

**RESPONSE FROM THE BRITISH RETAIL CONSORTIUM
TO COMMISSION CONSULTATION ON THE FUTURE EU 2020 STRATEGY**

UK RETAILERS' PLEDGE

Retailers pledge to support their customers through the economic downturn by remaining a highly competitive sector that offers choice and value to its customers and by supporting the High Street but calls on all decision-makers to help support the sector through keeping additional costs and regulatory burdens to a minimum.

Introduction

The British Retail Consortium is the lead trade association representing the whole range of retailers, from the large multiples and department stores through to independents, selling a wide selection of products through centre of town, out of town, rural and virtual stores.

The retail sector is vital to the health of the European economy. Retailing is the largest private sector employer and plays a crucial role in the wider economy, providing many young people with their first taste of working life. In the UK, one in nine of the working population is employed in retailing, with 42% of the UK's labour force having worked in retail at some stage. The EU tells a similar story, with 30 million jobs in the wider commerce sector (including wholesaling and importing).

Retailing is above all, about empowering individuals and local communities. We deliver essential community services, for instance the daily essentials and over the counter medicines that will enable families to cope with a swine flu epidemic. Competitive UK retailing keeps food and clothing prices at one of the lowest proportions of household income in the EU. Over the last year retailers have worked hard to cut costs while delivering the excellent value products and services our customers expect of us.

We also believe in transparency and accountability as evidenced by our members' efforts to reduce their carbon footprints contained in our project "A Better Retailing Climate"¹.

This document sets out how the EU can help the retail sector continue to grow and add value to local communities and the wider economy and maximise our chances of a sustainable recovery. Above all, policymakers must learn from areas where Lisbon did not meet its laudable objectives and ensure the same mistakes are not made. Retailing can play a strong role in helping to deliver the EU 2020 strategy, but only if the regulatory conditions are right.

The renewed strategy must therefore place the consumer at the heart of EU policy making by creating a real internal market for consumers and providing a clear rejection of protectionism both within Europe and beyond.

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¹ See <http://www.brc.org.uk/retailingclimate>



Our path to retail growth

1 Boosting consumer confidence

The outlook for our sector in 2010 is far from assured. The timing and strength of the recovery remain highly uncertain. One third of consumer spending passes through retailing, which totalled over €300 billion in 2008, generating about 8% of GDP through 9% of the UK's VAT-registered businesses. The future of retailing in the UK, and the 3 million people who work in the sector, is inextricably tied to future levels of consumer spending. These are, in turn, driven by confidence deriving from job security, earnings growth and disposable income, wealth effects such as housing values, and availability of credit. So long as confidence and spending are low, retail sales and job growth will be constrained or in decline, no matter how successfully retailers manage their costs.

Our sector must respond to these challenges. We can do this by contributing to greater consumer confidence through the consolidation of the already high levels of trust customers have in our businesses. EU 2020 can make a contribution to enhanced consumer confidence in the following areas:

- **By supporting well informed consumer choice**

UK retailers lead the way in the amount of choice, consumer information and ranges available to customers. With over 30,000 products available in an average supermarket, there is no doubt that the public are being well served by their local stores. Action taken to make products healthier and the voluntary labelling of both alcohol and food products to give consumers the information to make informed choices are examples of the commitments shown by the sector to go beyond legislative requirements.

- In the current climate, policymakers need to recognise the amount of work that takes place in this area and support it, as fantastic examples of best practice and responsible retailing.
- Now is not the time to impose stringent targets for more action or to move the existing goalposts. Consumers need the value and choice offered to them by UK retailers and will not appreciate any changes that might restrict choice or increase costs at this difficult time.

- **Through effective enforcement and satisfied consumers**

Consumers are the lifeblood of retail and satisfied consumers are key to our viability. Responsible retailers are committed to ensuring consumers have excellent levels of protection and that trading standards are rigorously enforced so that fair competition is possible and consumers can trust their local shops to provide safe products that are well labelled and fairly priced.

- The retail sector needs decision-makers to recognise the importance of brand reputation and that this will ensure responsible retailers operate in ways that are in the interests of the consumer and not impose heavy, onerous requirements on these businesses.
- Policy should encourage local authorities to work with local stores in a constructive, partnership-based way, rather than operate in an over-zealous manner that is focussed on penalties for mistakes rather than working together.

