



# Human Development Report 2005

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A decorative graphic on the left side of the cover. It consists of a central circular hub with a black dot in the middle. The numbers '2005' are arranged around the hub: '2' at the top, '0' at the bottom, and '5' on the left and right. Several thick, colored lines (black, yellow, green, blue) radiate from the hub. Two large, stylized arrows point outwards from the hub, one towards the top right and one towards the bottom right.

## Supermarket Buying Power, Global Commodity Chains and Smallholder Farmers in the Developing World

Brown, Oli. 2005.

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# Supermarket Buying Power, Global Commodity Chains and Smallholder Farmers in the Developing World

*'The twentieth century witnessed a revolution in the nature of the food supply chain, the implications of which are only now being worked through at policy and institutional levels. The period was characterised by unprecedented changes in how food is produced, distributed, consumed and controlled – and by high levels of concentration of market share'.<sup>1</sup>*

(Tim Lang, 2003)

## **In recent years there has been both expansion and consolidation of the global supermarket sector...**

Supermarkets now dominate food sales in developed countries and are rapidly expanding their global presence. At the same time, international mergers and acquisitions and aggressive pricing strategies have concentrated market power in the hands of a few major retailers.<sup>2</sup>

The late 1990s saw a flurry of merger and acquisition activity as the supermarket sector rapidly consolidated to counter the 'Wal-Mart' threat. The UK food retailing industry is now dominated by four major supermarkets (Tesco, Asda, Sainsburys and Morrisons) who together account for over two-thirds of retail food sales.<sup>3</sup> The consolidation of retailers has strengthened their control over suppliers.

Sector analysts predict that it is not unrealistic to imagine future global markets in which food retail is controlled by four to five global firms with a handful of regional and national companies, and in which food manufacture is dominated by some ten companies using only about 25 brand names.<sup>4</sup>

## **The fresh fruit and vegetable (FFV) sector is particularly important for the supermarkets and they have worked hard to increase their share of the market...**

FFV is one of the key areas in a supermarket. Almost entirely own brand, it commands high margins and can be a shopping destination in its own right. As FFV is bought proportionately more by higher income bracket shoppers the sector can be a crucial element in a supermarket's attempt to 'trade up' the social ladder.

The supermarkets' share of the FFV market in the UK has been rising fast. In 1989 the supermarkets only sold 33% of FFV in the UK.<sup>5</sup> By 2003 the supermarkets' share of all FFV UK sales has risen to 80% - none of which is sourced through wholesale markets.<sup>6</sup> Whilst not owning farms, processing facilities or

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<sup>1</sup> Lang, Tim, "Food industrialisation and Food power: implications for food governance," *Development Policy Review* 21, no. 5-6 (2003): 555.

<sup>2</sup> Raworth, Kate, "Trading away our rights - women working in global supply chains," (Oxford: Oxfam, 2004), 6.

<sup>3</sup> Fearn, Andrew, Rachel Duffy and Susan Hornibrook, "Measuring distributive and procedural justice in buyer/supplier relationships: an empirical study of UK supermarket supply chains" (paper presented at the 88th Seminar of the European Association of Agricultural Economics, Paris, 2004), 2.

<sup>4</sup> Sophia Tickell in Sustainability, "The Taste for Commodities: who benefits?," in *Radar* (London: Sustainability, April/ May 2004), 6.

<sup>5</sup> Minot, Nicholas and Margaret Ngigi, "Are horticultural exports a replicable success story? Evidence from Kenya and Côte d'Ivoire" (paper presented at the Successes in African Agriculture, Pretoria, 2003), 9.

<sup>6</sup> Gibbon, Peter, "Value-chain Governance, Public Regulation and Entry Barriers in the Global Fresh Fruit and Vegetable Chain into the E.U.," *Development Policy Review* 21, no. 5-6 (2003): 621.

importing companies, supermarkets still play a critical role in defining what is produced, where, how and by whom. When people talk about supermarket power, more often than not, it's with the FFV sector in mind.

**Meanwhile, over the past 20 years, the scope for supermarkets to buy from producers worldwide has dramatically increased...**

Tariff reductions, trade liberalisation, innovations in communications, improved transport systems and increased capital mobility have globalised supermarket supply chains. For example, the cost of sea freight fell almost 70% between the early 1980s and the mid 1990s.<sup>7</sup> As a consequence, the supermarkets and their importers have become 'global sourcing companies'.<sup>8</sup>

Global sourcing has created new opportunities for labour-intensive and resource intensive exports from low-cost locations. The result is a dramatic growth in the number of potential producers – which in turn heightens competition among the world's factories and farms. However, at the other end of the chain, market share has tended to consolidate to a few leading retailers.

The fresh vegetables trade is now very much a 'buyer-driven' global commodity chain. In such chains, retailers play the key role in governing the chain of activities that link widely dispersed producers to consumers in developed countries.

**This has resulted in valuable increases in FFV exports from some regions...**

Between 1989 and 1997 the value of exports of fresh vegetables from SS Africa to the EU increased by 150%.<sup>9</sup> African fresh produce tended to be in demand only during the off-season in Europe. However, with the introduction of year-round procurement and increasing variety of produce the volumes exported rose dramatically. Commercial farms and export firms were drawn into cultivation of fruits and vegetables.

Recent studies have highlighted a number of factors behind Africa's horticultural boom –

- non-interference by government in the commercial dimensions of the business
- Preferential trade agreements such as the Lomé convention
- The achievement of sub-regional/cross-border economies of clustering; which provide a critical mass of activity for technical learning, market information flows, the development/ spread of trained manpower.
- International technical and marketing strategic partnerships – helping technology transfer, logistics, market penetrations and the creation of a 'market identity' for African products.
- The effective coordination of internal and international logistics at the industry level, involving intra-firm cooperation.<sup>10</sup>

In Kenya – export horticulture has grown from a small trade centred on Asian veggies in the 1960's (okra, chillies) to, by the mid 1990's, an extensive trade delivering approximately 75 products to dozens of overseas markets.<sup>11</sup> FFV exports have grown from \$2-3 million at independence to over US\$150m million

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<sup>7</sup> Raworth, "Trading away our rights - women working in global supply chains," 33.

<sup>8</sup> Ibid.

<sup>9</sup> Eurostat figures 1998 cited in Dolan, Catherine & Humphrey, John, "Governance and trade in fresh vegetables: the impact of UK supermarkets on the African Horticultural Industry," *Journal of Development Studies* 37, no. 2 (2001): 148.

<sup>10</sup> Ibid.: 163-4.

<sup>11</sup> Ibid.: 165.

in 1999. The sector has grown as a percentage of agricultural exports rising from 3% at independence to 17% today.<sup>12</sup> Although coffee and tea continue to dominate agricultural exports in Kenya, the growth of tourism and horticulture has reduced the vulnerability of the Kenyan economy to price swings in those two commodity markets.

**But the consolidation of the market and the buying power of the supermarkets have given them significant control over the commodity chain...**

These companies have tremendous power in their negotiations with producers and they use that power to push the costs and risks of business down the supply chain. Their business model, focused on maximising returns for shareholders and keeping costs competitively low for consumers, demands increasing flexibility through 'just-in-time' delivery, but tighter control over inputs and standards, and ever-lower prices.<sup>13</sup>

In Kenya and other major horticultural exporting countries in sub-Saharan Africa the market share of smallholder production and small export firms has declined and the industry is dominated by a few large exporters sourcing predominantly from large-scale production units.

With supermarkets increasingly controlling food retailing, the world's farmers are left competing for a place in their supply chains. It can be good business for farmers selling top-quality and out-of season horticultural produce – but the big imbalance between buyers and sellers means that most of the gains from trade are being captured at the top.<sup>14</sup>

Whereas imported horticultural produce was previously channelled primarily through wholesale markets, the largest UK retailers now control 70-90% of fresh produce imports from Africa.<sup>15</sup>

The control over the fresh vegetable trade exercised by UK supermarkets has clear consequences for inclusion and exclusion of producers and exporters of differing types, and for the long-term prospects for the fresh vegetables industry in Kenya and Zimbabwe.<sup>16</sup> The resulting power asymmetries are a cause for concern.

**Several broad trends are discernible in supermarket procurement systems...**

1. trend towards centralisation of procurement.
2. trend towards logistics improvements to accompany procurement consolidation – to defray some of the added transport costs that arise with centralisation.
3. trend towards sourcing from fewer suppliers
4. trend towards the rapid rise of the implementation of private standards for quality and safety – which tend not to be enforced publicly.<sup>17</sup>

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<sup>12</sup> Minot, "Are horticultural exports a replicable success story? Evidence from Kenya and Côte d'Ivoire", 38.

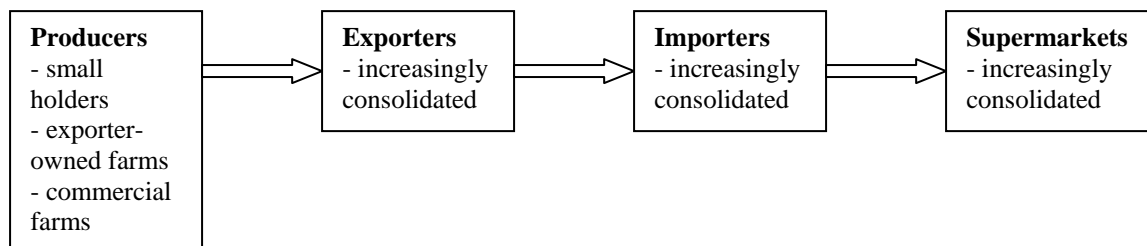
<sup>13</sup> Raworth, "Trading away our rights - women working in global supply chains," 6.

<sup>14</sup> Ibid., 68-9.

<sup>15</sup> Dolan, "Governance and trade in fresh vegetables: the impact of UK supermarkets on the African Horticultural Industry," 155.

<sup>16</sup> Ibid.

<sup>17</sup> Reardon, Thomas, C. Peter Timmer, Christopher B. Barrett and Julio A. Berdegue, "The rise of supermarkets in Africa, Asia, and Latin America," *American Journal of Agricultural Economics* 5 (2003): 1142.



**Increasingly, the competitive advantage of supermarkets in the north is a function of how well they can manage their supply chains...**

The outputs for the chain are largely determined by the requirements of the supermarkets (quality, consistency, cost, variety, value-added and innovation, food safety and ethical trade) who are in turn responding to the demands of their customers and the obligations placed upon them by governments. Meanwhile, investors in global food companies seek evidence of highly efficient supply-chain management, procurement and the ability to keep down the cost of raw materials.

The supermarkets are also making strategic decisions about their positioning in the marketplace, and this determines the range of products and the types of presentations they offer to customers. The retail sector is also demanding greater flexibility and reliability of supply. Rapid turnover means greater freshness and in some of the leading exporting countries large exporters have moved to JIT strategies to reduce the time between farm gate and supermarket shelf. Supermarkets and importers want to avoid keeping large inventories of perishable products, but at the same time want to be sure that store shelves are fully stocked at all times.

