WHO PAYS?

How British supermarkets are keeping women workers in poverty
## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>01</td>
</tr>
<tr>
<td>1. INTRODUCTION</td>
<td>08</td>
</tr>
<tr>
<td>1.1 WHY WOMEN?</td>
<td>09</td>
</tr>
<tr>
<td>2. ALWAYS LOW PRICES!</td>
<td>14</td>
</tr>
<tr>
<td>2.1 HOW SUPERMARKETS USE THEIR SIZE</td>
<td>16</td>
</tr>
<tr>
<td>3. THE REAL ASDA PRICE</td>
<td>22</td>
</tr>
<tr>
<td>3.1 TRANSFERRING COSTS FROM SUPERMARKET TO SUPPLIER</td>
<td>23</td>
</tr>
<tr>
<td>3.2 TRANSFERRING RISKS FROM SUPERMARKET TO SUPPLIER</td>
<td>25</td>
</tr>
<tr>
<td>3.3 PASSING IT ON: HOW SUPPLIERS REACT TO COSTS AND RISKS</td>
<td>26</td>
</tr>
<tr>
<td>3.4 THE BUCK STOPS HERE: THE IMPACT ON WORKERS OF COST AND RISK TRANSFERS</td>
<td>29</td>
</tr>
<tr>
<td>3.5 CONCLUSION: A CONFLICT OF INTEREST</td>
<td>32</td>
</tr>
<tr>
<td>4. GOING BANANAS: FRUIT FROM COSTA RICA</td>
<td>36</td>
</tr>
<tr>
<td>4.1 COSTS AND RISKS PASSED ON TO SUPPLIERS…</td>
<td>37</td>
</tr>
<tr>
<td>4.2 …END UP WITH WORKERS</td>
<td>38</td>
</tr>
<tr>
<td>4.3 CONCLUSION</td>
<td>41</td>
</tr>
<tr>
<td>5. RAGS TO RICHES: CLOTHING FROM BANGLADESH</td>
<td>44</td>
</tr>
<tr>
<td>5.1 COSTS AND RISKS PASSED ON TO SUPPLIERS…</td>
<td>46</td>
</tr>
<tr>
<td>5.2 …END UP WITH WORKERS</td>
<td>47</td>
</tr>
<tr>
<td>5.3 CONCLUSION</td>
<td>49</td>
</tr>
<tr>
<td>6. JUST PLAIN NUTS: CASHEWS FROM INDIA</td>
<td>52</td>
</tr>
<tr>
<td>6.1 COSTS AND RISKS PASSED ON TO SUPPLIERS…</td>
<td>53</td>
</tr>
<tr>
<td>6.2 …END UP WITH WORKERS</td>
<td>55</td>
</tr>
<tr>
<td>6.3 CONCLUSION</td>
<td>57</td>
</tr>
<tr>
<td>7. EVERY LITTLE HELPS?</td>
<td>60</td>
</tr>
<tr>
<td>7.1 THE LIMITS TO VOLUNTARISM</td>
<td>61</td>
</tr>
<tr>
<td>7.2 TIME FOR INTERVENTION</td>
<td>65</td>
</tr>
<tr>
<td>7.3 ESTABLISHING A SUPERMARKETS WATCHDOG</td>
<td>67</td>
</tr>
<tr>
<td>8 TRY SOMETHING NEW TODAY</td>
<td>69</td>
</tr>
<tr>
<td>9 RECOMMENDATIONS</td>
<td>72</td>
</tr>
</tbody>
</table>

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EXECUTIVE SUMMARY

Every week in Britain, 32 million people shop in supermarkets.

Inside these cathedrals of modern consumer society, everything is carefully presented: meat trimmed and packaged, potatoes washed, tomatoes uniform in colour and size. Yet there is a darker side to the supermarket revolution, a far cry from the sanitised, neatly-presented world of the retail outlet.

This report is about the supply chains that link the products on supermarket shelves to the people in developing countries who produce them. The structure of supermarket supply chains has changed in recent years, as supermarkets in the increasingly concentrated retail sectors of rich countries cherry pick suppliers from increasingly open developing economies. This situation gives supermarkets more and more power in global markets, which they maximise by, among other things:

• Increasing suppliers’ dependence, locking them into exclusive deals or taking up a large percentage of their production.
• Regularly ‘delisting’ suppliers, or threatening to delist them, to extract more favourable terms.
• Joining together in international buying groups to increase their buying power.
It is women in particular who find that their already disadvantaged position in the labour market, and in society as a whole, makes them extra-vulnerable when suppliers try to drive down pay and conditions. In fact, it is this pool of cheap, pliable and predominantly female labour in developing countries that – by absorbing these cost and risk transfers – has allowed supermarkets to compete with each other to bring prices down, to supply us with goods more and more rapidly, and yet to keep their own profits high.

They demand lower prices, faster delivery times and greater flexibility from suppliers. Principally this is through:

• **Transfer of costs:** forcing prices paid to suppliers down, adding additional charges – often retrospectively – and demanding increased quality and improved productivity without increasing the price paid.

• **Transfer of risks:** obliging suppliers to take the hit when patterns of demand change unexpectedly, ordering at the last minute, and confirming or changing details at short notice. Suppliers are left struggling to fulfil their orders, or with unsold excess stock.

ActionAid has seen at first hand, in the countries where we work, the impact on the poorest workers when supermarkets wield this power. Our research in three countries illustrates how the pressure on suppliers to deliver more for less is passed on to workers in the form of low wages, job insecurity and a denial of their basic human rights.

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Bangladesh’s garment workforce, who make both of these possible. They earn as little as 5p per hour; wages that are not enough to support themselves and their families, while being forced to work long hours, often over 14 hours a day for days or weeks on end.

• **JUST PLAIN NUTS.**

The supermarket squeeze extends as far as luxury items like cashew nuts, where women shellers in India told a familiar story of poverty wages, job insecurity and damaged health. Pressure from UK supermarkets to reduce producer prices has contributed to an explosion in informal and even illegal processing operations, where a predominantly female workforce has few rights and little opportunity to demand a better deal from employers. Our research in India found workers processing cashew nuts for as little as 30p a day, damaging their health through exposure to corrosive oil during shelling and smoke released in the roasting process.

The growing power of big supermarkets in the UK market is both the product and the driver – a vicious circle – of a way of doing business that is made possible by the exploitation of women workers in developing countries. Organisations like ActionAid have highlighted the problems faced by workers in global supply chains for over a decade. Each time, the reaction from both industry and the government has been that supermarkets must be encouraged to voluntarily clean up their act.

With each year comes a new batch of evidence demonstrating yet more conclusively that this strategy is not working. The Ethical Trading Initiative (ETI), the best and most comprehensive of the voluntary initiatives, has not sufficiently galvanised its member companies into the kind of action needed to stop the rot. Other schemes have been even less successful. While there are isolated examples of good practice, it is increasingly clear that supermarkets will not deliver the widespread improvements that are needed unless they are given more of a push by government.

ActionAid is not calling for a boycott of supermarkets. We want to see an independent regulator established to monitor the relationships between supermarkets and their suppliers, ensuring that supermarkets do not abuse their dominant position. It should have the power to investigate complaints, and to impose sanctions on supermarkets that violate its standards. By doing this, it would iron out the harmful practices pursued by supermarkets, creating a level playing field and opening up space for them to use voluntary initiatives to improve working conditions.

A change in the relationship between supermarket and supplier would contribute to a relaxing of the downward pressure on job security, wages and working conditions. It would help to open up the possibilities for poor workers to take matters into their own hands, to secure their rights and demand improvements in their own terms of employment.

If more of the millions of pounds we spend every day in supermarkets flowed back to the workers who produce what we buy, the very act of shopping could become a tool for poverty reduction. Better-paid workers in developing countries would buy more from local producers, save and invest more. Better jobs can give people – above all women – the confidence and the power to challenge and change their situation. This is how ‘development’ happens.
ACTIONAID’S RECOMMENDATIONS

UK GOVERNMENT

• Establish an independent supermarkets regulator that:
  – monitors relationships between supermarkets and suppliers along the whole food chain, including suppliers based overseas
  – enforces new rules to ensure fair competition between supermarkets and their suppliers
  – finds remedies for any breaches that are discovered, and has the power to enforce its rulings
  – addresses issues as they arise, and has the power to review the rules on a regular basis to account for changes in buying practices
  – operates a strictly confidential complaints’ procedure for suppliers
  – operates a legally enforceable dispute procedure.

• Extend the scope of competition policy to enable effective monitoring and regulation of UK companies’ buying practices in key sectors, at home and overseas.

• Use other areas of policy and law, including company law, to make UK companies more accountable for the impacts of their buying practices on workers and producers in developing countries.

EUROPEAN UNION

• Work towards establishing EU-wide legislation to curb the damaging effects of supermarket buying power.

UNITED NATIONS

• Urge member states to:
  – ratify the International Covenant on Economic, Social and Cultural Rights and monitor its implementation, obliging governments to protect their citizens from abuses of corporate power
  – honour their commitments under the Convention on the Elimination of all forms of Discrimination against Women.

SUPERMARKETS

• Publicly commit to ensuring that the internationally recognised rights of all workers in their supply chains are respected.

• Publicly acknowledge the damaging impacts of buying practices on workers and suppliers, and take concrete steps to address them.

• Do not respond to the exposure of poor working conditions in supply chains by ‘cutting and running’. Work with each other, suppliers, trade unions, local civil society groups and governments to improve conditions.
1: INTRODUCTION

1.1 WHY WOMEN? 09
WHAT ARE WOMEN WORKERS' RIGHTS? 11
1. INTRODUCTION

Trading with supermarkets is big business for producers in the developing world.

Poor countries earn over £7 million every day, or nearly £3 billion a year, from the food and clothes sold by British supermarkets.\(^4\) By and large, these goods are planted, picked, stitched, packed and cleaned by women, who make up 60% to 90% of the clothing and fresh produce workforce in developing countries.\(^5\)

In this report, we will see how British supermarkets’ buying practices reinforce a cycle of low wages, insecurity and poverty by putting pressure on suppliers to cut costs and produce at shorter notice. We show the ways in which supermarkets transfer the costs and risks of doing business down through the supply chain, while value is extracted from workers and producers and transferred in the opposite direction.
Supermarkets are not alone in implementing these buying practices, nor do they have sole culpability for poor labour conditions in what are sometimes complex chains with unclear causality. Many factors can conspire to undermine the rights of people working in global supply chains, including:

- gender discrimination
- growing migrant worker populations
- the shift to flexible and informal patterns of work
- repression of trade unions
- weakened states.

This report will show how the supermarket business model relies on and reinforces these trends, as the costs and risks pushed down the chain put intense pressure on suppliers and close down negotiating space for workers, suppliers and governments to raise labour conditions.

1.1 WHY WOMEN?

Women around the world are more likely to live in poverty, simply because they are women. Their unequal position in society means that they have less power, money, protection from violence, or access to land and decent employment. Jobs created by global supply chains have the potential to lift women and their families out of poverty, by empowering them, giving them economic independence and greater equality in the household. This is surely a fair return for the contribution women make to the economy.

Yet time and time again, jobs in global supply chains serve instead to entrench women’s vulnerable, disempowered position, reinforcing economic processes and employment patterns that take advantage of it. Working long hours for low pay in dangerous conditions can further reinforce women’s subordinated position, making it even more difficult to escape poverty.

Of course men working in international supply chains get a raw deal too, but it is systematically women who are most vulnerable to exploitation. The supermarkets’ suppliers need a disempowered, flexible workforce on which to offload the costs and risks imposed on them from further up the chain, and most often it is women who fit this description.

While it may not be an explicit corporate strategy, many global supply chains – and the business models of the retailers that drive them – have been built around the exploitation of poor women. Several factors make this so:

**Discrimination:** women are often denied access to more desirable work and forced into the lowest paid, most dangerous jobs, often as informal or temporary workers who are denied the same rights and benefits as permanent staff. Even in the same jobs as men, they are paid less and have less chance of promotion. Women make up the bulk of the labour force in the cashew and garment industries, for example, but there are few women supervisors.

“There are 150 people working at my factory,” says Nalini, a cashew worker from Kollam district in Kerala, India. “All of them except for six are women. But the men take the best jobs, with the best pay.”
Disempowerment: taking a stand against injustice in the workplace is difficult for all workers, because of the risk of intimidation from employers or of simply being fired. In workplaces where the management is overwhelmingly male, and in societies where women are subordinated, it is even harder for women to speak out when they are subject to injustice.

Women and girls who have migrated away from their families in search of work are particularly disempowered, as they have left behind family and community support networks. Many are employed on temporary contracts, with no spare money to pay union dues and little available time to attend meetings.

This presents a significant challenge for trade unions seeking to organise and defend women workers, demonstrated in a low level of female trade union membership. Employers know this, and take advantage of it by looking for a flexible, compliant workforce. One Bangladeshi garment worker, employed in a factory that supplies Tesco, says:

“I’m not a member of any union. We have a trade union in our factory but it is not active. Workers are scared of losing their job – that’s why they don’t activate the union. They get fired if they form or activate the trade union.”

Desperation: whether supermarket buyers know it or not, their supply chains depend on the fact that poor, marginalised women are desperate for paid work. Discrimination and low levels of education mean that women often have little choice but to accept poor quality work in order to feed themselves and their families.

In many settings, women may have three or four generations of dependants: their own children, their parents and grandparents, and also their siblings. Girls’ educational opportunities are often restricted when, facing hard times, families take their daughters out of school to find work or to look after younger children.

Often, women and girls must take whatever work they can get.

“I don’t like working in garments,” says one worker making clothes in a Bangladeshi factory that supplies Tesco. “If there was another way for me to survive I would do it.”

Double burden: women’s work does not begin or end at the factory or plantation gates. Overwhelmingly, it is they who carry the ‘double burden’ of bearing and bringing up children, running the home and caring for dependants as well as earning an income. In many cases, young girls sent to work in the city are under pressure to send money back to their families. Once trapped in a cycle of long hours, low pay and lack of maternity benefits, they are then robbed of the opportunity to marry and start a family.
Those workers who do have their own children still have no choice but to work excessive overtime to make ends meet, keep their jobs, or meet last minute orders. As Rema, a cashew worker from Kerala in India, told us:

“Even if our husbands are unemployed, they don’t work at home. We have to do it... All the women in the cashew sector have to work at home and

factory. We have to wake up early in the morning and manage to cook food and set off for the factory which is a few miles away from home.”

