Concentration in food supply and retail chains

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Contents

Executive summary

There is a resurgence of interest in agriculture within the poverty reduction debate. In particular, there is interest in connecting small producers and enterprises to higher value chains, especially those 'buyer-driven' chains linked to supermarkets.

Modern food systems are accelerating towards a highly concentrated structure, in which most power and leverage resides at the retail end, and in which benefits are passed to customers and shareholders rather than producers. These structures are also becoming the norm in many middle-income and some low-income countries, causing parts of domestic markets to resemble export markets.

Producers supplying these chains may be able to prosper through investing in relationship marketing, product quality and brand reputation. But the high requirements for entering buyer-driven chains mean that the higher land and labour efficiency of smallholder production is no longer a comparative advantage; the connection between agriculture and poverty alleviation is thereby weakened. From a macro perspective, there is declining residual value to be shared with rural actors in the chain – the primary producers and workers. An associated risk is a polarisation between agribusiness and small-scale farming systems. Agriculture will not deliver the expected development benefits when agrifood markets do not function competitively.

Key requirements have therefore arisen which need to be addressed by the agriculture and development agenda. These include:

- understanding agrifood market concentration and restructuring from a rural development perspective;
- encouraging less exclusionary supply chain practices;
- understanding the role of producer organisations;
- matching competition policy to buyer power; and
- incorporating fairness in trading as a corporate standard.

1. What is the issue and why is it important?

Small-farm agriculture has been presented as a growth–equity 'win–win', and this has encouraged a resurgence of interest in agriculture in the poverty reduction debate.

But the comparative advantage of smallholder farming, due to its superior labour and land productivity, may be restricted by the costs of dealing with markets with high levels of industrial concentration and new forms of private sector governance.

There are concerns that excessive concentration within input markets (such as seeds and agrochemicals) and output markets (trading, processing, manufacturing and retailing) can work against the interests of small producers in developing countries, either by creating barriers to market entry, or by worsening the terms on which they engage in trade. Trade liberalisation will not bring the expected development benefits when agricultural markets do not function competitively. An associated risk is a polarisation of agribusiness and small-scale farming systems.

This paper[1] examines the possible consequences of excessive concentration in agrifood supply chains, and the implications for producers and workers in mid- and low-income countries. It focuses on concentration within output markets, in particular the supermarket sector.

This paper also addresses the processes by which disparities in market power are exercised and maintained. We discuss the ability of buyers to impose product and process standards that can exclude certain classes of producers from supply chains. The concern here is that small and poorly resourced producers face diseconomies of scale and market exclusion, as new forms of private sector governance, including certification, become prerequisites for inclusion in supply chains.

It is notable that these trends are no longer restricted to export markets. Global and regional retail and processing capital is rapidly moving into middle- and low-income economies, bringing similar business models and market pressures to those already experienced in export markets. And even where this is not yet the case, the restructuring of national and regional markets due to liberalisation means that domestic markets may no longer be a refuge for smaller farmers and processors, as markets are flooded with cheap export-grade produce from more competitive economies.

Private sector strategies in the agrifood sector, especially in global retailing, are changing fast, under the radar of public policy. If policy is to anticipate these changes, then they – and their implications for rural producers – must be better understood. Some of the changes will provide new business opportunities for poor rural producers and workers. But there is an urgent need to explore a range of policy responses, including interventions that attempt to directly tackle excessive concentration in markets (either by preventing or reducing concentration itself or by building countervailing forces within markets), and those that deal with the symptoms (e.g. supporting the capacity of producers to meet supply chain standards), in order to realise the aspiration of equitable rural development.

[1] Sources for this paper include a study on market concentration for the UK Food Group (Vorley, 2003), reports commissioned by the UK Department for Environment, Food and Rural Affairs (DEFRA) and the IFC on sustainable commodities (IIED with Rabobank and ProForest), the 2004 DFID E-Forum on 'New Directions for Agriculture in Reducing Poverty' and a paper for the OECD DAC POVNET Agriculture and Pro-Poor Growth Task Team (Vorley and Fox, 2004).

2. The current evidence – what do we know so far?

2.1 Concentration within agrifood supply chains, and the growth of supermarkets

Globally, there is growing concern that the concentration of economic power by the industries along the chain between primary producers and consumers – the traders, processors, and retailers – is affecting the profitability and livelihoods of primary producers and workers. This was underscored by a statement on industrial concentration in the agrifood sector issued by the International Federation of Agricultural Producers (IFAP) in May 2002,[2] which starts:

> Much attention has rightly been drawn to the distortions caused by certain types of government policies. However, relatively little attention has been paid to the market distortions caused by the high level of concentration in the input and distribution side of the agrifood system. Yet it is clear that the domination of a few large firms both upstream and downstream of the farming sector can significantly affect market conditions.

Such concern is echoed in the report of the FAO Panel of Eminent Experts on Ethics in Food and Agriculture (2000) which noted that 'there are serious power imbalances arising from the concentration of economic power in the hands of a few'.

Critiques of corporate concentration or cartels in output markets have generally focused on bulk commodities. Many of the major commodity markets are indeed highly concentrated, with a handful of often privately owned companies presiding over each sector, such as grain and oilseed trading and processing, banana trading and marketing, and coffee and cocoa trading and processing. The dominance of Cargill in grain trading, for example, has attracted widespread criticism in North America; the merger with the grain business of Continental, which gave the company a 25% share of US grain exports, meant that grain farmers were left feeling at the mercy of very few buyers who were in a position to ship from wherever they could obtain the cheapest sources. These companies can take advantage of economies of scale in transport, storage and finance. This issue of concentration in commodity chains has been addressed in Working Paper 10 (Gillson et al., 2004).

Concern about the effects of concentration in the retail and food service sectors is a much more recent phenomenon, only dating back to the 'retail revolution' of the 1980s, when retailing shifted from a position of price-taker to that of 'gatekeeper' of the modern agrifood system. Producers and processors in many sectors now face a monopsony[3] situation in which their customers – the supermarket chains and food service companies – have

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[2] Statement by the farmers of the world on industrial concentration in the agrifood sector at the 35th World Farmers' Congress, Gizah, Cairo, Egypt, 25–31 May 2002. www.ifap.org/Cairo%20Conference/concentration.html.

[3] The buying equivalent of monopoly, where the product or service of several sellers is sought by only one buyer.

tremendous market power. Some global retailers have vast sales, and the world's largest retailer – Wal-Mart – has recently also become the world's largest grocer (Table 1). The top thirty companies account for around one third of global grocery sales, and in many countries including the UK, the top five supermarkets account for 70% or more of grocery sales.