*The cost structure of African FFV exports to the UK<sup>18</sup>*

	One tonne export lot of mangetout from Zimbabwe		Export of fresh vegetables from Kenya
Stage	Price per tonne (£)	% of final price	% of final price
Producer	630	11.9	14.1
Exporter	291	5.5	
Packaging	274	5.2	13.1
Air freight and handling	1036	19.6	21.2
TOTAL CIF from Africa	2230	42.2	48.4
Importer charges and commission	624	11.8	6.1
Supermarket			
- stockout	714	13.5	45.5
- other costs	285	5.4	
- mark-up	1427	27.0	
<b>Total Price</b>	5281	100	100

<sup>18</sup> After Dolan, Catherine, John Humphrey, and Carla Harris-Pascal, "Horticulture Commodity Chains: the impact of the U.K. market on the African fresh vegetable industry," in *Working Paper 96* (The Institute of Development Studies, University of Sussex, 1999), 13.

**So, supermarkets are paying very close attention to their supply chains to improve quality and reliability of supply and to cut costs...**

Supermarkets have to meet regulatory requirements – in the UK the 1990 Food Safety Act requires retailers to demonstrate they have shown ‘due diligence’ in the manufacture, transportation, storage and preparation of food. To comply with the existing food safety legislation in most European countries retailers have developed systems that trace products from the field to the supermarket shelf. More recently supermarkets have come under some pressure to ensure that their production systems are socially and environmentally sound.<sup>19</sup>

Procurement officers are under common pressures wherever they work; to cut costs in an industry with already low profit margins. They generally aim to meet the pressure by reducing purchase and transaction costs and raising product quality. Supermarkets are highly customer focused but tend to ignore other stakeholders. The equitable treatment of suppliers seems to come low on the list of their priorities.

*‘Buyers work in a business culture of performance targets and incentives which encourages them to squeeze suppliers on price and delivery times, with scant attention to the ethical repercussions down the supply chain’ (Raworth, Oxfam).<sup>20</sup>*

**But there is also a trend for supermarkets to go beyond mandatory regulations to begin implementing their own private standards...**

Supermarkets have ‘raised the bar’; moving beyond procedures to ensure regulatory compliance to addressing broader issues such as integrated crop management, human rights and environmental protection, ‘plough to plate’ traceability etc.

Several factors induce the rise of private standards in the supermarket chains<sup>21</sup>

- a) as strategic tools by the supermarkets to differentiate themselves from their competitors
- b) as instruments of coordination of supply chains by standardising product requirements across all suppliers
- c) as substitutes for missing or inadequate standards in less developed regions
- d) as a strategic tool over the informal sector by claiming better food safety

As a result, producers and exporters have had to develop new systems of reporting and documentation to demonstrate that retail requirements have been met, and wherever possible, improved upon. This inevitably this places added burdens on growers and exporters. In effect, the growth of private standards is acting as a barrier to market entry for smallholder farmers.

Friedburg found that quality standards were having a dramatic impact on industry structure,

*‘This is the contradiction masked by the ‘fetishism’ of standards guaranteeing clean, green ethical trade. Namely: standards cost, and the retailers are not willing to pay. The costs of crèches and clinics and chemical storage facilities, of protective clothing and medical check-ups for all the pesticide sprayers, of the labour to keep records and monitor workers – all these are borne by the supermarkets’ suppliers, meaning the companies themselves and their white*

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<sup>19</sup> Dolan, "Governance and trade in fresh vegetables: the impact of UK supermarkets on the African Horticultural Industry."

<sup>20</sup> Raworth, "Trading away our rights - women working in global supply chains," 66.

<sup>21</sup> Reardon, Thomas, C. Peter Timmer and Julio A. Berdegue, "The rise of supermarkets and private standards in developing countries: illustrations from the produce sector and hypothesized implications for trade" (paper presented at the Agricultural Policy Reform and the WTO: where are we heading?, Capri, 23-26 June, 2003 2003), 5.

*farmer outgrowers. Most outgrowers support the idea of providing schools and other facilities for their workers, and generally agree with the supermarkets' standards for minimal pesticide use. But while they have invested in complying with these standards, the UK retailers' prices have remained flat, leading to shrinking profit margins. Weighed against the long hours and high stress of vegetable farming, the profit squeeze has driven most of the outgrowers out of the micro-veg business'.<sup>22</sup>*

### **Supermarkets stamp their authority on the supply chain...**

Before a supplier is included in the chain it is usually subject to an audit of its facilities. Monitoring and auditing of production and processing systems are carried out by supermarkets and importers. Supermarkets may visit Africa twice during the year to ensure that produce is grown, processed and transported in compliance with their requirements. Exporting companies will typically visit more often and may station staff in the region to offer technical support and advice. The seriousness with which retailers view compliance was reflected in Tesco's formation of a 'hit squad' – ready to inspect any supplier without prior notice to ensure compliance.<sup>23</sup>

### **And they use their control to extract significant concessions from exporters and producers...**

There are many tactics available to procurement officers to lever concessions from exporters and growers. In their tireless quest to reduce costs some supermarkets are demanding 'open book costing'; where growers and exporters have to open their costs and revenues to the retailers' scrutiny should there be an element in the chain that could be achieved more efficiently. Their stringent cosmetic standards for produce and high rejection rates also mean that the risk of substandard harvests is transferred to the growers.<sup>24</sup>

Exporters are also expected to participate in the promotional activities of the supermarkets. The standards promotion mode of advertising fresh fruits and vegetables is to lower the on-shelf price of certain commodities for a short period or to give away extra produce. Exporters need to have sufficient cash flow to withstand temporary losses in the hope of future gains.<sup>25</sup>

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<sup>22</sup> Friedburg, 2003 in Vorley, Bill, "Food, Inc. : corporate concentration from farm to consumer," (London: IIED, 2003), 70.

<sup>23</sup> Dolan, "Governance and trade in fresh vegetables: the impact of UK supermarkets on the African Horticultural Industry," 163.

<sup>24</sup> Raworth, "Trading away our rights - women working in global supply chains," 68-9.

<sup>25</sup> Singh, Bharat P., "Nontraditional Crop Production in Africa for Export," in *Trends in new crops and new uses*, ed. J.Janick and A.Whipkey (Alexandria, VA: ASHS Press, 2002), 89.

**Box 1 : Horticulture in Kenya**

Horticulture is now Kenya's second biggest earner of foreign exchange after tea, earning the country US\$300million a year. Fruit, flower and vegetable exports have increased 70% since 1995 with 95% of fresh produce exports destined for Europe.<sup>26</sup> Large scale agro-industries such as Homegrown Kenya Ltd. employ about 500,000 Kenyans, while there are as many as 2m outgrowers, labourers and brokers in the informal sector.<sup>27</sup> Homegrown has 700 outgrowers, whom it grades according to their compliance with market standards. Export packhouse workers can earn up to 60% more than similar workers in other sectors, but the flexibility required to meet supermarket orders puts considerable pressure on labour, leading to long working hours, misuse of overtime, and casualisation of labour contracts.<sup>28</sup>

Smallholder production used to be the backbone of production, comprising 70% of production marketing individually or in groups. By the late 1990s 40% of products for export came from the farms or leased land of exporters, 42% from large commercial farms, and only 18% from smallholders (Dolan & Humphrey 2000). In 2002, 1,600 Kenyan growers lost their contracts.<sup>29</sup> But it's a nuanced picture – with some commentators arguing that the export market has had a positive impact on the domestic market (see below p.21).<sup>30</sup>

**Meanwhile changes in developed countries have reduced the capacity of smallholder farmers to resist this pressure...**

Since the late 1980s individual exporters have replaced agricultural marketing boards in many countries. Such a shift typically raises efficiency and product quality but it can also erode farmers' leverage with overseas buyers.<sup>31</sup>

Until the 1980s many commodity markets were regulated by multilateral agreements on price bands, production limits and export quotas which were designed to keep the price relatively high and stable. The collapse of these agreements led to the entry of vast numbers of newcomers eager to sell their commodities on the global market and has undermined the impetus towards collective action.

**To stay competitive farmers have had to...**

1. Supply larger volumes per client and transaction
2. Compete with farmers around the country or in the whole region rather than just the local area
3. Meet the product standards and transaction requirements

**Consequently, in many developing countries the farmers best able to meet the demands of supermarkets are medium to large-scale farmers already accustomed to producing for export...**

Getting into a supermarket's procurement system may mean investing in irrigation, greenhouses, trucks, cooling sheds, and packing technologies. Farmers need to be able to sort and grade their produce, document their farming practices and meet timing and delivery deadlines.

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<sup>26</sup> Vorley, Bill and Tom Fox, "Global Food Chains - Constraints and Opportunities for Smallholders" (paper presented at the Prepared for the OECD DAC POVNET Agriculture and Pro-poor Growth Task Team Workshop, Helsinki, 2004), 20.

<sup>27</sup> Ibid.

<sup>28</sup> Vorley, "Food, Inc. : corporate concentration from farm to consumer," 69.

<sup>29</sup> Ibid.

<sup>30</sup> Vorley, "Global Food Chains - Constraints and Opportunities for Smallholders", 20.

<sup>31</sup> Raworth, "Trading away our rights - women working in global supply chains," 67.



The demands for rapid and reliable delivery make securing air cargo space a priority. Approximately 93% of Kenya's fresh horticultural exports are shipped by air.<sup>32</sup> The largest exporters have the most leverage when it comes to negotiating air cargo space with commercial airlines. Kenya's largest exporter, Homegrown has entered into a joint venture with MK airlines which flies each night to the UK, so ensuring continuity of supply.<sup>33</sup> Small exporters have to wait for space to become available on passenger airlines – often whilst their product deteriorates on the tarmac so reducing their ability to guarantee the reliability or quality of their product in overseas markets.

Small and medium sized exporters in the FFV chain have been marginalised by retailers in the UK in favour of 'dedicated' suppliers who can provide assurances of due diligence and quality control. While there are over 200 licensed fresh produce exporters in Kenya, only 50 are continuously active. The other 150 exporters exploit favourable short-term market conditions, entering and exiting the market sporadically during the October to April peak season.<sup>34</sup> In both Kenya and Zimbabwe the top five exporters control over 75% of all fresh vegetable exports.<sup>35</sup>

### **The new model presents opportunities to those farmers who can meet the requirements...**

Globalisation, trade liberalisation, changing lifestyles and demographics present opportunities for growing markets for African agricultural goods. Meanwhile south-south trade is becoming increasingly important. *'Export horticulture has been one of the bright spots of African development. It has raised production standards in agriculture, created supporting industries, and provided considerable employment in rural areas.'* (Dolan et al, 2001)<sup>36</sup>

The dramatic increase of fruits, flowers, and vegetable exports from Kenya and Zimbabwe, and to a lesser extent, from Uganda, Zambia, Ghana, and Cote d'Ivoire indicate the potential of the sector.<sup>37</sup> The 1990s witnessed private sector responses to these opportunities in the rapid expansion of high value exports from Africa, shifts towards vertically integrated supply chains, the rise of large agro-processors and delivery requirements in private sector trade.<sup>38</sup>

There is still considerable scope for growth in the export horticulture sector – but inclusion in the chain is contingent upon meeting the requirements of the supermarkets. These requirements have 1<sup>st</sup> – favoured the concentration of the export trade into a few large firms, and 2<sup>nd</sup> – shifted production increasingly to large farms many of which are owned by the exporters. As a result, many small and medium-sized exporters, and small growers have been excluded from the supermarket chain.

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<sup>32</sup> Dolan, "Governance and trade in fresh vegetables: the impact of UK supermarkets on the African Horticultural Industry," 17.

<sup>33</sup> Dolan, "Horticulture Commodity Chains: the impact of the U.K. market on the African fresh vegetable industry," 28.

<sup>34</sup> Ibid.

<sup>35</sup> Ibid.