BOX 1: WHAT ARE WOMEN WORKERS’ RIGHTS?

National laws and internationally recognised agreements safeguard women’s rights to decent work, and recognise that they bear the burden of work in the reproductive economy as well as in paid work. These include the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), often described as the international bill of rights for women. CEDAW was adopted by the UN in 1979 and is now ratified by 185 states. By accepting the Convention, states commit to ending discrimination of any kind against women, whether committed by persons, organisations or businesses. CEDAW outlines women’s employment rights, obliging states to ensure equal rights for women and men in the workplace, including:

- The right to work, as an inalienable right of all human beings.
- The right to the same employment opportunities.
- The right to free choice of profession and employment, to promotion, to job security, and to all benefits and conditions of service.
- The right to equal remuneration, including benefits, and to equal treatment in respect of work of equal value.
- The right to protection of health and safety in working conditions, including the safeguarding of reproductive health.

By accepting CEDAW, states also commit themselves to:

- Prohibit dismissal on the grounds of pregnancy or of maternity leave.
- Introduce maternity leave with pay or with comparable social benefits without loss of former employment, seniority or social allowances.
hello

welcome to Sainsbury’s
2: ALWAYS LOW PRICES!

2.1 HOW SUPERMARKETS USE THEIR SIZE 16

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2. ALWAYS LOW PRICES!

THE SPIRAL OF SUPERMARKET GROWTH

A handful of Britain’s biggest supermarkets have acquired staggering levels of economic power in recent years.

At the beginning of the 1990s, the UK’s ‘big four’ chains – Tesco, Asda, Sainsbury’s and Safeway (now owned by Morrisons) – took 47% of British shoppers’ spending on food in supermarkets.\(^{16}\) Since then, a series of mergers and acquisitions, technological innovations, and an explosion in the number and size of stores have raised this figure to 75%.\(^{17}\)

Tesco in particular has recorded breathtaking growth, doubling its market share from 15% to 31% between 2000 and 2006, and trebling its store count by opening 1,200 new shops during this period.\(^{18}\) An estimated 32 million people shop in UK supermarkets every week, and over £7 out of every £10 spent on groceries in Britain now goes into supermarket tills.\(^{19}\)
MOVING INTO NON-FOOD
The dizzying pace of supermarket growth is not confined to the grocery sector. Major food retailers are taking advantage of the footfall their dominant position in the grocery market brings to sell other goods imported from developing countries. These include clothes, footwear, toys, flowers, electronics and homeware items such as rugs and cushions.

Supermarket sales of non-food goods increased by almost 90% between 2000 and 2004. Clothing sales at supermarkets are growing five times faster than at retailers in the rest of the sector, with Sainsbury’s sales increasing by a phenomenal 50% in the last three months of 2006 alone. Tesco, Asda, Sainsbury’s and Marks & Spencer now account for around 30% of all clothes bought in the UK.

The leading supermarkets’ runaway growth relies on what is described as a ‘virtuous spiral’. Increased market share is used to lower prices, through greater economies of scale and extracting better terms from suppliers, and to expand into new markets, countries and sectors. The result is yet more market share, lower prices, even greater economies of scale, and so on.

CONTROLLING ACCESS
With their stranglehold on access to a growing majority of British consumers, supermarkets are becoming the only viable route for producers around the world to reach lucrative UK markets. This power imbalance gives supermarkets the bargaining clout to dictate terms of business to suppliers that, in a more equal relationship, would be considered unreasonable.

If they want their products to be bought by British consumers, suppliers often have little option but to accept the terms laid down to them by supermarkets, as the Competition Commission’s 2000 investigation into the grocery retail market found: “Where the request came from a [supermarket] with buyer power, it amounted to the same thing as a requirement.”

GROWING BUYER POWER
The power exerted by the biggest supermarkets continues to grow. Data collected by the Commission during its 2000 investigation showed clearly that the larger supermarkets consistently extracted prices from suppliers that were below the industry average. Smaller retailers paid almost 9% more to their suppliers than the major chains did (figure 1).

FIGURE 1: BUYER POWER IN ACTION

Supermarkets now take over £7 out of every £10 spent on food in the UK.
Fast forward to 2006, and research by the UK competition authorities shows an even wider imbalance of negotiating power between supermarkets and their suppliers. This finding is supported by evidence from the Federation of Wholesale Distributors, which told the Commission that suppliers were paid between 15% and 20% less by supermarkets than by wholesalers in 2006, up from a 12.5% gap in 2000.

MORE PRODUCERS v FEWER BUYERS
Trends in the global economy have enhanced the supermarkets’ buying power. While the retail stage of the supply chain becomes ever more concentrated, over two decades of liberalisation, privatisation and deregulation in developing countries have opened up their economies to global market forces, throwing workers and producers in different corners of the world into intense competition with each other.

Liberalisation in India’s cashew industry during the 1990s, for example, greatly weakened the state-owned cashew marketing board and resulted in an explosion of smaller, private processors entering the market. In South Africa, the fruit marketing board Unifruco was abandoned in 1994, and producers lost much of their collective bargaining power.

As a result, retailers and food manufacturers in the developed world often do business with a multitude of smaller, resource-poor firms instead of negotiating with a handful of powerful national-scale exporters. Deregulation of the global garment industry has similarly led to an increase in competitive pressure and a decline in already poor working conditions.

EXTRACTING WEALTH
These power imbalances enable global sourcing companies to ‘divide and rule’ producers by playing them off against each other, increasing their ability to siphon wealth away from developing countries.

“Local firms may not capture the benefit of the transfer of technology and increased productivity through networks if multinationals have a wide choice of production locations and a monopsonist position in the purchase of supplies,” writes the World Bank. “In this situation, competition among suppliers may drive prices down and the benefits of local firms’ productivity improvements will accrue to the multinational.”

2.1 HOW SUPERMARKETS USE THEIR SIZE
Supermarkets employ many strategies to gain and maintain power over their suppliers. None of these are unique to grocery retailers, but suppliers often indicate that the biggest supermarkets drive the hardest bargain, pointing to more ruthless sourcing methods than those employed by other retailers. As one fashion industry insider put it: “Supermarket buyers are the worst.” Here we briefly sketch out some of these strategies.
CONTROL WITHOUT OWNERSHIP
Advances in logistics and information technology have allowed supermarkets to coordinate and control entire supply chains through business alliances, networks and contractual relationships, without formally merging with other companies operating in the chain.37 Big retailers achieve this by cutting out mid-chain suppliers, reducing the number of producers they source from and buying more directly from farms and factories. Suppliers with large production capacity and the resources to manage more processes within the supply chain are sought out and preferred.38

Wal-Mart’s global procurement operation, which replaced its reliance on a Hong Kong-based sourcing agent, is based in Shenzen, China, and involves 1,000 staff across 20 countries.39 Tesco has six international buying hubs, including in Hong Kong, Thailand, Bangalore, Turkey and Sri Lanka.40

Closer coordination of supply chains can bring benefits for both sides, creating efficiency savings and improving communication between retailers and their suppliers. On the other hand, it also means that the supermarkets’ chosen suppliers are exposed to the full weight of buying power, and that smaller producers are more likely to be excluded from the supply chain.41

INTERNATIONAL BUYING GROUPS
UK supermarkets that do not enjoy the buying clout of a global retail network, like that of Tesco or Asda Wal-Mart, have increased their negotiating power by clubbing together with retailers in other European countries to form joint buying groups. Morrisons, for example, is a member of the SEDD alliance, which negotiates for four European supermarkets with over 4,500 outlets in 16 countries across the globe.43

As well as aiming to secure lower prices from suppliers, buying groups obtain other trading ‘benefits’ from producers such as special rebates, discounts or financial support for in-store promotions. In the grocery industry, the negotiation of these extras is the primary function of some European buying groups.44

International buying groups offer a potentially lucrative opportunity to suppliers. AMS, for example, claims it has access to 80 million shoppers. At the same time, suppliers find themselves pitched against higher levels of retail concentration, with an even smaller number of buyers to sell to in Europe. “It is this combined force,” writes competition economist Paul Dobson, “which food and daily goods suppliers face, affecting the prices that they can command increasingly at the international level when operating beyond the domestic level.”45

BUILDING DEPENDENCE...
A recent survey carried out for the Competition Commission supports the widespread view that supermarkets strive to gain maximum influence over suppliers by taking the majority of their sales, a practice noted as being unique to supermarkets when they began to enter the clothing industry.46 The Commission’s research found that more than two-thirds of companies supplying the big four supermarkets had been asked to enter into exclusive trading agreements, twice the number asked by smaller supermarkets. Half of those firms acquiesced.47

£40 billion
Associated Marketing Services buys for eight supermarkets with combined sales of £40 billion across 14 European countries.42 Sainsbury’s is a member of the SEDD alliance, which negotiates for four European supermarkets with over 4,500 outlets in 14 European countries.43
The survey also revealed how difficult it is for producers to switch to another supermarket client. Over half of the suppliers interviewed who sell to the big four said they received their lowest margin from one of these retailers. At the same time, 84% said it would be difficult or very difficult to replace the supermarket from which they receive their lowest margins and sell to another outlet. One supplier told the researchers: “There’s no-one else out there to replace these types of customer because they’re all high volume.”

During its 2000 inquiry, a group of agricultural producers told the Commission that “many [suppliers] have 40, 50, 60 or even 70% of sales with a multiple [supermarket]. The resultant power that multiples have is huge.” There is evidence that supermarkets pursue the same strategy when purchasing abroad directly, including one example from a Chilean fruit exporter who supplies Tesco and Asda Wal-Mart: “The English are very annoying. They are interested exclusively in their own business, they do not want me to sell to another supermarket... If I want to, I am told, ‘well, stay with them then’.”

A more extreme but nonetheless common method buyers use to extract better terms from suppliers is to threaten to stop selling, or ‘delist’ their products at short notice. The fact that contracts are rarely written down gives supermarkets great leeway to delist suppliers without good reason.

During its 2000 inquiry, the Commission found that the big four and eight other chain stores, “engage in the practice of delisting a supplier or causing a supplier to reduce prices at a multiple’s [supermarket’s] request under threat of delisting.”

One group of supermarket suppliers, speaking to the Commission in 2000, explained how retailers, “switch their buyers around every six to twelve months in order that relationships and loyalty to suppliers can be avoided. The new buyer is given carte blanche to delist suppliers, who are frequently treated with complete contempt.”

Increasingly, suppliers are selected not on the basis of long-term relationships and trust, but through online reverse auctions, in which they must ‘bid’ against each other to offer the lowest price (box 2, page 24).
ActionAid: who pays? www.actionaid.org.uk
3: THE REAL ASDA PRICE

3.1 TRANSFERRING COSTS FROM SUPERMARKET TO SUPPLIER 23

3.2 TRANSFERRING RISKS FROM SUPERMARKET TO SUPPLIER 25

3.3 PASSING IT ON: HOW SUPPLIERS REACT TO COSTS AND RISKS 26

3.4 THE BUCK STOPS HERE: THE IMPACT ON WORKERS OF COST AND RISK TRANSFERS 29

3.5 CONCLUSION: A CONFLICT OF INTEREST 32

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Decades of refining their purchasing practices mean that supermarkets are extraordinarily skilled at taking advantage of their dominant position over suppliers.

Much of what they use this negotiating strength for is to reduce prices, but this is a more complex business than simply forcing down the headline price they pay to suppliers.

Hidden costs and charges are imposed, often retrospectively. Orders are changed at the last minute, and commercial risk is transferred to suppliers. New technology is used to increase the efficiency with which the supply chain is managed, with the outcome that everything is needed faster, at shorter notice, and of course cheaper.

“We are hearing horror stories now on a daily basis,” says Duncan Swift, who deals with grocery business recovery at the accountancy firm Grant Thornton. “From being delisted without notice, sudden changes in payment terms, retrospective reductions on invoice prices for contributions and returns that have not been agreed, to a supplier’s new product development spec being sent out to competitors by buyers.”

53
Supermarket buying practices result in a transfer down to suppliers, and subsequently to workers, of two things: cost and risk.

- **Transfer of costs:** this relates to the supermarkets’ ability to gradually improve, from their point of view, the terms of trade with suppliers, so that they can transfer as many of the costs involved in doing business onto suppliers as possible, and hence reduce retail prices while maintaining their own profitability.

- **Transfer of risks:** this relates to the development of new supply chain management techniques. Supermarkets’ own type of ‘lean retailing’ is known by the acronym ECR, for ‘Efficient Consumer Response’. Purported to be a ‘risk management’ system, in many cases ECR simply passes commercial risk down the supply chain to producers.

The transfer of costs and risks down the chain results in a transfer of wealth in the opposite direction: from workers and suppliers in poor countries to supermarkets, consumers and shareholders in the rich world. The savings supermarkets make by pushing suppliers’ prices below competitive rates, as well as the savings gained by offloading costs and risks onto suppliers, are used to reduce retail prices, keep profit margins healthy and increase market share.\(^{54}\)

One Windward Islands banana supplier describes this as a “perverse transfer of wealth, by some of the supermarkets, from farmers and farm workers of developing countries to the consumers of developed countries. This is anti-development and regressive.”\(^{55}\)

As food chain experts Tallontire & Vorley put it: “Retail consolidation unquestionably leaves a declining share of value for other parts of the chain – workers on the retail shop floor and processing sector, primary producers and farm or plantation labour.”\(^{56}\)

### 3.1 TRANSFERRING COSTS FROM SUPERMARKET TO SUPPLIER

Supermarkets leave no stone unturned in their quest to cut prices as low as possible.

