

FOOD RETAILING IN EUROPE - POST 1992

PROJECT II  
THE COCA-COLA RETAILING RESEARCH GROUP  
EUROPE

---

# THE SOCIAL CHARTER AND FOOD RETAILING

A study prepared for

THE COCA-COLA  
RETAILING RESEARCH GROUP  
EUROPE

by

Professor Amin Rajan  
The Centre for Research in Employment and Technology in Europe

December 1990

The Corporate Intelligence Group Limited



## Table of Contents

	<b>Page</b>
<b>Executive Summary</b>	<b>1</b>
a Object	1
b Prospects	1
c Impact	1
<b>1 Introduction</b>	<b>2</b>
1.1 Background	2
1.2 Aims	2
1.3 Structure	2
<b>2 Historical Trends</b>	<b>4</b>
<b>3 The Social Charter</b>	<b>5</b>
3.1 Genesis	5
3.2 Social Rights	5
3.3 The Statute of the European Company	7
<b>4 Implementation Process</b>	<b>10</b>
4.1 The Action Programme	10
4.2 Prospects for Implementation	11
<b>5 Impact of the Social Charter</b>	<b>12</b>
5.1 An Overview	12
5.2 Short and Longer Term Effects in Food Retailing	12
5.3 Moderators and Accelerators: A Country-Based Approach	14



## Executive Summary

### a Object

This paper provides a tentative assessment of the impact of the Social Charter on the food retailing industry in the member states of the European Community.

As currently proposed by the European Commission, the Social Charter aims to generate 12 basic rights for workers in areas such as job mobility, remuneration, living and working conditions, social protection, collective bargaining, vocational training, equal treatment for men and women, industrial democracy, health and safety, and special protection for children, adolescents, the elderly and the disabled. Some of them are innocuous: they merely reaffirm the existing rights in individual member states. Others are new and contentious from the point of view of the employers because they venture into areas of pay, collective bargaining and industrial democracy.

### b Prospects

The Social Charter was accepted in principle at the Strasbourg summit in December 1989. Since then, the European Commission has introduced an action programme that is designed to produce a set of binding directives and non-binding recommendations and communications to individual member states.

There is a strong likelihood that the Social Charter will be implemented soon after 1992.

### c Impact

On the whole, the Social Charter is likely to raise unit labour costs, thereby reducing profitability and employment levels in food retailing. This negative impact will stem largely from the industry's historically slim profit margins and high labour intensity.

The degree of impact, however, will vary between the member states, depending upon their respective economic growth in the 1990s and the extent to which their labour markets are regulated by the state. On this reckoning, it is likely that the industry in:

- Greece, Ireland, The Netherlands, Portugal and the UK are likely to suffer a substantial negative impact because of their unfavourable position vis:à:vis both these factors.
- Belgium, France, Italy, Luxembourg and Spain are likely to suffer a moderate negative impact because of the offsetting effects of these two factors.
- Denmark and Germany are likely to have no appreciable impact because of their favourable position vis:à:vis the two factors.

# 1 Introduction

## 1.1 Background

The European Commission's programme for the creation of a single market after 1992 will cause large-scale industrial restructuring in Europe, as the prevailing administrative, technical and fiscal barriers are eliminated.

The Single European Act 1987, which constitutes the legislative back-bone of the programme, also stipulates that it should have a social dimension for two reasons. First, there is currently a substantial amount of productive capacity that is uneconomic in the sense that it only exists because of protection provided by the barriers. Much of this capacity will have to be phased out in a frontier-free Europe as it will become surplus to requirements. The Act suggested that in order to minimise the resulting adverse social impact, some concrete actions were needed. Second, the programme's proponents have argued that the single market should generate economic gains for companies and workers alike. This objective can be achieved, so their argument runs, through a new social instrument which guarantees certain rights to workers. Such a new instrument has now been proposed. It is called Community Charter of the Fundamental Social Rights of Workers, referred to hereafter as the Social Charter.

## 1.2 Aims

This paper's main focus is the Social Charter and its likely impact on the food retailing industry in the member states of the European Community. The paper aims:

- to highlight the salient features of the Social Charter
- to assess the prospects for its implementation in the near future
- to assess its likely impact on food retailing in the individual member states.

The paper is necessarily an informed 'think-piece' because to date no empirical assessment has been made of its potential impact at either macro or micro levels. The assessment presented here is based on discussions with some national experts who have participated in various seminars on distributive trades organised by the European Commission in the recent past.