<sup>36</sup> Dolan, "Governance and trade in fresh vegetables: the impact of UK supermarkets on the African Horticultural Industry," 163.

<sup>37</sup> Gabre-Madhin, Eleni Z., "Getting Markets Right in Africa: Opportunities and Challenges," (International Food Policy Research Institute, 2002), 1.

<sup>38</sup> Ibid.

***Fresh and Chilled Vegetable Imports into the UK from Kenya and Zimbabwe<sup>39</sup>***

Year	Kenya		Zimbabwe	
	Tonnes (a)	Price per ton(b)	Tonnes	Price per ton
1989	8407	100	711	100
1991	8513	115.3	1910	93.5
1993	11510	112.9	2333	114.1
1995	16762	98.9	3386	99.6
1997	21212	126.4	4467	133.1

(a) product categories include HS 0708 (peas and beans) and HS 0709 (other vegetables incl. artichokes, asparagus, mushrooms, sweet peppers, capsicum etc)

(b) 1989 price = 100

Source : Eurostat

**Smallholder farmers face particular problems when trying to meet the requirements of the supermarkets...**

- Traditionally small producers have operated outside of the formal sector.
  - Where producers are widely scattered transport costs to centralised collection facilities can be considerable.
  - Poor roads and unreliable transport in rural areas means farmers are unable to maintain the consistent quality required for the export market.
  - Smallholders have difficulty getting access to the credit necessary to invest in the equipment and training necessary to meet their technical, transporting and reporting requirements of the supermarkets.
- e.g. Homegrown (a Kenyan exporter on non-traditional vegetables to European supermarkets) requires that all its suppliers have toilet and washing facilities, a pesticide store, spraying equipment, and waste pesticide disposal facilities. For producers with small plots of land and little or no access to credit, such an investment may be impractical and/or not economically viable.<sup>40</sup>
- There are risks to small producers who are trying to produce to strict quality requirements.
- e.g. in the case of Hortico (a Zimbabwean vegetable exporter to European supermarkets) up to 40% of small growers make a loss on their first crop of baby corn because of poor yield and/or quality.<sup>41</sup>
- Small producers are at a disadvantage in their interactions with supermarket suppliers because of lower levels of education and poor business and negotiating skills.<sup>42</sup>
  - Exporters/ growers have to be prepared to respond quickly to changes in supply and demand requiring a degree of market information and capital investment that is out of the reach of many small growers.
  - Also smallholder farmers are having problems meeting the increasing demands for certification that the goods were produced using sustainable farming practices and strict labour standards.

<sup>39</sup> NB – there is no indication in the original text whether these figures are inflation linked. After Dolan, "Horticulture Commodity Chains: the impact of the U.K. market on the African fresh vegetable industry," 22.

<sup>40</sup> Boselie, David, Spencer Henson and Dave Weatherspoon, "Supermarket procurement practices in developing countries: redefining the roles of the public and private sectors," *American Journal of Agricultural Economics* 5 (2003): 1158.

<sup>41</sup> Ibid.

<sup>42</sup> Ibid.

- Supermarkets are wary of sourcing from small farmers. They realise that failure to meet food safety or ethical trading standards can result in bad publicity and undermine their position in the market place. Consequently there is a belief that concentrating their grower base will reduce their exposure to risk by giving them greater control over the production and distribution processes.
- Exporters and retailers shy away from the increased transaction costs of dealing individually with many small farmers. In addition, requirements/ new technologies etc are more easily communicated to one large farm than to many farmers on small plots.

**Box 2 : EUREP-GAP Standards<sup>43</sup>**

EUREP-GAP began in 1997 as an initiative of the Euro-Retailers Produce Working Group (EUREP) with the laudable goal of harmonising supply chain standards worldwide for good agricultural practice (GAP).

The main focus of the 2000 EUREP-GAP Protocol is standards for food safety and traceability designed to meet consumer concerns about pesticides and food hygiene, with environment and worker welfare issues as secondary concerns. Growers need independent certification from an approved certification body.

But representatives of developing country producers have expressed alarm at the imposition of EUREP-GAP standards by retailers without due consideration of local conditions. They claim that current standards favour large producers and becomes in effect a barrier at market entry. EUREP-GAP requires their growers to have an annual farm audit. However, an audit costs about £300 and this would absorb perhaps 70% of the profit of a Ghanaian grower. However, if they wish to sell to supermarkets they have little choice.

**And certain buying practices by the supermarkets make it very hard for the smallholder farmers to compete...**

High cosmetic standards – rigorous standards on the appearance of fresh produce leads to large amounts of produce being rejected. This is a large financial loss to growers and a disincentive to continue production for the export market. It reduces income for poor, small-scale farmers, and is also undesirable from an environmental viewpoint since much of the rejected produce is wasted.<sup>44</sup>

Late Payments – For goods that are accepted payment is often delayed up to 60 days after delivery – a time lag too long for many small farmers. Late payment by supermarkets also creates cash flow problems for exporters and growers who, in turn, find it difficult to pay their own outgrowers on time. Small-holders need a steady cash flow to afford the inputs that will ensure quality and maintain sustainable farming systems.

Last minute orders – late orders or changing orders at the last minute. Reducing orders at the last minute can cause huge wastage of crops that have already been planted/ harvested.<sup>45</sup>

<sup>43</sup> Fresh Produce Journal, 19<sup>th</sup> September 2003 in Vorley, "Food, Inc. : corporate concentration from farm to consumer," 71.

<sup>44</sup> Fritschel, Heidi, "IFPRI Forum - will supermarkets be super for small farmers?," (International Food Policy Research Institute, 2003), 11.

<sup>45</sup> NRET, *Applying codes of practice in third world countries - what can supermarkets do to help?* (<http://www.nri.org/NRET/supermarkets.pdf>, 2001 accessed).

In October 2000, the Competition Commission set up by the UK government concluded that the 5 major chains – Asda, Safeway, Sainsbury, Somerfield and Tesco – had increased their purchasing power to such an extent that it now adversely affects supplier competitiveness and distorts competition (see notes).<sup>46</sup>

The UK Competition Commission report (2000) argued that food retail market concentration is so high that the five (now four) leading retailers could engage in oligopolistic pricing, while at the same time using their power as buyers to extract average discounts on base prices from 100 of the country's leading suppliers. Their report showed that the largest supermarket, in this case Tesco, can consistently obtain discounts from their suppliers at 4% below the industry average.<sup>47</sup> This is before their extraction of additional discounts for promotions (normally 5-10% of the value of sales).<sup>48</sup>

The Commission concluded that it was satisfied that the industry was broadly competitive. However, the commission noted that a variety of questionable practices had been carried out by many of the supermarkets including; requesting non-cost related payments or special discounts from suppliers, imposing charges and making changes to contractual arrangements without adequate notice and unreasonably transferred risks from the supermarket to the supplier.

The report did recommend that a code of practice should be introduced to govern relationships between retailers and suppliers. In response to these recommendations a code of practice was introduced in March 2002 that was legally enforceable for the top four food retailers; Tesco, Sainsbury, Asda and Safeway. One of the three core principles of the code was that all trading partners should be treated fairly and reasonably.<sup>49</sup>

### **It is smallholder farmers who are feeling the squeeze...**

*'Food industry reform has had a particularly profound effect on the agricultural sector. Two and a half billion farmers across the globe rely on the production of primary agricultural products like rice, coffee, sugar, wheat and cotton for their livelihoods... And it is here, in the cost containment part of the equation, that poor farmers are feeling the squeeze.'* (Sophia Tickell, 2004)<sup>50</sup>

*'The gains to producers and exporters from the growing fresh vegetables trade have clearly been distributed inequitably. While some have clearly benefited from the move toward direct supermarket sales due to increased access to markets and product information, many more producers and exporters have fallen out of the market.'* (Dolan, Humphrey and Harris-Pascal, 1999)<sup>51</sup>

Supermarkets are capturing the lion's share of gains from the trade in horticultural produce while passing the risks and costs on to farmers.

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<sup>46</sup> N.B. – Safeways has since been bought by the Morrisons Group. The CC report related primarily to sourcing within Britain but does still apply to the international supply chains of the supermarkets FarmersLink, *Tracking Supermarkets' Performance* (<http://www.farmerslink.org.uk/tsp.htm>, 2004 accessed).

<sup>47</sup> Vorley, "Global Food Chains - Constraints and Opportunities for Smallholders", 17.

<sup>48</sup> (NB.this seems to relate more to suppliers in the UK but the principle stands for all sources) Gibbon, "Value-chain Governance, Public Regulation and Entry Barriers in the Global Fresh Fruit and Vegetable Chain into the E.U.," 623-24.

<sup>49</sup> Fearn, "Measuring distributive and procedural justice in buyer/supplier relationships: an empirical study of UK supermarket supply chains", 3-4.

<sup>50</sup> Sustainability, "The Taste for Commodities: who benefits?," 6.

<sup>51</sup> Dolan, "Horticulture Commodity Chains: the impact of the U.K. market on the African fresh vegetable industry," 23.

- Real export prices paid for South African apples have fallen 33 per cent since 1994.<sup>52</sup>
- The supermarkets' and large processors' buying practices have, according to Thomas Reardon, driven over 100,000 producers in Latin America out of the formal milk markets.<sup>53</sup>
- In 1992 nearly 75% of FFV grown for export in Kenya was produced by smallholders.<sup>54</sup> By 1998, the four largest exporters in Kenya sourced only 18% of produce from smallholders. In Zimbabwe 5 of the largest exporters sourced less than 6% of produce from smallholders. (see note)<sup>55</sup>

**Source of supply to large exporters by type of production unit (%), 1998<sup>56</sup>**

	Own farm production or leased land	Large Commercial Farms	Smallholders
<b>Kenya</b>	40	42	18
<b>Zimbabwe</b>	49	45	6

**There is more scope for adding value in producing countries, but only for exporters/ producers who can make significant investments in technology and training...**

Another major trend in the supply chain has been the transfer of processing activities from UK importers to African exporters. The UK supermarkets have played the leading role in implementing these changes. Adding value to fresh vegetables and fruits is labour intensive and is more economical to carry out in Africa because of the cheaper labour.<sup>57</sup>

These include not only basic tasks like washing and trimming but also more technically complicated tasks such as bar-coding and labelling. More recently, African exporters have begun supplying ready-to-eat products, which require much stricter levels of hygiene. This is good for supermarkets as it reduces repackaging in the UK and enables defective product to be detected and discarded in Africa. Finally, processed products have a higher value to weight ratio so reducing transport costs.

However, constructing, maintaining, and operating facilities for processing, packaging and bar coding of ready-prepared vegetables, fruits, and salads require a great deal of capital investment. These facilities also have to comply with stricter hygiene requirements.

**There has been a marked trend for vertical integration by exporters establishing their own farms/ plantations...**

Several large exporters that had bought in most or all of their produce in the mid-1990s have begun to acquire their own growing capacity. In place of smallholders, the exporters are tending to source their products from exporter-owned plantations and independent, large commercial farms.

<sup>52</sup> Raworth, "Trading away our rights - women working in global supply chains," 68-9.

<sup>53</sup> Reardon, Thomas Julio A. Berdegué and John Farrington, "Supermarkets and Farming in Latin America: pointing directions for elsewhere?," in *Natural Resource Perspectives, Number 81* (ODI, 2002), 1.

<sup>54</sup> Singh, "Nontraditional Crop Production in Africa for Export," 89.