“Tesco doesn’t even bother asking you to quote a price any more,” says one UK-based supplier, responding to a survey by industry magazine *Food Manufacture*. “They tell you the price, and sometimes it doesn’t even cover your costs.”\(^{57}\)

The techniques used by supermarkets to squeeze lower prices out of suppliers range from the old-fashioned to the high tech. At one end, as we saw in the previous chapter, supermarkets use their size and the threat of delisting in order to extract better terms from suppliers. At the other end, they harness internet technology to pit suppliers against each other in online ‘reverse auctions’ (box 2).
**BOX 2: REVERSE AUCTIONS**

All the major British supermarkets use online ‘reverse auctions’, a standard but controversial tool to drive down prices paid to suppliers. In real time, over the internet, suppliers are asked to put in bids that undercut each other until the supermarket receives the lowest price. Tesco, Sainsbury’s and Marks & Spencer, for example, are members of Agentrics, an internet buying agency that operates reverse auctions and has almost 80,000 suppliers across the world on its books.58

While buyers contend that reverse auctions reduce suppliers’ costs and help ‘level the playing field’ among producers, several authoritative studies have shown that they have a negative impact on suppliers.59 In a recent survey of suppliers for the Competition Commission, 79% said their margins were lower when they did business with supermarkets through reverse auctions.60

“There’s no way of verifying what’s on the screen or knowing if the bids are genuine,” says one UK producer, speaking to The Grocer magazine. “When I saw the starting price – I couldn’t believe it. We are number one in our field and the opening bid was 25% less than our best quote.”61

**QUALITY COSTS**

Low prices are negotiated with the supplier, but it is not just through these headline prices that costs are passed on to suppliers. They are often expected to bear the costs of meeting quality specifications and improving productivity, despite the absence of written contracts to guarantee a return on these investments.

Fruit growers in South Africa, for example, face rising quality, technical, environmental and social standards imposed by UK supermarkets, while dealing with falling prices on the international market.52 One UK supplier was blunt about the costs of meeting retailer standards: “Ultimately, growers bear the costs. There’s nowhere else for it to go… There’s very little profit left for the grower after everybody else has taken their cut.”63

In Sri Lanka, meanwhile, Tesco’s international sourcing director, Christophe Rousel, says: “We are expecting more investment from suppliers to up productivity and reduce costs.”64 Its head of India sourcing says similarly: “We have seen [no supplier] who meets all our requirements – scale, productivity, lead times etc.”65

Suppliers also indicate that costs for marketing, promotions, new packaging and even shelf space are often imposed on suppliers in retrospect. Without the protection of a written contract, afraid to jeopardise future orders, and having already supplied the goods, there is little suppliers can do. “Significant promotions on price, such as ‘buy-one-get-one-free’ offers on bagged apples, crucifies producers, as you get half the price but you get double the costs,” says one UK supplier.66
Another says:

“Over recent months we have been asked to make three separate cash contributions; the third by telephone was for a sum in excess of £100,000 and was claimed by the multiple [supermarket] to be a contribution towards profits.”

A South African table grape producer gave this example: “[A UK supermarket] wanted us to change their grape packaging from open to sealed bags. The new bags were three times as expensive – from 2.8 rand to 8 rand per carton. And the productivity in the packhouse went through the floor because it took workers 20-30% longer to seal those bags. But the price stayed exactly the same – it wasn’t even discussed. And then the other supermarkets all demanded it too.”

These cost transfer practices by supermarkets are common knowledge across sectors as diverse as flowers, fruit and fashion. This is despite the fact that many of them – for example retrospective reductions in price and contributions to marketing costs – are specifically barred by the Supermarkets Code of Practice if they are deemed ‘unreasonable’. The Code was introduced by the UK government in 2002 specifically to curb the big four retailers from abusing their bargaining power in this way.

Recent evidence from the Competition Commission, discussed in chapter 7 of this report, suggests the Code is being violated on a systematic basis, underlining the need for proactive enforcement of new rules to curb the damaging effects of supermarket buying practices.

### 3.2 TRANSFERRING RISKS FROM SUPERMARKET TO SUPPLIER

Keeping stock in warehouse storage has some direct costs, but more significant is the risk involved: if products cannot be sold, someone somewhere makes a loss. Technological change has allowed supermarkets to measure and predict consumer demand at any moment, and therefore manage much of this risk. They use this information to reduce almost to zero the amount of stock that is kept in storage, filling the shelves with products direct from the supplier on a regular basis.

The difficulty is that most products take time to produce and ship, so if a forecast turns out to be wrong, it takes time to adapt the production to compensate; meanwhile surplus stock is wasted, or shelves become bare. Supermarkets’ strategy is to pass on as much of this commercial risk to suppliers as they can. As they only ‘buy’ the products that are actually sold, and pay retrospectively, it is the supplier who takes all the risk. The supplier effectively runs the supermarket’s warehouse for it, free of charge.

In some cases, the problem seems systematic. In the banana trade, suppliers typically have an agreement to supply a supermarket for a period of time, for example six months, at a particular price. Although the supermarket may forecast the likely amounts it will require, the supplier must provide whatever the supermarket needs each day, regardless of the forecasts.
“Final order volume may only be communicated through to a supplier at 11am on the day of a night flight to the UK,” explains Traidcraft Exchange in its submission to the Competition Commission in 2006, relaying comments from developing country fruit suppliers. “The fresh produce to be air freighted will have had to be harvested the day before the final order specification is made, on the basis of a supplier’s estimate.”72 If demand turns out to be higher than expected, the supplier needs to be able to meet it at short notice; if it is lower, the supplier must dispose of the excess stock and bear the costs.

In other instances, suppliers report what they perceive as a less systematic indecisiveness, as in the example of one South African apple supplier cited by Oxfam: “They also chop and change their minds constantly. It takes us a month to get the fruit there, but it takes them two minutes to change their mind. Then they tell us there is no market for galas [apples] and that we need to change our supply; that galas aren’t really selling. And then the only thing we can do is dump it somewhere else… They also change prices: £1.49 is the price then suddenly they put it on sale and make it 99p.”73

The capricious nature of supermarkets’ behaviour can push suppliers to the brink of bankruptcy.

“When you look at the key drivers of financial distress in small and medium-sized food manufacturers,” says Duncan Swift of accountants Grant Thornton, “it’s nearly always because multiple retailers have materially changed the terms of business on an unreasonable basis.”74

Again, the Supermarkets Code of Practice is meant to prevent retailers from making unreasonable changes to contracts. But without an independent regulator to enforce it, supermarkets have free rein to abuse their concentrated buying power while suppliers continue to go unprotected (see chapter 7).

3.3 PASSING IT ON: HOW SUPPLIERS REACT TO COSTS AND RISKS

Not all suppliers manage cost and risk pressures in the same way, or indeed at all. According to Duncan Swift of Grant Thornton, more than half of all the distressed food suppliers he sees get into difficulties because of unreasonable behaviour by a supermarket buyer. While some supermarket suppliers face ruin because of the commercial pressure, others manage to cream off a decent profit by offloading the pressure onto workers. In developing countries, it is overwhelmingly workers who pay the price.

Dealing with costs. Labour is one of the few flexible costs in the supply chain, once inefficiencies have been stripped out and economies of scale maximised. When suppliers take on additional costs transferred from the supermarket, the workforce is often one of the few places they can make savings. As one labour official in China explains, “Wal-Mart pressures the factory to cut its price, and the factory responds with longer hours or lower pay, and the workers have no options.”75
A South African fruit supplier talking about his experience of dealing with UK supermarkets puts it just as bluntly when he says that,

“The only ham left in the sandwich is our labour costs. If they squeeze us, it’s the only place where we can squeeze.”\textsuperscript{76}

**Dealing with risks.** Two types of behaviour by suppliers help them manage the commercial risk transferred from supermarkets. Both have negative impacts on working conditions.

- **Cost cutting:** to compensate for the losses that may occur due to the commercial risks it has to take on, the supplier may reduce costs in other areas, compromising workers’ rights such as wages or health and safety in the process. In this case, risk transfer is essentially another cost transfer.

- **Risk avoidance:** raw materials are ordered at the last minute, an increasingly flexible workforce is employed at the last minute, work is subcontracted, and excessive volumes of work are taken on during the ‘feast’ in case there is a ‘famine’ later on.

This unpredictable demand combines with short-term or non-existent contracts that reduce suppliers’ capacity for forward planning. The result is an uneven workload, and it is workers who pay. Rosey Hurst, a consultant who works with retailers on labour rights issues, says, “Buyers pressure factories to deliver quality products with ever-shorter lead times. Most factories just don’t have the tools and expertise to manage this effectively, so they put the squeeze on the workers. It’s the only margin they have to play with.”\textsuperscript{77}

A study prepared for the UN Special Representative on Business and Human Rights, professor John Ruggie, describes the impact of these pressures on suppliers, and ultimately workers:

“The comparatively weak negotiating position of suppliers is also a notable underlying cause of non-compliance [with labour rights]. Factories cannot influence the terms of trade such as price, speed, quality, or buyer behaviour. Given this inability to provide upward pressure, the compromises that suppliers make to keep or win contracts and to remain competitive are passed down to the workers in the form of unrealistic time frames, low wages, poor working conditions and abuse of workers’ rights.”\textsuperscript{78}
FIGURE 2: THE IMPACTS OF COSTS AND RISKS AS THEY PASS DOWN THE CHAIN

<table>
<thead>
<tr>
<th>Costs transferred to suppliers</th>
<th>Risks transferred to suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>→ Baseline prices cut</td>
<td>→ Unpredictability</td>
</tr>
<tr>
<td>→ Additional costs imposed</td>
<td>→ Lead times shorten</td>
</tr>
<tr>
<td>→ Storage costs incurred</td>
<td>→ Uncertain relationships</td>
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<tr>
<td></td>
<td>→ Storage costs incurred</td>
</tr>
<tr>
<td></td>
<td>→ Low pay</td>
</tr>
<tr>
<td></td>
<td>→ Insecure and informal jobs</td>
</tr>
<tr>
<td></td>
<td>→ Declining working conditions</td>
</tr>
<tr>
<td></td>
<td>→ Longer hours</td>
</tr>
</tbody>
</table>

BOX 3: THE UNDERLYING TRENDS THAT MAKE COST AND RISK TRANSFERS POSSIBLE

- **Gender discrimination:** women workers are preferred by suppliers who need cheap, flexible labour. Women’s inequality and marginalisation means that they are often forced into the worst jobs, with the lowest pay, the longest hours and the most dangerous conditions. Women are more likely to accept poor pay and conditions because they are less likely to be members of trade unions, have fewer choices of alternative employment and often have family and other dependants relying on their income.79

- **Growing migrant worker populations:** whether from rural to urban regions of the same country or from one country to another, migration provides another population of vulnerable workers. Migrants are often not entitled to social security provisions, lack local social support networks and face prejudice from the local population. Coming from poorer areas, they are prepared to work for less. Women migrants are particularly likely to be exploited, facing double discrimination and hardship.80

- **Insecure, informal work:** a huge growth in informal, casual and temporary labour has been observed in recent years in developing countries, one of the most dramatic examples of which is given in our banana case study (chapter 4).81 Examples of entire clothing factories closing and reopening the next day,
Nearly 10,000 workers around the world were sacked for their trade union involvement, and almost 1,700 detained in 2005.

Re-employing their employees on temporary contracts, are common. In other cases work is subcontracted to less reputable – even illegal – employers, who are invisible to the auditing procedures followed by sourcing companies. In many places, less fortunate workers form pools of ‘top up’ labour employed on a daily basis when work is plentiful.

**Repression of trade unions:** few workers in overseas supply chains can exercise their right to join a trade union, the best way to defend their rights. When they do try to organise, workers typically find themselves the target of intense pressure, discrimination and even violence from employers, as described in our banana and garment case studies. Nearly 10,000 workers around the world were sacked for their trade union involvement in 2005, and almost 1,700 detained. One hundred and fifteen trade unionists were murdered for defending workers’ rights.

Most workers are unaware of their legal right to form and join a trade union, and those who are aware are often too intimidated to do so. Workers on temporary or insecure contracts, often women and migrant workers, can be dismissed instantly if their union involvement is uncovered, so joining a union is a particular risk.

**Weakened states:** faced with the need to stay globally competitive, most developing countries comply with the business lobby’s demands, adopting weak laws on workers’ rights, or failing to implement them at all. National minimum wages, for example, are often set at only a fraction of the living wage; even then they are frequently flouted. Much production for export takes place in free trade zones, where basic workers’ rights such as freedom of association are often suspended to entice foreign investment.

In every country there are owners and managers of farms and factories who strive to respect workers’ rights. But bosses often mistreat their employees whether buyers put them under pressure or not. Either way, weakened states are less able to monitor working conditions and hold to account those responsible for labour rights abuses.

### 3.4 THE BUCK STOPS HERE: THE IMPACT ON WORKERS OF COST AND RISK TRANSFERS

The ‘squeeze on workers’ contributes to and relies upon a set of social and cultural trends that disempowers the workforce (box 3). It is because of this process of disempowerment that workers, and in particular women, are the ones who ultimately absorb the costs and risks. When they do, it comes in the form of poor pay and working conditions, long hours, and poor health and safety.

**POVERTY WAGES**

Wages in developing countries are of course significantly lower than those in the UK: that is often
where their competitive advantage lies. But without exception, the workers we spoke to earned only a fraction of a living wage, defined as sufficient money to meet their basic needs and those of any dependants, plus a small amount extra for savings or disposable income. In our research, ActionAid found:

- Cashew workers in India earning as little as 5p for producing a kilo of nuts that retails for £9 or more.
- Costa Rican banana workers on 33p per hour.
- Garment workers earning just 5p per hour in Bangladesh.

**LONG HOURS**

Most people in the UK work a basic week of 35 to 40 hours. For workers in developing countries supplying supermarkets, this figure is nearer 60 hours and frequently much higher, spread across six or seven days a week. Sometimes this is because suppliers have offloaded the uncertainty and risk from supermarkets onto workers in the form of sudden, excessive overtime that can stretch beyond 16 hours in one day.

Other times, workers actually seek out overtime. This is because they are often paid on piece rates according to how much they produce instead of how many hours they work. Piece rates are often deliberately set so low that it would be impossible to earn a living wage in a normal working week. Rather than working an eight to 10 hour shift, banana workers keep going for up to 15 hours per day just to make ends meet.