Table 1. Top global supermarkets 2003 – food sales

Rank	Company	Food Retail Banner Sales[4] 2003 (US$mn)	Total Retail Banner Sales 2003 (US$mn)	Food percentage (%)
1	Wal-Mart	121,566	278,081	44
2	Carrefour	77,330	99,872	77
3	Ahold	72,414	86,205	84
4	Tesco	40,907	54,807	75
5	Kroger	39,320	56,024	70
6	Rewe	36,483	48,246	76
7	Aldi	36,189	43,277	84
8	Ito-Yokado	35,812	56,160	64
9	Metro Group	34,700	68,692	51
10	ITM (Intermarché)	33,487	43,414	77

Source: M+M PlanetRetail.

At its simplest, the supermarket model is distinguished by self-service shopping with separate departments for produce, meat, bread and other grocery items under one roof, discount pricing, large-volume procurement and a centralised distribution system.

Savings are achieved by extracting more favourable terms from suppliers: either through demanding lower merchandise prices or greater provision of services, such as special packaging or third-party food safety certification, or demanding payment of fees. Savings are also achieved through paying great attention to managing and evaluating shelf space, and to distribution logistics. Distribution is considered as important as retailing in driving costs out of the system. Savings can be made firstly by eliminating the role of the traditional wholesaler through direct supply from primary producers and manufacturers to regional distribution centres (RDCs), and then on to superstores, and latterly by taking over parts of the upstream distribution network from suppliers where savings are perceived. As food retailing has very high labour costs relative to profits, there has also been much attention to managing labour costs and increasing labour productivity – this is seen to be key to Wal-Mart's cost advantage in the US. Corporate overheads are also closely watched; this means that the technical resources needed to work towards greater sustainability, for instance with suppliers and primary producers, and to collect information from inside the corporate structure in response to civil society demands, may well be seen as a luxury which cannot be afforded in the race to generate consumer value and gain market share.

[4] Retail banner sales (including VAT and/or sales tax) are the sum of the sales of all stores under a retailer's banner.

The lower unit costs and higher net margins that are associated with increased market share and sales density potentially lead to a 'spiral of supermarket growth' (Burt and Sparks, 2003). Features of this spiral are that (a) absolute costs and barriers to entry for competitors are raised, and (b) growth becomes dominated by one or two organisations. The success of Asda Wal-Mart and Morrisons show that investing the revenues of the 'growth spiral' in lower consumer prices has been a successful strategy – in Wal-Mart's Every Day Low Pricing model, savings squeezed from its supply chain are passed to consumers, in order to further grow market share.

Another of the competitive forces that shifted things strongly in favour of retailers is own-label branding (private or own-brand; Wrigley and Lowe, 2002). Own label products return the highest contribution margin or gross profit. Retailers' brands now compete head on with manufacturers' brands through shelf placement and packaging. Own label is not only a huge revenue generator, but also key in enhancing corporate image and customer loyalty. Marketing is based on trust and the defence of quality. Thus supermarkets can pick up new custom with every food scare and animal health crisis, as seen in China with the SARS outbreak.

Retailers are closer to end-consumers and many have developed sophisticated information systems that facilitate supply chain management. Information on consumers from point-of-sale scanners is a source of competitive advantage to retailers and the chain 'insiders' with whom it is shared.

However, for the purposes of this paper, one of the most important features of the modern supermarket model is vertical coordination of agrifood chains with associative (rather than arms-length) supply relationships using preferred suppliers. Supply chain management (i.e. achieving the right mix of products for maximum profit and minimum wastage) is being outsourced to produce suppliers. While the retailer sets the 'rules of the game' for participating in the chains, a key supplier may take responsibility for developing a product category's profile to give maximum returns, such as by devising new packaging strategies, or taking more responsibility for unsold produce. Supermarkets are the major force in the 'private re-regulation' of agriculture and the transition to 'buyer-driven' chains.

2.2 Buyer-driven chains

For products where uniformity and high quality are necessary for further processing, branding and large-scale buying by food service and supermarket chains, it is necessary to introduce forms of traceability and preservation of identity. These 'buyer-driven' chains (Gereffi, 1994, 1999) are characterised by high levels of private sector governance and long-term vertical coordination between producers, supplier-integrators, processors and retailers.

The resulting chains have barriers to entry, including 'voluntary' standards, codes and benchmarks, which can profoundly affect farmers' access to (and entry into) markets. An extreme example is pre-packed 'baby' fresh vegetables – low weight-to-value, highly perishable, high risk, specialised products that are capital-intensive, including the need for investment in the areas of information, logistics, and processing. Producers can expect intense retailer scrutiny with visits to their production sites to ensure compliance with their requirements. The high end of commodity markets – from gourmet coffee to identity-preserved grains – is also now moving in this de-commodified direction, with close cooperative relations between processors and suppliers.

This transition to buyer-driven chains is related to the need for traceability to demonstrate 'due diligence' and manage risk, especially against contamination of food by pathogens (e.g. BSE, *E. coli*), toxins (e.g. dioxins) and alien genes (e.g. Starlink™). It arises from a need for consistency of product and assurance of supply. The advent of information technology to track the 'chain of custody' for differentiated and 'identity preserved' products has greatly facilitated the transition. The possibility of widening the set of product attributes to include the sustainability of production, processing and handling has also opened up. A powerful example was the rapid translation of UK consumers' aversion to GM technology into retailer-driven programmes to purge own-brand supply chains of GM ingredients.

Production contracts and supply chain management are key features of buyer-driven chains, which allow a company to influence production, reduce procurement costs and price risks and maintain flexibility, while avoiding the risks and capital outlay associated with farming.

For those producers within buyer-driven supply chains, there are undoubted benefits. Selling differentiated products into relatively high-value markets can provide enhanced incomes and various forms of technical and other support. But in the medium to long term, 'relationship marketing' and vertical coordination can lead to serious market dysfunctions. For all practical purposes, producers and suppliers/integrators end up with a single buyer even if there are several buyers who could theoretically compete to buy from them; buyers in effect create captive suppliers. The 'co-option of cooperatives' by agribusiness in this way is widespread[5], as is outright ownership, as seen in the Brazilian dairy sector following deregulation. Dedicated suppliers and producer organisations, set up with the aims of enhancing traceability, quality assurance and developing closer links between farmers and consumers, are faced with both the 'chain-insider' benefits (such as being supported through hard times by a processor customer) and 'one buyer' risks of producer–processor partnerships.