<sup>55</sup> Dolan, "Governance and trade in fresh vegetables: the impact of UK supermarkets on the African Horticultural Industry," 175.– NB I think these figures are somewhat unscientific – there is no indication in the text as to whether the figure for Kenya FFV growth in 1992 is only that for export or for all FFV growth (for which you would expect a large percentage to be grown by smallholders)

<sup>56</sup> From Ibid.

<sup>57</sup> Ibid.: 169.

This means;

- 1 – control over production guarantees at least some continuity of supply
- 2 – growing crops provides the exporter with knowledge about production issues and innovations
- 3 - vertical integration gives greater scope for reducing costs.<sup>58</sup>

### **Box 3 : Bananas**

The banana market is an example of a classic oligopoly. A small number of vertically integrated TNCs – Chiquita, Dole, Del Monte Fresh Produce, Noboa and Fyffes – dominate the international banana trade. They are able to exercise their market power at several stages of the banana marketing chain. Although these multinationals are vertically integrated in sourcing, shipping, ripening, packing and distribution, they are moving away from the direct ownership of production. As with other commodities, preferred supplier-arrangements are now the norm with the contract specifying precise standards for quality, packaging etc. only about 12% of revenues from banana retail sales remain in producing countries, despite the very limited amount of product transformation outside the farm or plantation.<sup>59</sup>

The dominance of retailers has caused a dramatic shift of value up the supply chain over the past decade. The transnationals profit margins are now very slim. Meanwhile up to 40% of value is staying with the supermarkets even though it is one the least demanding part of the supply chain.<sup>60</sup> Bill Vorley argues that lower prices for supermarket suppliers are felt keenly in exporting countries, making it impossible for growers and labourers to be paid even the legal minimum wages.

#### **The UK ‘banana wars’**

A 2002-3 price war in the UK market initiated by Asda-Wal-Mart led to the reduction in supermarkets’ supply bases, and the culling of less competitive suppliers as all major supermarkets demanded deep price cuts at the supplier side.<sup>61</sup> International buyers are in effect obliging all banana-exporting countries to replicate Ecuador’s poor labour and environmental conditions. In Costa Rica plantation workers’ daily wages have fallen from around \$12-15 a day in 2000 to \$7-8 in 2003.<sup>62</sup> Bill Vorley and Tom Fox characterise this price war as, in effect, a transfer of wealth from poor producers in the south to rich consumers in the north.<sup>63</sup>

**However, smallholders may still retain some comparative advantage over larger producers...**

- Small producers typically employ labour intensive production techniques that allow the careful attention required by some crops, such as some herbs, spices, vegetables and fruit, to meet the strict quality requirements of the supermarkets.

e.g. – Smallholders are widely thought to have a comparative advantage in the production of french beans; Kenya’s largest fresh vegetable export to the UK. French beans are widely considered to be less amenable

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<sup>58</sup> Ibid.: 175.

<sup>59</sup> Vorley, "Food, Inc. : corporate concentration from farm to consumer," 12.

<sup>60</sup> Ibid.

<sup>61</sup> Vorley, "Global Food Chains - Constraints and Opportunities for Smallholders", 22.

<sup>62</sup> Ibid.

<sup>63</sup> Personal communication

to capital-intensive, mechanised production due to its labour intensive requirements in both production and packaging.<sup>64</sup>

- Small producers can often demonstrate a higher level of commitment to the crop in part because of its economic importance to their livelihood.
- Smallholders use family labour which tends to be low-cost and self-supervising.<sup>65</sup>

e.g. - one study of pineapple production in Ghana estimated that production cost per hectare is 22% less than for large holders – mainly due to the lower labour cost of smallholders' use of family labour and reduced costs of supervision.<sup>66</sup>

- Small inter-cropped plots help reduce problems of disease and wind damage.<sup>67</sup>
- Occasionally traditional agronomic and production practises employed by the small farmers are more attractive to the supermarkets than the more intensive methods typically used by the larger growers – a good example of this is fruit and vegetables produced to organic standards.

e.g. In Thailand TOPS, a domestic supermarket chain, has found that small producers are able to adapt to organic production methods because practices such as crop rotation and selection of resistant varieties are long-established elements of traditional farming.<sup>68</sup>

- Sourcing from small producers is perceived to be an important element of socially responsible business practices.<sup>69</sup> Also sourcing from smallholders can be an effective response to the problem of land scarcity.<sup>70</sup>

### **Traditional economic theory might argue that all the boats should be floating up together...**

Traditional economic theory would argue that trade liberalisation, rather than being a cause of the problem, is its solution. After all if supermarkets prefer to deal with a small number of large suppliers (understandable from their perspective), what's to stop African farmers from organising a co-operative to deal with the exporters? (along the lines of Fonterra in New Zealand etc). In fact, gaining greater market access (by opening up substantial export opportunities) might give them a powerful incentive to do so.

Moreover, there's also the question of whether such farmer's remain small post-liberalisation anyway. The ability to command higher prices may raise farmers' incomes, encourage a greater use of capital-intensive methods and so increase the size of the average farm. This would possibly increase their attractiveness as suppliers to supermarkets and/ or increase their capacity to operate as a co-operative.

Finally, even if they do remain small and on the outside of the supermarket supply chains they should still be able to fill gaps in the supply chain domestically. If they are producing a fairly homogenous product

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<sup>64</sup> Dolan, "Governance and trade in fresh vegetables: the impact of UK supermarkets on the African Horticultural Industry," 176.

<sup>65</sup> Ibid.

<sup>66</sup> Cited in Takane, Tsutomu, "Smallholders and nontraditional exports under economic liberalization: the case of pineapples in Ghana," *African Study Monograph* 25, no. 1 (2004): 36.

<sup>67</sup> Dolan, "Governance and trade in fresh vegetables: the impact of UK supermarkets on the African Horticultural Industry," 176.

<sup>68</sup> Boselie, "Supermarket procurement practices in developing countries: redefining the roles of the public and private sectors," 1159.

<sup>69</sup> Ibid.

<sup>70</sup> Dolan, "Governance and trade in fresh vegetables: the impact of UK supermarkets on the African Horticultural Industry," 176.

then trade liberalisation should increase the world price for that product (for those producers not previously receiving protection). So it may not matter whether or not they can sell to the northern supermarkets. In fact they may primarily benefit from no longer having large amounts of subsidised European product being dumped on their traditional markets, for example.

'Buyer driven' supply chains, then, might be considered as promoting greater efficiency (by rewarding economies of scale) and welfare benefits (by keeping consumer prices low). If smallholder producers could find other alternatives to growing FFV, their elimination from the value chains would be no bad thing.

### **But this does not seem to be the case...**

While noting this approach does have some selective validity it is worth pointing out that with the local market niches for smallholder farmers seem to be disappearing under the pressure of competition from larger growers with the pincer like growth of supermarkets in both the developed and developing worlds. There are few real alternatives to FFV production in places like Kenya. Smallholder farmers tend to lack the critical mass of knowledge, training, land or capital with which to leapfrog into more advanced, industrial-scale production.

There is also little in the way of a safety net to help those farmers who want to stop production, transfer to alternative occupations. The theory ignores the inherently selective win-lose nature of such fierce competition and tends to assume that adjustment will be relatively painless. The speed of the growth in supermarkets and their evolving supply chains is proving otherwise.

### **And experience with regulation has produced somewhat mixed results...**

An article by Peter Gibbon (2003)<sup>71</sup> explores some different regulatory structures of which two are briefly outlined below; the banana regime and domestic regulation of the FFV sector in the EU.

Trade regulation at the EU level – the banana regime – in 1993 the EU inaugurated a common Banana regime that carried over previous Lomé Convention related preferences for ACP bananas.<sup>72</sup> The primary objective of the regime was to protect the market of banana producers in the EU itself (Greece) and in Spanish and French overseas territories – but it extended the protection to smallholder production systems in the Caribbean. Duty free quotas of 850,000 tonnes each were given to EU/EU overseas territory producers and to the ACP countries, while a tariff-based quota of 2 million tonnes was reserved for all further imports from whatever source.

However, this arrangement was successfully challenged in the GATT and WTO. As a result modifications to the regime occurred throughout the 1990s and the EU has had to promise to abolish all quota restrictions by 2006. Yet, even so, the regime failed to protect smallholder production systems, especially after the EU was forced to scrap individual country import quotas.

At the same time as challenging the regime through the WTO, the major dollar-zone exporters (such as Chiquita) were establishing plantations in the ACP, particularly in Côte d'Ivoire and Cameroon. So, in the context of stagnating demand, falling prices, and competition from newly established plantations piggy-backing 'their' quotas, smallholder production systems became less, rather than more, competitive. For

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<sup>71</sup> Gibbon, "Value-chain Governance, Public Regulation and Entry Barriers in the Global Fresh Fruit and Vegetable Chain into the E.U.."

<sup>72</sup> Ibid.: 618.



example, exports from the Windwards fell dramatically and the number of smallholder producers fell from 25,000 in 1993 to 11,000 in 1997.<sup>73</sup>

#### Regulation of domestic FFV markets in Southern Europe<sup>74</sup>

The situation in the UK, where supermarkets' share of all FFV sales has risen to 80% none of which is sourced through wholesale markets, is different to the situation in France. Here despite marginally higher concentration in the sector overall (the top five retailers control 77% of market share), French supermarkets account for only 37% of sales of FFV.<sup>75</sup> Of this share, roughly 60% is sourced directly by the supermarkets while the remaining 40% is sourced from wholesalers. A considerable proportion of the FFV import trade in France still goes through wholesalers who buy at auction at the ports from importers selling on consignment. Supermarkets exercise less control in the FFV chain in France due to a complex set of regulatory and cultural conditions.

Between 1973 and 1996 three separate laws were passed that restricted supermarket expansion in urban areas and helped to preserve the role of independent retailers nationally. Even more important is the regulative support provided to the wholesale trade over the past fifty years. These regulations limited the number of wholesale markets and substantially reduced retailers' transaction costs for buying through wholesalers. The existence of large regional wholesale markets for fresh produce is intertwined with cultural preferences for regionally-specific cuisines. Because of their low market share for FFV, French supermarkets are less able to exercise direct influence over either importers or developing country growers and exporters. However the presence of wholesalers and lower entry barriers in France means that importers generally operate under much more uncertain conditions than their colleagues in Britain – export taking place without prices being agreed or even sale assured.<sup>76</sup>

Regulation can be used in ways, intentionally or unintentionally, that restrict the supermarkets' ability to restructure the value-chains to their own advantage. In the banana regime regulation forced retailers to buy from higher cost sources (because of the quota system) and in France retailers buy via a dispersed network of domestic wholesalers who are themselves too weak to exercise buying power further up the value chain. In the case of the French system of domestic import market regulations there seems to be evidence that these can protect all producers from price pressure, as well as from the types of service demand that exclude small-scale producers from the export game.<sup>77</sup> However, these arguments are academic as such regulation is difficult to maintain and almost impossible to (re)introduce; WTO rules have banned the use of quotas and the French system is currently under complaint in Brussels.<sup>78</sup>

#### **But, on balance, the prognosis for smallholder farmers is not hopeful...**

All of the above present huge challenges for small farms and firms trying to survive in the rapidly transforming food markets. *'To sell to those markets increasingly means for them to sell to a handful of large supermarket chains or their intermediaries. There is emerging evidence that many small suppliers cannot meet these requirements, and already 1000s are being excluded and going bankrupt, and as the 'secondary market' outside of the supermarket sector rapidly shrinks, the options for small producers will shrink. That is frightening in regions where there are millions of rural poor who are looking to agricultural diversification and urban markets as an escape route from poverty'*.(Reardon, 2003)<sup>79</sup>

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<sup>73</sup> Ibid.: 619.