**INSECURE JOBS**

One significant impact of cost and risk transfers onto suppliers is the incentives it creates for suppliers to shift workers onto casual, temporary contracts. Faced with the need to cut any costs they can find, they place workers on temporary contracts, renewed every three months or so to prevent them from gaining the basic legal rights that come with permanent employment – and that cost suppliers more.67

Using casual labour also helps suppliers to absorb the risk transfers, by varying the size of the workforce on a daily basis in response to changing orders. One Kenyan garment factory owner who supplies Wal-Mart says:

“We are never sure of whether the next order will be coming. You cannot therefore engage people on a regular basis when you are not sure that there will be work.”88

In Costa Rica, local unions estimate that as much as 60% of the workforce was employed on casual contracts in 2006, up from 20% in 2000.89 One banana worker says that: “Del Monte was quite good to work for in the past, but in October 1999 the company sacked all 4,300 workers and then re-employed them on reduced wages. They also eliminated all the benefits we had.”90

The growth in the use of subcontractors, such as those we found on banana plantations, is another example of suppliers outsourcing the exploitative work of which they themselves need to wash their hands. Subcontractors frequently use hired labour, on worse pay and conditions than in regular plantations or factories. More often than not, it is women whose employment rights are squeezed in this way.91
Insecure employment puts workers at risk of deepening poverty. Research by the Institute of Development Studies found that:

“[A] lack of secure employment greatly increases workers’ vulnerability to poverty, making the provision of permanent positions and contracts of employment important elements of poverty reduction among workers.”

ILLEGAL WORKERS
Aside from these pernicious but legal tricks, supermarkets’ drive to reduce costs and risks contributes to the growth of illegal operations, either directly when suppliers operate clandestine ‘sweatshops’ in addition to their legitimate facilities, or indirectly when they subcontract work to unregistered, illegal workplaces, like the kudivarrapu cashew processing facilities we found in India.

The owner of one such facility says: “I have about 20 women in this ‘factory’. I need 10 workers to make a reasonable profit… We should be under the Factory Act when we have more than 10 workers, but the trade unions and labour commissioners know that we work like this. There are many units like this… The workers get 35 rupees a day – it is a little bit more than half of the daily wages in the registered factories.”

UNION BUSTING
Employers need to be able to break any protests about low pay or poor conditions, so trade unions are often strongly discouraged from operating in workplaces involved in supplying for export. A typical example of what happens was given by a worker on a banana plantation in Costa Rica:

“Someone joined the union, so they gave everyone else who was doing the same job as him a permanent contract [but not the man who had joined the union]. They did this to discourage others from joining the union.”

DANGEROUS WORK
Taking the proper safety precautions costs money, so when the employer is squeezed and not audited properly, health and safety provisions like gloves and face masks are often the first things to go. Employers need to find people less likely to object to the conditions in which they work. We found that many of the people doing the lowest-paid, dirtiest, most dangerous jobs – like clearing the drainage ditches of banana plantations in Costa Rica, or shelling cashews that splash corrosive oils on workers’ hands in India – are women.

Economic and social exclusion forces many women to take whatever work they can get in order to feed their families, which include dependant parents as well as children. “What would you do if your children were starving?” asks Leela, a 49-year-old mother and cashew sheller from Kilikoloor in Kerala, India.

“I will do anything for my children… Last week I had a fever, so I could not go for work. My daughter fainted of hunger. I borrowed 100 rupees from a moneylender. Now I have to pay it back, but every day my debt will increase with one rupee.”
BOX 4: THE CORE ILO CONVENTIONS

The International Labour Organisation (ILO) is a United Nations specialised agency that brings together representatives of governments, trade unions and employers’ organisations. More than 140 countries meeting at the ILO in 1998 declared their commitment to core labour standards. These are four fundamental and universal human rights set out in eight core ILO Conventions, which are addressed directly to companies as well as to states. These basic rights are:

• Freedom to form and join a union, and to bargain collectively.
• Freedom from discrimination at work.
• Freedom from forced labour.
• Freedom from child labour.

3.5 CONCLUSION: A CONFLICT OF INTEREST

Supermarkets have built a model of production, consumption and competition that functions by passing on ever more cost and risk to suppliers. At the same time, and as we will see in chapter 7, they claim that they require suppliers to meet tough ethical standards.

There is no guarantee that farm and factory owners would not adopt the same harmful practices even without pressure from supermarkets, and there are plenty of examples of them doing exactly that. Many find room for a very comfortable standard of living, whatever the prices paid by their clients.

What is certain, however, is that the buying practices of supermarkets have turned the exploitation already practiced by some suppliers into a necessary move for all. They also undermine what credibility supermarkets may have when they talk about ethics and labour standards with suppliers: everyone involved knows that the real bottom lines are flexibility and price.

Maximising their power over suppliers, and then hitting them with it as hard as they can, is fundamentally what makes supermarkets able to line their shelves day after day for such little money, and what keeps customers pouring in. According to one former fresh food buyer at a leading UK supermarket, “ Buyers are caught in a high-pressure culture of weekly reporting on their sales and profit margin targets. Ethical trade just doesn’t fit neatly into numbers and so it gets left out of the picture.”

Multinational companies that want to stand out from the crowd, particularly in the garment sector, have admitted that their own buying practices are often at the root of labour rights violations.

As Nike’s top corporate responsibility officer Hannah Jones says, “There’s no point in Nike having 96 monitors on a factory floor day in and day out monitoring overtime, if overtime is being caused way up the supply chain.”
As yet, supermarkets have not acknowledged that their behaviour is helping to keep workers trapped in poverty, dragging down their working conditions and damaging their health, with further impacts on their families and dependants.

ActionAid’s research in three countries, described in the chapters that follow, found that poor women around the world are paying the price for cheaper, faster and more flexible production demanded by UK supermarkets.

• In Costa Rica women are forced into the lowest paying, most demanding and dangerous jobs on banana plantations, and all workers are forced onto lower paid temporary contracts in the drive to cut costs.

• Young women sewing garments in Bangladesh are living in poverty, unable to marry or have children because of the low pay, long hours and stigma they face.

• In India we found women processing cashew nuts being pushed into insecure, clandestine and poorly paid work by the drive for lower prices. As their employers cut corners with health and safety protection, they are sustaining injuries from handling corrosive oils, breathing in toxic smoke and squatting for long periods.

These examples add to a growing wealth of evidence that shows a decade of persuading supermarkets to change their ways voluntarily has produced little in the way of concrete results. While there are isolated examples of good practice, it is increasingly obvious that the superstore giants will not deliver the improvements that are needed unless they are held to account by governments.
4: GOING BANANAS: FRUIT FROM COSTA RICA

4.1 COSTS AND RISKS PASSED ON TO SUPPLIERS… 37
4.2 …END UP WITH WORKERS 38
4.3 CONCLUSION 41

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4. GOING BANANAS:

FRUIT FROM COSTA RICA

“In the old days there were doctors, decent housing, the housing was well kept, they paid for the electricity in your housing and they paid for health care,” says Alberto, who works on a banana plantation supplying Del Monte, Asda’s exclusive supplier. “In harvesting jobs, there used to be teams of four or five; now we have to do the same work with three people. These are all things that happened in 1999 when they sacked everyone overnight and rehired them under different conditions. We paid the price. They’re always saying that the market is bad. It’s just another way of putting pressure on us. The market’s always bad for Del Monte.”

Asda Wal-Mart signed a deal with Del Monte in 2002 which made it Asda’s exclusive supplier, in return for what one industry insider described at the time as a ‘ridiculously low price’. At that time, the man from Del Monte was the only supplier able to say ‘yes’ to such a price. Why? Because three years earlier Del Monte had slashed the pay of its piece rate workers overnight by an estimated 40%. Hundreds of workers were fired and rehired the next day with worse pay and conditions, and with an increase in the number of piece rate, temporary and subcontracted jobs.
As well as cutting prices to its supplier, Asda also cut its net profit target margins from around 32% to 22%. These two factors allowed Asda to drop the retail price of bananas from £1.08 per kilo to 94p per kilo in mid 2002. It was a declaration of war: other supermarkets had little choice but to follow suit, and to worry afterwards about how they would absorb the reduction in costs. Morrisons led the next downward move to 85p, and Asda eventually retaliated with 66p.

ActionAid’s partner Banana Link interviewed 171 banana workers from 16 plantations in Costa Rica in October 2006. It found that workers’ rights, pay and conditions have been the primary collateral damage in this ongoing price war.

### 4.1 COSTS AND RISKS PASSED ON TO SUPPLIERS...

The banana market is anything but a free market. Britain’s most popular fruit, and one of the most profitable items sold in UK supermarkets, bananas are also a ‘known-value item’, which means that they are a key product that consumers use to compare prices between supermarkets. That fresh produce sits right at the entrance to most supermarkets only increases this pressure.

In recent years banana retailing has been characterised by intense price wars between supermarkets. Tit-for-tat price drops are launched by one chain and quickly copied by competitors, regardless of supply and demand. It is a distorted price structure that bears no relation to the dynamics of a free market: when Asda Wal-Mart led a round of cuts in January 2005, it came, bizarrely, during a banana shortage when international banana prices were peaking.

Tesco followed suit within an hour. Sainsbury’s cut its prices on the same day to match Asda’s 66p, as did Morrisons, with its price slightly higher at 67p. While there is no evidence that supermarkets collude with each other to set retail prices, this shows that they can operate in a way that is virtually indistinguishable in its consequences from a price fixing cartel. Yet another round of price wars initiated by Asda in March 2006 was, once again,
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immediately followed by the other major supermarkets.

Of course, it is to suppliers that the costs of the supermarket banana price wars are passed, and they can really hurt. According to published accounts, S H Pratt’s – one of the UK’s biggest banana suppliers – made a loss of around £1.2 million in the accounting year that covered the January 2005 price drop, an average weekly loss of over £23,000.111 This comes as no surprise, as the company had to deal with a fall in the prices it was receiving for bananas from supermarkets at the same time as a peak in the prices it was paying producers to buy them.

Even when prices to consumers are not falling, supermarkets push down the prices they pay to suppliers. The wholesale value of Costa Rican bananas in the UK fell from an average £374 per tonne in 2005 to £315 in the first half of 2006, and as low as £287 per tonne in June.112

As we set out in chapter 3, supermarkets also cut prices by reducing their storage costs to almost zero, and then pass on the inventory risks to suppliers. The supplier will typically have an agreement to supply a supermarket for a period of time, for example, six months, at a particular price. Although the supermarket may forecast the likely amounts it will require, the supplier must provide whatever it needs each day in response to real time consumer demand, regardless of the forecasts. So if demand is higher than expected, the supplier needs to be able to meet it; if it is lower, the supplier must dispose of the excess stock. Shop-ready bananas cannot simply be pulled out of a hat, as the ripening process takes time; the supplier must ripen more than it expects to sell, in case demand is higher than expected, and absorb the costs if demand falls short of this.

Suppliers say they have no option but to agree to these terms, since they are dependent on their supermarket clients; supermarkets now usually take between 70% and 90% of a banana supplier’s business.113 Worse still, the terms are rarely set down in a written contract. As one fresh produce manager for a major supermarket put it: “We don’t do contracts.”114

4.2 ...END UP WITH WORKERS

“They called us all to a meeting and they said that we would all be laid off the next day. Then they rehired us for almost half the wages. They cut social benefits. We used to have almost a month holiday but this went down to 14 days.” – Worker at a Costa Rican plantation supplying Tesco.115

Around a third to a half of the production cost of bananas is locked into agrochemicals, which are necessary both because of the way banana plants reproduce and the risks inherent in growing a monoculture. Once other fixed costs are taken into account, there is one key ‘variable cost’ that can be cut, representing some 15-20% of total costs: labour. So how do they do it? Banana Link and ActionAid found that each of the techniques used by banana plantation owners to reduce labour costs has –
70% to 90%

Supermarkets usually take between 70% and 90% of a banana supplier’s business.

perhaps unsurprisingly – a significant impact on workers’ pay, employment rights and working conditions.

Disturbingly, women have been marginalised and largely squeezed out of direct full-time employment in banana plantations, and forced into lower paid, more dangerous, insecure, subcontracted work. According to the Costa Rican union Sitrap, women now comprise only 5% of the banana workforce.

As one worker on a plantation that supplies Tesco told Banana Link:

“Eight years ago the majority of packers were women. Now they’re mostly young men. The company doesn’t want women, because they get pregnant or ill. The company only wants young men these days, who don’t complain and are fit.”

LOW WAGES, LONG HOURS

The switch to the ‘Del Monte’ model of piece rate work is one way to reduce costs. It extends beyond field workers to processing, packing and assembling boxes. Piece rates are set so low that it is nearly impossible to earn a living wage in an eight hour day.

The general manager of a plantation supplying Tesco and Waitrose told Banana Link about the effects of the squeeze. “In 2000, workers had rates which were above the average in the industry, but the general effect of the cuts in prices paid to us by the supermarkets has been that all wages have tended towards the legal minimum wage. As a direct result of the Asda-Del Monte deal in 2002, we were unable to make the government-fixed increases in line with the legal minimum wage from 2003. We lost 20 to 25 cents a box directly because of this deal.”

A study commissioned by Banana Link in 2004 found workers typically working 12 hour days, and sometimes more than 15, to achieve a daily minimum wage of under £5. The current minimum wage is 4,719 Costa Rican colones, or £4.64, which many workers say they find impossible to achieve for eight hours’ work.

One worker, whose plantation supplies Sainsbury’s, says, “Some people have to get up at 3.30am every day and then earn only 1,800 colones [around £1.80]. The union requested the labour inspectorate to come because there were so many violations. Our request was that no-one should have to work more than 12 hours per day. If occasionally you do work only eight hours, then you don’t earn the minimum wage.”

As you might expect, this reliance on rock bottom piece rates and use of draconian means to improve productivity has hit workers hard.

“We’re earning the same amount or less than we were ten years ago, for doing more work,” says one plantation worker. “It’s a hunger wage, if you can’t get overtime,” says another.