2 Generating new jobs

Unemployment is expected to peak at about three million, almost 10 per cent of the workforce, in 2010. Weakness in the labour market will act as a significant drag on retail spending. Earnings growth will be constrained, particularly in the private sector, as bonuses, overtime and commission earnings are significantly lower than in 2008. Recent falls in inflation are expected to continue and, with the slackening of the labour market, it is likely that pay settlements will be low or at zero.

It is more important than ever that EU employment policies support retailers in maintaining jobs, vital to local economies and communities, and where possible offer new jobs. Youth unemployment is growing rapidly. Increasing new labour market burdens will affect disproportionately the individuals who are hardest to re-engage – the youngest and older workers. These two groups often rely on retailing's opportunities for flexible working or entry without formal qualifications, and can easily become long-term unemployed if such opportunities are not available.

The current retail workforce is one of the most diverse in the UK through its support for long-term unemployed getting back into work, providing flexible working patterns which allow those with children to re-join the workforce, and through investing in training and skills for staff to allow them to move up the career ladder. Despite the recession, many large retailers are still committed, where possible, to taking on new staff and creating apprenticeships, a scheme they are very supportive of. EU 2020 can make a contribution to increased job creation by ensuring:

- **That labour market regulation is the last resort**

Flexicurity must be taken to mean a two way culture of choice and support. The benefits of cooperation between employer and employee are clear; for the employer it develops an adaptable workforce able to meet the demands of a competitive industry and for the employee provides the opportunity to choose working patterns according to their needs, steer their careers and provide care for their dependents. Security means demonstrating long-term commitment to employees, rewarding their hard work and loyalty, ensuring they are informed and consulted in relation to changes in the workplace and encouraging them to develop their careers by providing training and supporting further education.

- That retailers have shown themselves amenable to pursuing voluntary standards demonstrates the success of non-legislative measures in enhancing working life. The employment framework is already saturated with regulation and that discussing alternatives to regulation should rank as a priority.
- Governments should be encouraged to recognise that much needed cuts in public spending must protect vital services supporting business efficiency – in education and skills, health, research and innovation, essential infrastructure, crime and justice, protecting and promoting free trade – and in ways that do not precipitate further crises in confidence or simply transfer costs elsewhere.

3 Creating a true "Green Economy"

As retailers we accept our important role in helping to respond to the threats of climate change within our own operations and, just as importantly, by supporting our suppliers and customers to reduce their carbon emissions. So we have drawn up five climate goals which reflect this wide impact, both on our own operations and also on the behaviour of everyone we do business with and who influences our businesses.

In setting ourselves these goals we aim to support government policy and, in particular, the targets contained in the Climate Change Act. To achieve them we aim to demonstrate leadership, and look to policymakers for clear direction. Our five goals are to:

1. Reduce the direct environmental impact of our businesses
2. Manage our climate risks
3. Help our customers, staff and suppliers to reduce their environmental impacts and vulnerabilities
4. Engage in the public policy debate and support the Government in meeting its climate change goals
5. Report our achievements transparently and consistently

Four indicators were established under the first goal, the direct environmental impact of our business, as follows:

- Cutting energy-related emissions from buildings by 15% on 2005 levels by 2013
- Aiming for a reduction of 15% in energy-related transport CO₂ emissions from store deliveries by 2013 compared with 2005 levels
- Ensuring we measure water-use in sites collectively anticipated as accounting for at least 75% of usage, and setting targets for reductions by 2012
- Diverting waste from landfill so that less than 50% of our waste is landfilled by 2013, by minimising waste from operations and managing sustainably any unavoidable waste

Retailers have demonstrated strong progress against all four quantitative environmental commitments. Carbon emissions from energy use in buildings and transport have been reduced by 17% and 12% respectively on a like for like basis. 32% of waste is sent to landfill versus 45% in 2005, and 55% of in-store water use is measured versus 45% in 2005. These are significant achievements with participating retailers delivering strong improvements in efficiency. More stretching targets have been agreed as part of a first annual review.

- **Establishing real incentives and clarity for consumers**

Retailers are expert communicators. Understanding customer concerns and demonstrating that we are acting on them is fundamental to customer retention and growth. Our sector is in a strong position to assist the EU institutions in developing a set of approaches that combines sound science with an expert knowledge and understanding of the market and what makes consumers act.