Furthermore, with a large proportion of supply traded through non-cash methods of trade, including contracts and marketing agreements, traditional cash markets (with price determined at the time of trade) are disappearing and there is no opportunity for price discovery.[6] Pricing becomes subject to manipulation, and its role in regulating the economy, by establishing equilibrium between supply and demand, is weakened. In other words vertical coordination can bring about market closure and becomes a barrier to pricing efficiency. 'Perfect competition' depends on a free flow of information among market participants, which does not occur in buyer-driven chains. Online auctions are an extreme example of such chains, in which buyers conduct a blind auction, with competing suppliers

[5] Corporate Agribusiness: Co-opting the Co-ops. *The Agribusiness Examiner* 33, May 12, 1999. www.electricarrow.com/CARP/agbiz/agex-33.html
[6] i.e. determining the price level based on supply and demand factors.

trying to offer the best price without knowing what rivals are bidding. The potential anti-competitive outcomes of supply chain management have only recently begun to be explored (Hildred and Pinto, 2002).

Another concern is that farmers working outside these closed chains, such as those who do not have sufficient scale of production to be able to sell directly, can become relegated to the position of residual or top-up suppliers or suppliers to the shrinking wholesale market. Buyer-driven chains require technology, capital, critical mass and organisation to deal with the transaction costs and 'new economies of scale' of certification and standards. The high requirements for entering buyer-driven chains mean that the higher land and labour efficiency of smallholder production is no longer a comparative advantage; the connection between agriculture and poverty alleviation is thereby weakened.

2.3 Buyer power and competition

As processing and retail markets become increasingly concentrated, the balance of power between primary producers and their customers becomes skewed. Whether they are working for retailers or other intermediary traders or processors, corporate buyers are increasingly able to pay suppliers at rates below competitive levels. This can be the case even in ostensibly competitive retail markets.

The concept of the value chain is helpful in analysing the interplay between power and profit along agrifood chains. Cox et al. (2002) use it to describe the 'distribution of revenues from the ultimate consumer at each of the functional stages of the chain' and the 'nature of competition for the revenues at each stage of the chain'. They describe market and supply chain power as a situation in which a business is able to close the market to competitors, and thereby achieve leverage over customers and suppliers. Only then can rents[7] be appropriated from dependent suppliers and/or customers. For a buyer, Cox et al. note that the ideal situation is to be `a monopsonist (i.e. a monopoly buyer) who is able to source from suppliers located in highly contested markets in which there are low switching costs and low barriers to market entry'. This is remarkably comparable to the relationship between suppliers of unprocessed agricultural produce (a highly competitive sector with very low barriers to entry) and supermarkets (concentrated buyers). Intermediaries such as dairy processors or fresh produce integrators have grown and consolidated in line with supermarkets' tendency to outsource responsibility for category management. In doing so, these intermediaries have sometimes managed to match the market power of the retailers. Primary production, however, is where the accumulation of value is most curtailed.

This is seen clearly with the example of bananas, and the impact of the UK supermarket price war which raged in 2002–2003 on the welfare of primary producers (Box 1).

[7] Earnings in excess of a firm's cost of production which are not eroded in the long run by new market entrants.

BOX 1: The UK 'banana wars' 2002–2003 and the race to the bottom

Bananas are currently Britain's most popular fruit, overtaking apples in 1998. Bananas are a 'Known Value Item' – in other words, price awareness among consumers is high. When one leading supermarket drops the price of bananas, the rest are obliged to follow. Until mid-2002, loose bananas in the UK had been priced at £1.08 per kilo for around six years. Then in August that year, Asda Wal-Mart cut the cost to £0.94, thanks to huge volume discounts that they had exclusively negotiated with Del Monte Fresh Produce. Tesco, Sainsbury's and Safeway were compelled to follow. Morrison's took the next step, cutting the price to £0.85, and again all the major retailers followed suit.

Data from Banana Link show that the major retailers are fighting price wars both by accepting lower margins themselves (Sainsbury's claimed to be losing £22 million a year on bananas to keep up with Asda Wal-Mart) and by demanding deep cuts in costs from suppliers. Lower supplier prices are felt keenly in exporting countries; Banana Link's figures show that with a retail value of £0.81/kg it is impossible for a grower in Costa Rica to be paid the legal minimum price for a box of bananas and in turn, it is impossible for that grower to pay for labour at the legal minimum wage. Banana Link calculates that plantation workers receive only 1.5% of the retail value of Ecuadorian bananas. Further consolidation in the UK supermarket sector is being watched with trepidation by unions and smaller scale producers in the Caribbean. At the time of writing (July 04), Asda's price was £0.74/kg.

Date	**Retail price**	**Price to supplier**[a]		**Retail margin**
	per kg	per box	per kg	per kg
12/2001	1.08[b]	£11.00	£ 0.61	£ 0.47
06/2002	1.08	9.50	0.52	0.56
08/2002	0.94[c]	9.50	0.52	0.42
09/2002	0.85[d]	9.50	0.52	0.33
01/2003	0.85[e]	9.25	0.51	0.34
02/2003	0.85	8.50	0.47	0.38
04/2003	0.81[c]	8.50	0.47	0.34
Summer 03 (est.)	0.75	8.00	0.44	0.31

[a] About 4% in 'over-riders' (discount based on sales volume and paid retrospectively by the supplier to the retailer) must be deducted in order to derive the actual price paid to suppliers. These figures are rounded up or down to nearest 25p to protect sources.
[b] This price has held in all major UK multiples since the last Asda-led price war in 1996
[c] This price cut was led by Asda, all others followed.
[d] This cut was led by Morrisons, all others followed.
[e] Attempt to raise the price again to 0.92 was thwarted.

Source: Banana Link

So, why does competition policy allow this situation? There are three key reasons. Firstly, imperfect markets can defy standard economic analysis and provide a big challenge to regulators. Under conditions of a complex monopoly of powerful buyers, industry concentration does not always result in higher prices or greater profits.

Secondly, power can be more of a reflection of size than monopoly. Size confers market power through acquisition, leading to logistical control, economies of scale, barriers to entry for competitors, and/or the ability to remould the social and political environment to its own benefit. Size also confers 'absolute cost advantage' – the ability to outbid smaller companies for resources and ideas, invest more heavily in research and development, set predatory prices, manipulate futures markets, raise external capital or mount lavish promotional campaigns.