<sup>74</sup> Ibid.: 621.

<sup>75</sup> Ibid.

<sup>76</sup> Ibid.: 623.

<sup>77</sup> Ibid.: 624.

<sup>78</sup> Ibid.

<sup>79</sup> Reardon, "The rise of supermarkets and private standards in developing countries: illustrations from the produce sector and hypothesized implications for trade", 30.

# Supermarkets in the Developing World and Smallholder Farmers

**But this is not only about supermarkets in the developed world – the main changes are now being wrought by the expansion of supermarkets in the developing world...**

The supermarket sector in the developing world is taking an increasingly important share of food retailing and is no longer an industrialised world phenomenon. This is impacting smallholder farmers in similar ways to the supply chains of retailers in the developed world – but, if anything, the effect is greater. e.g. the supermarket sector in Latin America already sells 2.5 times more fruit and veg as is exported from Latin America to the rest of the world.

Yet public policy and development programs debate has up to now tended to ignore the role of supermarkets in the local market as an opportunity for local farmers, and focused only on exports.<sup>80</sup> But with almost all population growth over the next 25 years predicted to take place in the urban centres of low-mid income countries, global retailers are restructuring their organisations to follow this demand. Over the next 25 years more than 50% of the growth in global food retail markets is expected to come from emerging markets.<sup>81</sup>

**The expansion is being driven by heavy investment by the multinational retail chains...**

In the 1990s many supermarket chains in Europe and the US found their domestic markets saturated and they raced to get footholds in the developing nations then liberalising their economies.

In Asia and Latin America the fastest-growing supermarkets are chains from Europe and the US, including Carrefour from France, Wal-Mart from the US, Ahold from the Netherlands and Tesco from the UK.<sup>82</sup> In most Latin American countries 60-80% of the top five supermarket chains are global multinationals, mainly the top three food retailers in the world; Royal Ahold, Carrefour and Wal-Mart but also others such as Casino and Auchan (France).<sup>83</sup> Carrefour earned three times higher margins on average in its Argentine operations compared to its French operations in the 1990s.<sup>84</sup>

Thomas Reardon et al characterise the expansion as happening in 4 Waves with a ‘domino effect’ where supermarkets spread from large/ richer countries in a region to the poorer/smaller countries.<sup>85</sup> There is still significant regional variation though – compare Brazil’s 75% share with Bolivia’s estimated 10% share, and South Africa’s 55% with Nigeria’s 5%.<sup>86</sup>

1<sup>st</sup> wave – larger/ richer countries in LAM

2<sup>nd</sup> wave – East/SE Asia

3<sup>rd</sup> wave – small/ poorer countries of LAM and Asia

4<sup>th</sup> wave – (beginning now) is hitting South Asia and Africa

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<sup>80</sup> Reardon, Thomas, "The Rapid Rise of Supermarkets in Developing Regions: implications for agricultural development" (paper presented at the Supermarkets and Agricultural Development in China: opportunities and challenges, Shanghai, 24-25 May 2004 2004), 2.

<sup>81</sup> Vorley, "Global Food Chains - Constraints and Opportunities for Smallholders", 13.

<sup>82</sup> Fritschel, "IFPRI Forum - will supermarkets be super for small farmers?," 10.

<sup>83</sup> Reardon, "The Rapid Rise of Supermarkets in Developing Regions: implications for agricultural development", 3.

<sup>84</sup> Reardon, "The rise of supermarkets in Africa, Asia, and Latin America," 1142.

<sup>85</sup> Ibid.

<sup>86</sup> Ibid.: 1143.

## Latin America is leading the way...

In the mid/late 1980s in Latin America the supermarket sector controlled only about 10-20% of total food retail. By 2002 that share had risen to 50-60% (and about half this level of FFV).<sup>87</sup> . In Brazil, for example, the supermarkets' share of food sales jumped from 30% in 1990 to 75% in 2000.<sup>88</sup> In one decade Latin America experienced the supermarket growth that had taken 5 decades in Europe and the US.<sup>89</sup>

FFV retailing has tended to *lag behind* other product categories – in general their share of FFV retailing is only around half that of their share in overall food retail. E.g. supermarkets in Argentina and Mexico have 50% of food retailing but only 30% of FFV retailing.<sup>90</sup>

Much of the growth in the supermarket sector in Latin America has been led by investment from European and North American retail chains. The larger ones are subsets of regional and global chains which can switch procurement rapidly, generating instability in the markets facing producers. It is hard to exaggerate their impact. For example, 3 out of each 10 pesos spent on food by Mexicans are now spent in Wal-Mart!<sup>91</sup>

### Demand side growth<sup>92</sup>

Data for Chile are typical;

- urbanisation – in Chile – urban population up from 75% in 1970 to 86% in 2001.
- entry of women into the workforce – Chile – 2.8% annual increase 1989-2000 (therefore increased opportunity cost of their time encourages the purchase of convenience and processed foods).
- rapid growth in real mean per capita income during the 1990s.
- Income growth in turn leads to; greater demand for non-staples and luxury goods, greater availability of refrigerators displacing day-to-day shopping habits of the past.
- Growing access to cars by middle classes (in Chile the number of households owning a car increased by one-third from 1996 to 2000).

### Supply side growth<sup>93</sup>

- trade liberalisation – easier and cheaper to import food and non-food products and a growing proportion of supermarket goods are being sourced globally in response to rapidly changing price conditions.
- A reduction in the regulation of FDI leading to a surge of FDI in retailing in the late 1990s.

There is also rapid consolidation in the sector. In Mexico, Brazil, Argentina and Costa Rica the top four firms now have between 50-80% of supermarket sales.<sup>94</sup> For example, in Latin America the top 5 chains per country have 65% of the supermarket sector (vs 40% in the US and 72% in France).<sup>95</sup> The consolidation takes place mainly via the acquisition of local chains. However, there is also significant

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<sup>87</sup> Reardon, "The Rapid Rise of Supermarkets in Developing Regions: implications for agricultural development", 2.

<sup>88</sup> Fritschel, "IFPRI Forum - will supermarkets be super for small farmers?," 10.

<sup>89</sup> Reardon, "The Rapid Rise of Supermarkets in Developing Regions: implications for agricultural development", 2.

<sup>90</sup> Reardon, "Supermarkets and Farming in Latin America: pointing directions for elsewhere?," 3.

<sup>91</sup> Reardon, "The rise of supermarkets in Africa, Asia, and Latin America," 1142.

<sup>92</sup> Reardon, "Supermarkets and Farming in Latin America: pointing directions for elsewhere?," 2.

<sup>93</sup> Ibid.

<sup>94</sup> Ibid., 3.

<sup>95</sup> Reardon, "The rise of supermarkets and private standards in developing countries: illustrations from the produce sector and hypothesized implications for trade", 5.

investment in new stores. In 2002, for example, Wal-Mart spent \$600 million building new stores in Mexico.<sup>96</sup>

*World top 30 food retailers, 2002<sup>97</sup>*

Rank	Company	Country	Turnover (\$m)	No. of countries	Foreign Sales (%)	Ownership
1	Wal-Mart	US	180,787	10	17	Public
2	Carrefour	France	59,690	26	48	Public
3	Kroger	US	49,000	1	0	Public
4	Metro	Germany	42,733	22	42	Public/family
5	Ahold	NL	41,251	23	83	Public
6	Albertson's	US	36,762	1	0	Public
7	Rewe	Germany	34,685	10	19	Co-operative
8	Ito Yokado (incl. 7-11)	Japan	32,713	19	33	Public
9	Safeway Inc	US	31,977	3	11	Public
10	Tesco	UK	31,812	9	13	Public
11	Costco	US	31,621	7	19	Public
12	ITM (incl Spar)	France	30,685	9	36	Co-operative
13	Aldi	Germany	28,796	11	37	Private
14	Edeka (incl. AVA)	Germany	28,775	7	2	Co-operative
15	Sainsbury	UK	25,683	2	16	Public/family
16	Tengelmann (incl. A & P)	Germany	25,148	12	49	Private/family
17	Auchan	France	21,642	14	39	Private/family
18	Leclerc	France	21,468	5	3	Co-operative
19	Daiei	Japan	18,373	1	0	Public
20	Casino	France	17,238	11	24	Public
21	Delhaize	Belgium	16,784	11	84	Public
22	Lidl & Schwartz	Germany	16,092	13	25	Public
23	AEON (formerly Jusco)	Japan	15,060	8	11	Public
24	Publix	US	14,575	1	0	Public
25	Coles Myer	Australia	14,061	2	1	Public
26	Win Dixie	US	13,698	1	0	Public
27	Loblaws	Canada	13,548	1	0	Public
28	Safeway plc <sup>98</sup>	UK	12,357	2	3	Public
29	Lawson	Japan	11,831	2	1	Public
30	Marks & Spencer	UK	11,692	22	18	Public
<b>TOTAL</b>			<b>930,537</b>			

No longer are they merely niche players for the rich consumers in the capital cities of the region.– they have spread well beyond the middle class in order to penetrate deeply into the food markets of all classes. About 40% of Chile's smaller towns now have supermarkets.<sup>99</sup> In Guatemala, a leading supermarket chain has concluded that only 17% of the population is out of supermarket reach because of low income or

<sup>96</sup> Ibid.

<sup>97</sup> After Lang, "Food industrialisation and Food power: implications for food governance," 559.

<sup>98</sup> Now owned by the Morisson Group

<sup>99</sup> Ibid.

geographic isolation.<sup>100</sup> Likewise in China the supermarkets are spreading fast beyond the top-60 cities of China along the coastal area and are now moving to smaller cities and to the poorer and more remote northwest and southwest interior.<sup>101</sup>

### **Quality, quantity and reliability requirements tend to be similar across the multinational chains wherever their subsidiaries are...**

Multinational supermarket chains often have a single set of quality and safety standards for fresh produce, based on the standards in their home market. For farmers who can make the grade, entering the supply chain can bring them a reliable and profitable market for their goods, and even a foothold in the global marketplace.<sup>102</sup> The distinction between the export market and local market is disappearing.<sup>103</sup>

e.g. both major supermarket chains in South Africa require certification by the same laboratories that certify for export.<sup>104</sup>

### **Procurement systems have been changing...**

- Shift away from reliance on the traditional wholesale markets for fresh produce toward the use of specialised wholesalers dedicated to supermarkets
- Procurement has been consolidated through the use of centralised distribution centres
- Increasing chain co-ordination through contracts with wholesalers and growers
- Requiring high standards and demanding certification
- Offering delayed payments (typically 45-60 days after product delivery)<sup>105</sup>

New types of suppliers serving supermarkets tend to be specialised FFV wholesalers accustomed to large volumes and meeting quality standards. An increase in the scale of procurement is driven by supermarket expansion – in general this prompts new investment by suppliers which is expensive but generally perceived as worthwhile if a supplier can get on a supermarket's procurement list.

### **Again – small producers are being sidelined...**

All these conditions are most easily met by medium to large FFV producers. The scale of operations of small growers is often not sufficient to offset the cost of supermarket practices such as delayed payments, high rates of rejected produce, and the occasional charging of shelf fees.<sup>106</sup>

Supermarkets in Latin America have become a vehicle for the rapid increase in dairy product consumption by cutting costs and increasingly availability. Consumers have gained from these advances but small dairy processors and farmers have suffered heavily.

