh Government action

The Welsh Government Food Action plan outlined the actions it intends to take on food supply until 2020.²⁰ These include supporting the work of the GCA and working with Welsh farmers to ensure they benefit from the code. In light of the recent market changes the Welsh Government has announced an independent review into the dairy sector²¹ the findings of which will be published in February 2015. Hybu Cig Cymru, the levy body for the red meat industry in Wales has also commissioned a review of the beef sector in Wales which was published on 27 November.²²

¹⁷ Data from HCC.

¹⁸ BPEX, **Market data** [accessed 03 November 2014]

¹⁹ EBLEX, **Meatstats**, August 2014 [accessed 27 October 2014]

²⁰ Welsh Government, **Towards Sustainable Growth: An Action Plan for the Food and Drink Industry 2014-2020**, 10 June 2014 [accessed 30 October 2014]

²¹ Welsh Government, **Independent review of the dairy industry in Wales**, 14 October 2014 [accessed 03 November 2014]

²² HCC, **Review of the red meat sector in Wales**, 27 November 2014 [accessed 01 December 2014]

Further information

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See also:

- [Dairy Sector Wales](#)
- [Beef prices Wales](#)

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Enquiry no: 14/2781

