

Britain: Supermarket profits boom while food poverty increases

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At the outbreak of the foot and mouth crisis, Prime Minister Tony Blair accused Britain's supermarkets of having farmers in an "arm-lock" to produce cheap food.

Ever careful not to bite the hands that feed New Labour—Blair's cabinet contains Lord Sainsbury, head of one of Britain's top five supermarket chains and a major financial backer of the party—this populist jibe at the food retailing giants was soon dropped.

This is an issue that Labour cannot wish away, however. The so-called "cheap-food" policy of the supermarkets is the opposite of how it is portrayed by Labour. It is a policy of maximising profits at the expense of both their suppliers and, more importantly, their customers. The arm-lock employed by Britain's supermarkets is first of all placed on farmers, in order to drive down the price that the major food retailers pay for agricultural produce. But the supermarkets do not pass this saving on to the millions of working people who use their facilities. Instead shoppers are being forced to pay over the odds for the food they eat.

This situation was exemplified by last week's announcement by the Tesco supermarket chain of record profits of over £1 billion—the equivalent of £2.7million a day—at a time when around 20 percent of the UK population are suffering food poverty.

Britain's food retailing is the most concentrated in Europe, with the top five supermarket chains—Asda, Morrison, Safeway, Sainsbury and Tesco—controlling 70 percent of all food purchased. This trade was valued at £76.78 billion in 2000, an increase of 4.5 percent over the previous year. The UK also enjoys a pre-eminent position in European food manufacturing, with 13 of the top 20 continental food manufacturers being British-based.

As in other sectors of the economy, companies active in food processing and retailing have sought to achieve global weight in a series of mergers and fusions. These multi-billion dollar deals include Unilever's takeover of

the US company Bestfoods, the purchase of Nabisco by Philip Morris, and the sale of Diageo's Pillsbury food businesses to General Mills. The merger of MD Foods and Arla has created the largest European dairy company.

Developing international operations are increasingly necessary as the UK food retailing market is so heavily saturated. In reporting Tesco's record profits, business weekly the *Economist* writes that the company's "growth prospects now depend upon expanding overseas." The magazine pointed out that Tesco has already opened 68 foreign hypermarkets, with overall foreign sales growing by 43 percent to £2.9 billion, and increasing by a massive 85 percent in Asia.

According to business analysts *Key Note Reports*, "the major event in the last couple of years has been the purchase of Asda by the US retailing giant Wal-Mart."

The purchasing power of these supermarket chains is such that it "has forced margins down at many food suppliers. Price discounting by the large supermarkets has been passed on to suppliers, and a number of suppliers have lost contracts as supermarkets have rationalised their supply arrangements."

The expansion of large supermarket outlets, often in out-of-town locations that are poorly served by public transport, has been at the expense of locally based shops, able to serve those without cars. Industry figures record that between 1975 and 1995, the number of produce outlets fell from 30,000 to just 8,000.

The powerful position of Britain's supermarket chains has created an oligopoly, with a very few players controlling virtually all outlets for food and fresh produce, and able to dictate terms to the primary producers. A 1996 report in the *Australian Agribusiness Review* pointed out that "the UK leads the world in food retailer supply chain linkages for meat and produce". These are horizontal retail alliances, where individual retail chains are powerful buyers in their own right. "In Europe, the chains

combine in buying groups to further enhance their buying power. These groups account for one third of the total European food market,” the report notes.

Public concerns about the operation of the grocery retail sector—one campaign on “rip-off” Britain had highlighted the fact that food prices in the UK were consistently above those in other European countries—lead to a referral to the Competition Commission (formerly the Monopolies and Mergers Commission) in 1999. John Bridgeman, the Director General of Fair Trading said, “After analysing the profits of the four largest supermarket chains... I have to conclude that there is a level of profitability here, which requires further investigation by the Competition Commission.”

The final report produced by the Competition Commission last year found that UK food prices were on average 12-16 percent higher than in France, Germany and Holland and that this could only partially be accounted for by the relative strength of the pound against European currencies.

The investigation concentrated on two main areas of complaint. Firstly, pricing practices, where the Commission concluded that three of the current practices “distorted competition and gave rise to a complex monopoly situation.” These areas were identified as: persistent below-cost pricing, “price flexing”—varying prices in different geographical locations—and the adoption of pricing structures that concentrated competition on a very small number of lines across the majority of the outlets from ostensibly competing chains.

However, the Commission gave the supermarkets a free hand to continue their operations unchecked. The Commission recommended “no remedy for identified adverse effects,” arguing that imposing regulations would cost too much.

Secondly, concerning the relationship between the supermarket chains and their suppliers, the Commission found that two common practices in this area “also operated against the public interest.” Evidence of coercive practices is clear from the report, which states, “Most suppliers were unwilling to be named, or to name the main party that was the subject of the allegation. There appeared to us to be a climate of apprehension among many suppliers in their relationship with the main parties.”

Here, the Commission merely recommended the establishment of a Code of Practice, which would be drawn up by the retailers and suppliers themselves, but “approved by the Director General of Fair Trading”.

Though all working people suffer as a result of the supermarket's oligopoly, it is the poorest who suffer most.

The continued rise in social inequality since New Labour came to power in 1997 is reflected in the growth of “food poverty”. While a rich minority have continued to benefit from the pro-business policies of the Blair government, those at the bottom of the income scale find it increasingly hard to put healthy and nutritious food on their plates. According to the charity Oxfam, there are nearly 14 million people in Britain living in households with incomes of less than £120 a week, i.e. under half the UK average wage. “Many are not able to eat an adequate diet: some low income families eat as little as 95g of fresh green vegetables each week, barely one Brussels sprout per person per day.”

The reason is not hard to find. As figures provided by Oxfam show, although the rise in food prices generally has been below average, the cost of healthy foods has risen by more than average. “The average increase in prices between 1982 and 1995 was 62 percent, but the price of oranges rose 80 percent, fresh fish 110 percent and potatoes 250 percent. In contrast, the price of chocolate biscuits rose only 54 percent, sausages 37 percent and cream just 12 percent.”

Oxfam also found that the cost of purchasing a “healthy” shopping basket was consistently higher in supermarkets located in deprived areas than those sited in better off suburbs. Moreover, the lines that are heavily promoted as “loss leaders” by the supermarkets, and figure predominantly in the shopping baskets of those with small incomes, are generally fatty and sugary processed foods, which are high in calories, and thus satisfy hunger, but are nutritionally poor. Other discounts are usually only available for multiple or bulk purchases, something that is beyond the reach of those on low incomes.

The poor are thus doubly excluded. Their limited incomes preclude them from participating in many normal social activities, and also deny them access to healthy and nutritious diet, a basic democratic right.



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