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US SUPERMARKET SUPPLY CHAINS

ENDING THE HUMAN
SUFFERING BEHIND
OUR FOOD



OXFAM



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Cover photo: A woman farmer at a banana farm in Southern Africa, which is supported by Oxfam. Photo: Abbie Trayler-Smith

This paper puts the key findings of Oxfam's Behind the Barcodes campaign report in a US context. R. Willoughby and T. Gore. (2018). *Ripe for Change: Ending human suffering in supermarket supply chains.*



OXFAM

Oxfam is a global organization working to end the injustice of poverty. We help people build better futures for themselves, hold the powerful accountable, and save lives in disasters. Our mission is to tackle the root causes of poverty and create lasting solutions.



INTRODUCTION

Big supermarkets¹ have become big business in the United States. In 2016 alone, US supermarket sales topped \$668bn.² Major food retailers employ 4.8 million people nationwide; around the world, millions more are employed in the production of the food and beverages they sell.³

Over the last 25 years, the supermarket sector in the US has seen increased consolidation from mergers and acquisitions. In 2016, the top four retailers controlled over forty percent (40.3%) of total market share,⁴ compared with just 17% they controlled in 1992.⁵ With this greater market concentration has come a sharp increase in profits and growth in dividend payouts to shareholders and compensation for executives. For example, Walmart's CEO received over \$22.3m in 2017, representing a 1,487% increase in just 20 years.⁶ Meanwhile Kroger's CEO has seen a 1,458% pay rise, from \$905,212 in 1997 to \$13.2m in 2016.⁷

Given their tremendous market power and growing profits, food retailers can afford to act ethically and equitably. Unfortunately, the market leaders have failed to live up to this responsibility, instead using their huge buying power to exert continual pressure on their suppliers to cut costs and absorb risks. As detailed in Oxfam's report *Ripe for Change*,⁸ the depression of prices paid to suppliers by supermarkets, coupled with the lack of adequate government support for small-scale farmers and workers in many sourcing countries, has made human and labour rights violations more likely and driven increasing inequality in how the value of the US consumer's supermarket dollar is shared. The following paper, *US Supermarket Supply Chains*, looks at this data through a US lens, detailing the report's research findings most relevant to food retailers and the domestic supermarket sector.

New research for Oxfam shows the extent of this unequal distribution of value across supermarket supply chains.⁹ Across a sample basket of food products, supermarkets in the US have kept an increasing share of the money their customers spend at the checkout, rising from 45.2% in the mid-1990s to 46.9% in 2015.¹⁰ But the picture is quite different at the other end of the chain. Across the supply chains of products like Colombian coffee, Thai shrimp and Peruvian avocado, small-scale farmers and workers captured just 5.9% of the end consumer price in 2015, down from 10.5% in the mid-1990s.¹¹ Our analysis suggests that these same farmers and workers are unable to earn enough for a decent standard of living, and may face a range of other human and labour rights violations – from forced labor¹² to discrimination and violence against women—while working at the sharp end of global supermarket supply chains.

Oxfam's new Behind the Barcodes campaign¹³ challenges supermarkets to address the growing inequality in their value chains; as supermarkets see growing profits, they have a responsibility to address issues of low earnings and inhumane treatment of the people who produce the food that stocks their shelves. As part of this, Oxfam's new Supermarkets Scorecard (presented in Section 6) assesses many of the leading US retailers to better understand how they perform when it comes to measuring social risks in their supply chains and how they can take action to address those problems. It shows an urgent need to better address those abuses that are commonly found in the products they source through increased commitment to policy and practice changes.

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* * *

A DIFFERENT WAY OF WORKING

Oxfam sees a path forward where supermarkets can use their power and influence to help reduce the inequality in their value chains. Supermarkets have the ability to satisfy their shareholders while still respecting the rights and livelihoods of the producers and workers who source their food.

Oxfam is calling on retailers to:

- Radically improve transparency in the sourcing of food;
- Know, show and act on the risks of human rights violations faced by women and men in supermarket supply chains;
- Guarantee safe working conditions and equal opportunities for women;
- Fairly share the significant revenues in the food industry with the women and men who produce our food.