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<sup>100</sup> Vorley, Bill and Tom Fox, "Concentration in Food Supply and Retail Chains," Working Paper 13 for the Renewable Natural Resources and Agriculture Team, DFID (2004): 11.

<sup>101</sup> Reardon, "The rise of supermarkets and private standards in developing countries: illustrations from the produce sector and hypothesized implications for trade", 5.

<sup>102</sup> Fritschel, "IFPRI Forum - will supermarkets be super for small farmers?," 11.

<sup>103</sup> Reardon, "The Rapid Rise of Supermarkets in Developing Regions: implications for agricultural development".

<sup>104</sup> Weatherspoon Dave, and Thomas Reardon, "The Rise of Supermarkets in Africa: Implications for Agrifood Systems and the Rural Poor," *Development Policy Review* 21, no. 3 (2003): 13.

<sup>105</sup> These notes relate specifically to the Latin American case but are relevant elsewhere as well. Berdegué, Julio, Fernando Balsevich, Luis Flores, Denise Mainville and Thomas Reardon, "Food Safety in Food Security and Food Trade - Case study: Supermarkets and quality and safety standards for produce in Latin America," in *2020 Vision for Food, Agriculture and the Environment* (Washington: International Food Policy Research Institute, 2003).

<sup>106</sup> Reardon, "Supermarkets and Farming in Latin America: pointing directions for elsewhere?," 4.

By imposing tough new quality standards for dairy products while also lowering costs, supermarkets in Latin America increased the demand for milk and yoghurt during the 1990s.<sup>107</sup>

In Brazil, Argentina and Chile the strengthening of public standards required investments in mechanical milking equipment, cooling tanks, new feeds and ultra-high temperature treatment. Many small dairy farmers were unable to afford these investments and went out of business or were pushed to the less profitable and less regulated informal market.<sup>108</sup>

In second half of the 1990s large processors implemented a second wave of higher standards that required new investments to meet the processors requirements. This in turn brought a second wave of de-listing of small suppliers. For example, 60,000 small dairy farmers were de-listed by the 12 largest processors in Brazil during the second half of the 1990s – with similar patterns in Argentina and Chile.<sup>109</sup>

### **But it's not a clear cut picture – some commentators argue that smallholders are benefiting...**

In Kenya, for example, reports suggest that export horticulture has had a positive influence on the domestic market. Export horticulture smallholders have been found to be significantly better off than non-horticulture smallholders, even after correcting for household characteristics such as age, family size, education, land ownership etc.<sup>110</sup>

### **The development of the supermarket sector in South East Asia and East Asia is only half a decade behind Latin America...**

In southern Africa and SE Asia, similar patterns of supermarket growth are evident. The supermarkets' share of food sales in Thailand increased from 35 to 43% between 1999 and 2001.<sup>111</sup>

Meanwhile, 2001 supermarket share of Chinese urban food markets was 48%, up from 30% in 1999.<sup>112</sup> This rapid rise continues with the rate of store growth in China three times as fast as it was in Brazil and Argentina in the 1990s.<sup>113</sup> The fruit and vegetable market is largest sector in the Chinese retail food market but, because of cultural preferences for wet markets (supplied directly by local farmers with low levels of concentration), it has been relatively less affected by the growth of supermarkets to date. However, some supermarket companies in China are reporting a doubling of year-on-year FFV sales, a process hastened by the SARS outbreak.<sup>114</sup>

### **South Asia and Africa are lagging but supermarkets are becoming increasingly significant here too...**

Consumer incomes will have to rise to allow a wider spread of supermarkets in South Asia or elsewhere in sub-Saharan Africa. Unfavourable climates for foreign direct investment are a barrier in many potential markets, including one of the largest, i.e. India

Among the reasons for slow growth of supermarkets in India<sup>115</sup>

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<sup>107</sup> Fritschel, "IFPRI Forum - will supermarkets be super for small farmers?," 11.

<sup>108</sup> Reardon, "Supermarkets and Farming in Latin America: pointing directions for elsewhere?," 4.

<sup>109</sup> Ibid.

<sup>110</sup> Vorley, "Global Food Chains - Constraints and Opportunities for Smallholders", 20.

<sup>111</sup> Fritschel, "IFPRI Forum - will supermarkets be super for small farmers?," 11.

<sup>112</sup> Reardon, "The rise of supermarkets in Africa, Asia, and Latin America," 1142.

<sup>113</sup> Ibid.

<sup>114</sup> Vorley, "Global Food Chains - Constraints and Opportunities for Smallholders", 21.

<sup>115</sup> Reardon, "Supermarkets and Farming in Latin America: pointing directions for elsewhere?," 5.

- hostile environment for FDI in India
- the (until recently) ban on ownership of real estate by foreign nationals other than non resident Indians
- high value attached by middle and higher income groups to the purchase of fresh produce in local street markets, and an unwillingness to pay a premium for service e.g. air conditioned food stores

In Africa the clear front runner is South Africa with roughly a 55% share of supermarkets in overall food retail and 1,700 supermarkets for a population of 35 million.<sup>116</sup>

### **The case of Africa will prove particularly important in the future...**

The rise of supermarkets in Africa has traditionally been ignored by the development literature because...

- their development has been rapid and recent
- most market research in Africa has concentrated on the wholesale market for grain
- there is a mistaken image of the supermarkets as a luxury niche without great impact on development or the poor
- where supermarkets have been targeted it's generally been UK supermarkets procuring horticultural products and fish

Improvements in transport, logistics and communications have led to the introduction of value-added products such as fresh fruit from Kenya finding their way to UK supermarkets. But the European-supermarket-led trade transformation is dwarfed in terms of impact on African producers by the rise of supermarkets in Africa itself.

In last 5 – 10 years there has been a rapid rise in parts of Eastern and Southern Africa of supermarkets. Though the rise has been brought about by urbanisation and the rise of the middle classes in countries such as Kenya and South Africa, supermarkets are extending into poorer neighbourhoods of large cities and towns.

The fastest transformation is occurring in South Africa, Kenya and Nigeria. The S Africa supermarket sector is very heavily consolidated in the hands of 4 major chains – Shoprite/Checkers and Pick 'N Pay with roughly 40% market share each and Spar and Woolworths with 5% each.<sup>117</sup> There is also now a 'second round' in countries that are receiving substantial FDI from S Africa – including, in roughly descending order; Zimbabwe, Zambia, Namibia, Botswana, Swaziland, and more recently Madagascar, Mauritius, Angola, and Mozambique.

According to David Weatherspoon, the significant foreign investment by global multinationals such as Ahold, Wal-Mart and Carrefour has not yet occurred in Africa but may well begin in the next half-decade.<sup>118</sup>

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<sup>116</sup> Reardon, "The rise of supermarkets in Africa, Asia, and Latin America," 1142.

<sup>117</sup> Ibid.: 13.

<sup>118</sup> Weatherspoon Dave, "The Rise of Supermarkets in Africa: Implications for Agrifood Systems and the Rural Poor," 3.

## So what can be done?<sup>119</sup>

1. Development agencies and governments must recognise that small farmers and entrepreneurs have to gear up quickly to compete in the new markets that are spreading over most of the food economy.
2. Need to promote good business practices that optimise retailer-supplier relations. This can be brought about by establishing/ improving contract regulations and business rules of practice.
  - e.g. In Argentina a law was adopted in March 2002 that requires payment to FFV growers within 30 days.<sup>120</sup>
3. More generally, it is important to foster competition in the supermarket sector and in the retail sector in general.<sup>121</sup>
4. Where projects are in place to 'upgrade' small farmers to meet the needs of the supermarket, the chains do appear eager to participate in these schemes.

Meanwhile supermarkets can help in a number of ways; modify codes, be flexible, agree reasonable time frames, provide technical and financial support, negotiate an incentive/ bonus scheme, review buying practices, support harmonisation of European codes, treat third world producers and exporters as equal partners.

## There have been some successes...

A small-scale melon growers association in North Eastern Brazil has been chosen by the French retailer Carrefour to supply not only Carrefour's 67 stores in Brazil but also its distribution centres in 21 countries.<sup>122</sup> In Ghana a warehouse receipts system of inventory credit in Ghana has enabled farmers to get access to credit.<sup>123</sup> The first viable commodity exchange in Africa, South Africa's AMD commodity exchange, has been successful in helping small holder farmers in price discovery and price risk management.<sup>124</sup>

A programme launched in November 2002 by INDAP (the Chilean rural development agency) has helped groups of small farmers supplying berries to supermarket chains to increase the quality and safety of the berries supplied. The actors include the berry growers associations, INDAP, and FEPACH and ASACH, the supermarket associations. The latter are supplying 70% of the training funds of the project.<sup>125</sup>

In Zambia the Luangeni projects is using a range of actors (donors, the government, NGOs, the retailers) to help smallholders meet quality, safety and cost standards, in this case in conjunction with the South African retailer 'Shoprite'.<sup>126</sup>

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<sup>119</sup> For more information on 9 initiatives to involve smallholders in the supply chain see this article: Slater, Sheila Page and Rachel, "Small Producer Participation in Global Food System: Policy opportunities and constraints," *Development Policy Review* 21, no. 5-6 (2003).

<sup>120</sup> Reardon, "Supermarkets and Farming in Latin America: pointing directions for elsewhere?," 6.

<sup>121</sup> Ibid.

<sup>122</sup> ACIAR, *The rise of supermarkets: how will smallholder farmers fare?*

(<http://www.linkingfarmerswithmarkets.net/index.php?p=3&id=9>, March 2004 accessed).

<sup>123</sup> Gabre-Madhin, "Getting Markets Right in Africa: Opportunities and Challenges," 2.

<sup>124</sup> Ibid.

<sup>125</sup> Reardon, "The rise of supermarkets and private standards in developing countries: illustrations from the produce sector and hypothesized implications for trade", 30-31.

<sup>126</sup> Weatherspoon Dave, "The Rise of Supermarkets in Africa: Implications for Agrifood Systems and the Rural Poor," 14.



The Food Industry Development Project, funded by USAID is helping connect small producers in South Africa's Eastern Cape Province with Pick 'N Pay, the country's second largest supermarket chain. The farmers have agreed to a three-year growing project in which they supply squash products and sweet corn to the chain. Pick 'N Pay specifies what varieties the farmers must plant, the farming practices and processing methods they must use, and exactly when they must deliver the produce. In return for participating in this rigorous programme, the farmers gain access to a profitable and reliable market.<sup>127</sup> This was a new departure for the supermarket, which was previously only used to dealing with large commercial farmers. Obviously this is beneficial to the supermarkets who gain from a reliable long-term sustainable supply – but sometimes the supermarkets need a push in the right direction to make the additional investment of time and money.<sup>128</sup>

In the Fabrica do Agricultor programme in Parana, Brazil, the state government and the World Bank helped local small-scale food processors to sell to supermarkets in the intermediate cities, providing them with technical assistance in processing and packaging, and marketing, training and contacts. They also created a licensing and certification scheme for businesses at the state level, to enable them to engage in commercial relations with supermarkets.<sup>129</sup>

#### **Case study – Pineapples with Farmapine Ghana Limited<sup>130</sup>**

In 1999, a new export company, Farmapine Ghana Limited, was established with the assistance of the Government of Ghana and the World Bank. The establishment was based on the farmer ownership model (FOM) promoted by the World Bank. By creating farmer ownership of a company through acquisition of shares, the FOM aims to provide smallholders with commercial access to working capital, production inputs, and output markets. In the case of Farmapine, 80% of the shares in the company were acquired by five smallholder co-operatives with the financial assistance of the World Bank. The five cooperatives had 178 members and the company sourced pineapples from the members' farms so providing a guaranteed market for the smallholders.