Thirdly, competition policy focuses primarily on consumers rather than producer welfare. Even in concentrated markets such as the UK, in which four companies control about four-fifths of the grocery market, the sector is characterised by intense price-based competition between the major players. This appears to demonstrate that concentration has not reached the point at which market power is abused – the consumer's interest is being served by a constant price war. But this obscures the real dynamic of market power, which is being exercised on the buyer side, precisely to underpin this price war. Thus, economies of scale are being passed on to consumers in order to capture larger market share, at the expense of those further up the supply chain. Indeed, firms can have buyer power with a substantially lower market share than is usual in seller power cases. Professor Peter Carstensen of the University of Wisconsin's Law School points to recent challenges to buyer power upheld in court which emphasise that the abuse of such power is of equal concern to competition policy as the more traditional seller power problems.[8]

As increasing scale of retail is premised on the expectation that larger buyers can extract more favourable terms from suppliers in order to deliver price deflation to customers, there is a risk of a shrinking share of overall value for actors further up the supply chain – i.e. primary producers and agricultural workers. As well as reducing their potential returns, evidence suggests that this process also tends to push risk back up the supply chain to the most vulnerable rural sectors.

Sometimes triggered by the widening gap between farmgate and retail prices, farmer protests specifically directed at supermarkets have taken place in recent years in the UK, France, Germany, Ireland, Netherlands, Switzerland and Spain, in a marked departure from typical action aimed at the seats of public political power. Such concerns also apply to commodities produced in developing countries. For example, retail prices for coffee have remained relatively stable, despite producer prices dropping to less than one-third of their 1960 level. This has fuelled accusations of flagrant profiteering from the impoverishment of millions of smallholders. According to a recent UNCTAD round table, annual export earnings of coffee-producing countries in the early 1990s were US$10–12 billion and global retail sales about $30 billion. Now, retail sales exceed $70 billion, but coffee-producing countries receive only $5.5 billion.[9]

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[8] In the US cheese market, Kraft with about 30% of the market found it profitable and attractive to manipulate cheese prices downward to gain price advantage – this is discussed in *Knevelbaard Dairies vs. Kraft*, 232 F3d 979 (9th Cir. 2000) at www.competitivemarkets.com/ocm1.html and www.competitivemarkets.com/library/academic_reports/2002/7-23.htm.

[9] 'Commodities, markets and rural development'. Roundtable meeting organised by UNCTAD in the context of preparations for the High Level Segment of ECOSOC, 30 April 2003, New York. www.un.org/esa/coordination/ecosoc/hl2003/RT7%20summary.pdf

Evidence that large buyers can extract more favourable terms from suppliers – through bulk buying economies, playing off suppliers against each other, or threats of de-listing – is not hard to find. The UK Competition Commission's 2000 report on supermarkets (UK Competition Commission, 2000) clearly shows that the largest supermarket, in this case Tesco, can consistently obtain discounts from its suppliers 4% below the industry average, while the smaller players pay above the odds. With retail margins often quite small, these differences in supplier prices have a profound impact on supermarket profitability, and are a frank demonstration of the link between size and buyer power. The ascendancy of Tesco is a clear indication of the self-reinforcing nature of this 'spiral of supermarket growth'.

As well as through price, market power can also be expressed in various other ways, many of which were highlighted in the Competition Commission report. These included 'requests' for retrospective discounts and promotion expenses, and making changes to contractual arrangements without adequate notice. Oxfam (2004) points to instances where supermarkets have set prices long after produce has been shipped, and demanded exclusive relationships, only to cancel the order subsequently. It is through such practices that buyers pass business risk back up the supply chain. Oxfam argues that the burden of that risk most often falls on the most vulnerable links in the chain, resulting in insecurity and poor conditions for workers and primary producers. Finally, a further expression of market power is the ability to set standards, as already discussed. The key issue is the allocation of costs and benefits between the standard makers and standard takers.

Supermarkets' growing monopoly of the food system cannot fail to attract the attention of farmers and rural activists, animal rights groups, health lobbies, environmental groups and labour organisations, all with very high expectations for improved accountability. But the way in which supermarkets organise themselves and their supply chains, as described in this section, has serious consequences for their ability to respond to calls for greater 'sustainability'.

2.4 Supermarkets and agricultural development in mid- and low-income countries

The dynamics of the export trade from developing countries (especially Africa) to supermarkets in the North have been well documented. 'Insiders' in these chains may be able to prosper through investing in relationship marketing, product quality and brand reputation. The success story of horticulture exports from Kenya is much vaunted – fruit, flower and vegetable exports have increased by 70% since 1995, and are now the country's number two hard currency earner. Export horticulture smallholders have been found to be significantly better off than non-horticulture smallholders, even after correcting for household characteristics such as age, family size, education, land ownership etc. (McCulloch and Ota, 2002). These farmers were found to benefit directly from higher income, and indirectly from credit and extension services. It is also reported that Kenyan export horticulture has led to the development of a strong domestic market, which cushions farmers against external price shocks. However, there remain significant concerns, even in Kenya, that the forthcoming imposition of standards and traceability requirements will significantly restrict the viability of supermarket supply chains involving small producers.

But exports to the North are only part of the story. Supermarket dominance of agrifood is no longer solely an industrialised world phenomenon. Ground-breaking work in Latin America has shown that penetration of transnational retail firms is proceeding at a rapid pace even in rural areas of the 'developing' world, and this is having a marked impact on market structure (Reardon and Berdegué, 2002). Almost all population growth over the next 25 years is predicted to take place in urban centres in low- to middle-income countries, and global retailers are structuring their organisations to follow this relocation of demand. More than 50% of the growth in global food retail is anticipated to be through emerging markets. Certain middle-income and low-income countries are now among the most attractive for global and retail chains (Table 2).

Table 2. Global market attractiveness for modern food retail

	Kearney GRDI, 2003[a]		IGD Market Index 2002[b]	
Country	Rank	% Score	Rank	% Score
Russia	1	72	1	70
Slovak Republic	2	71	1	70
China	2	71	1	70
Hungary	4	67	4	66
India	5	65	4	66
Turkey	6	64		
Morocco	7	63		
Egypt	7	63		
Vietnam	9	59		
Tunisia	9	59		

[a]Kearney Global Retail Development Index: Top of 30 markets. Score based on risk, current market saturation, time pressure. Source: www.atkearney.com.
[b]IGD: Top of 75 markets. Score based on current market size, consumer spend per capita, economic/political rating, infrastructure rating, degree of competition, number of global retailers present, imperative rating, long term growth prospects, strategic importance. Source: www.igd.com.