Supermarket trolley and shelves. Photo: Shutterstock



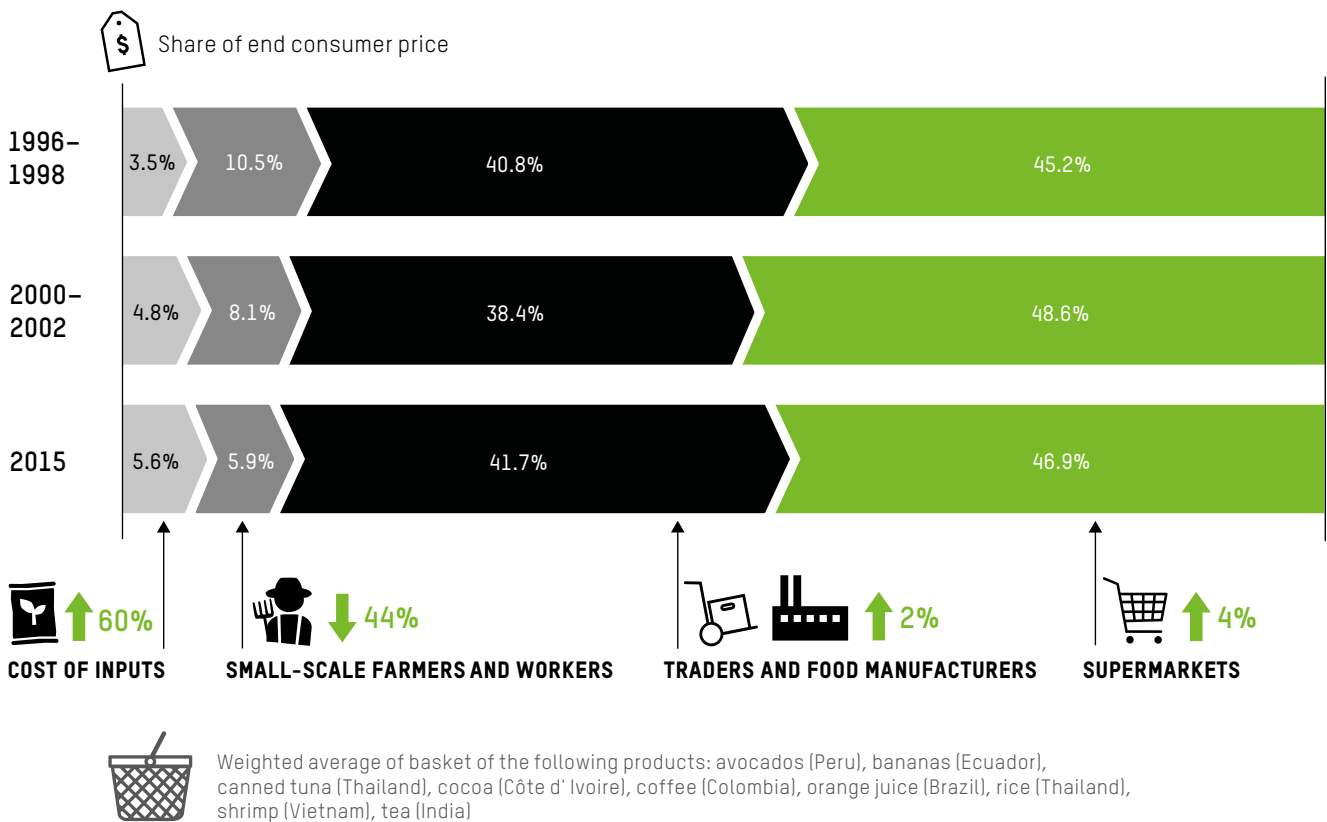


1 GROWING INEQUALITY IN SUPERMARKET SUPPLY CHAINS

FROM SHRIMP PROCESSING PLANTS TO COFFEE FARMS: MORE VALUE FOR RETAILERS, LESS FOR SMALL-SCALE FARMERS AND WORKERS

In the competition for market share, supermarket retailers race to slash prices in order to lure consumers. That puts pressure on suppliers to make up the difference by cutting costs and reducing payments to workers and small-scale producers. According to a new study for Oxfam by the Bureau for the Appraisal of Social Impacts for Citizen Information (BASIC),¹⁴ in 2015 US supermarkets captured almost half of the value (46.9%) created across a sample basket of food products sourced from around the world (see Figure 1). At the same time, just 5.9% on average reached the small-scale farmers and workers behind these products—a number that has dropped significantly, from 10.5%, in the last 20 years.

FIGURE 1: INEQUALITY IN FOOD VALUE CHAINS SUPPLYING THE US IS PRONOUNCED



Source: C. Alliot et al. (Forthcoming). Distribution of Value and Power in Food Value Chains. Oxfam-commissioned research undertaken by BASIC.

While the supermarket industry as a whole has seen only a steady increase in profit over time, the increased consolidation of the sector has meant significant profit increases for the surviving (and largest) retail entities.

This growing disparity between the increasing profits for the biggest retailers and diminishing value for small-scale producers and workers is particularly extreme for certain commodities—many of which represent staples in consumer shopping carts. For example:

Supermarkets have captured a growing share of the value of coffee from Colombia sold in the US, rising from 38% in 1996–98 to 49% in 2015. In 2015, small-scale coffee farmers in Colombia saw just 7% of the value from their products, and BASIC’s projections suggest that may drop to just 2% by 2030 on current trends. The share of value of avocados from Peru retained by US supermarkets has also increased substantially between 2000 and 2015, rising from 45.5% to 55.5%, while the share of the value for avocado plantation workers has dropped from 6% to just 5%. BASIC’s projections suggest that by 2030, on current trends, the share of value captured by US retailers may increase significantly, to nearly 70% (69.5%), while avocado workers may see their share drop below 1%.¹⁵

Shrimp is the most consumed seafood product in the US and here too, retailers are capturing a growing share of the value of the shrimp they sell. Between 2000 and 2015, US supermarkets have more than doubled their share of value from shrimp sourced from Vietnam, rising from 21% to 46%, while the share left for small-scale shrimp farmers and workers has shrunk from 5.5% to just 1%.

During the last 20 years, US retailers have also nearly doubled the share of value they capture from shrimp sourced from Indonesia and Thailand, to nearly 50%, with processors now receiving just 7%.¹⁶

Mu is 29 and the mother of three children, all of whom are back at home in Myanmar. She is a shrimp peeler in Thailand earning a daily rate of 310 THB, or about \$9.30, plus overtime. If there is no overtime for a few weeks, she is unable to send money to support her family.
Photo: Suthep Kritsanavarin/Oxfam





2 THE GROWING POWER OF THE TOP SUPERMARKETS

The last 25 years have seen a significant trend toward market concentration resulting from increased consolidation (i.e. mergers and acquisitions) in the US food retail industry. This concentration of market share and profit in the hands of a few institutions has not only reduced consumer choice, but has also given rise to the disproportionate buyer bargaining power which is at the root of many detrimental trade practices.

Table 1 provides estimated percentages and rankings of 2016 market share for some of the largest food retailers (by sales) in the US.¹⁷

TABLE 1: A SMALL NUMBER OF SUPERMARKETS HOLD A LARGE MARKET SHARE

Company	Market share (2016)
1. Walmart (including Sam's Club)	20.7%
2. Kroger	8.9%
3. Albertsons	5.6%
4. Costco	5.1%
5. Ahold Delhaize	4.2% ¹⁸
7. Whole Foods/Amazon (aggregated market share) ¹⁹	2.5%

In 1992, the top four players accounted for 17% of the total industry sales; in 2013, their share had risen to around 36%.²⁰ By 2016, the top five US food retailers held almost half (44.5%) of total market share, with the top four alone accounting for 40.3%.²¹

The trend towards consolidation is not confined to the food retail sector: mergers and acquisitions of major US companies have been on the rise in recent years across all industries. Some experts believe this is primarily the result of the dual phenomenon of historically low interest rates, which make debt cheap, and record corporate cash reserves (which some economists believe is the result of how corporate tax systems are structured).²² This new way of working has allowed retailers to grow by acquiring existing entities rather than creating new ones, while at the same time eliminating competition.²³

BOX 1: EXAMPLES OF RECENT MERGERS IN FOOD RETAIL INDUSTRY

Ahold/Delhaize

In June 2015, Ahold (headquartered in the Netherlands) merged with one of its biggest competitors, the Belgian Delhaize Group, for around \$12bn, creating one of the world's largest food retail companies.²⁴ The transaction also brought four popular East Coast US supermarkets under the same parent company: Stop & Shop and Giant stores (formerly Ahold subsidiaries), and Food Lion and Hannaford (formerly Delhaize brands).²⁵ According to *Food Retail Industry Insights – 2016*, 'By merging together, management believes they will lower operating and purchasing costs to compete with Walmart and expand the reach of Ahold's online grocery store, Peapod, the largest of such services in the U.S., to compete with Amazon.'²⁶ Such consolidation lowers operating costs by reducing the amount of supply chain infrastructure required (e.g. the company can use existing warehouses and distribution centers) and lowers purchasing costs by increasing the retailer's bargaining power, as discussed above. It appears market consolidation is good for business: US profits are up at the merged Ahold Delhaize entity.²⁷

Albertsons/Safeway (Cerberus)

In 2006, previously publicly traded Albertsons (listed on the New York Stock Exchange) agreed to sell its business to a group of independent investors (led by Cerberus Capital Management) for \$17.4bn.²⁸ Eight years later, the Cerberus-led group acquired Safeway (via Albertsons) for \$9.4bn, creating the second largest traditional grocery chain in the US and establishing a network of 2,200 stores across 33 states.²⁹ Less than six months later, Albertsons filed for an initial public offering (IPO); this was almost immediately delayed following a poor earnings results announcement from industry leader Walmart.³⁰ (Some analysts believed Walmart's strategy of earning profits 'by pushing an unsustainable price and cost strategy' caused it to have effectively 'overearned all along.'³¹)