In addition to purchasing the produce from the co-operatives, Farmapine provided them with agricultural inputs, credits, and technical assistance. It distributed agrochemicals to the members and occasionally gave them credits to employ necessary farm labour. The company also employed three agronomists who regularly visited the members of the co-operatives and instructed them on a specified cultivation practice to assure the export standards of pineapples. In addition, the company scheduled harvests of the members' farms to meet the timing requirements for export. The costs of the agrochemicals and the amount of credit provided to farmers were deducted from the value of the harvest when the company made payments to them.

These various activities enabled Farmapine to bridge to information gap that had previously hindered the small holders' access to export markets. The company was also able to arrange consistent supply. The initial success of the new institutional arrangements was obvious, as the company exported over 3,500 tons in 2000; making it that year's second largest pineapple exporter.<sup>131</sup>

However for this company to be successful in future two problems inherent in the arrangement need to be dealt with. One is the cost of the venture which is likely to reduce farmer participation over time; the cost of the inputs, visits from the agronomists, procurement from a large number of farms and administration

<sup>127</sup> Fritschel, "IFPRI Forum - will supermarkets be super for small farmers?," 11.

<sup>128</sup> Ibid.

<sup>129</sup> Reardon, "Supermarkets and Farming in Latin America: pointing directions for elsewhere?," 6.

<sup>130</sup> Takane, "Smallholders and nontraditional exports under economic liberalization: the case of pineapples in Ghana," 39.

<sup>131</sup> Ibid.

resulted in a return to farmers that was 10% to 25% lower than the price paid by other exporters. A second problem is moral hazard on the part of the farmers; because of the large number of farmers involved it is difficult to completely enforce farmer's compliance with the recommended farming practices. They may use the credits and inputs for purposes other than pineapple production so leading to sub-optimal farming practices that affect the quality of final product.

An irony is that the government and the World Bank, which promoted non-intervention and liberalisation policies, at the same time intervened to assist smallholder production that had been marginalised in the liberalisation era.<sup>132</sup>

### **New directions for agriculture in reducing poverty...**

In a recent DFID consultation on 'New Directions for Agriculture in reducing poverty', IIED director Simon Maxwell imagined the future role of agriculture as follows;<sup>133</sup>

- The growth potential of agriculture as a sector lies largely in *non-staple production*.
- Individual agricultural enterprises will prosper to the extent that they are able to deliver *predictable and traceable volumes of high quality produce to increasingly sophisticated and integrated market agents*.
- Farms that cannot meet these requirements will survive only to the extent that they are subsidised by *non-agricultural incomes*.
- The 'new economies of scale' mean that *small-scale commercial farms will be increasingly disadvantaged*.
- There will be many benefits to poor people, partly indirectly through lower food prices, but also more directly, through new kinds of growth linkages associated with a prosperous commercial farming sector.
- However, these benefits will manifest themselves in new ways, for examples as jobs in food processing or manufacturing, or in other ways in the supply chain.

### **Ideas for further research<sup>134</sup>**

- Up to date import figures for FFV from Africa (Eurostat)
- A closer investigation of the Code of Practice for UK Supermarkets – have they started treating suppliers more fairly and will this make any difference to the smallholders.

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<sup>132</sup> Ibid.: 40-41.

<sup>133</sup> In Vorley, "Global Food Chains - Constraints and Opportunities for Smallholders", 3-4.

<sup>134</sup> Berdegué, "Food Safety in Food Security and Food Trade - Case study: Supermarkets and quality and safety standards for produce in Latin America.", Fearne, Andrew, David Hughes and Rachael Duffy, "Concepts of Collaboration - Supply chain management in a global food industry," (Imperial College at Wye, University of London, 1998), Harris, P.J.C., A.W. Browne, H.R. Barrett and K Cadoret, "Facilitating the inclusion of the resource-poor in organic production and trade: opportunities and constraints posed by certification," (Rural Livelihoods Department for the Department of International Development, 2001), Mainville, Denise, "The supermarket market - who participates and how do they fare? Evidence from the fresh produce market of São Paulo Brazil," (Michigan: Department of Agricultural Economics, Michigan State University, 2003), Mekay, Emad, "Global supermarkets elbow aside small farmers," *Inter Press Service News Agency - accessible at <http://www.ipsnews.net/interna.asp?idnews=22834>*, 12th March 2004, Ponte, Stefano, "The 'Latte Revolution'? Winners and Losers in the Restructuring of the global coffee marketing chain," in *Working Paper Sub-series on Globalisation and Economic Restructuring in Africa no. xiii*, ed. CDR Working Paper 01.3 (Copenhagen: Centre for Development Research, 2001), Singh, "Nontraditional Crop Production in Africa for Export."

- Investigate the supermarkets' own CSR reports to see what they say they are doing for smallholder farmers – speak directly to the supermarkets to see whether they have any initiatives to source produce from smallholders.

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**NB.**

Tom Fox ([Tom.Fox@iied.org](mailto:Tom.Fox@iied.org)) and Bill Vorley ([Bill.Vorley@iied.org](mailto:Bill.Vorley@iied.org)) have worked on concentration of supermarkets and horticultural supply chains – they're knowledgeable, have some interesting clear-headed opinions and write well. Bill Vorley's book 'Food, Inc.' is particularly worth reading (in folder and as pdf on CD). Also their co-authored paper 'Global food chains – constraints and opportunities for smallholders'

They were the co-ordinators of the 'Race to the Top' campaign with UK supermarkets which was supposed to encourage social responsibility in their supply chains but folded after there was insufficient supermarket buy-in (post mortem paper in the folder).

Their most recent project, funded by Dfid, is to explore opportunities for more favourable outcomes for small producers in developing countries to participate in international agrifood supply chains (intro document in the folder).

They're also quite keen to get involved in the HDR – anything from informal discussions, commenting on papers to writing papers. I think it'd be worth speaking to them if you have a specific area to investigate.

Figures for value-added horticulture – I've been unable to find any good figures the growth and size of the value-added horticulture sector in Africa or elsewhere despite casting a wide net. Partly this has been because a lot of people have been on holiday – people who might be able to help are

Catherine Dolan, UEA

John Humphrey, IDS

Pascal Liu, Commodity Specialist FAO

Stephanie Barrientos, University of Sussex, IDS

# Supermarket Buying Power;

## Bibliography and Literature review

**ACIAR.** (March 2004) *The rise of supermarkets: how will smallholder farmers fare?*  
<http://www.linkingfarmerswithmarkets.net/index.php?p=3&id=9>.

Abstract: *What is the effect on smallholder farmers of the rapid spread of supermarketing of food in developing countries? IFPRI believes that small holders may either find farming more profitable than ever before or be forced out of farming altogether.*

**Berdegué, Julio, Fernando Balsevich, Luis Flores, Denise Mainville and Thomas Reardon.** 2003, *Food Safety in Food Security and Food Trade - Case study: Supermarkets and quality and safety standards for produce in Latin America*, International Food Policy Research Institute, 2 pages

Abstract: *Food safety standards that developed countries impose on developing-country exports have sometimes created a barrier to access. But in Latin America local supermarket standards affect regional producers far more than those standards set by foreign supermarkets. This paper looks at how Latin American supermarkets have set about introducing safety and quality standards in the region.*

**Boselie, David, Spencer Henson and Dave Weatherspoon.** "Supermarket procurement practices in developing countries: redefining the roles of the public and private sectors." *American Journal of Agricultural Economics* 5 (2003): pp 1155-61.

Abstract: *Supermarket quality and safety requirements are influencing the types of producers that are able to supply them. The need to supply large volumes to strict deadlines and to meet high quality standards means that the preferred suppliers of supermarkets are primarily large growers. However, the five cases in this paper illustrate how groups of small producers in developing countries can remain competitive - highlights the successful tactics deployed for small producers to remain in the supply chain.*

**Dolan, Catherine & Humphrey, John.** "Governance and trade in fresh vegetables: the impact of UK supermarkets on the African Horticultural Industry." *Journal of Development Studies* 37, no. 2 (2001): pp 146-76.

Abstract: *Large retailers in Europe play a decisive role in structuring the production and processing of fresh vegetables exported from Africa. The control over the fresh vegetable trade exercised by UK supermarkets has clear consequences for inclusion and exclusion of producers and exporters of differing types, and for the long-term prospects for the fresh vegetables industry in Kenya and Zimbabwe.*

*This paper analyses how involvement in the chain has transformed horticultural production, what types of firms are included in /excluded from the supply chain, and how meeting the requirements of the UK retailers has influenced the nature of the horticulture business in Africa. It has become one of the key reference works for this topic.*

**Dolan, Catherine, John Humphrey, and Carla Harris-Pascal.** 1999, *Horticulture Commodity Chains: the impact of the U.K. market on the African fresh vegetable industry*, The Institute of Development Studies, University of Sussex,

Abstract: *The fresh vegetables trade has many of the characteristics of a buyer-driven global commodity chain. In such chains, retailers play the key role in governing the chain of activities that links widely dispersed producers to consumers in developed countries. In the UK, the large supermarkets have captured most of the market for imported fresh vegetables. Whilst not owning farms, processing facilities or importing companies they still play a critical role in defining what is produced, where, how and by whom. The requirements of the UK supermarkets act as an effective barrier to participation in the chain by small exporters and, to some extent, small producers. However, for those firms that can participate, the rewards*

*can be considerable with increasing amounts of value-added activity being transferred to Africa (chopping, washing, packaging, bar-coding etc). In spite of the considerable growth of the sector new countries are entering all the time and competition is fierce.*

*This paper looks at governance of global commodity chains; how the chain is structured and who the key actors, and how requirements are transmitted to various actors within the chain. Second, it analyses the consequences for African exporters and producers. Third, it assesses the opportunities and threats presented by these developments.*

**FarmersLink.** (2004) *Tracking Supermarkets' Performance* <http://www.farmerslink.org.uk/tsp.htm>.

Abstract: *A UK farmer pressure group website with good links to other resources.*

**Fearne, Andrew, David Hughes and Rachael Duffy.** 1998, *Concepts of Collaboration - Supply chain management in a global food industry*, Imperial College at Wye, University of London,

Abstract: *Battle for supremacy in a food industry is being fought on a global field with fewer, larger global players battling for market share.*

**Fearne, Andrew, Rachel Duffy and Susan Hornibrook,** "Measuring distributive and procedural justice in buyer/supplier relationships: an empirical study of UK supermarket supply chains." Paper presented at the 88th Seminar of the European Association of Agricultural Economics, Paris 2004.