MORE CASUAL LABOUR

Shifting workers from permanent to temporary contracts and subcontracted work reduces their ability to demand better pay and conditions, and alleviates the suppliers’ need to contribute to social security. After three months – at which point employees would be eligible for more rights and the
supplier liable for more social security contributions – their contracts are ended and they are often rehired on the spot.

According to local trade union officials, approximately 80% of the workforce had permanent contracts in 2000. This declined to around 40% in 2006 and the number continues to drop. Many new workers drawn to employment on isolated plantations are impoverished migrants from Nicaragua, who now comprise up to 50% of the banana workforce, according to Sitrap.121

Increasingly, suppliers use subcontractors wherever possible: it is another way to reduce costs and cut benefits to workers, who are often treated far worse by subcontractors than by direct employers. “Companies are fighting to get subcontractors because that’s how they can avoid all rights and benefits,” says one worker on a plantation supplying Marks & Spencer and Somerfield.

“Workers who work for them are treated like any old shit,” he continues. “There are cases where the subcontractors walk away without paying the people who did the work for them – after they’d been paid themselves, of course. There was a case the other day at [mentions plantation] when a subcontractor walked away [without paying wages]. The company did nothing. It’s the responsibility of the contractor they said.”122

REPRESSION OF TRADE UNIONS

60% of workers on Costa Rican banana plantations were employed on a casual basis in 2006, up from 20% in 2000.

60%

Rock bottom banana prices have prompted plantation companies to put fierce pressure on local trade unions and their members, who they believe are a threat to their businesses. Costa Rican law recognises trade unions and prohibits discrimination against union members, and the parliament has ratified most of the core ILO Conventions. But most plantations have an anti-union culture and, according to workers, actively discourage union membership.123 Unions report that organisers are excluded from plantations where they have members, and that union members are regularly harassed.124

Many plantation companies dissuade workers from joining unions by actively promoting an alternative form of worker organisation known as ‘Solidarista Associations.’ Plantation owners argue these fulfil the requirements of the ILO Conventions. The ILO, however, disagrees. On several occasions it has stated categorically that Solidarista Associations do not conform to the definition of an independent workers’ organisation.125

DAMAGED HEALTH

In common with the Indian cashew workers we interviewed, Costa Rican banana workers also face severe health hazards from the irresponsible practices of their employers. In particular, workers say they are routinely sprayed with dangerous pesticides, which often leads to skin complaints.

One banana harvester told Banana Link that his “skin was peeling off”.126 “They don’t warn us. We get bathed in it,” says another banana cutter, referring to aerial spraying on plantations supplying a number of UK supermarkets. “A week ago, I was working when the spray plane came. I tried to hide but there wasn’t even a bridge to hide under. It came back and I was sprayed a second time. I went to tell my supervisors and they said, ‘You’re lying … and if you make a complaint, even with other workers to back you up, we’ll deduct the time you took to make the complaint’.”127
Perhaps most disturbing of all, women are at much greater risk of being sprayed. They end up doing the worst paid jobs on plantations – such as clearing the drainage ditches with machetes – which are managed by subcontractors. Workers told us that, whereas men with more regular work try to get out or seek shelter during the spraying, the women work on: because their pay is so low, they cannot afford to stop for a moment if they are to feed their families.128

**FIGHTING BACK**

Local unions and civil society groups have come together to fight for their rights in the banana sector in Costa Rica. A confederation of trade unions and social organisations known locally as the Central Social Juanito Mora (CSJM) is pushing the government’s Labour Ministry for better protection of core labour standards on banana plantations. The CSJM mobilised several hundred thousand people in February 2007 to protest against regional trade agreements that undermine labour standards, and the platform has lodged a formal complaint at the EU against the Costa Rican government for failing to uphold its obligations to protect workers’ rights.

**4.3 CONCLUSION**

“We work hard month by month, year by year, but we have no tangible results. Millions of boxes of bananas are produced but we end up with nothing. I can’t take it much more.” – Banana worker on a plantation that supplies Asda.129

As long as supermarkets compete to keep prices at rock bottom levels, and as long as they are able to use their buyer power to insist that growers meet their demands for ever-lower prices, it is difficult to see how conditions for workers can return even to the levels experienced before the price wars began. “We’re not telling lies – any of us,” says a worker on a plantation supplying Marks & Spencer and Somerfield. “Costa Rica is a beautiful country but they’re destroying the labour force. We just want to earn a living without being exploited.”130

Recent moves by some UK retailers such as Sainsbury’s to stock increasing amounts of Fairtrade certified bananas are welcome, provided the benefits reach poor producers and plantation workers. But these initiatives are a result of many years of intense campaigning pressure on a single commodity sector, and civil society groups do not have the resources to monitor and press for improved working conditions in all supermarket supply chains.

This point was underlined by Banana Link’s research in Costa Rica, which found that workers endure appalling conditions on plantations that supply pineapples to UK supermarkets.131 Furthermore, retailer-led schemes rely on corporate goodwill to respect people’s rights and can be reneged on when market conditions get tough. This is why ActionAid wants minimum legal standards enforced across all supermarket supply chains.

**SUPERMARKETS’ RESPONSES:**

We contacted all the supermarkets mentioned in this chapter for a response. Unfortunately, Tesco felt unable to answer our questions in writing. Both Asda and Sainsbury’s were aware of problems relating to wage levels in Costa Rica, and Asda was aware about workers’ exposure to pesticides. We did not receive a response from the other supermarkets we contacted in time for inclusion in this report.

12 to 15 hours

Plantation workers typically work 12 hour days, and sometimes more than 15 hours, to achieve a daily minimum wage of under £5.
5: RAGS TO RICHES: CLOTHING FROM BANGLADESH

5.1 COSTS AND RISKS PASSED ON TO SUPPLIERS… 46
5.2 …END UP WITH WORKERS 47
5.3 CONCLUSION 49
5. RAGS TO RICHES:
CLOTHING FROM BANGLADESH

“We can live, but we don’t have enough to save. In the future I want to buy land. In the future I want another child, but there is not enough money at the moment. I want to send my child to school, but I will have to earn enough money.” Twenty-two-year-old Ruby, who earns 1,800 taka (£13.80) per month sewing garments that retail in Asda Wal-Mart, has the same aspirations and worries as parents around the world. “There was not enough money for food and clothes in the village, so we came to Dhaka for a better life. It was easy to find a job in garments. I will do any job.”

Yet Ruby and her husband, who also works in a garment factory, have little opportunity to parent their two-year-old son, who spends most of his waking hours with Ruby’s 12-year-old niece. “I work until 10pm, but the factory doesn’t pay me overtime. It is hard to work until 10pm during Ramadan. I’m very tired [because of the fasting]. We get iftar [traditional food to break the daily fast once the sun sets], but it is not enough. We work the same hours during Ramadan. If there is no work, we have Fridays off. Normally we work seven days a week.”

Workers such as Ruby have provided the springboard for the spectacular entry of George at Asda, Tesco’s Florence & Fred and Sainsbury’s Tu into the low cost fashion arena. Tesco’s clothing sales grew by 19% in 2006, bucking the trend in a stagnant market. These three supermarkets, together with Marks & Spencer, sell around a third of all items of clothing bought in the UK.
All British supermarkets that sell clothing source significant quantities from Bangladesh – Asda Wal-Mart is the country’s biggest client – and all have been progressively reducing prices. At Asda, a pair of basic jeans retails for £3, a startling one-fifth of what it cost in 1999. Last year, Marks & Spencer cut supplier payments by up to 5.5%, demanded better terms from its producers and dropped retail prices on its clothes. Tesco partly attributes the growth in its clothes sales to its “ability to pass on lower prices to customers, funded by our growing scale and supply chain efficiency, including more direct sourcing in Asia.” Tesco and Asda sell at prices half the high street average or less.

WHO GETS WHAT? THE T-SHIRT SPLIT
Share of UK supermarket retail price

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Marks & Spencer cut supplier payments by up to 5.5% in 2006, demanded better terms from its producers and dropped retail prices on its clothes.

As the vice president of the BKMEA, one of Bangladesh’s largest and most powerful business lobby groups, told ActionAid: “They come to us because of the labour. Without that we can’t fight. Buyers will go elsewhere if we can’t compete on price.”

It is workers who have been forced to absorb buyers’ demands for lower costs, not the Bangladeshi factory owners who continue to indulge their penchant for luxury goods, or the foreign owners from countries such as South Korea, for whom a stake in the Bangladeshi export industry remains a profitable enterprise. A workers’ uprising in the summer of 2006 led to an increase in the national minimum wage for garment workers, but not enough to counter this decline.

“Over the last 20 years, the brands have been making their business on the sweat and blood of the labourers,” Shamima Nasreen, President of the SBGSKF trade union, says. “Tesco needs to be involved long-term here – they have a responsibility to protect the workers.”
ActionAid interviewed 31 women garment workers like Ruby, and eight factory owners in Dhaka, Bangladesh, from September 2006 to March 2007.

5.1 COSTS AND RISKS PASSED ON TO SUPPLIERS...

Supermarkets stock two kinds of clothing. The first is ‘basic’ clothes that don’t change from year to year, such as school uniforms, underwear and the famous £3 jeans; for these products, cost and risk transfer works pretty much like it does for agricultural goods. Factory managers told us that, even as the national minimum wage rose significantly in late 2006, the price Tesco pays for manufactured clothes (the CM price) is 5-10% lower than it was in 2003-04. One supplier says that Tesco’s CM price has halved in the last ten years, despite a doubling in the cost of living in Bangladesh.

We were told by suppliers that Tesco uses online reverse auctions to whittle down prices, and that both Tesco and Asda often negotiate directly with suppliers to increase the pressure. Prices in negotiations are based not on what is reasonable, but on what other suppliers have supposedly offered. One supplier says: “We cannot negotiate properly for fear they will place the order in another factory or country.”

Following riots in June 2006, the minimum wage in Bangladesh rose from 930 taka (£7.20) to 1,665 taka (£12.90) per month. This sounds impressive, but it is still considerably lower than all estimates of a living wage in Bangladesh, even Tesco’s own of £23 per month. There is little doubt that the rise in the minimum wage was kept well below what workers really needed because of fears that major international buyers like UK supermarkets would locate their production elsewhere. In Bangladesh’s state-owned industries, the minimum wage is set much higher, at £18.90 per month.

The second type of clothing, fashion items, is a different ball game. Demand is much harder to predict, and while you can compare apples with apples, you cannot compare this year’s pullovers with last year’s. As they enter the world of ‘fast fashion’, supermarkets are trying sell the same fashion-led, time critical products that consumers find in specialist high street stores, for half the price.

Factory owners we spoke to in Bangladesh supplying UK supermarkets told us how the process works. To hedge their bets, supermarkets push down the raw lead time (that is, the amount of time the manufacturer has to turn around the product) to a bare minimum, so that they can respond to trends as quickly as possible. Buyers do not pay higher prices for quicker lead times, but promise more business in the future if orders are met.

In a context where suppliers must juggle orders from a number of powerful buyers, these large, urgent orders often exceed the capacity of the factory. The supplier must increase the amount of overtime its workers are doing to meet the deadline, take on some temporary, casual labour or subcontract work to a smaller, unregulated factory elsewhere. When asked about this latter practice, one factory owner supplying UK supermarkets says “Buyers say ‘don’t tell us’. They give unofficial permission.”

Worse, with written contracts a rarity, buyers sometimes cancel orders at the last minute or switch suppliers if they find a cheaper deal.
elsewhere. One factory owner told us he responds to this uncertainty by overbooking his factory by around 20%, rather like airlines overbook planes. Unlike airlines, the factories cannot get out of a miscalculation by offering their buyers an upgrade, and once again have to use extra-long hours and subcontracting to meet their orders.¹⁵⁰

5.2 …END UP WITH WORKERS

The majority of Bangladesh’s garment workforce is made up of young women who move from the countryside to cities and free trade zones in search of work. Many have young children to look after or elderly relatives to whom they hope to send back surplus earnings. Girls are often taken out of school at a young age because their families cannot afford the fees and need them as wage earners. Added to these pressures are the social and cultural expectations of getting married and having children.

POVERTY WAGES

Until late 2006, the minimum wage for garment workers in Bangladesh had stood at 930 taka (£7.20) per month for 12 years, despite a doubling of the cost of living. Workers in a factory supplying Tesco walked out in the summer of 2006 in frustration at a fall in their piece rate, which was the catalyst for a spate of strikes and protests that ground Bangladesh’s garment industry to a halt for two weeks.¹⁵¹ The increase in the minimum wage that resulted, to £12.90 per month, means that wages are still lower in real terms than they were in 1994.

Most garment workers in Bangladesh must content themselves with a raise that, while significant, is a long way from meeting their basic needs. Rahela, 18, earns 1,350 taka (£10.30) per month working in a Tesco-supplying factory.

“In the evening,” she says, “I cook food, but sometimes we don’t have enough money if my husband doesn’t pull the rickshaw if he is sick or there is a strike. Sometimes we don’t have enough to eat. My neighbours are too poor to give us anything. I cook what I can manage. Sometimes it’s just rice – I can rarely manage fish or meat because it’s too costly.” ¹⁵⁴

NO RIGHTS IN THE WORKPLACE

Although garment workers are officially allowed to form trade unions in the workplace, in reality this happens very rarely. Factory owners rely on the fact that most garment workers are young, unmarried women with little education. Unaware of their basic rights, and desperate for work in order to survive, they are unlikely to cause ‘trouble’ in the factories by demanding improvements to pay and conditions.
Like most garment workers, those we interviewed were not given official appointment letters from their employers. If they are sacked, or have a grievance against the factory, workers have little evidence to prove that they were actually employed there. Lucky, 18, who works in a factory that supplies Asda, says “We are paid nothing extra for working on Fridays [a holy day for Muslims in Bangladesh]. We don’t have any contract or appointment letter. We just have an identity card from [names factory] and we are given payment slips when we get our salary.”

As major buyers of garments in Bangladesh, UK supermarkets are profiting from this situation. They make few efforts to ensure that workers really understand their trade union rights. While they may stay within the letter of the freedom of association clauses in buyers’ codes of conduct, suppliers maintain a strongly anti-union culture and a climate of fear among workers.