Amazon³²/Whole Foods

Although an acquisition had been rumored for months, Amazon's June 2017 announcement that it would be buying Whole Foods for \$13.7bn took the market by surprise.³³ The acquisition (closed as of August 28, 2017) is particularly notable for both the move it marks by Amazon further into the brick-and-mortar space, as well as the manner in which it came about—some believe as a result of behind (and in front of) the scenes maneuvering by Jana Partners, an activist investor group, which reportedly made a profit of \$300m from the sale.³⁴

Sourcing from and supporting small-scale farmers (including providing \$21m in low-interest loans to scale up farm operations) has historically been a stated priority of Whole Foods.³⁵ However, even before the Amazon acquisition, pressure from Jana to increase profits by lowering consumer prices had already had an impact. In April 2017, Whole Foods had announced a move away from its regional purchasing practices, which allowed it to feature smaller, local organic producers, toward a centralized purchasing and distribution system that would allow it to lower prices.³⁶

Given the effects of market consolidation on workers, it is unsurprising that many advocates expressed concerns about the Amazon/Whole Foods acquisition that mirror systematic concerns within the industry. In connection with the Amazon deal, the United Food and Commercial Workers Union submitted a letter to the Federal Trade Commission warning that the proposed merger could put workers out of jobs and limit consumer choice by putting other retailers out of business. The letter also noted that the merger would likely result in the surviving entity having an 'unfair advantage with suppliers' that could ultimately harm small and mid-scale suppliers that are unable to meet the retailer's demands.³⁷



Grapes: Photo: iStock

Food retailers offer a number of rationales for both the growing trend toward consolidation and the increasing cost-cutting pressure they are applying down the supply chain. These all tend to fall under the category of ‘the market competition made me do it,’ but—as explored further later in this paper—circumstantial market forces do not fully explain the extent of the cost-cutting pressure that retailers put on their suppliers. In fact, market data indicates that food retailers have enjoyed a steady increase in profits and a steep rise in CEO compensation in the last couple decades.³⁸

3 POINTING FINGERS – NEW AND GROWING PLAYERS IN THE RACE TO THE BOTTOM

THE GROWTH OF E-COMMERCE

One of the most common supermarket responses to criticism of unfair trading practices is to cite the growth of big-box warehouse stores and e-commerce.³⁹ It is true that e-commerce food retail is a growing industry: a joint report of Nielsen and the Food Marketing Institute (FMI) found that ‘around a quarter of American households currently buy some groceries online, up from 19 percent in 2014.’⁴⁰ But the lines between traditional grocers and the more modern institutions of warehouse stores and e-commerce providers have blurred, and a number of the top food retailers engage in and are actively growing their online operations.

Amazon—the world’s eighth largest general retailer⁴¹—has become a leader in this area, probably fueled in part by the development of its online fresh grocery product line, AmazonFresh.⁴² Traditional brick-and-mortar grocers, however, are also competing in the online arena.

Amazon held 26% of market share for online food and beverage sales in 2016; Walmart was close behind, with 16%.⁴³ Kroger and Ahold Delhaize (through its online store, Peapod) each also held 2% of market share in this category.⁴⁴ According to media reports, Ahold Delhaize intends to double its e-commerce sales in the next three years, from its 2016 total online sales of €2.3bn.⁴⁵ Industry reports indicate that Cerberus plans to grow Safeway’s online grocery sales platform, Groceryworks.com.⁴⁶

There are also a couple of notable independent online grocery delivery competitors: Instacart (in which Whole Foods is an investor⁴⁷) and Fresh Direct (although it currently operates only in the New York Metropolitan area).⁴⁸

THE RISE OF THE DISCOUNTERS

In addition to the market effects of increased consolidation, the last few years have seen entry into the US food retail space by German discount supermarket Lidl, and significant expansion of its rival, Aldi South (which operates in the US as Aldi). Aldi already enjoys 1.3% market share and in 2017 announced a plan to expand to 2,500 stores in the US by 2022.⁴⁹ Lidl opened its first 100 stores in the US in June 2017 and already has plans to expand.⁵⁰

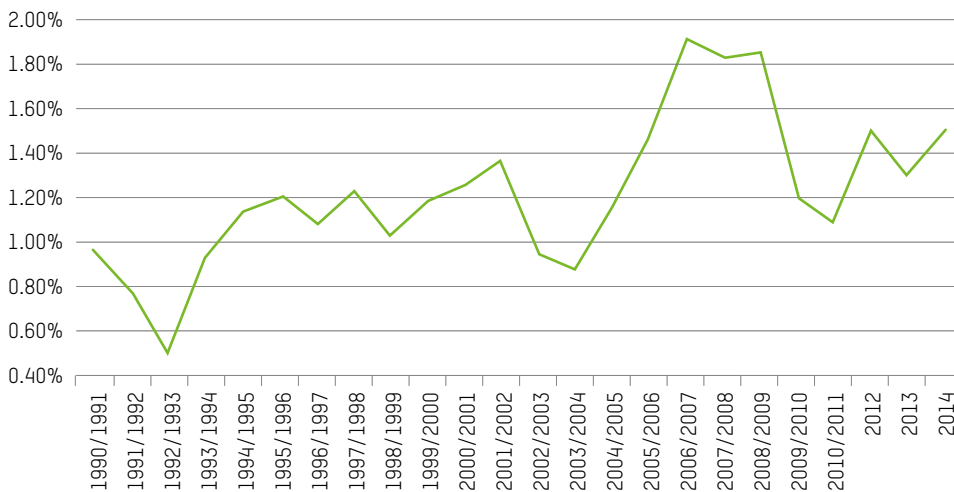
Both Lidl and Aldi South (the parent company that runs Aldi stores in the US) are privately held companies and are notoriously secretive. Little is known about either, particularly with respect to their supplier practices, although Oxfam and others did find examples of low wages and inhumane treatment in their banana and pineapple supply chains.⁵¹ Both have publicly pledged almost unimaginably low prices—particularly Lidl, which promised to offer prices 50% lower than those of its competitors—that raise significant red flags for the pressure placed on their suppliers and the resulting treatment of workers down their supply chains.⁵² US food retail industry institutions like Kroger and Walmart are already feeling the competitive pressure to follow suit and ramp up their supplier price-reducing tactics, following a 2017 Deutsche Bank analysis which found that Lidl was beating Walmart’s pricing by up to 10% and Kroger’s by 15%.⁵³



4 BUSINESS IS BOOMING AND VALUE IS INCREASING – AT THE TOP OF THE SUPPLY CHAIN

The argument that big US supermarkets’ extreme down-chain cost-cutting measures are necessary to compete in the changing landscape and stay out of the red is not borne out by market data on company profits and shareholder dividends. According to FMI, supermarket net profits were 1.1% in 2016.⁵⁴ Historical data seems to indicate a similar upward profit trend over the last 30 years,⁵⁵ as depicted in Figure 2.

FIGURE 2: US SUPERMARKETS’ NET PROFIT AFTER TAXES (AS A PERCENTAGE OF SALES) FROM 1985 TO 2014



Source: Food Marketing Institute. Grocery Store Chains Net Profit – Percent of Sales. Retrieved from: <https://www.fmi.org/docs/default-source/facts-figures/grocery-store-chains-net-profit.pdf>

These numbers point to an increase in company profits, even as retailers continue to squeeze suppliers for additional cost reductions.