It is on price, that we believe the EU can make the biggest immediate contribution to assisting our sector and our customers in achieving a step change in environmentally sustainable behaviour. The opportunity is to tackle this head on through the reduction in VAT levels for energy efficient products. Consumers need price signals in order to shift their purchasing habits. The BRC would therefore urge the EU to make the creation of real incentives the centrepiece of its forthcoming work.

- Urge the Spring Council to adopt a plan of action for reducing VAT on environmentally friendly products to help support consumers in their choices.
- Retailers want to lower price on products with a sound environmental profile but need the tools to do this effectively. A further measure to support customers would be maintaining the closed A – G scale and not moving to potentially confusing open systems as advocated by the Swedish Presidency.
- **Pursue an evidence based approach**

To engage the business community effectively, lawmakers must pursue an evidence-based approach that is applied uniformly and fairly across Europe. If pursued in partnership with the supply chain, the approach could accelerate a Europe wide move to a low carbon economy by unleashing the potential that the business community possesses.

Standards: EU strategy should aim to promote 'best in class' products in the short-term but also aim to eliminate less sustainable products based on multi-stakeholder views.

Mandatory and voluntary approaches: each has a role. Voluntary agreements can be highly effective in testing an approach or encouraging a sector of the marketplace to move quicker than would otherwise have been the case. However, in order to achieve full market transformation, a mandatory approach specifying minimum acceptable standards is also required in some circumstances.

Mechanics: there are a number of tools available to Government; voluntary standards, mandatory standards, fiscal intervention, trading schemes, product labelling and consumer education. All need to be considered and used as appropriate.

Priorities: EU strategy should prioritise product categories with high carbon, biodiversity or consumption impacts in either usage or production.

Labelling: future labelling schemes must appeal to the consumer in a language he or she understands. Successful labelling schemes have to; communicate clear messages on a single issue, respond to existing consumer concerns, be easy to use, empower positive behaviour and be fair and honest. In general this means that building on existing schemes (such as A-G energy ratings) is likely to be more effective. In isolation, labelling schemes cannot deliver market transformation.

- Understanding the consumer: currently, improving energy efficiency is not one of the drivers of consumer purchasing decisions. Research shows that the three main barriers are price, benefits and choice. Lawmakers must recognise the difficulties retailers face in overcoming these barriers before proposing new

policy approaches, and work with us to develop voluntary mechanisms that can address them.

4 A real agenda for growth

Retailers have helped deliver new jobs, new services and new hope to communities through retail-led regeneration during more stable economic times. To preserve these hard won gains and jobs and services on every High Street, retail park and in community shops it is vital no additional financial burdens are placed on retailers.

BRC members are responsible retailers that take seriously their legal obligations and strive to offer their customers the best possible shopping experience. Market-based competition keeps the sector active in trying new ways to better their retail offer and it is important over-regulation does not stymie this activity.

- **Minimise the regulatory burden**

Retail is highly dependent on its reputation and the strength of its brands and, as such, the sector prides itself on its abilities to self regulate, trade responsibly and demonstrate best practice in all elements of its operation. However, the danger is that retail becomes an overly regulated business sector and, from the ways in which payments are processed and goods are sold to the ways compliance is measured, retail companies face a constant stream of red tape and bureaucracy, which all add significantly to the cost base. This has not abated despite the economic climate further eroding margins and the sector's ability to absorb the cost of compliance.

- EU policymakers need to take a sensible approach to the regulatory burden and trust responsible businesses to 'do the right thing'. There is a tendency to be seen to act in the favour of producer interests who fear the competition that UK own brand retail products may bring to their markets.
- Rogue traders that need tough enforcement should face the full impact of the law but those that recognise their responsibilities need a flexible approach that does not add disproportionate costs when they can least afford it.

- **Lend a hand to small retailers**

The difficulties in obtaining credit are having a severe impact on the retail sector. Buying new stock and paying suppliers is clearly a central element of a retailer's operation however the lack of movement in the banking sector has meant this is increasingly more difficult and small retailers in particular are struggling. Many stores have now implemented flexible payment terms for their suppliers to ease the blocking at that end of the supply chain, however swift, decisive action is necessary to ensure credit is available and banks agree to back small businesses.