This means that primary producers and processors are increasingly facing domestic markets that are taking on the characteristics of export markets. Furthermore, supermarket companies have long since moved away from the strategy of serving only the middle classes and expatriate populations. Carrefour, for instance, the most successful hypermarket operator in China, has a stable consumer base in China among people of low- to medium-income levels, through specialised formats.

This trend, although uneven, can be witnessed throughout the world. Supermarkets now control 50–60% of the food retail sector in Latin America – a phenomenal increase from 10–20% in only 10 years. In Guatemala, a leading supermarket chain has concluded that only 17% of the population is out of supermarket reach because of low income or geographic isolation.

China, a country where supermarkets were almost unknown prior to 1990, has seen a migration of consumers from traditional wet market shopping into supermarkets for fresh foods (Hu et al., in press). The modern food chain comprises around one-quarter of the country's food retail sales. Carrefour is now in fifth place overall in food retail and the company plans to operate 70 hypermarkets in the country by the end of 2004 (Table 3). It also operates 100 of its Dia discount format, and has started a supermarket format under the Champion brand.

Table 3. Top food retailers in China, 2004

Company	No. of Stores	Sales Area (sq.m)	Retail Banner Sales 2003 (US$ mn)	Market Share (%)
Lianhua	2,528	1,609,100	3,191	3.2
Beijing Hualian	80	1,288,000	2,511	2.5
Hualian Supermarket	1,402	892,900	2,388	2.4
China Resources Enterprise	2,328	1,821,142	2,228	2.2
Carrefour	226	415,560	1,662	1.6
Wal-Mart	33	509,272	1,633	1.6
Sub Total	6,371	6,120,414	11,951	13.5
Other			88,291	86.5
Total			100,242	100.0

In India, Foreign Direct Investment (FDI) in retail has been prohibited and 'modern' food outlets are restricted to urban centres and account for only around 2% of the $180bn annually spent on food, but this proportion is expected to grow by 30% per year to meet the expectations of India's middle class.

The top ten retailers in Poland are all foreign-owned. By 2005, large retail chains are expected to account for 45–50% of Poland's total food sales, and there is talk of hypermarket saturation, with the number currently standing at 418, up from 266 two years ago.[10]

Supermarkets have a 50–60% market share in South Africa. The South African company Shoprite reports that the 'greatest opportunities for expansion lie outside our borders', and the company now operates in ten countries. The 'South African invasion' has led to concerns being raised about local sourcing in Zambia and Malawi.[11]

The inevitability of supermarket dominance of agrifood chains can be exaggerated and the eventual dominance of retail by 'modern' supermarket formats is not a foregone conclusion. It is clear that the traditional agrifood actors can learn from and respond to these changes, leading to forms of co-existence. Farina et al. (2004) describe how in Brazil, traditional retailing is flourishing in the face of multiple supermarket market power. The number of small traditional retailers and independent supermarkets increased by 33% and 7%, respectively, between 1994 and 2002, while the number of chain retailer stores declined by 21%. The large chains lost market share to independent supermarkets, which increased their share by 10%. Farina et al. explain these trends by describing the market as `an oligopoly with a competitive fringe'; the independent sector ensures that supermarket

[10] For further information, see Dries et al. (2004).
[11] For more information on retail in Africa, see Weatherspoon and Reardon (2003).

dominance does not lead to increasing market power. However, the expansion of new retailers with highly integrated operations and new rules of participation has the potential to pull the market out from under thousands of small and medium rural enterprises. The new private rules of the supermarkets in the red meat sector have pushed dozens of small slaughterhouses and traders out of business.

2.5 Standards

Informal[12] standards and associated certification and labelling schemes have emerged as key tools for managing quality, food safety and various intangible attributes relating to production practices within the supply chains of multiple food retailers and branded manufacturers and processors. A prime example is the EUREP-GAP protocols, designed by a group of European food retailers, primarily with food safety in mind but with some reference to social and environmental issues. This 'private re-regulation' of agriculture fills an institutional gap left by public regulation, designed to ensure quality, consistency and assurance to consumers. However, the relationship of private standards to public regulation, both in their evolution and content, and the extent to which they accurately reflect consumer demands and concerns, is unclear and likely to differ, depending on the standard.

Clearly, standards can bring producers considerable benefits, such as reduced agrochemical use and a framework that guides agricultural and management practice. Conforming to high standards for one retailer opens up new markets for growers; other high-end supermarkets without their own standards will look favourably on suppliers that comply with other retailers' standards. In this sense, standards may drive improvements in competitiveness, with spillover effects in domestic markets, and where they include social and environmental conditions, they have the potential to drive sustainable agriculture. However, more research is needed to draw firm conclusions on these issues – there is very little evidence to date to show that standards are opportunities rather than barriers to trade. What is clear is that, under conditions of skewed market power relations, standards push costs and risks back up the chain. The chairman of Homegrown Kenya Ltd. was recently quoted as saying:

> Each of the markets to which Kenyan produce is shipped sends both commercial and technical representatives to observe and audit what we do here. Some of them make at least three visits in a year. In addition we have the British Retail Consortium that checks our pack stations to ensure that they meet European standards. There is also the Ethical Trading Initiative that looks into the issue of the awareness of horticulture farmers about the social impact of their activities. I would say that Homegrown spends about Ksh2–3 million [EUR 20–30,000] per month [to meet these market standards].[13]

Although often labelled as 'voluntary' standards, in that they are not imposed by regulatory authorities, such requirements often act as entry tickets into the market – producers must comply with the standards, and be able to demonstrate that they have done so, or their

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[12] By informal we mean private standards, as opposed to regulatory or statutory standards.
[13] *Horticulture Faces Serious Threats*. Interview with Rod Evans, the Chairman of Kenya Flower Council, and the Chairman of Homegrown Kenya Limited conducted by Market Intelligence journal.

products will not reach the supermarket shelves. Furthermore, as markets mature, meeting standards is no guarantee of a market premium; they become an 'unfunded mandate' and arguably demonstrate a disproportional allocation of costs and benefits between standards 'makers' and standards 'takers'. When combined with buyer power, the costs and efforts necessary to meet the standard, demonstrate that it has been met and allow for traceability down the supply chain, are likely to fall on the producer.

Standards can be regressive, in that an ability to meet them, and to go through the procedure of demonstrating that standards have been met, is related to the size of the producer. By applying a 'one-size-fits-all' model, the standards may include inappropriate expectations for small and poorly resourced companies. But often it is the process of demonstrating adherence to the standards that is the barrier. Where producers are required to pay for inspections or certification, the cost is the same however large the company, so large producers can spread the cost of certification across their entire operations. This is a clear economy of scale, which can exclude small producers if it is not taken into account in the design, and implementation of the standards and certification procedures. Such transaction costs related to inspections, audits etc. drive the rationalisation of supply chains, with a few large suppliers preferred to many smaller suppliers. It is not yet clear how far group certification and outgrower schemes can go towards addressing this issue.