The companies examined by Oxfam are no exception. A snapshot of the last few years shows an extension of the trend of both profit and dividend growth for all of the leading retailers highlighted here.

Walmart’s total revenue in 2016 came in at \$482bn (up from \$469.2bn in 2013), with gross profit coming in at \$121bn (up from \$116bn in 2013).⁵⁶ Similarly, Kroger—Walmart’s closest competitor in the food and beverage arena—has enjoyed a significant rise in revenues and profits in recent years. Kroger’s total revenue topped off at \$110bn in 2016, up from \$97bn in 2013, and its gross profits rose nearly 20% in just four years—from \$20bn in 2013 to \$24bn in 2016.⁵⁷ Costco, Ahold Delhaize and Whole Foods have also enjoyed steady increases in total revenues and profits over the last four years.⁵⁸

Dividends have followed suit, with increasing payouts for shareholders that mirror the rise in company profits, share values and CEO pay. Figure 3 plots dividend payouts over the last 12 years from Walmart, Whole Foods, Kroger and Costco (the four public companies detailed in this report).

FIGURE 3: ANNUAL DIVIDEND PAYOUTS FOR PUBLIC FOOD RETAIL MARKET SHAREHOLDERS OF WALMART, WHOLE FOODS, KROGER AND COSTCO



Source: Company financial filings. These figures do not include special or extra dividends.

While some retailers have enjoyed more drastic increases in profit and share price than others, it is clear that across the board, the last few years have been a good time to own stock in food retailers.

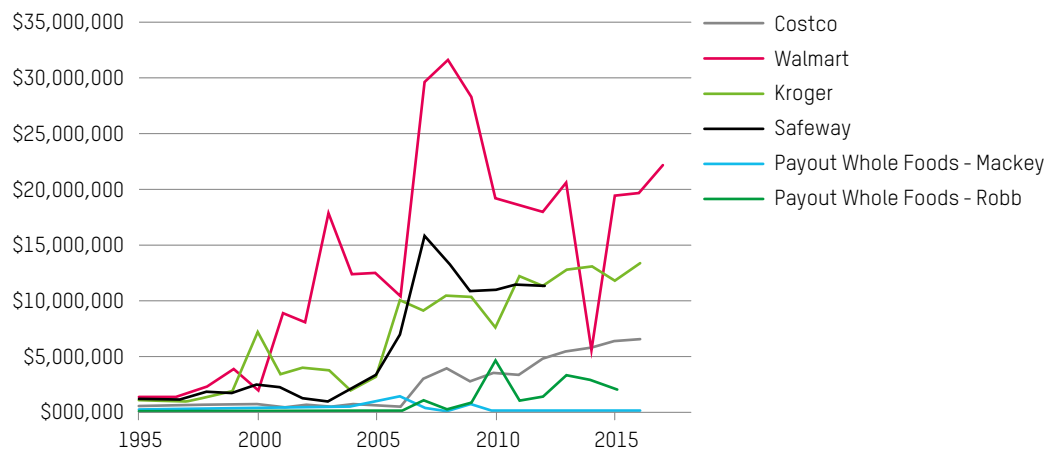
CEO COMPENSATION

In general, US CEO compensation has seen steady increases since the 1980s—and the supermarket business is no exception. CEOs of the biggest US companies make ‘three times more than they did 20 years ago, and at least ten times more than 30 years ago.’⁵⁹

Unsurprisingly, Walmart tops the CEO pay rankings, with its CEO receiving over \$22.3m in total compensation in 2017, according to US Securities and Exchange Commission (SEC) disclosures.⁶⁰ This represents a 1,487% increase in just 20 years for the Walmart CEO, who earned a total of \$1.5m in 1997.⁶¹ Similarly, in almost the same time period, the compensation received by the CEO of Kroger increased by 1,458%, from \$905,212 in 1997 to \$13.2m in 2016.⁶² Figure 4 charts the evolution of retailer CEO pay over time.

THE COMPENSATION RECEIVED BY THE CEO OF KROGER INCREASED BY 1,458%, FROM \$905,212 IN 1997 TO \$13.2M IN 2016.⁶²

FIGURE 4: ANNUAL CEO COMPENSATION AMONG SELECT SUPERMARKET RETAILERS (PUBLIC ONLY)

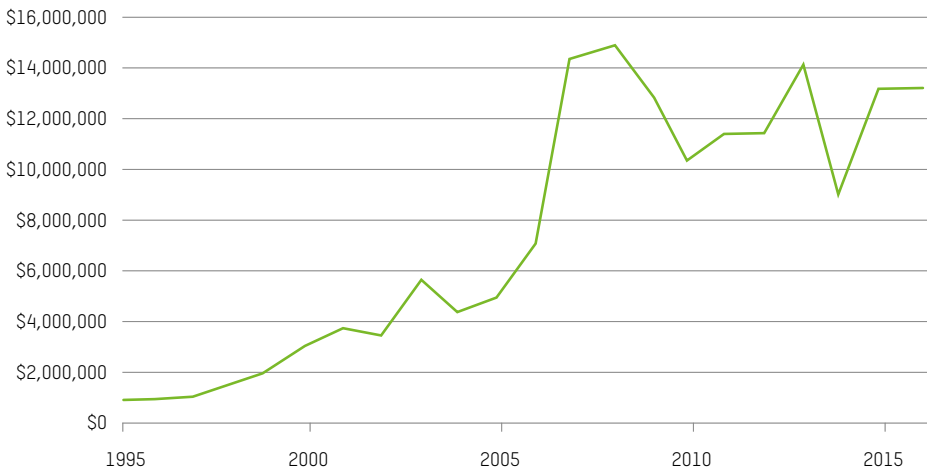


Source: Company financial filings



Regardless of variations, it is safe to say that the trend in executive compensation has been an upward one.⁶³ Figure 5 represents average CEO pay at the top four public companies over the same period of time.

FIGURE 5: AVERAGE CEO PAY OVER TIME (TOP FOUR PUBLIC RETAILERS)

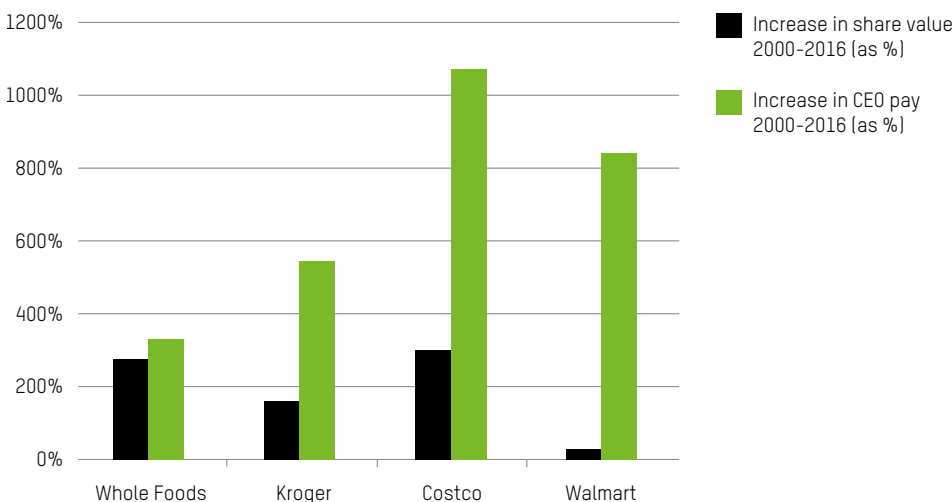


Note: Includes Safeway pre-merger. Data gathered from company proxy statements.