In the absence of an organised workforce, the only way working conditions can be checked and improved is through ‘social audits’ of workplaces. Yet auditors, with only a few hours or a day in the workplace, are treated to meticulously organised works of performance theatre. Nazera, 18, who sews garments for an Asda-supplying factory, explains: “When buyers come to visit everything is changed. We are asked to wear scarves and masks. The floors and toilets are cleaned. They put towels and liquid soap in the toilet, put bathroom sandals there. They give tools to the helpers so that they can sit and work. All the staff behave very nicely. But as soon as the buyers leave, all these things are removed.”

These temporary improvements do not lead to real change for workers, who say they are easily dismissed for speaking out about pay and conditions.

“Their is a trade union but it is inactive,” Lucky says. “The managers won’t let it work.”

NO TIME OR MONEY TO CARE FOR A FAMILY
If you are a worker in a factory that has taken on large, urgent orders from a supermarket buyer, you are not sure when you will be working, until what time, or whether you will be paid for the extra work. You face the sack if you do not agree to work extra hours without any notice, and you have no way to protest at being sacked.

The long hours and social stigma of urban single life impinges on women’s family lives. Factory managers take advantage of the pressure on young women to marry, which as the cost of living rises means the need for financial security. Masuda, a 20-year-old garment worker, says: “I want to get married, but I can’t now because I need to get established. If I work in garments I couldn’t make my husband happy.”

Many said that they wanted more children, but could not afford to. Rafiza, 20, is married with a seven-year-old daughter. She says:

“It is very difficult, but we have to lead our lives like this because there is no choice. I don’t want more children because we don’t have enough money. I don’t know any other work except garments so I have no choice.”
This experience is borne out by Rahela, who has a six-year-old daughter. “I have to leave my daughter with the neighbours all day. When I work at the factory, I am worried for my child. There is a day care centre at work [as required by law in workplaces with 50 or more workers], but we’re only allowed to use it when the buyers come,” she explains. “All my wages go on rent. My daughter doesn’t go to school but I want her to in the future. I don’t like working in garments – if there was another way for me to survive I would do it.”

FIGHTING BACK
The riots in 2006 demonstrated that, when they unite to defend their interests, garment workers can secure more of their rights. Yet, though unions are legally recognised in most parts of Bangladesh, it is still rare that workers are able to organise and claim their rights. In Dhaka, where much of the industry is concentrated, women want trade unions to focus on bargaining for better pay and conditions. But this needs international buying companies to fully engage with improving terms of employment in the factories from which they source. ActionAid supports the trade union SBGSKF, which is pressing for better conditions for garment workers, as well as lobbying the government to implement a fair minimum wage and pro-worker laws.

5.3 CONCLUSION
A living wage is more than just an aspiration: it is a right. Women workers have the right to earn a living wage within a reasonable number of working hours. Their children have rights too: to grow up in dignity, spend time with their parents and go to school. Yet, as Bangladesh demonstrates in such stark detail, the transfer of cost and risk onto suppliers by

SUPERMARKETS’ RESPONSES:
We contacted all the supermarkets mentioned in this chapter for a response to the evidence uncovered in our research. We asked them whether these problems had been picked up by their internal processes for monitoring suppliers to ensure that they meet their corporate social responsibility commitments. Unfortunately, Tesco felt unable to answer this question in writing, though they admitted that they did have the information. Asda was aware of problems relating to wage levels and health and safety conditions in Bangladesh. We did not receive a response from the other supermarkets we contacted in time for inclusion in this report.
6: JUST PLAIN NUTS: CASHEWS FROM INDIA

6.1 COSTS AND RISKS PASSED ON TO SUPPLIERS… 53
6.2 …END UP WITH WORKERS 55
6.3 CONCLUSION 57

WWW.ACTIONAID.ORG.UK
6. JUST PLAIN NUTS:

CASHEWS FROM INDIA

Mercy greets the news with a look of stunned disbelief. “That’s more than I get for three weeks’ work,” she says on discovering that the kilo of cashew nuts, which she has been paid 5p to shell, will retail for £9 or more in a UK supermarket.

The news is all the more shocking because of what the cashew factory job in Tamil Nadu’s Kanyakumari district is doing to Mercy’s health.

“I get pains in my knees from squatting all day… I get headaches, I get dizziness and vomiting from breathing in the smoke [caused by the cashew roasting process].”161

Mercy is one of an estimated 500,000 women who process cashews for a living in Tamil Nadu and Kerala,162 and of two million people employed by the cashew industry across India, the world’s biggest exporter of shelled cashews. Over 6,700 tonnes were shipped to the UK from the sub-continent in 2005. Of these, at least 80% are sold through supermarkets.163

New evidence shows that for every pound shoppers spend on cashews in British supermarkets, just one penny – and sometimes only half a penny – goes to the women workers who process the nuts. Another 22p is shared between farmers, traders, processing companies and exporters in India.
Meanwhile, a massive 77p – or nearly three-quarters of all the wealth – goes to importers, roasters and supermarkets in the UK. Big retailers sell cashews for over twice the price they go for in specialist Asian shops and markets in Britain, indicating that the lion’s share of the value captured in the UK goes straight into supermarket tills.\textsuperscript{164}

6.1 COSTS AND RISKS PASSED ON TO SUPPLIERS...

With few routes to reach British shoppers other than through high street chains, the UK-based businesses that import, roast and salt cashews from India are increasingly dependent on major retailers for their survival. Even giant ‘roasters’ such as KP Nuts and Planters are at the mercy of the superstore chains, who increasingly have the power to dictate the terms of business to their suppliers.\textsuperscript{167}

Companies that supply cashews directly to supermarkets say that buyers attempt to push down prices every time they come to renew contracts, often with little regard for production costs.\textsuperscript{168} One UK-based supermarket supplier, speaking to ActionAid on condition of anonymity, says “Supermarkets always demand price cuts. For instance at the moment we are being asked to reduce our prices because the value of the pound has risen against the dollar... They seem not however to have taken into account the fact that most suppliers buy their goods many months forward and their prices are locked in.”\textsuperscript{169}

Another UK supplier says: “We are constantly pressured by supermarkets not to raise price. We sell to [names UK supermarkets] and pack with their labels. They keep a 50% mark up.”\textsuperscript{170}

Supermarkets generally do not enter into long-term contracts with cashew suppliers, giving buyers more chances to whittle down prices. “They have ample opportunity to play one supplier off against another,” says the director of one UK-based cashew roaster.

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WHO GETS WHAT? THE CASHEW SPLIT
Share of UK supermarket retail price\textsuperscript{165}

- Supermarket 45%
- Roaster/salter company 20%
- UK importer 12%
- Transport (in India) 2%
- Processing company 5%
- Producer 15%
- Processing worker 1%

ActionAid interviewed 27 women cashew workers from Kerala and Tamil Nadu in India from October to December 2006. Their stories of hardship and poor health, of violations of many of their basic rights, reiterate the results of a three-year study on the impact of UK supermarket buying pressures on cashew workers in India, carried out by the International Institute for Environment and Development.\textsuperscript{166}
interviewed by ActionAid. He added that supermarkets rarely take account of his costs, as “the overriding consideration will be prices available from other suppliers.”

At the same time as putting downward pressure on prices for cashews, retailers find ways to offload other costs onto their suppliers. “Supermarkets attempt to transfer costs which should clearly be their own responsibility onto the supplier wherever they can,” one cashew producer says. “It takes many forms. Recently we packaged an order for one of our supermarket clients. Then they decided they wanted different packaging material, and we were stuck with the order.”

While only a relatively small proportion of India’s total cashew exports are sold in UK supermarkets, the trend towards retailer concentration and influence over the supply chain is replicated in larger export markets. In the US, which takes around 40% of India’s cashew exports, powerful buyers such as Wal-Mart, Safeway and ‘big box’ pharmacies account for a large majority of cashews sold in the country: up to 75%, according to one US cashew broker.

What makes good business sense for supermarkets passes on uncertainty and costs to suppliers, often with shocking consequences for the workers they employ. As buying pressures are passed down the chain, suppliers in India, who also face intensified competition for a place in the export market, are being forced to cut costs. These trends are contributing to several disturbing developments in the Indian cashew industry, each of which further disempowers and exploits workers, reducing their access to basic rights and representation.

For many years, cashew processing in Kerala took place mainly in state-owned or registered private sector factories. Women workers received a range of benefits in government factories, such as welfare insurance, maternity leave and a ‘dearness allowance’ of 25 rupees (29p) per day as partial compensation for the relatively high cost of living in Kerala.

Competition from lower cost, less reputable private processing operations in India’s liberalised cashew market has helped push most government factories out of business, while those still operating are only able to open their gates to workers for as little as 30 days a year. UK importers say that the lower prices and higher costs imposed by supermarket buyers are forcing them to source cashews from these cheaper producers in India.

“We would like to source from reputable firms such as [name of Indian supplier],” says one British cashew importer, “but they are demanding 10-20 cents more [per lb] than others and it is not commercially viable given the way our prices have to be competitive to get supermarket contracts. So we have to buy from companies we would rather not trade with.”
Workers in the new breed of private factories face terms of employment and working conditions teetering on the verge of illegality. Sunitha, a cashew sheller from Kilikolloor in Kerala, works in one of many factories that closes down and reopens every third month, re-employing its workers to avoid having to accord them the legal rights, and the social security, to which they would otherwise be entitled.

“You asked me the name of the factory?” Sunitha says, “Honestly, [laughing] I don’t know, because the factory changes names every third month, so we never know... We certainly understand why, but what can we do? Hunger and crying children drive us to accept the circumstances.”

Women working in these factories are often left in a quasi-informal work situation by employers who refuse to give them attendance cards. Without these cards, cashew workers in Kerala are denied important benefits such as a pension or the ‘dearness allowance’. Workers estimate that around 20% of the labour force is employed on a casual basis within registered factories. Other suppliers have moved production to cheaper areas of the country, for example from Kerala to Tamil Nadu, where cashew workers receive lower wages and endure even worse labour conditions than in Kerala.

Perhaps the most insidious development is the growth of cashew production by illegal subcontractors, referred to locally as kudivarappus. Women receive no benefits except wages from these fly-by-night operators, and working conditions are generally poorer than with registered producers. Cashew factory owners are subcontracting production to cut costs, and even well-regarded export houses, which operate some ‘good practice’ factories in Kerala, resort to sourcing from kudivarappu producers.

While no reliable figures exist for the proportion of cashews currently being produced in the black economy, some workers and union leaders believe that as much as 60% is being carried out in Keralan kudivarappus.

6.2 ...END UP WITH WORKERS

“The responsibility for the children has always lain on my shoulders,” says Leela, a cashew sheller from Kerala. “My husband is often out and he does not hear their cries of hunger. Men just don’t understand these things. They take for granted that there is food in the house.” In order to minimise costs and maximise profits, employers in India’s cashew industry are taking advantage of women like Leela, who often have little choice but to accept unfair pay and conditions.

POVERTY WAGES

“I earn a pittance, but if I didn’t work in the cashew factories I would be a beggar,” says Shantha, a cashew grader from Elamchirai village in Kanyakumari district, Tamil Nadu. Shantha earns about 70 rupees (80p) a day and is among the better
paid workers in her factory, as grading is considered a more skilled job than shelling. “It’s hard to manage on such little money. We are always one step away from starvation.”

Kala, 21, is also from Kanyakumari and has worked shelling cashews since she was 15. “I’m paid four rupees a kilo,” she says, adding that on an average working day she produces about six kilos of unbroken nuts. This gives her around 30p per day. “My mother worked in the cashew factories but she became ill,” Kala explains. “I’ve had to take on the responsibility for providing for our family… We have no other money coming in.”

Workers are paid per kilo that they shell or grade, sometimes as little as four rupees, or four and a half pence. This already dire piece rate is compounded by the common practice of underweighing workers’ produce, which occurs in more reputable factories as well as in the kudivarappus. Women tend to be paid less than men. “There are 150 people working at my factory,” says Nalini, a cashew worker from Kollam district in Kerala, India. “All of them except for six are women. But the men take the best jobs, with the best pay.”

Workers are also not paid for any nuts broken in the shelling process, even though factory owners have little difficulty selling them on the export market. Combined with underweighing, this can mean workers are sometimes not paid for as much as a third of their daily output.

Bindi, a 58-year-old mother of six from Kerala, works for a large, established processing company that exports cashews to the UK market. “Now the managers and supervisors use malpractices and underweigh the shelled nuts,” she says. “None of the factories are giving wages for broken nuts and decayed ones.”

DAMAGED HEALTH

The problems for hundreds of thousands of workers are not limited to low wages. ActionAid found that many women are being injured by their jobs, as factory owners cut corners with health and safety in the pursuit of the ever lower costs demanded by buyers. Oil released during the cashew shelling process is highly caustic, leading to common cases of dermatitis, blistering and discoloration of workers’ skin. “The oil burns, but I’m used to the pain now. I have to be,” says Shantha.

Bindi’s hands, meanwhile, are covered in blisters. Asked why she does not wear protective gloves, she explains that, “We have to buy the gloves ourselves; the management does not provide us with gloves. Besides,” she continues, “I will only be able to shell five kilos if I wear gloves instead of the usual 10.”

In addition to the corrosive oil, acrid smoke released by the cashew roasting process also causes health problems for workers. One survey conducted in 2003 found that 45% of cashew workers experience respiratory illnesses, compared with 9% of the wider population. Bindi, who works in a UK-supplying cashew factory, says:

“When there are more workers, they will make us sit in the smoke-filled sheds where they fry the nuts and it causes suffocation.”

Kavitha, a cashew sheller from Tamil Nadu with 35 years’ experience working in factories, says, “Bad
health is part of the job. It’s normal for cashew workers… I’m not a healthy person. My health stops me from doing everyday things properly – cooking, cleaning, looking after my grandchildren.”

In most cashew factories, women sit in a squatting position on mud or concrete floors. Government surveys have found that tables and chairs are rarely provided for workers on shelling duty, including in factories that export nuts to the UK.