There is much debate over the impact of standards on both industry structure and future prospects for producers in developing countries. The number one Brazilian retailer CBD (Pão de Açúcar, Extra and CompreBem Barateiro formats) is now in the process of enforcing exacting standards in its supply chains, and a huge drop in supplier registers is foreseen. Representatives of developing country producers have expressed alarm at the 'imposition' of EUREP-GAP standards by retailers without due consideration of local conditions. They claim that current standards favour large-scale producers and threaten the livelihoods of 'hundreds of thousands of people' in exporting countries such as Kenya, and as they become, in effect, a barrier to market entry.

However, the importance of private standards relative to other requirements of market entry should be viewed in context. Firstly, these discussions are by no means limited to private standards. The impending EU food safety regulations due to come into force in January 2005 will make it mandatory for all fruit and vegetable products arriving in the EU to be traceable at all stages of production, processing and distribution. It has been suggested these regulations could cost Kenya some Ksh26 billion (EUR 325m) annually in missed export earnings, and drive further consolidation in the export horticulture sector. Indeed, it may be that private standards are in effect an interim intervention by the private sector, until state regulation and the capacity to implement it are developed. Secondly, standards are but one form of market entry requirement. In most circumstances, others such as volume, consistency of supply, proximity to transport links and access to capital are likely to be equally as important, and there will be many producers who would be automatically excluded from supply chains anyway, irrespective of private standards.

3. What we don't know – areas of debate and disagreement

The impacts of increasing corporate concentration in agrifood markets remain highly contested. In particular, the inevitability of the increasing global dominance of the supermarket model remains disputed; the impacts of private supply chain standards are as yet unclear; and predictions of the demise of smallholder farming are tentative. What is clear is that the agrifood distribution sector is undergoing a significant restructuring process, which has been largely overlooked by public policy. Here we map out a number of areas that remain under debate, and possible policy interventions leading from these.

3.1 Enhancing opportunities for small producers

Discussions during the recent DFID e-forum highlighted the relationship between agribusiness and smallholders as a key factor in growth and poverty reduction. The impacts of increasing concentration, particularly at the buyer level, are perhaps most keenly felt by small producers, as this is where the disparity in power is greatest. However, there remain some key areas of debate in this regard, as follows.

Can small producers be expected to play a role in buyer-driven chains?

The relative merits of smallholder-based and plantation-based agricultural development *per se* have been widely debated (see for example the growth and poverty group of DFID's e-forum) and these arguments need not be repeated here. But if highly concentrated buying regimes and buyer-driven chains do become the norm, even in low- and middle-income economies, it is important to establish whether it is realistic for smallholders to participate in them. While there is some evidence to suggest that smallholders are likely to lose competitiveness on the basis of increased transaction costs, as discussed above, there are also indications of the reverse, with some companies shifting to outsourcing arrangements. For example, in one submission to the e-forum, Dick Tinsley notes that `the major tea companies in Tanzania are looking to smallholders to expand their leaf production rather then expansion of their own holdings. This is mostly to avoid a 220% fringe benefit package they have to provide employees including housing, day care, education and health clinics.' Equally, we need to test the assumption that the viability of smallholder agriculture depends on participation within buyer-driven chains. Ultimately, this depends on the extent to which local or bulk markets – and opportunities for casual employment as part of diverse livelihood strategies – continue to offer alternatives.

Who is responsible for building small producers' capacity?

During the DFID e-forum, Martin Evans argued that linking agribusiness to smallholders can provide a means to fill the institutional vacuum left by the withdrawal of state extension service provision. This withdrawal has left a legacy of small producers with insufficient access to knowledge, finance and skills, in relation to both production and marketing. The prospect of agribusiness filling this gap is an attractive proposition for donors and public authorities, who are keen to find ways to build the capacity of smallholders to engage in export and other buyer-driven markets. This depends on exporters or other consolidating intermediaries that can provide such support, who in turn require some guarantee of longevity of contract from buyers, to justify the investment. But large buyers are unlikely to commit to such arrangements, preferring to remain footloose and able to source globally. There is a need to assess whether the counter-trend of 'preferred suppliers' engaging in long-term trading relationships around standards and traceability can support such a model of support to outgrowers, and under what conditions this can operate successfully.

In many cases, there will be calls for public funds to contribute to the cost of capacity building, where there are clear poverty reduction benefits. However, there is considerable disquiet at the notion that public funds should be used to help producers meet private standards, which critics argue are primarily designed to manage risk and/or achieve market benefits for the buyer. A better understanding of the allocation of costs and benefits of standards along the supply chain is therefore crucial, in order to establish a reasonable allocation of responsibilities in line with anticipated benefits for the different actors.

Producer organisations: cooperating to compete?

The most obvious advice for small-scale and family farmers responding to the changes in agrifood organisation is to treat the changes as the new commercial reality, and to organise themselves to engage with this reality. This is the logic of `small farmer economic organisations' (SFEOs; Berdegué, 2001) in the developing world and 'new generation' cooperatives in the industrialised world. Both have similar drivers: producers realising that in a chronically oversupplied market, a marketing mentality – in which organisations perform at higher levels of specification, coordinate technology use and improve scheduling – is necessary to contract into differentiated agrifood chains. A SFEO may be set up by producers around a common interest such as generating improved income, through the joint production and/or marketing of a commodity; accessing market information; unifying their production goals; and possibly extracting themselves from the grasp of middlemen and farmgate buyers.

Participation in economic organisations can bring significant economic benefits when the organisation operates in buyer-driven chains with high transaction costs, such as dairy (Berdegué, 2001). They are well placed to deal with the management requirements of regulations and inspections associated with buyer-driven chains. Success depends on group solidarity, collective bargaining techniques and institutions that enforce contracts impartially and secure long-term property rights (Vorley, 2002). To fill the gap left by the abolition of national stabilisation schemes and state trading enterprises, economic organisations could also transfer part of the risk of price volatility to the market using hedging strategies as proposed by the World Bank.