The comparison between executive compensation and the wages earned by workers in the supply chains of these supermarkets is stark: it would take a woman processing shrimp at a typical plant in Indonesia or Thailand more than 4,000 years to earn what the chief executive at a top US supermarket earns in a year.⁶⁴

However, the companies with the greatest growth in CEO pay have not necessarily seen the greatest growth in share value over the same period. Figure 6 below shows the sharp contrast between the percentage increase in CEO pay and the increase in share value between 2000 and 2016.

FIGURE 6: PERCENTAGE INCREASE IN SHARE VALUE AND CEO PAY AT SEVERAL TOP PUBLIC RETAILERS, 2000–2016



Source: Company financial filings⁶⁸

Walmart’s CEO has enjoyed an 841% pay increase over the last 16 years, with total CEO pay jumping from \$2.1m in 2000 to \$19.8m in 2016,⁶⁵ but the company’s share value has not fared nearly as well, inching from 53.13 in 2000 to just 69.12 in 2016,⁶⁶ representing a mere 30% increase.

5 PUTTING THE SQUEEZE ON PRODUCERS

HOW PRODUCT-SOURCING PRACTICES PUT PRESSURE ON PRODUCERS DOWN THE CHAIN

Disproportionate bargaining power—resulting from the concentration of increasingly fewer and larger food retail entities—has made a few mega markets gatekeepers of the global food trade with an effective monopoly over the distribution of food to US consumers. The larger the buying entity, the greater the quantity they buy, and the bigger their share of overall purchases of a particular commodity. This creates dependency and gives retailers greater power over their suppliers. It creates a system whereby retailers are able to manipulate and control food suppliers, most commonly resulting in pressure to reduce prices.⁶⁷ The race to deliver low prices, unparalleled year-round choice, and ‘just in time’ convenience to many customers drives retailers to employ a variety of financial tactics to influence supplier practices, which, in turn, puts pressure on suppliers to cut costs or absorb risks.

According to the consumer watchdog group Consumers International (CI), the big supermarkets’ ‘gate-keeping’ role can work to the detriment of consumers and suppliers alike.⁶⁸ Supermarkets make the ultimate decisions on a number of operational practices affecting their suppliers, including pricing, shelving and quantity, among other things. And because of the effects of economies of scale, the bigger the retailer, the greater the opportunity to exploit the significant buying power that enables them to make these decisions in the first place.

Supermarkets use this significant buying power to pressure their suppliers using a range of purchasing practices, through which they are able to secure lower prices for their products. One of the most common practices is for a supermarket to set its price on a particular good lower than that of its competitors—sometimes even lower than its cost—increasing the pressure on suppliers to unrealistically reduce costs. Given the relatively small profit margin that characterizes the food retail industry, volume is key to profit; this pricing practice is a tool used by retailers to capture market share and increase that volume.⁶⁹ Other tactics include onerous contract terms, demanding payments in exchange for high-profile shelf space or payments for warehousing costs. See Figure 7 below for more.

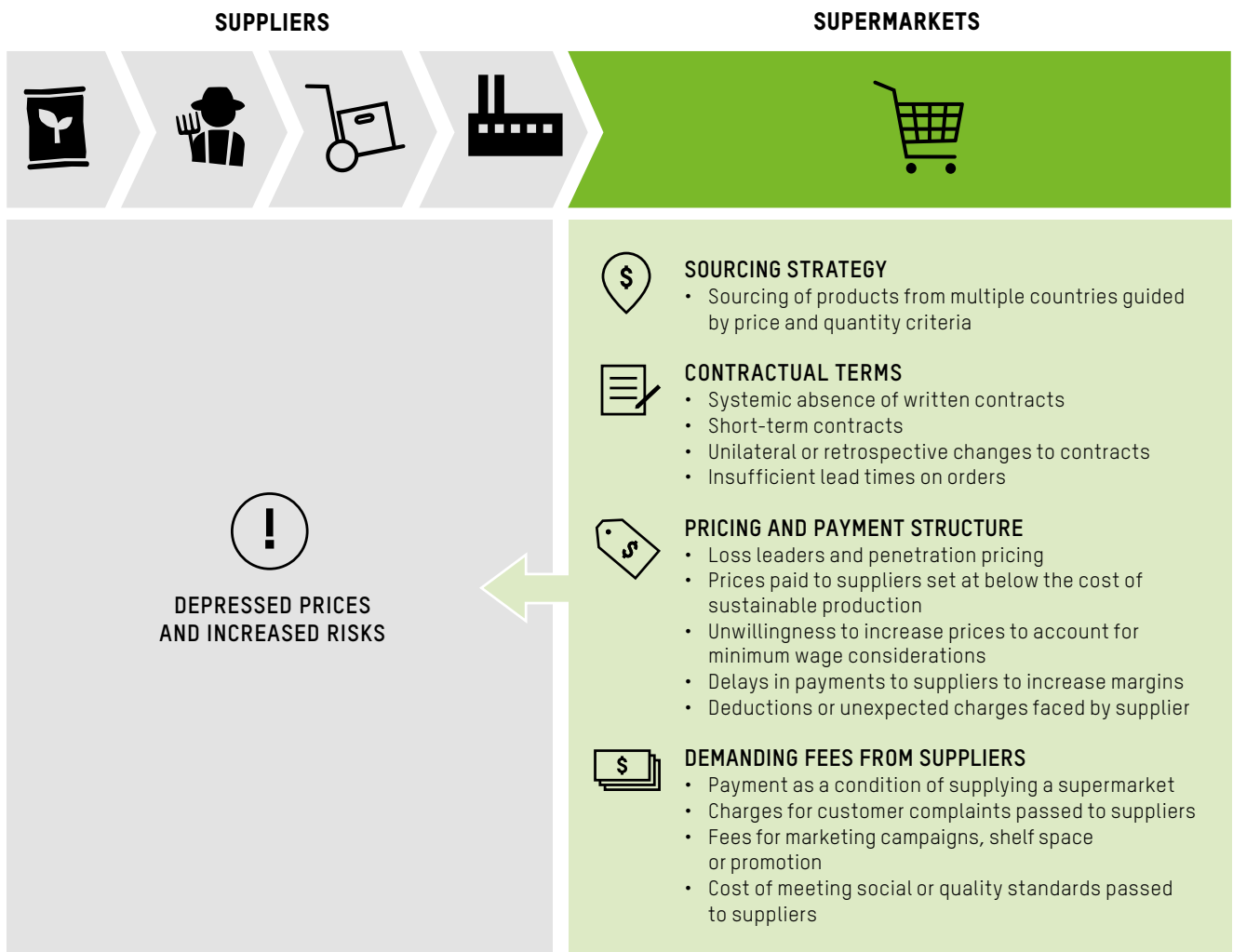
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ACCORDING TO THE CONSUMER WATCHDOG GROUP CONSUMERS INTERNATIONAL (CI), THE BIG SUPERMARKETS’ ‘GATE-KEEPING’ ROLE CAN WORK TO THE DETRIMENT OF CONSUMERS AND SUPPLIERS ALIKE.⁶⁹