Abstract: *Recommends the introduction of a code of practice to govern supermarket-supplier relationships. This paper presents the findings of an empirical study of suppliers' perceptions of their trading relationship with the UK supermarkets. The results provide evidence of considerable variation in the nature of the relationships between suppliers and buyers. In addition, the authors argue that the results suggest that a retail strategy based on low prices does not necessarily imply an abuse of market power by the supermarkets.*

**Fritschel, Heidi.** 2003, *IFPRI Forum - will supermarkets be super for small farmers?* , International Food Policy Research Institute, 12 pages

Abstract: *Multinational supermarket chains are revolutionising food retailing in developing countries, and while consumers are flocking to the new stores, developing-country farmers can have a hard time getting into the supply chain.*

*This paper investigates the barriers for small farmers getting onto the procurement supply chains of new supermarkets appearing in the developing world and includes some examples of successful initiatives. A very useful paper.*

**Gabre-Madhin, Eleni Z.** 2002, *Getting Markets Right in Africa: Opportunities and Challenges*, International Food Policy Research Institute, 2 pages

Abstract: *Globalisation, trade liberalisation, and changing lifestyles and demographics present opportunities for growing markets for African agricultural goods. Meanwhile south-south trade is becoming increasingly important.*

**Gibbon, Peter.** "Value-chain Governance, Public Regulation and Entry Barriers in the Global Fresh Fruit and Vegetable Chain into the E.U." *Development Policy Review* 21, no. 5-6 (2003): pp 615-25.

Abstract: *Supermarkets' increased sourcing of fresh produce from developing countries has been generally accompanied by a decline in the proportion of this produce accounted for by smaller-scale producers. This follows from supermarket's growing use of 'buyer power' to demand more services and lower prices from*

suppliers. This article reviews regulatory interventions by public authorities in the EU, South Africa and France that have been aimed at restraining 'buyer power' to the benefit of smaller-scale producers. Although now politically unfashionable, two of these interventions can be regarded as having had a measure of success (i.e. the regulation of FFV in Europe).

**Harris, P.J.C., A.W. Browne, H.R. Barrett and K Cadoret.** 2001, *Facilitating the inclusion of the resource-poor in organic production and trade: opportunities and constraints posed by certification*, Rural Livelihoods Department for the Department of International Development, 64 pages

*Abstract:* The paper aims to identify opportunities for, constraints to, and policies to enable, the involvement of resource-poor smallholder farmers in the production and trade of organic produce.

**Lang, Tim.** "Food industrialisation and Food power: implications for food governance." *Development Policy Review* 21, no. 5-6 (2003): pp 555-68.

*Abstract:* Food supply chains of developed countries industrialised in the second half of the twentieth century, with significant implications for developing countries over policy priorities, the ensuing external costs and the accompanying concentration of market power. Very powerful corporations dominate many sectors. Primary producers are locked into tight specifications and contracts. Consumers may benefit from cheaper food but there are quality implications and health externalities. As consumer confidence has been shaken, new quality agencies have been created. Tensions have emerged about the state's role as facilitator of industrial efficiencies. Food policy is thus torn between the pursuit of productivity and reduced prices and the demand for higher quality, with implications for both producers and consumers in the developing world.

**Mainville, Denise.** 2003, *The supermarket market - who participates and how do they fare? Evidence from the fresh produce market of São Paulo Brazil*, Department of Agricultural Economics, Michigan State University, 11 pages

*Abstract:* This paper examines the participation of developing country growers in supermarket procurement channels in the context of two research questions; what are the determinants of grower participation and what are the impacts of participation on growers' production and marketing decisions? Paper draws on a survey of 32 lettuce growers in São Paulo to argue that growers participating in supermarket supply chains are larger, producing a greater variety of products higher up the value chain than their counterparts in the traditional market channels.

**Mekay, Emad.** "Global supermarkets elbow aside small farmers." *Inter Press Service News Agency* - accessible at <http://www.ipsnews.net/interna.asp?idnews=22834>, 12th March 2004.

*Abstract:* an article based on IFPRI's 'Will Supermarkets be super for small farmers?' article - well written, quick and accessible.

**Minot, Nicholas and Margaret Ngigi.** "Are horticultural exports a replicable success story? Evidence from Kenya and Côte d'Ivoire." Paper presented at the Successes in African Agriculture, Pretoria 2003.

*Abstract:* Horticultural exports often seen as an agricultural success story in Kenya; the sector has grown significantly over the past several decades, small farmers have participated significantly in the growth of the sector, horticulture has become the third largest source of foreign exchange after tourism and tea. This paper asks whether the horticultural sectors of Kenya and Côte d'Ivoire constitute valid success stories, what factors contributed to their success (or lack thereof), and to what degree can the positive aspects of the horticultural sector be replicated in other African countries?

**NRET.** (2001) *Applying codes of practice in third world countries - what can supermarkets do to help?* <http://www.nri.org/NRET/supermarkets.pdf>.

*Abstract: Codes of practice can help improve the environment and the lives of poor people in the developing world if they are implemented sensitively and with real commitment from supermarkets and importers as well as from suppliers. The paper argues that some codes of practice can harm people and push the poorest farmers out of the export market. i.e. elimination of child labour can threaten family incomes and force children to seek alternative and more dangerous jobs such as street hawking and prostitution.*

*The paper discusses the buying practices of some supermarkets that can make it difficult for developing world suppliers to comply with codes; high cosmetic quality standards, late payments and 'last' minute orders.*

**Ponte, Stefano.** 2001, *The 'Latte Revolution'? Winners and Losers in the Restructuring of the global coffee marketing chain*, Centre for Development Research,

*Abstract: This paper uses a Global Commodity chain approach to examine the transformation of the global coffee marketing chain and its repercussions in developing countries. The paper looks at governance and ownership throughout the chain and how these have been impacted by shifts in the international coffee regime over the past 2 decades. This paper also explores how the restructuring of the coffee chain has affected different groups of actors and suggests some policy directions to address the emerging imbalances.*

**Raworth, Kate.** 2004, *Trading away our rights - women working in global supply chains*, Oxfam, 101 pages

*Abstract: Exploiting the circumstances of vulnerable people - whether intentionally or not - is at the heart of many employment strategies in global supply chains.*

**Reardon, Thomas.** "The Rapid Rise of Supermarkets in Developing Regions: implications for agricultural development." Paper presented at the Supermarkets and Agricultural Development in China: opportunities and challenges, Shanghai, 24-25 May 2004 2004.

*Abstract: A speech on the rapid rise of supermarkets in the developing economies of Central and Eastern Europe and Latin America over the past several decades and the implications of this trend on agrifood markets.*

*Argues that it is important for governments, farmers, and supermarket chains to promote programmes and policies that foster win-win solutions to the issues of supply chain development and farmer inclusion in the supermarket-arena*

**Reardon, Thomas, C. Peter Timmer and Julio A. Berdegúé.** "The rise of supermarkets and private standards in developing countries: illustrations from the produce sector and hypothesized implications for trade." Paper presented at the Agricultural Policy Reform and the WTO: where are we heading?, Capri, 23-26 June, 2003 2003.

**Reardon, Thomas, C. Peter Timmer, Christopher B. Barrett and Julio A. Berdegúé.** "The rise of supermarkets in Africa, Asia, and Latin America." *American Journal of Agricultural Economics* 5 (2003): pp 1140-46.

**Reardon, Thomas Julio A. Berdegúé and John Farrington.** 2002, *Supermarkets and Farming in Latin America: pointing directions for elsewhere?* , ODI, 6 pages

*Abstract: Supermarket's share of retailing has quadrupled in Latin America since 1990 and has penetrated those parts of the economy previously the domain of small farmers and traders, such as fresh fruit, vegetable and dairy products. The paper investigates why supermarkets have grown so rapidly, what the impacts on producers have been, and whether the pattern might be repeated in other regions - a very useful paper.*

**Singh, Bharat P.** "Nontraditional Crop Production in Africa for Export." In *Trends in new crops and new uses*, edited by J.Janick and A.Whipkey, pp 86-92. Alexandria, VA: ASHS Press, 2002.

*Abstract: Prospects of nontraditional crop export from Africa are somewhat mixed though opportunities do exist. Describes clearly the commodity chain of retailers, importers, exporters and growers. Looks at future possibilities for nontraditional crop exports - a clear and very ordered article.*

**Slater, Sheila Page and Rachel.** "Small Producer Participation in Global Food System: Policy opportunities and constraints." *Development Policy Review* 21, no. 5-6 (2003): pp 641-54.

*Abstract: Access to our markets is increasingly seen as an essential element in providing a route out of poverty, especially for small producers of food crops in rural areas. However, the nature of those markets is changing and bringing about shifts in the level of participation of small producers in global food systems. This article focuses on 9 initiatives and asks what small producers must do to achieve effective and sustainable access to markets, and how different private and public organisations can contribute to this.*

**Sustainability.** April/ May 2004, *The Taste for Commodities: who benefits?* , Sustainability, 31 pages

*Series of articles looking at commodity issues, in particular; the background to fairtrade, mainstreaming fairtrade, labelling, supplier sourcing with Starbucks*

**Takane, Tsutomu.** "Smallholders and nontraditional exports under economic liberalization: the case of pineapples in Ghana." *African Study Monograph* 25, no. 1 (2004): pp 29-43.

*Abstract: SAP and market liberalisation have changed the agricultural sector in Ghana in many ways. One marked example is the increase in the production of fresh pineapples for European markets. This paper examines the characteristics of three categories of pineapple producers for export: small-holders, nonresident commercial farmers, and large scale producer-exporters. The small-holders offered exporters little advantage over large plantations and were marginalised. A donor-supported new export economy is also examined and interpreted as an institutional solution to overcome the disadvantages faced by the smallholders.*

**Vorley, Bill.** 2003, *Food, Inc. : corporate concentration from farm to consumer*, IIED, 89 pages

*Abstract: An excellent study of concentration in the food industry and its impact on development. Highly recommended. Looks at particular commodities as case studies: cereals, sugar, coffee & cocoa, dairy, poultry & pork, bananas, FFV. Recommends changes in the following public and private policy sectors: re-evaluation of international supply management, global competition policy, new approaches to national competition policy, corporate mainstreaming of fair trade, and civil society and ethical investor activism.*

**Vorley, Bill and Tom Fox.** "Concentration in Food Supply and Retail Chains." Working Paper 13 for the Renewable Natural Resources and Agriculture Team, DFID (2004): 22 pages.

*Abstract: Modern food systems are accelerating towards a highly concentrated structure, in which most power and leverage resides at the retail end, and in which benefits are passed to customers and shareholders. Agriculture will not deliver the expected development benefits when agrifood markets do not function competitively.*

**Vorley, Bill and Tom Fox.** "Global Food Chains - Constraints and Opportunities for Smallholders." Paper presented at the Prepared for the OECD DAC POVNET Agriculture and Pro-poor Growth Task Team Workshop, Helsinki 2004.

*Abstract: Small-farm agriculture has been presented as a growth-equity 'win-win', and this has encouraged a resurgence of interest in agriculture. But the case for the efficiency of smallholder farming may be breakingdown as the superior labour and land productivity is trumped by the higher costs of dealing with 'buyer-driven' global food chains with new forms of private sector governance, imperfect competition and inequitable value-distribution. Highly recommended reading.*



**Weatherspoon Dave, and Thomas Reardon.** "The Rise of Supermarkets in Africa: Implications for Agrifood Systems and the Rural Poor." *Development Policy Review* 21, no. 3 (2003): 17 pages.

*Abstract: The rise of supermarkets in Africa since the mid 1990s is transforming the food retail sector. Supplying supermarkets presents both potentially large opportunities - and big challenges. Adapting to these challenges is hardest for small producers who risk exclusion from dynamic urban markets increasingly dominated by supermarkets. Consequently there is an urgent need for development programmes and policies to assist them in adopting the new systems that the supermarkets' procurement systems demand.*

*This paper includes a detailed investigation of the procurement practices of South Africa's two largest supermarket chains Shoprite and Pick 'N Pay.*