However, when transaction costs are low, as they are for undifferentiated commodities like wheat and potatoes, there may be no benefits from collective activities. And in terms of managing price on a large scale, economic organisations of growers cannot hope to be a substitute for governments as organisers of exports. The much-vaunted advantages of shortening supply chains and making then more transparent will not benefit farmers when more powerful actors appropriate any ensuing savings. The development of cooperatives in the context of globalisation and open borders faces the obvious dilemma: how to reach the required size to exercise countervailing power against transnational agribusiness and retailers that are scouring the globe for their supplies. There is a clear danger of loading an overly ambitious set of expectations on SFEOs as direct market actors in an era of deregulation and trade liberalisation (Muñoz et al., 2004).

Engaging producers in standard-setting

As supply chain standards become a key tool for managing risk and providing assurance to buyers and their customers, the potential for small producers to be excluded from markets increases. Understanding the scope for equity in standards, and how to move towards a more democratic standard-setting regime, will be crucial in implementing less exclusionary supply chain practices. This will require work in three key areas: how to improve consultation processes when setting standards, possibly including the involvement of directly affected stakeholders[14]; how to provide the necessary levels of assurance without overly complex or expensive auditing and verification procedures; and what forms of smallholder organisation and internal control mechanisms are most appropriate.[15] There is also a need to develop much better data on the importance of standards relative to other market entry conditions such as volume requirements.

Redefining the corporate responsibility agenda

The stock market likes buyer power, seeing it as a measure of a 'sustainable business' that will generate competitiveness, profits and shareholder value. Thus voluntary self-regulation as a tool for improving agrifood companies' dealings with their suppliers and ultimately with small and family-scale producers will be limited both by shareholder pressure and company mindset. Equity and fairness in trading are almost entirely absent from the gamut of benchmarks, codes and standards for corporate responsibility. Very few corporations seem to have made any significant moves to bring the Corporate Social Responsibility (CSR) agenda onto their buying desks, the sharp end of agribusiness' trade with their supply chain. Indeed, Oxfam (2004) point to evidence that `one root cause [of labour problems within supply chains] is the pressures of retailers' and brand companies' own supply-chain purchasing practices, undermining the very labour standards that they claim to support.'

Retailers point to a commitment to Fairtrade labelled goods as sign of commitment to trade justice. But there are a number of reasons why Fairtrade labelling alone is a weak proxy for company commitment to fairness and justice in trading. Firstly market size; even in the UK, which has a well-developed Fairtrade market, sales accounted for only 0.13% of the £76bn spent on food and drink in the UK in 2003, or 0.07% if catering services are included. Secondly, many retailers have positioned Fairtrade as an up-market de-commodified niche rather than a means to transform their mainstream businesses. In effect, retailers have made fairness and justice in trading a consumer choice rather than a corporate standard. Consumers can feel vindicated by their purchases of a few fairly traded goods. But we must

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[14] Some useful guidelines in this regard have been developed by the International Social and Environmental Accreditation and Labelling (ISEAL) Alliance, designed in relation to member organisations' social and environmental standards, but with wider application in mind. www.isealalliance.org.

[15] IIED is involved in a three-year process with DFID to identify ways to develop non-exclusionary standards, using EUREP-GAP and other retail-driven standards as references.

ensure that we are not deluding ourselves that we can niche-market our way out of a commodity crisis.

Fairtrade has four key elements: (1) direct purchase, (2) guaranteed minimum price and price premiums, (3) credit allowances, and (4) long term relationships. Incorporating these principles (or at least 2–4) into contracts on a much wider scale can be implemented without being trumpeted as 'fair trade' or becoming branded as a 'fair trade store'; rather, it becomes a corporate standard, whereby customers walking into a store or buying a brand are reassured that their purchases have not contributed to the exploitation of producers and workers. A branded food manufacturer or retailer might adopt this approach, and apply fair trade concepts to all of its trade with the developing world.

Another ingredient of Fairtrade in non-plantation sectors is procurement from smallholders. It is not clear whether it would be possible to bring this to the centre of the corporate responsibility agenda, to create corporate commitment to rethinking supply chain management in favour of smallholders, including ensuring 'equity in standards'. This would mean finding ways to create incentives for buyers to preferentially source from smallholders. Companies could be obliged to include elements of their contributions to pro-poor growth – especially through their buying policies rather than philanthropy – within their CSR reports.

3.2 Tracking and tackling market concentration

As well as dealing with the impacts of market concentration and buyer power, it is worth exploring possible policy interventions that could tackle concentration directly. This raises two issues of continuing debate – first, what institutional framework is required to track concentration and consolidation, and second, the scope for new forms of competition policy.

Tracking market concentration

The debate about market restructuring and smallholder access to markets suffers from a poor information base, including the extent of corporate concentration in global food chains. We do not know how important market restructuring is relative to other policy objectives, especially reducing border protection, tariff escalation and subsidies in the North. This remains a contested area (cf. Ray et al., 2003). Considering how much of agrifood trade, processing and retailing is in the hands of a small number of corporations, the case for monitoring transnationals at the global level should be pursued as a matter of urgency. The roles of the now extinct UN Centre for Transnational Corporations (UNCTC) included information collection, research, policy advice and development of standards of behaviour. These institutional functions have only partly been superseded by UNCTAD's programme on Investment, Technology and Enterprise Development, the UN Global Compact and the OECD Committee on International Investment and Multinational Enterprises, which oversees the OECD Guidelines for Multinational Enterprises.

Revisiting competition policy

The exercising of buyer power across national boundaries highlights the major weakness of global regulation of competition. Economic globalisation has made it necessary to improve world governance on questions of monopoly and competition. No international competition standards exist to regulate corporate activity from one continent to another. In the UK, for example, the authorities' main remit is over UK or EU consumers, to protect their welfare against monopoly and seller power. As discussed earlier, buyer power attracts less interest from competition authorities, particularly when it is exercised in the interest of consumers. The remit of these domestic competition authorities does not extend to overseas producers. If a UK-based company exerts buyer power to push down producer prices when it (or its suppliers) buy cocoa in Ghana or beans in Kenya, this would be a matter for the Ghanaian or Kenyan competition authorities. There is clearly a need to revisit the nature of competition policy, to examine how it could take greater account of the abuse of buyer power and work more effectively across borders, as suggested in the agriculture and trade theme of DFID's e-forum. There is heated debate as to whether the World Trade Organization (WTO) is the right forum to address global competition issues. The development of a WTO Competition Law Framework is headed in a very different direction: simplifying regulation across national boundaries to facilitate transnational commerce and market access for industrialised country goods and services.