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FIGURE 7: UNFAIR TRADING PRACTICES DEPRESS PRICES PAID TO AND INCREASE RISKS INCURRED BY SUPERMARKET SUPPLIERS



Source: Figure created by Oxfam using information from D. Vaughan-Whitehead and L.P Caro (2017), Purchasing Practices and Working Conditions in Global Supply Chains: Global Survey Results; G. Ellison (2017), Grocery Code Adjudicator: Annual Survey Results; European Parliament (2016), Report on Unfair Trading Practices in the Food Supply Chain; and other reports.

Motivated by increased competition and enabled by their own sheer size and market share, it appears that the largest food retailers have effectively redefined their business models. Squeezing suppliers to provide the same goods at increasingly lower prices is now crucial to maximizing companies' profits.

SNAPSHOTS OF THE SUPERMARKET/SUPPLIER SQUEEZE

Walmart

In 2015, following years of allegedly squeezing suppliers, Walmart told its suppliers to cut costs yet again, this time suggesting they reduce their spend on marketing and advertising.⁷¹ In response, one small supplier concluded that it wouldn't be able to make a profit on its Walmart business under those terms unless it fired workers or cut wages and benefits.⁷²

More recently, Walmart (along with Kroger) began levying fines on suppliers for late deliveries. The fines (\$500 from Kroger and 3% from Walmart) can significantly damage suppliers' businesses, as they have often invested in costly improvements to their supply chains but have yet to recoup the value of those investments.⁷³

Costco

Costco uses similar price-reducing tactics with its suppliers: it limits its retail space and requires suppliers to bid for shelf space at its stores, increasing its own buying power and driving down prices.⁷⁴ Often these suppliers are more willing to lower their prices because they know their products will face less competition on Costco shelves.⁷⁵

Not surprisingly, these bidding wars sometimes give rise to supplier conflict, and in 2009 Costco made news by publicizing its pricing dispute with supplier Coca-Cola.⁷⁶ According to Costco, because it did not receive favorable pricing on Coca-Cola products, it cut off orders and announced to its customers that it would not be stocking Coke products until the brand offered a low enough price.⁷⁷ Although the dispute was short-lived and Coke products were back on the shelves soon afterwards, the incident demonstrates the power that a market-leading retailer can have over even the biggest and most profitable of brands.⁷⁸

Whole Foods

For years, Whole Foods had a long history of supporting smaller local and regional brands, partly by giving individual stores the ability to make their own purchasing decisions. In 2017 and 2018, however, Whole Foods began changing the way it worked with their suppliers in a way that was detrimental to these smaller brands. Whole Foods raised rates for prime shelf space, required that brands pay fees to a third-party firm for in-store product demonstrations, and added a requirement that any supplier selling more than \$300,000 of goods at Whole Foods discount their products by 3% to 5%.⁷⁹

Many small suppliers detailed how difficult it would be for them to meet these new financial requirements, calling it a 'massive barrier to entry.' One company which had worked with Whole Foods for eight years said, 'From a financial perspective, we can only take so much abuse before we say this just isn't working for us' while another said, 'For a small vendor to go through this is a hellacious, horrible time and financial burden.'⁸⁰

The impact of these practices

The impact of these practices, and others like them, has been to depress the prices paid to suppliers and increase the risks they absorb. With profit margins under pressure, employers at plantations, processing plants or on farms may slash worker wages, enforce excessive hours, sidestep formal contracts, curtail freedom of association and even use forced labor. With many resorting to reliance on women's informal labor, even the risk of sexual harassment is heightened.

At the simplest level, however, the downward pressure on prices and escalating production costs mean that small-scale farmers and workers in supermarket supply chains are routinely denied the right to an adequate standard of living and struggle to feed themselves and their families.

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6 LOOKING AT HOW SUPERMARKETS STACK UP

With growing profits for US retailers, and growing inequality in their supply chains, it begs the question of how supermarkets are measuring, addressing, and ultimately fixing problems encountered by the workers, small-scale producers, and women and men who supply the food stocked on their shelves.

Oxfam's Behind the Barcodes campaign aims to set out a comprehensive framework that addresses the issues faced by workers, small-scale producers, and women globally. Supermarkets hold significant market power, often determining how the people who grow and process our food are treated. Oxfam's goal is to provide consumers with better access to information about how the food they buy is being produced and sourced. Our intention is to tell the human story behind the food products on supermarket shelves and to demonstrate how, as shoppers, we can together demand fairer supermarkets and food supply chains which protect, respect, and promote human dignity.

SCORECARD BACKGROUND

Oxfam's experience with its Behind the Brands campaign was that transparency about a company's policies, practices, plans, and supply chain gives a meaningful indication of its direction of travel. The more transparent companies are about these, the more likely they have been to act accordingly.

Oxfam's Supermarkets Scorecard shows where companies stand on four key aspects of supply chain management and analyzes the steps they have taken to ensure rights are respected and people treated fairly. It gives the general public, including shareholders, consumers and suppliers, the information they need to hold supermarkets to account for how they source their products. It also gives workers, small-scale producers and their representatives and advocates useful information on the commitments companies they supply to have made. Oxfam assessed **six major retailers operating in the US: Walmart,⁸¹ Kroger, Albertsons, Costco, Whole Foods⁸² and Ahold Delhaize** (parent company to US retailers such as Food Lion, Giant, and Stop & Shop).

We are not asking for any sensitive information which could put vulnerable people or commercial relationships at risk. But the public needs to know what efforts companies are making to ensure rights are respected, including in highly challenging contexts, to maintain their trust in companies.

The scorecard was developed following several rounds of consultation with companies, NGOs, other benchmarking organizations and technical experts, to determine the issues of most relevance to respecting the rights of people and addressing issues of inequality in supermarket supply chains.

It is divided into four themes: 1) Transparency and accountability; 2) Workers; 3) Farmers (and other small-scale food producers); and 4) Women. Each theme has eight indicators (except Women which has seven indicators) and each indicator has three sub-indicators.⁸³ Oxfam also assessed some of the biggest supermarkets in Germany, the Netherlands and the United Kingdom. We will repeat the scoring on a yearly basis, while engaging with the supermarkets, which will provide all assessed companies with an opportunity to show the progress they are making. In each case, we awarded scores for each relevant policy or practice the company disclosed, and gave partial scores for policies that applied to one of the company's subsidiaries rather than the whole company.