All the women workers interviewed by ActionAid say they or their colleagues suffer from pains in their leg muscles, backs and knee joints, and that many women damage their uteruses through squatting for long periods. “I have severe pain in my toes and knees and sometimes back pain,” Bindi says. “But I have to work to fend for myself and my family.”

FIGHTING BACK

Cashew workers’ main concern is to increase their earnings and in Kerala, most women want their unions to focus on bargaining for higher wages. In Tamil Nadu, where cashew unions are weak or non-existent, ActionAid supports the Cashew Workers’ Development Centre, a community-based organisation that provides skills training programmes for women who want to leave the cashew sector, lobbies the state government to develop and enforce pro-worker laws, and advocates for public and private sector investment to establish ‘fair wage’ cashew processing factories.

6.3 CONCLUSION

The decline in the social, economic and physical condition of south Indian cashew workers is palpable. Their rights have been undermined by the shift in employment patterns and the treatment they receive from employers. Join the dots and you see that supermarkets, who act as gatekeepers to consumers in rich countries, are reinforcing and taking advantage of women’s vulnerable position.

The cashew example shows how buying pressures can work their way even through long, complex supply chains. Inevitably, at the bottom of the chain, cashew factories pass the burden on to the women who work there. Vulnerable, disempowered and with nowhere else to turn for income to feed their families, women are trapped in a system of worsening exploitation.

The cashew suppliers we spoke to believed that a supermarket regulator is needed to restrain retailer buying power, and our research has confirmed one thing above all: working conditions cannot improve until the cost and risk pressures imposed by supermarkets are lifted.

SUPERMARKETS’ RESPONSES:

We contacted all the supermarkets mentioned in this chapter for a response to the evidence uncovered in our research. Unfortunately, Tesco felt unable to answer this question in writing, though they admitted that they did have the information. Sainsbury’s was not aware of any problems related to cashew processing. We did not receive a response from the other supermarkets we contacted in time for inclusion in this report.
7: EVERY LITTLE HELPS?

7.1 THE LIMITS TO VOLUNTARISM

7.2 TIME FOR INTERVENTION

7.3 ESTABLISHING A SUPERMARKETS WATCHDOG

61

65

67
7. EVERY LITTLE HELPS?

HOW VOLUNTARY INITIATIVES ALONE CANNOT PROTECT WORKERS’ RIGHTS

For over ten years a number of voluntary initiatives have been developed to address some of the problems we have outlined.

Sadly, as this report and a string of others published during this time have shown, unacceptable working conditions remain in the supply chains of supermarkets and other powerful buyers, and purchasing practices play a significant role in preventing improvements. Four of the main voluntary schemes are examined here:

- the Ethical Trading Initiative (ETI), 1998
- the Supermarkets Code of Practice, 2002
- the Race to the Top project, 2004

Of the initiatives listed above, only the Ethical Trading Initiative can lay claim to any kind of success. The Supermarkets Code is not working effectively, and the two remaining initiatives were rejected by the major retailers before they got off the ground.

Meanwhile, labour rights abuses in supermarket supply chains remain systematic, and in fact they are becoming more severe. It is becoming painfully obvious that a decade of voluntary attempts to curb the negative impacts of these practices has failed, and that only binding legislation will have sufficient teeth to make real inroads.
7.1 THE LIMITS TO VOLUNTARISM

The following four initiatives have attempted to examine, address and halt the negative impacts of supermarket buying practices. We have focused on what these projects have not achieved, which is not to detract from the important role that voluntary approaches will always play in sharing experiences and developing best practice.

THE ETHICAL TRADING INITIATIVE

Most of the major UK supermarkets are members of the ETI, a body set up in 1998 in response to a public outcry over working conditions in retailers’ supply chains. Its members commit to working towards a code of conduct, which sets out the rights that workers should expect to enjoy, including the right to a living wage, and the right to form and join trade unions of their choosing. Its principles of implementation state that: “Negotiations with suppliers shall take into account the costs of observing the code [of labour standards].”

Good intentions, but the reality leaves much to be desired. A three-year impact assessment conducted by the Institute of Development Studies, completed in 2006, included interviews with over 400 workers and dozens of suppliers, agents, supervisors and other stakeholders. It found that, although member companies had been engaged in various voluntary initiatives for years, progress was limited to a handful of issues such as health and safety and enforcement of minimum (not living) wages.

These improvements did not extend to the largely invisible workforce of temporary, informal and home workers, most of whom are women or migrant workers. The researchers, “observed less impact in relation to freedom of association, discrimination, regular employment and harsh treatment, where serious issues frequently remained.”

Excessive working hours are still endemic in ETI members’ supply chains, and paying a living wage remains off the radar. Companies’ purchasing practices were identified as one of several key factors that are limiting progress: “Downward pressure on prices and lead times appeared to be having a negative impact [on working conditions]: in all countries and sectors suppliers reported that this limited their ability to make improvements in labour practices.”

Commenting on her experience interviewing supermarket suppliers for the assessment, Stephanie Barrientos, one of the report’s authors, says:

“Many suppliers complained bitterly about the adverse effects of supermarket purchasing practices. They indicated falling prices and commercial pressures constrained their ability to improve employment conditions.”

The problem is that, rather than looking at the impact of their own buying practices, the ETI’s corporate members’ focus has been on trying to ensure suppliers are in ‘compliance’ with labour codes of conduct. Asda Wal-Mart, for example, carries out over 13,000 compliance audits each year. Yet compliance is only one side of the coin, the other being fair and equitable trading terms on the part of the retailer.

36%

Of 456 UK-based supermarket suppliers interviewed for a recent Competition Commission survey, 36% import goods from overseas producers.
Unable to comply with both the terms of their orders and the buyer’s ethical code of conduct, suppliers find ways to cheat in audits, which has led to what the ETI itself describes as a ‘growing crisis in auditing.’204 The World Bank suggests that: “Buyers should address the mixed messages and incentives they send to suppliers, who respond to compliance staff promoting adoption of good labor conditions, and also merchandisers who often demand lower prices, faster deliveries and shorter lead times.”205

**THE SUPERMARKETS CODE OF PRACTICE**

“What is that? Never heard of it.”

“Vaguely. I don’t think so, no.”

“No, not heard of it.”

“It’s had no bearing on us whatsoever.”

“It is meaningless.”

These are typical responses from British agricultural producers who were asked by Imperial College researchers if the Supermarkets Code of Practice was having any effect.206 Their comments support a wide consensus that the Code, introduced by the Department of Trade and Industry to improve relations between the big four supermarkets and their suppliers, has failed.

During the Competition Commission’s 2000 inquiry into the grocery sector, major supermarkets admitted to engaging in a majority of 52 buying practices that suppliers said were damaging their businesses. These included:

- threatening to delist suppliers in order to obtain better terms
- requiring financial contributions from suppliers, sometimes retrospectively
- making changes to contractual arrangements without adequate notice
- unreasonably transferring risks to suppliers.207

The Commission concluded that 27 of these practices harm the public interest and recommended a rigorous, legally binding code of practice to curb them. After negotiations between the big four and the Office of Fair Trading over the content of the code, a much watered-down version – the Supermarkets Code of Practice – was introduced in March 2002.

The Code contains provisions that aim to curtail some of the buying practices which ultimately cause problems for workers. These include:

- no changes to the specifications of orders without reasonable notice
- no changes to supply chain procedures without reasonable notice
- terms of business to be put in writing
- no undue delay in payments to suppliers
- limits to when supermarkets can demand payments from suppliers
- no retrospective price reductions without reasonable notice.

But it has been resoundingly ineffective, largely because it is vaguely worded and not enforced proactively. The onus is on suppliers to bring cases forward, but in doing so they risk being punished by supermarkets, or worse, going out of business.

Suppliers’ reluctance to make complaints is not helped by the Code’s loose wording. This favours the supermarkets, who have access to superior legal resources. As one UK producer puts it: “Your
perception of what is reasonable as a retailer compared to my perception is different.”

When the Office of Fair Trading reviewed the Code in 2004, four in every five suppliers it consulted during the study agreed it had, “failed to bring about any changes in the supermarkets’ behaviour.” After five years of operation, it appears that only one official complaint has been made using the Code. According to a recent statement from the Competition Commission:

“This might be expected given the flexibility of the Code’s provisions,” which, it adds, “may also have resulted in the Code imposing a limited constraint on the grocery retailers.”

EVIDENCE FOR VIOLATIONS OF THE CODE
A survey of 456 supermarket suppliers, carried out for the Competition Commission in 2006, found what appear to be widespread and increasingly frequent violations of the Supermarkets Code of Practice. While the survey was limited to interviewing UK-based suppliers, 36% said they source goods from overseas producers, like the suppliers highlighted in our banana and cashew nut case studies.

The researchers asked suppliers if they had experienced any of seven buying practices covered by the Code since it was introduced five years ago. They found that the big four supermarkets had engaged in all of them, and that some practices – such as obligatory contributions to marketing costs – were experienced by over a third of suppliers to the big four during this time.
The concept of ‘reasonableness’ in the Code means that the practices uncovered by the Commission’s survey are not proven violations. But the fact that they are described using terms like ‘obligatory’, ‘excessive’ and ‘substantially’ indicates the supermarkets’ behaviour is likely to have been less than reasonable in these instances (figure 3, left column).

Suppliers who had experienced these practices were asked whether they were happening more or less often compared to 12 months previously. For many practices, a substantial proportion of suppliers – as many as half in some cases – said they were occurring more frequently, while fewer than 10% said they had decreased (figure 3, right column).

RACE TO THE TOP
Another failed attempt to improve UK supermarkets’ relations with producers by voluntary means came with the Race to the Top project, initiated in 2000 by an alliance of 24 civil society groups. The project established benchmarks to measure supermarkets’ social and environmental performance, including for trading relations with developing country suppliers and labour standards in the supply chain, and sought to work with retailers to implement them. Amongst other benefits, supermarkets that joined the scheme could expect increased public recognition of good practice, as well as insights into how issues could be addressed.

The UK’s 10 biggest supermarkets were asked to participate and, by 2002, six had agreed to sign up and provide data. But when the deadline arrived for retailers to put information in the public domain, all but three – the Co-op, Safeway and Somerfield – had turned their backs on Race to the Top. The project’s participants may disagree over why supermarkets were unwilling to play ball, but the drive to stay focused on delivering low prices in the face of intensifying industry competition was understood to be a major factor.

In their final analysis, Race to the Top’s coordinators stated: “The conclusion is clear: in such a relentlessly consumer-oriented industry, self-regulation and voluntary initiatives are only likely to be appropriate for concerns that are aligned with the mainstream consumer interest [eg hygiene, pesticides or GM]. Creating incentives for supermarkets to drive positive change on other aspects of sustainable development implies a more robust role for the state.”

THE BUYERS’ CHARTER
The National Farmers’ Union, the UK’s largest agricultural trade association, proposed a Buyers’ Charter in 2004. Developed to counter abuses of retailer buying power, the Charter was broader in scope than the Supermarkets Code of Practice, which applies only to the big four chains and their immediate suppliers. By contrast, the Charter was designed to cover the whole of the food chain, including farmers, packers, processors, wholesalers and smaller retailers.

Despite strong backing from influential industry groups such as the British Retail Consortium and the Food and Drink Federation, the Charter was rejected by supermarkets. According to the National Farmers’ Union, it failed because:

Over a third of suppliers to the big four supermarkets have been asked to make obligatory contributions to marketing costs in the last five years.
“The major retailers would not accept the fundamental principles of transparency and sustainability outlined in the document. Therefore, we can see no alternative to using the regulatory route to re-enforce these key principles.”

7.2 TIME FOR INTERVENTION

The evidence is damning and the conclusion that follows is clear: supermarkets alone are unable or unwilling to break out of the ‘every day low price’ business model that obliges them to offload unreasonable costs and risks on to suppliers. ActionAid believes binding, enforced legislation is the only tool with the potential to transform supermarket buying behaviour. Intelligent, well designed regulation would bring about real, positive and lasting changes that will:

- stamp out the unfair and abusive buying practices that extract value from producers in the UK and in developing countries, and which are a major obstacle to workers claiming their rights in thousands of supply chains, not just one or two

- prevent responsible buyers in one supermarket from losing competitive advantage to reckless buyers in another, providing a ‘level playing field’ for retailers

- increase shoppers’ confidence that all their supermarket purchases have been traded in an ethical manner

- provide baseline support to ‘best practice’ voluntary initiatives and increase their chances of succeeding.

THE MARKET IS FAILING

As supermarkets and many of their first-tier suppliers continue to grow in size, the notion of a functioning free market seems increasingly naïve. By exploiting their concentrated buying power, the high street giants can secure goods at prices that bear little relation to those on the open market. Prices and terms often are not decided by the forces of open and fair competition, but increasingly are dictated by company officials.

The Competition Commission’s 2000 inquiry ‘provisionally’ found that:

“By pushing suppliers’ prices below the competitive level and unduly increasing suppliers’ costs, competition between suppliers and competition between retailers were both distorted.”

Meanwhile, as we have seen, supermarkets can set retail prices in a way that is practically identical in its outcome to a price-fixing cartel.

At the same time, more and more purchasing and retailing is taking place internationally, through global chains like Wal-Mart and Tesco, or through buying groups like those incorporating Sainsbury’s and Morrisons. This consolidation extends to the global level, transcending and distorting each national market. It comes at a time when markets in
developing countries are being deregulated, opened up to outside competition and globalised. The result is intense competition in supplier markets and a huge disparity in the power of players at either end of the supply chain.

For the moment it is workers producing goods for sale in supermarkets who are losing out from this misuse of power, but in the long-term consumers will also be harmed as the market becomes ever more distorted. Where such market power exists and markets fail, governments have a duty to correct those failures and to protect those who are harmed when power is abused.

MODERNISING COMPETITION POLICY

Despite the obvious need to address abuses of retailer buying power, competition policy at present is hamstrung by its narrow focus on consumer welfare. The Supermarkets Code of Practice, for example, was designed to curtail buying practices when they threaten the choice and quality of goods on offer to food shoppers, not the people who produce them.