3.3 Examining the relationship between voluntary and regulatory standards

The role of private standards remains a contentious issue. At the heart of criticisms of voluntary standards is that they are often developed in the interests of the buyer, with little or no reference to public regulations, or concern about their impacts on others in the supply chain. It is often not clear whether standards really provide a true reflection of consumer demands and concerns, and even where they do, whether these concerns should take precedence over national policy goals in other jurisdictions. However, it is clear that there is insufficient capacity to implement even basic labour and environmental legislation in many countries. In this context, private standards and associated management and verification processes can provide a useful parallel mechanism to raise standards and provide protection for workers and other vulnerable stakeholders.

As noted above, it may be that private standards are in effect simply an interim intervention by the private sector, until state regulation and the capacity to implement it are developed. It is arguable that private auditing regimes could enable public inspectorates to focus their scarce resources on sectors and operations that would benefit most from this attention, if private standards could be used as a proxy for adherence to public standards. But for this to be the case, it is important that private standards are closely linked to domestic legislation. Now is the time to examine how to ensure that private standards leave a legacy of enhanced regulatory capacity, rather than supplanting and undermining state capacity, for example on food safety, labour and environmental issues.

Exploiting the advantages of market concentration

Corporate concentration has its advantages. The narrow bottlenecks in supply chains are points where major change can be effected – either to drive more sustainable production systems (e.g. through a commodity stewardship approach), or as focal points for civil society scrutiny. Clay (2004) estimates that there are globally only around 300–400 buyers handling 80% of traded commodities. Grievink (2003) estimates that in western Europe, only around 110 buying desks represent about 85% of the total retail food (not foodservice) sales of the western European countries. For civil society, the options available to make best use of these bottlenecks are either to draw attention to the best corporate performers (as undertaken by the 'Race to the Top' project on UK retailers[16]) or the construction of league tables and 'naming and shaming' companies with a history of poor performance. The ethical investment community is hungry for such information so that they can allocate their resources to companies with a verifiable record of non-exploitative trading practices. From a campaigning point of view, the issue of buyer power in agrifood chains is complicated by the fact that price wars are being fought 'in the public interest' by putting cheaper food on the shelves and providing 'consumer value'. There are many more consumers than there are producers, and pro-farmer advocacy has to ensure that consumer welfare is not lost in the debate about producer prices. Civil society groups can build on the successes of the Fairtrade movement, by shaping the debate around the connections between shopping choices, investment choices and rural livelihoods.

4. Closing the evidence gap

Each of the issues identified in the previous section leads to an evidence gap that requires further research. Given the political nature and the complexity of these issues, it is not clear that answers will emerge from a formal research process alone: various forms of dialogue and policy process will no doubt be as important as research itself. Many of these issues are already being researched in some form. Below we propose a set of key objectives for researchers, governments, donor agencies and businesses.

- **Understand agrifood market concentration and restructuring from a rural development perspective.** Build a comprehensive database on corporate concentration in trading, processing, manufacturing and retail sectors across borders. Develop a far better information base on the degree of market transition from bulk commodity/staple production to buyer-driven chains, and the real impacts of supermarkets in mid- and low-income countries relative to other drivers of agrifood restructuring (see Box 2). Support research on how easily saturated the new quality markets are. Better understand trends of food retail, especially the role of public policy in supporting alternative retail formats such as wet markets and wholesale markets. Understand the role of supermarket 'deep discounters' and their potential to hasten a process of agrifood commodification. Understand the spillover effects from restructured middle-income countries into fragile markets, and their impacts on domestic production, food security and dietary patterns.
- **Encourage less exclusionary supply chain practices.** Investigate consultation processes in setting standards, and how they can be improved (see Box 3). Define the necessary levels of assurance that should be provided within supply chains in order to truly reflect consumer demands and concerns, without unnecessarily complex or expensive auditing and verification procedures. Analyse how the costs and benefits of standards are allocated along the supply chain. Review the importance of standards relative to other market entry conditions such as volume requirements.

[16] www.racetothetop.org

- **Understand the role of producer organisations.** Investigate the extent to which producer organisations can act as a countervailing force in concentrated markets, and what forms of smallholder organisation and internal control mechanisms are most appropriate. Define which supporting policies are most effective, both in producing and consuming countries.
- **Match competition policy to buyer power.** Take a fresh look at regional and global competition policy as a brake on excessive buyer power, with agrifood as a first priority. Critically review justifications for viewing supply-side competition problems separately from conventional competition analysis.
- **Incorporate fairness in trading as a corporate standard.** Businesses should research the options for mainstreaming fair trade rather than presenting it as a consumer choice. This could include rethinking supply chain management in favour of smallholders, and ensuring the inclusion of the standard 'takers' in standards-setting processes. Research is needed on the feasibility for a branded food manufacturer or retailer to apply fair trade concepts to all of its trade with the developing world, and the supporting policies needed to bring procurement from smallholders into the centre of the corporate responsibility agenda, such as incentives for buyers.

BOX 2: The 'Regoverning Markets' project – securing small producer access to retail-driven chains[17]

A collaborative research project is currently investigating the growing concentration in the processing and retail sectors of national and regional agrifood systems and its impacts and implications on rural livelihoods and communities. This builds on pioneering work by research networks, which include Michigan State University and the International Farming Systems Research Methodology Network (RIMISP). The project also examines the role of primary producers and their economic organisations in negotiating market access and improving terms of trade in specific agricultural supply chains. The aim is to analyse and improve the strategies by which smaller-scale producers and rural entrepreneurs respond to agrifood restructuring in ways that enhance their ability to compete in national and regional markets and strengthen the resilience of rural economies.

The project is being carried out through seven regional hubs: Southern Africa, East Africa, South Asia, Southeast Asia, China, Central & Eastern Europe, and Latin America.

The project is being conducted in two phases by the International Institute for Environment and Development (IIED), in partnership with RIMISP and the Royal Tropical Institute (KIT) and local institutions, with the support of DFID. By November 2004, Phase 1 will develop an analytical framework and current overview of the extent of agrifood system restructuring in the four study regions. Phase 2 will take a much closer empirical look at how small scale producers interact with retail-driven chains, and the forces of inclusion or exclusion.

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[17] www.regoverningmarkets.org

BOX 3: Small producers and standards in agrifood supply chains

This project seeks to identify ways to develop non-exclusionary standards. Over the next three years, DFID and IIED will work with stakeholders to establish what can be done at individual company level and through policy measures to try to ensure that supply chain standards and other procurement practices of supermarkets and agrifood processors do not discriminate against small producers in developing countries. The project will seek to work on a strongly collaborative and constructive basis with supermarkets and other actors, recognising the commercial realities of the highly competitive food retail market and the need for rigorous supply chain management.

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