* * *

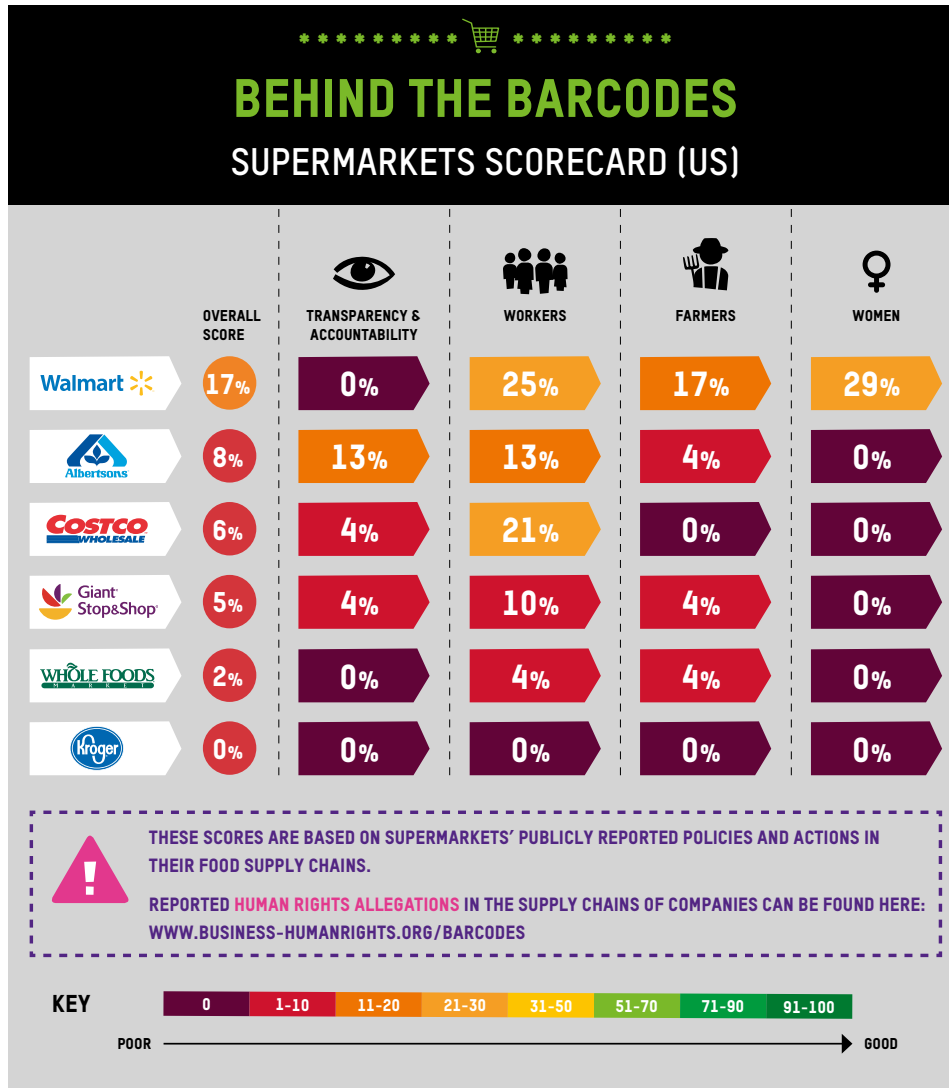
THERE IS AN URGENT NEED FOR RETAILERS TO BETTER ADDRESS SIGNIFICANT RISKS IN THEIR SUPPLY CHAINS, BY COMMITTING TO ROBUST POLICIES AND PRACTICES REGARDING TRACEABILITY, DUE DILIGENCE, PURCHASING AND ADVOCACY.

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KEY FINDINGS

Overall, there is an urgent need for retailers to better address significant risks in their supply chains, by committing to robust policies and practices regarding traceability, due diligence, purchasing and advocacy.

OVERALL RETAILER SCORES



Disappointingly, all retailers tended to score very low across all the issues assessed. Walmart scored the highest out of all assessed companies in the US, yet their score was still only 17% out of 100%. Meanwhile Whole Foods and Kroger scored lowest overall. Albertsons', Costco's and Ahold Delhaize's results demonstrate that they are in the mid-range among their peers.

The **lowest scores** were found in the 'transparency' and 'women' categories, demonstrating that retailers have barely shown any awareness of these issues and have yet to make clear commitments to address supply chain traceability, due diligence and on women's issues. Retailers scored only slightly better in the 'workers' and 'farmers' categories, but are still lagging far behind what is needed to improve the lives of workers and small-scale producers in their food value chains.



ANALYSIS BY KEY CATEGORIES

Transparency and accountability

Several of the retailers did not receive a score in any of the 24 possible indicators in this category. Costco and Ahold Delhaize scored 4% for transparency and Albertsons scored 13%.

Albertsons scored for going beyond an audit-based approach, having a management strategy to mitigate human rights risks and disclosing challenges and lessons learned. Ahold Delhaize was notable in this theme for naming the senior executive responsible for ensuring human rights are respected, while Costco demonstrates that it is taking action to complement social audits in its highest risk food categories.

What more should companies do to be transparent and accountable?

- Adopt a robust due diligence framework which goes beyond an audit-based approach
- Actively manage human rights risks and ensure effective grievance mechanisms for workers and producers and provide a remedy for harm
- Track and disclose information about product supply chains (e.g. publish details about their first-tier suppliers for high risk food categories), pay ratios and gender wage gaps

Workers

All companies except Kroger scored in the 'workers' category, although Whole Foods only scored 4% out of 100%. The category measures retailers' ability to reduce the risk of workers being exploited by their suppliers and a commitment to good labor practices throughout their supply chain. The category did not assess treatment of workers in the retailers' own operations.

Costco and Walmart have published labor rights policies for their supply chains, based on International Labor Organization (ILO) standards, and have made public commitments on key indicators of forced labor. Walmart and Costco have also taken steps to ensure their supply chain standards are being implemented beyond their first-tier suppliers.

Costco's CEO has publicly called for the US government to increase the federal minimum wage and, along with Whole Foods, it actively engages in the multi-stakeholder certification scheme the Equitable Food Initiative.

Ahold Delhaize and Albertsons similarly have published labor rights policies for their supply chains, with Ahold Delhaize including a commitment to proactive prevention of forced labor and Albertsons' including a set of mandatory minimum standards in their Supplier Code of Conduct.

None of the assessed US retailers were able to score on 'empowering workers' by enabling freedom of association, ensuring access to effective and fairly represented grievance mechanisms, or promoting living wages and a fairer value distribution.

Requiring their suppliers to empower workers to voice their grievances is vital if retailers are to truly address labor issues in their supply chain. To achieve this, retailers will likely need to actively engage with third-party organizations that represent and work with workers, such as unions and relevant NGOs in order assess

the impacts of their suppliers' factory operations. Once these impacts have been properly assessed, retailers will have a deeper understanding of the root causes of human rights abuses in their supply chains.

What more should companies do for workers?

- Assess the impacts of supply chain activities on workers
- Proactively engage trade unions and require suppliers to have a policy of no intimidation of workers for wanting to organize and bargain collectively
- Take action to close gaps between current wages and a living wage

Farmers

Whole Foods, Ahold Delhaize, and Albertsons earned just 4% out of the possible 100% in this category, while Kroger and Costco did not score at all. Walmart received 17% for its commitment to support small-scale producers by providing tools, training and resources to enable them to build resilience and improve their access to credit in order to purchase land.