- Decision-makers need to ensure the money and security it is offering the banking sector is targeted and used specifically to ensure banks support businesses.
- Politicians need to use their leverage on those companies that are wholly or part-publically owned to compel them to lead the way in offering business customers terms that enable them to continue to trade.

- **Maintain the free movement of goods**

During a worldwide financial downturn, it is inevitable that countries become more reluctant to trade and consider implementing more protectionist strategies, believing this is the best way to protect local jobs and businesses. This viewpoint is misguided. Countries need to continue to trade and import the goods their consumers demand and export those valuable to other nations. The UK retail sector is highly innovative and respected across the world. We need to be able to continue to source abroad in these difficult times so we can deliver value and quality to UK consumers in a predictable and certain legal environment.

- The incoming trade Commissioner must fight hard to reform EU trade defence rules and resist the growth of protectionism in Europe which is so costly to our customers. The current rules favour those calling for protection as was witnessed in the recent decision to extend antidumping duties on leather footwear from China and Vietnam.
- Support for EU products should remain high and procurement should be improved, however, this should not limit or be at the expense of trading opportunities.

What business needs: real commitment to the Single Market

Retailers agree with the statements in the consultation paper that the Single Market should form the basis for a prosperous EU. The Single Market should be seen as an exciting concept to capture the imagination of all citizens be they employers, employees, self-employed, consumers, manufacturers or anyone engaged in the defence of any collective interests.

A truly competitive market with innovative goods and services at the lowest prices compatible with securing long term investment is the only basis for prosperity and all the social and other services that a fair society demands.

This is no time for the Commission or the Council to lose its nerve. On the contrary they must redouble their efforts to ensure that the single market is completed as intended. Far too often, the Commission has drawn back from taking action against Member States that clearly infringe the Treaty with legislation that should long ago have been repealed or legislation that should never be introduced for political reasons. The Single Market for consumers and for businesses will never be completed effectively unless and until the Commission makes a stand and pursues breaches with vigour and determination. In fact it would show real commitment if Member States were obliged to immediately suspend the application of any measures identified by the Commission as potentially in breach of the EC primary or secondary legislation until such time they are in a position to convince either the Commission or the ECJ of the lawfulness of the measures. In other words the assumption should be that the Member State concerned is in breach.

- The Commission should set in train an urgent study of what is needed to complete the single market; and should then establish precisely the steps to be taken to achieve that end, be they Directives that spell out specific aspects of the Treaty like the Services Directive or other means. In turn the Member States must back the Commission.

As part of this study there should be a short sharp effective mutual evaluation period along the lines of what is foreseen for the Services Directive whereby Member States would assess each others legislation having a potential impact on the functioning of the Internal market. As a result of this exercise a report should be drafted on the action necessary to overcome such effects.

The Commission should then regularly report on the state of play of the Internal market to the European Paliament and the President of the European Council with the final objective being to identify areas where an EU intervention is still needed to complete the Internal market but has not yet been undertaken. On this basis, the Commission should propose an action plan of further initiatives and reguarly report on the state of their achievement

Concluding comments

The BRC has some concerns over references to the social market economy as the basis for going forward. In some Member States the social market economy is taken to mean something very different from the free competitive market economy. We are not pushing for a total free for all. Regulation has its place – where there is a market failure for example. We have no objection to consideration being given to the need to look beyond the immediate functioning of the market to ensure the right policies are in place to encourage skills and education and to ensure that the proceeds of prosperity are shared fairly. However, we do not support a concept of a social market economy where free and open competitive markets are subverted by the need to serve some other ill defined social end – the consequence of which is generally over regulation and a lack of competitiveness which simply drives away jobs – and prosperity - to other areas of the world.

The development of e-commerce is a case in point. We agree with those who see e-commerce as a driver of growth and competition to the benefit of the consumer and business alike. We note that the consultation document suggests that the Lisbon strategy was developed before e-commerce had really taken off. We agree that any new strategy needs to take account of the potential of e-commerce. However, the Commission and Council should take careful note of the exponential growth of e-commerce without interference by governments. Regulators have a propensity to introduce new regulation for the sake of it. As is the case elsewhere, there should be no new regulation unless there is real evidence of need. Regulation in the case of e-commerce should be designed not to restrict the market but to liberate it further – it should be introduced only to overcome protectionism within the single market – whether that protectionism is promoted by government or business.

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