Regulators tend to look the other way when supermarkets mistreat suppliers, particularly if the value extracted from producers and workers reaches consumers in the form of lower retail prices. But in an era of extreme market power imbalances, this is a myopic view: an enlightened approach to competition policy would protect the interests of suppliers and workers as well as consumers.

BOX 5: DOES IT PAY TO BE ETHICAL?

Reforming business practices can go hand in hand with commercial rewards. An increasing volume of research shows that companies that behave ethically are rewarded through their share price, and that ethics can be compatible with profitability. The market research firm Moneyfacts showed that over a period of 10 years to 2005, funds invested in companies screened for ethical standards performed on average 20% better than the FTSE 100. Other research comparing companies at different levels of engagement with the ethical agenda found that “corporate virtue is likely to pay off in the form of improved financial performance.”

Companies that have begun to address the negative impacts of their buying practices have found that improving them can make supply chains more efficient, lead to more positive relationships with suppliers and increase product quality. Several leading UK food brands found that when they tried to improve health and safety standards through the supply chain, this led to fewer accidents, lower staff turnover and absenteeism and in the end increased productivity and product quality. Other leading brands, such as Nike and Gap, have also acknowledged the role that buying practices can play in undermining or improving labour standards, and are beginning to examine how they can resolve problems along their supply chains.
7.3 ESTABLISHING A SUPERMARKETS WATCHDOG

Because voluntary approaches only have a limited ability to rein in the negative impacts of supermarket buying practices, an alternative based on the proactive enforcement of new rules is needed.

A model on which such a mechanism can be based exists in the UK’s television industry. Under this scheme, an independent regulator, or ‘adjudicator’, tackles imbalances of negotiating power between ITV, a large commercial broadcaster, and less powerful media companies that buy airtime from it (box 6). In principle, the problems experienced by suppliers facing supermarket buyers are no different to those addressed by the ITV adjudicator.

The major grocery chains are able to engage in potentially hundreds of unfair and abusive buying practices – far more than the limited number covered by the current Supermarkets Code. Eliminate one or two practices, and others will spring up in their place. Given sufficient flexibility, an independent watchdog would deal with this problem by addressing changes in supply chain practices as they arise, and given sufficient teeth, it would stamp out unfair and unreasonable buying practices that ultimately prevent women workers from claiming their basic rights.

Pressure is growing on UK policymakers to act. Eighty-one percent of British adults interviewed for a March 2006 survey want the government to bring in rules to protect suppliers in their dealings with supermarkets.223

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BOX 6: A MODEL FOR THE SUPERMARKETS WATCHDOG

The ITV adjudicator, among other things:

- enforces rules designed to prevent ITV from manipulating prices
- has a wide remit in ensuring that contracts remain ‘fair and reasonable’
- raises and addresses new issues as they arise
- requires ITV to provide information on trading issues on a regular basis
- plays a proactive role in making sure all parties understand its rules
- operates a credible, fast and binding dispute resolution process.

The adjudicator has been extremely effective in ensuring compliance with its rules. Observers believe that the informal role it plays engaging in regular dialogue with industry players has been far more important to its success than its role resolving actual disputes. The number of disputes brought to formal adjudication has been modest, running at six in its first year of operation and three in the following year. All these were resolved quickly, typically within two weeks.

However, the adjudicator’s role in answering informal complaints and guidance queries has been at least as significant in keeping ITV in check, running at 103 enquiries in the first 16 months of its operation. Complaints and enquiries are now being made at a lesser rate, indicating the scheme may well be having a deterrent effect.
The Competition Commission has the powers to establish a mechanism similar to the ITV adjudicator for the grocery market without needing to draw up new legislation, and the existing legal framework allows for it to protect the interests of producers at home and overseas. If an effective watchdog is not put in place to enforce such rules, it may not be long before the Commission is forced to carry out another lengthy and expensive inquiry into the grocery giants’ dominance.

The Commission’s current inquiry only covers the grocery market, despite the fact that British supermarkets are rapidly gaining influence over non-food sectors of the economy. Yet buying practices that undermine workers’ rights are a systemic problem that extends far beyond the food chain. Other research shows that suppliers of clothes, flowers and computers to the UK high street are subject to the same kinds of cost and risk pressures from large-scale buyers as grocery suppliers. Time and again they pass these pressures on to workers, the majority of them women, in the form of poor employment conditions.

Some of these buying practices may be considered anti-competitive, while others may not. In either case, human rights are non-negotiable: the bottom line is that buying pressures need to be addressed by governments because they can damage workers’ fundamental rights, not just because they can distort competition. Tackling the issue is therefore likely to require drawing on areas of policy and law from inside and outside the competition framework.

STOP PRESS: THE GLOBAL SOCIAL COMPLIANCE PROGRAMME

As this report goes to press, five of the world’s biggest supermarket retailers – Carrefour, Metro, Migros, Tesco and Wal-Mart – are canvassing support for a new initiative, the Global Social Compliance Programme (GSCP). Housed within CIES, the global food business forum, GSCP’s website claims its aim is to: “step change the way the sector can improve working conditions among suppliers wherever they operate.”

It is too early to tell exactly how the initiative will function, but there are already reasons for serious concern. As this report sets out, voluntary initiatives work well when they are 1) embedded within an effective legal framework, and 2) driven by collaboration between business, NGOs and trade unions as equal partners.

GSCP appears to be neither. Stakeholder collaboration is reduced to an advisory capacity, whereas business, trade unions and NGOs have equal weight in the ETI’s governance structure, for example. With weak stakeholder influence, and in the absence of a binding, enforced legal framework, it is hard to see what GSCP adds.

GSCP claims that, “harmonisation of existing industry standards,” is its main function, as if this were the main obstacle to improving working conditions. Yet experience in the ETI and elsewhere shows that the real problem is the supermarket purchasing practices that transfer cost and risk down the chain to suppliers. Until these are reformed, workers in supermarket supply chains will not enjoy their most fundamental, internationally recognised rights.

81% of British adults want the UK government to bring in new rules to protect suppliers in their dealings with supermarkets.
In the right circumstances, international trade can work for poor people. Yet too often, and in all three of our case studies, it doesn’t. When the power relationships in global supply chains become too imbalanced, and corporate buyers abuse their dominant position over developing country suppliers, the result is conditions of work that keep people trapped in poverty, rather than helping them to escape it.

ActionAid is not calling for a boycott of supermarkets, or for them to stop producing in certain countries. Workers are adamant that – in the absence of a better alternative – a poor job is better than none at all. What we want is for policymakers to catch up with the realities of an increasingly globalised business environment, and the impact of British retailers on workers overseas.

In the UK, we have come to expect a certain level of ethical standards from retailers, standards that have not and cannot be achieved through voluntary initiatives alone. Of course there are examples of supermarkets taking steps in the right direction. The growth of Fairtrade products on their shelves is one such example, and participation in the ETI is another. But voluntary initiatives should not be relied upon to enforce minimum, across-the-board standards. In the absence of a statutory regulator, a handful of NGOs – backed by consumer pressure – is all that exists to hold supermarkets to account.

ActionAid is calling for a legal framework to ensure that supermarket buying practices do not lead to the violation of minimum human rights standards set out in international treaties and national law. This does not just mean a list of prohibited buying practices, but also a proactive regulator with the teeth to enforce them. Such an intervention would be necessary, timely and effective.

Empowering workers, citizens and governments in developing countries should be the corollary to such an intervention. Once we in the UK do our part, it is still necessary to ensure that the benefits of fair buying practices are passed on to workers rather than captured by their employers. This is why ActionAid works with partners in developing countries who are campaigning for the respect of workers’ rights, and especially women’s rights, by governments and businesses.

The UK government has made a welcome commitment to fighting poverty in the developing world. ActionAid believes that it can only deliver on this promise if it takes action to curb the negative impacts of supermarket buying practices, in grocery and non-grocery supply chains alike.

Supermarkets do not just bring the world to Britain through the global origins of the products on their shelves. They also bring Britain to the world, through their relationships with suppliers and the jobs they create. It is time to ensure that when they do this, it is a Britain we can all be proud of, a Britain that supports sustainable development, values the role of women in society, and respects fundamental human rights.
9: RECOMMENDATIONS

9.1 ACKNOWLEDGEMENTS

9.2 ENDNOTES
9. RECOMMENDATIONS

UK GOVERNMENT:

- Establish an independent regulator that:
  - monitors relationships between actors along the whole food supply chain, including primary producers and suppliers based overseas
  - enforces a new set of standards to ensure fair and effective competition between retailers and their suppliers, drawn from the Supermarkets Code of Practice
  - has an obligation to find remedies for any breaches that are discovered, and has the power to enforce its rulings
  - raises and addresses new issues as they arise, and has the power to review standards on a regular basis to account for changes in market conditions and purchasing practices
  - obliges supermarkets to require, in their contractual arrangements with direct suppliers, that the regulator's standards are met in respect of direct suppliers' dealings with relevant secondary suppliers, including overseas
  - has the powers to initiate investigations
  - operates a strictly confidential complaints’ procedure for suppliers
  - operates a legally enforceable dispute procedure
  - has access to all relevant information from supermarkets and suppliers necessary to enable the scheme to operate effectively
  - in addition to its enforcement role, has an obligation to promote best practice in the supply chain
  - has its own office and staff, and is funded by industry.

- Extend the scope of competition policy to enable effective monitoring and regulation of UK companies' buying practices in key sectors, at home and overseas.

- Use other areas of policy and law, including company law, to make UK companies more accountable for the impacts of their buying practices on workers and producers in developing countries.

- Through secondary legislation following the new UK Companies Act, introduce mandatory reporting standards based on the Global Reporting Initiative, requiring medium and large UK companies to:
  - disclose farm and factory supplier lists
  - report on nominated living wage values and progress towards implementing them
  - report on collaboration with trade unions
  - report on steps being taken to understand and address the impacts of their purchasing practices.

EUROPEAN UNION

- Work towards establishing EU-wide legislation to curb the damaging effects of supermarket buying power.

UNITED NATIONS

- Urge member states to ratify the International Covenant on Economic, Social and Cultural Rights and monitor its implementation. This would oblige governments to protect their citizens from abuses of corporate power, so that those working in global supply chains are legally guaranteed basic
labour rights, the right not to be discriminated against on the basis of gender, and the right to a decent standard of living including the right to adequate food.

SUPERMARKETS

• Publicly commit to ensuring that the internationally recognised rights of all workers in their supply chains are respected, including the right to freedom of association and a living wage.

• Make the promotion of human rights, including women’s rights, integral to sourcing decisions and purchasing practices, for example by adopting a system of incentives for buyers.

• Do not respond to the exposure of poor working conditions in supply chains by ‘cutting and running’. Work with each other, suppliers, trade unions, local civil society groups and governments to improve conditions.

• Publicly acknowledge the harmful impacts of purchasing practices on workers and suppliers, and take concrete and identifiable steps to address them.

• Do not engage in price wars that squeeze supply chains to unsustainable levels.

• Build stable, long-term relationships with suppliers, giving them regular opportunities to provide feedback without jeopardising their contractual relationship.

• Set adequate and clear delivery lead times. Suppliers should be given:
  – a comprehensive scheduling timetable to enable better planning
  – financial compensation when buyers make changes to orders that disrupt production.

• Make sure a living wage is paid by:
  – working with other companies, civil society and governments on a national and industry-wide level to raise wages
  – working with local trade unions and NGOs to estimate a living wage in the areas from which they source, and publicly stating the wage they consider to be acceptable for each area
  – calculating a minimum production price that takes this wage into account, and sticking to it in negotiations with suppliers
  – ensuring workers are aware that this is the minimum they should expect.

• Promote trade union rights, including by:
  – making it clear to suppliers that they must not discourage or prevent workers from organising, and that the presence of an organised workforce is a positive criterion in sourcing decisions
  – ensuring workers and management are educated about freedom of association and workers’ rights, for example by collaborating with local trade unions and labour rights organisations
  – making it clear to suppliers they must not discourage or prevent workers from organising
  – establishing framework agreements with the global trade union federations in the relevant sectors. These should set out a protocol for collaboration on a national basis to further trade union rights.

• Ensure audits are fully participatory, involving local civil society organisations and conducting
comprehensive, confidential gender-sensitive interviews with workers off site. Collaborate with suppliers to take corrective action when audits expose problems.

- Go beyond audits to adopt a comprehensive toolbox approach, which includes respect for freedom of association; long-term partnerships with local trade unions and NGOs; grievance and complaints mechanisms; education and training; addressing existing business or purchasing practices; effective remediation; increased transparency.

**PRODUCER COUNTRY GOVERNMENTS**

- Honour all commitments under CEDAW, ratify the International Covenant on Economic, Social and Cultural Rights, and ratify all the relevant ILO Conventions.

- Ensure that all workers’ rights, including the right to a living wage, are enshrined in law and that labour laws apply to temporary and informal workers.

- Set up and maintain adequate systems of labour inspection to allow enforcement of pro-worker laws and core ILO Conventions.

**PRODUCER COMPANIES**

- Guarantee all categories of workers – especially women, temporary and informal workers, as well as those working for third party subcontractors – their full rights in the workplace, including the right to freedom of association, to bargain collectively and to paid maternity leave.

- Adopt a positive attitude to trade unions, and ensure workers’ voices are heard at a senior level.

- Halt and reverse the shift towards using more temporary, informal and subcontracted labour.

- Communicate honestly to buyers when lead times or prices are inadequate.

**BILATERAL AND MULTILATERAL AID DONORS**

- Stop promoting labour market deregulation in developing countries through inappropriate policy advice.

- Work with the ILO, trade unions and civil society organisations to ensure loan conditions do not undermine labour rights or gender equity.

**CONSUMERS**

- Join ActionAid’s campaign and take regular action to make supermarkets play fair in developing countries by signing up online at www.actionaid.org.uk/targetpoverty or calling 01460 238047.

- Write to Peter Freeman, Chairman of the Competition Commission, to tell him you want their inquiry to recommend new, enforced rules to curb supermarket buying power. Go to www.actionaid.org.uk/targetpoverty to download a template letter or call 01460 238047 for more info.
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PICTURE CREDITS
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