Ahold Delhaize and Albertsons earned their scores for providing examples of sourcing relationships that transfer value to small-scale producers, while Whole Foods has publicly recognized the importance of a fair share of value for producers and is providing examples of areas where they are exploring better ways of sharing value.

What more should companies do for farmers?

- Assess the impacts of supply chain activities on small-scale producers and take account of the different needs of female small-scale producers
- Implement purchasing practices that will allow small-scale producers to achieve a fair deal
- Engage in advocacy with governments so that they provide the support that small-scale producers need

Women

Walmart was the only company to score in this category among those operating in the US and scored much higher than any UK or European retailer on this theme. Walmart has committed to increasing the proportion of commodities it sources from female agricultural producers. The company has publicly challenged unequal gender norms and unequal, unpaid care responsibilities across the food sector, through its Global Women's Economic Empowerment Initiative.⁸⁴

In late 2017, Costco announced it would publish wage data for their male and female employees. While this move falls short of the indicator requirements in Oxfam's scorecard (because it only applies to their own operations and not their supply chains as well), and has not yet been implemented, it is nonetheless a strong step towards greater awareness of gender inequalities in global food chains.

Other US retailers have failed to demonstrate any awareness of women's issues, especially in terms of the gender pay gap, working conditions and the impacts their supply chain activities may have on women's livelihoods in their supply chains. While companies do have a basic non-discrimination clause in their Suppliers Code of Conduct, none pay special attention to the unique obstacles that women workers and producers may face based on their gender.

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* * *



What more should companies do for women?

- Implement the UN Women's Empowerment Principles
- Track and disclose information on women's roles and remuneration
- Take action to assess and mitigate the negative impacts of supply chain activities on women, including through supply chain partnerships and advocacy to governments

BOX 2: ALTERNATIVE BUSINESS PRACTICES: THE EQUITABLE FOOD INITIATIVE

It is possible to find supermarkets in the US that engage in alternative business practices; these retailers demonstrate an understanding of the social issues highlighted in this report and a willingness to address them. An example of one such effort is the Equitable Food Initiative (EFI). EFI offers a new solution to an old, stubborn problem: how to improve the situation of farmworkers in the US. It engages actors from all points in the food chain to improve working conditions, pest management and food safety.

Farmworkers in the US face arduous (and often dangerous) conditions, work long and irregular hours, often live in poverty and are denied basic legal protections that workers in other industries take for granted. Most of these workers are immigrants (many from Mexico and Central America); their sometimes tenuous immigration status can exacerbate difficult working conditions, invite abuse, and present barriers to reporting and addressing problems. For years, organizations had been searching for new ways to reach and organize the roughly two million farmworkers in the US, but ran into countless roadblocks.

Oxfam and United Farm Workers (UFW) co-convened a multi-stakeholder initiative, which aimed to offer a 'win-win' for all actors in the food chain. Costco was the first supermarket to fully participate in EFI. EFI certification requires investment—in training, auditing and monitoring—so it is vital that supermarkets are willing to work with growers to absorb the cost. As Jeff Lyons, Costco Senior Vice President for Fresh Foods, noted in *The New York Times*, 'I'm willing to pay more, so long as the certification really means something.'⁸⁵

Today, Costco stocks a variety of fruits and vegetables that bear the EFI label; Whole Foods carries certified produce and strawberry juice. As of late 2017, 64 farms had contracts with EFI, more than 23,000 people were working on farms trained or certified by EFI, and 39 unique commodities had been certified. Currently, EFI is operating in the US, Canada, Mexico and Guatemala, and is looking to expand.

Growers which participate in EFI ensure fair treatment of workers through applying rigorous standards. The heart of the program involves training a core leadership team of workers and managers. This team ensures that labor, pest and food safety standards are adhered to on site, and watches over the entire workforce. Team members learn problem-solving and conflict-resolution techniques to facilitate communication.

When a farm earns the certification that demonstrates it meets EFI standards, it can use the EFI trustmark on its produce. Supermarkets such as Costco and Whole Foods inform consumers what is behind the certification.

At the farm level, supervisor Luis Servin notes, 'The difference in working on an EFI-certified farm is significant, because we have a better workplace. We have a better atmosphere, and we have better quality in our fields.'⁸⁶

7 CONCLUSIONS AND RECOMMENDATIONS

The argument that food retailers must squeeze their own workers for every last cent – and pressure their suppliers to do the same to their employees down the chain just to stay in the black – doesn't hold much water. The supermarket industry has seen steady rises in profits over time and a staggering growth in CEO pay in recent decades. At the same time, consumer surveys show that US customers increasingly seek to build trusting relationships with food companies and see transparency in their food and business practices as an indicator of such trust.⁸⁷

The current situation need not continue. With supermarkets capturing increased value from the products they sell, living wage and income benchmarks can be met without increases in the prices consumers pay. Technological advancements such as QR codes and block chain technology show that increased transparency about the origins of our food are possible. Forward thinking supermarkets are already using alternative purchasing practices and new business models that can help share more value with producers. Section 4 of the report *Ripe for Change* details some steps that supermarkets are currently taking to address these issues and how such actions can be beneficial for retailers, their shareholders, and consumers.

Oxfam is joining forces with citizens from around the world to call for an end to human suffering in supermarket supply chains.

More specifically, Oxfam is calling on retailers to:

- **Radically improve transparency in the sourcing of food:** to shine a light on current working practices in food supply chains and ensure that citizens can hold companies and governments to account for their activities;
- **Know, show, and act on the risks of human rights violations faced by women and men in supermarket supply chains:** to move beyond an ad-hoc approach to the auditing of suppliers, to one based on the anticipation and prevention of human and labor rights violations;
- **Guarantee safe working conditions and equal opportunities for women:** including secure contracts and equal pay for equal work, and immediate steps to end violence and discrimination against women working in food supply chains;
- **Fairly share the significant revenues in the food industry with the women and men who produce our food:** through closing the gap between prevailing and living income levels, using trading practice to promote strong performance on human rights, and through exploring alternative business models and ways of doing business that may result in a fairer share of the value reaching producers.

Supermarkets have an opportunity to be part of reducing this inequality in the value chain. There is no quick fix, but sustained effort from retailers can make a real difference to millions of food producers and workers.

A full set of recommendations is available in the main campaign report: [R. Willoughby and T. Gore. \(2018\). *Ripe for Change: Ending human suffering in supermarket supply chains.*](#)

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CONSUMER SURVEYS SHOW THAT US CUSTOMERS INCREASINGLY SEEK TO BUILD TRUSTING RELATIONSHIPS WITH FOOD COMPANIES AND SEE TRANSPARENCY IN THEIR FOOD AND BUSINESS PRACTICES AS AN INDICATOR OF SUCH TRUST.⁸⁶

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NOTES

All links were last accessed in May 2018.

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A member of the Oxfam-supported COPROCAEL Coffee Co-operative, Santa Teresa, Honduras walks through his plantation (2015). Photo: Eleanor Farmer/Oxfam







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