



Department
for Environment
Food & Rural Affairs

From George Eustice MP
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Neil Parish MP
Chair of the Environment, Food and
Rural Affairs Select Committee
House of Commons
London
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16th February 2018

Dear Neil

I am pleased to tell you that the Government response to the Call for Evidence on the case for extending the Groceries Code Adjudicator's remit in the UK groceries supply chain was published on 16th February. I enclose a copy with this letter.

The Government launched the Call for Evidence in response to concerns raised by suppliers in the grocery sector, primarily farmers and growers, who are not covered by the GCA. We set out our intention to help these businesses, while taking account of the interests of all parties in the groceries supply chain.

BEIS and Defra have worked together closely on the Call for Evidence which drew in responses from retailers, suppliers, trade associations and NGOs. It enabled us to gather as much evidence as possible on how the groceries sector is currently functioning. Most of the responses to the consultation called for an extension to the GCA's remit. However, this would be a high cost intervention, which would not be proportionate to the benefits and could put at risk the impressive progress made by the GCA to date. Instead, we have proposed a number of targeted and proportionate measures to address the most vulnerable sectors, and the most pressing issues raised in the consultation.

The Call for Evidence identified particular problems with the relationships between some food processing businesses and the farmers and growers that they work with. In particular, submissions demonstrated the unfair pressures placed on farmers and growers through unfavourable contract terms, delays in payments, and short notice of price reductions and specifications. In some cases, the industry has attempted to tackle these issues through voluntary codes of good practice (for example, in the dairy sector), but these have had only limited success. Such practices limit the ability of farmers and growers to budget effectively, manage price volatility, and run a profitable business. By tackling them in a targeted and practical way, we can increase confidence and create conditions for greater profitability and productivity at a time of considerable change for UK agriculture.

Our formal response to the Call for Evidence sets out how government will address the issues raised in the consultation. This includes:

- Establishing a one-off "collaboration fund" of up to £10 million to help with the costs of establishing joint ventures, including formal producer organisations or cooperatives. This will encourage more farmers to work together to harness

economies of scale, improve their negotiating position in the wider supply chain, share expertise or resources, or jointly invest in technology to take advantage of new market opportunities. Launching later this year, the fund will be open to farmers and growers in all sectors, including growers of ornamental plants.

- Introducing compulsory written contracts between farmers and dairy companies and a common system for classifying sheep carcasses in abattoirs. This would introduce a requirement on slaughterhouses and dairy processors to specify a fixed price or clearly set out how prices would be calculated. It would provide greater certainty for farmers by setting out clear terms and conditions. We will consult industry on the details of how this should operate.
- Undertaking to explore several longer-term measures as we develop our future agriculture policy. These are: (a) promoting best practice in the supply chain through statutory codes of conduct on contractual good practice; (b) measures to improve the collection and dissemination of data to give greater transparency on stocks, production and prices at all levels of the supply chain; and, (c) ensuring that farmers continue to enjoy analogous rights to those available under EU law to form producer organisations and carry out certain joint activities.
- Highlighting the role of the new Small Business Commissioner in helping to drive a culture change in payment practices across the UK economy. The Commissioner provides information and guidance for small businesses, which empowers them to take action if they are paid late. The Commissioner can also consider late payment complaints from small businesses (fewer than 50 employees) about their larger business clients (more than 50 employees).
- Confirming that the Competition and Markets Authority (CMA) will review if there are further retailers that it should consider for designation under the Groceries (Supply Chain Practices) Market Investigation Order 2009. The CMA has agreed to formalise its current activities, by reviewing publicly available information on an annual basis and where there are reasonable grounds for suspecting that a retailer may have reached the turnover threshold specified in the Order, requesting further evidence from it, to allow the CMA to assess whether the retailer should be added to the list of designated retailers. As part of the Call for Evidence, a number of respondents raised concerns that additional retailers may either currently or in the near future meet this threshold.

The Government is committed to taking action to improve fairness and transparency in the supply chain. I believe that the package of measures outlined in our response to the Call for Evidence will provide practical assistance to many farmers and growers, and help to boost our thriving agricultural industry.

I understand that Andrew Griffiths MP will be writing in similar terms to Rachel Reeves MP, Chair of the Business, Energy and Industrial Strategy Committee.



GEORGE EUSTICE MP