## 1.3 Structure

At the outset it is essential to emphasize that the impact of the Social Charter is assessed here against the background of various historical trends in food retailing. In our view, the Social Charter will accelerate some of these trends and decelerate others. It may even initiate some new ones, depending upon the circumstances of the food retailing industry in individual member states. Thus, it is essential to highlight the relevant trends before attempting an assessment of the Social Charter. Accordingly, the plan of the

paper is as follows:

- Section 2 provides an overview of the historical trends
- Section 3 outlines the Social Charter and other related instruments
- Section 4 describes the implementation process
- Section 5 assesses the likely impact of the Social Charter on food retailing in the individual member states.

## 2 Historical Trends

Throughout the European Community, the food retailing industry has been undergoing two distinct sets of changes - one emanating from the demand side and one from the supply side. Although occurring at varying rates in the individual member states, they have been evident at least for the past two decades. They are listed separately below.

*Demand-side* changes include:

- the increase in competition as retailers and wholesalers diversify into one another's areas; for example, through 'cash and carry' operations;
- the growing diversification by wholesalers and retailers into production of high margin products (e.g. fresh fish, bakery products, pre-cooked meals);
- the growing international orientation, through an expanding base of buying and selling points;
- the stronger linkages with selected manufacturers, through the exchange of know-how relating to product design, content, marketing and logistics;
- the concentration of buying power into fewer and fewer hands.

*Supply-side* changes include:

- the integration of retail and wholesale functions;
- the increase in the market share of large enterprises, at the expense of family-based enterprises without a special niche;
- the birth of small and medium-sized firms providing specialist services with strong value added (e.g. freshly cooked food, home deliveries);
- the increase in merger and takeover activities to achieve a higher market share;
- the use of information technology;
- the decrease in the number of shop establishments and increase in the average size (floor area) of establishment;
- the increase in labour cost in response to governmental or trade union pressure;
- the growing customer sophistication leading to greater training needs for all workers;
- the increase in the use of low-cost part-time (mainly female) workers in lower level occupations;
- the large-scale investment in new machinery, transfer automation, electronic point of sale (EPOS) terminals and back office automation;
- the increase in central control over all aspects of operations;
- attempts to reduce stock volume in depots, through the use of the 'just in time' mode of operation and delivery, using electronic value-added networks involving manufacturers, wholesalers and retailers within a national economy.

## 3 The Social Charter

### 3.1 Genesis

The Social Charter is an extension of the social dimension of the European Community as spelt out in the Treaty of Rome 1957. The Treaty had two sets of social provisions - binding and non-binding - as shown in Figure 1. This distinction apart, it is clear that the central thrust of the provisions has been directed at employment-related areas such as health and safety, freedom of movement, social security and training.

The Single European Act 1987, which provides the basis for a single market, envisages new social provisions, some binding and others not, as listed in Figure 2. At the surface level, these provisions look innocuous: after all, all member states already have their own bodies of rules and regulations on most, if not all, the areas covered by the Act. As such, the Act could be seen as merely reinforcing the existing legal arrangements on employment and social security.

### 3.2 Social Rights

At the detailed level, however, the Single European Act 1987 envisages some radical changes which are contentious, at least from employers' point of view. The proposed changes are best understood in the context of the Community Charter of Fundamental Social Rights. They are presented in an overview form in Figure 3 and in more detail below. The Charter proposes 12 distinct rights as follows:

- **Right to freedom of movement:** every citizen in the Community should have the right to freedom of movement throughout its territory, for family or occupational reasons without loss of rights under the social security and tax systems. Furthermore, wages and terms of conditions prevailing in the host countries should apply to all workers from other members states employed in the host countries.
- **Right to fair remuneration:** decent wages rates should be established by law or collective agreements at national, regional, occupational, sectoral or company level.
- **Right to improvement of living and working conditions:** this applies particularly to the organisation and flexibility of working time, redundancies and paid leave. The right extends to all forms of employment and particularly to those on fixed term contract, seasonal work, part-time work, temporary work, weekend work, night work and shift work.
- **Right to social protection:** every adult, in or out of work, should have adequate social protection, providing a minimal acceptable standard of living.
- **Right to freedom of association and collective bargaining:** every employer and every worker should have the right to belong to any professional or trade union organisation of his/her choice. This entails recognition of the right to belong to a trade union, freedom to negotiate through collective bargaining and the right to strike in the event of conflict of interests. Collective agreements may be established at a European level and, towards that end, the two sides of industry should develop a social dialogue.

Figure 1

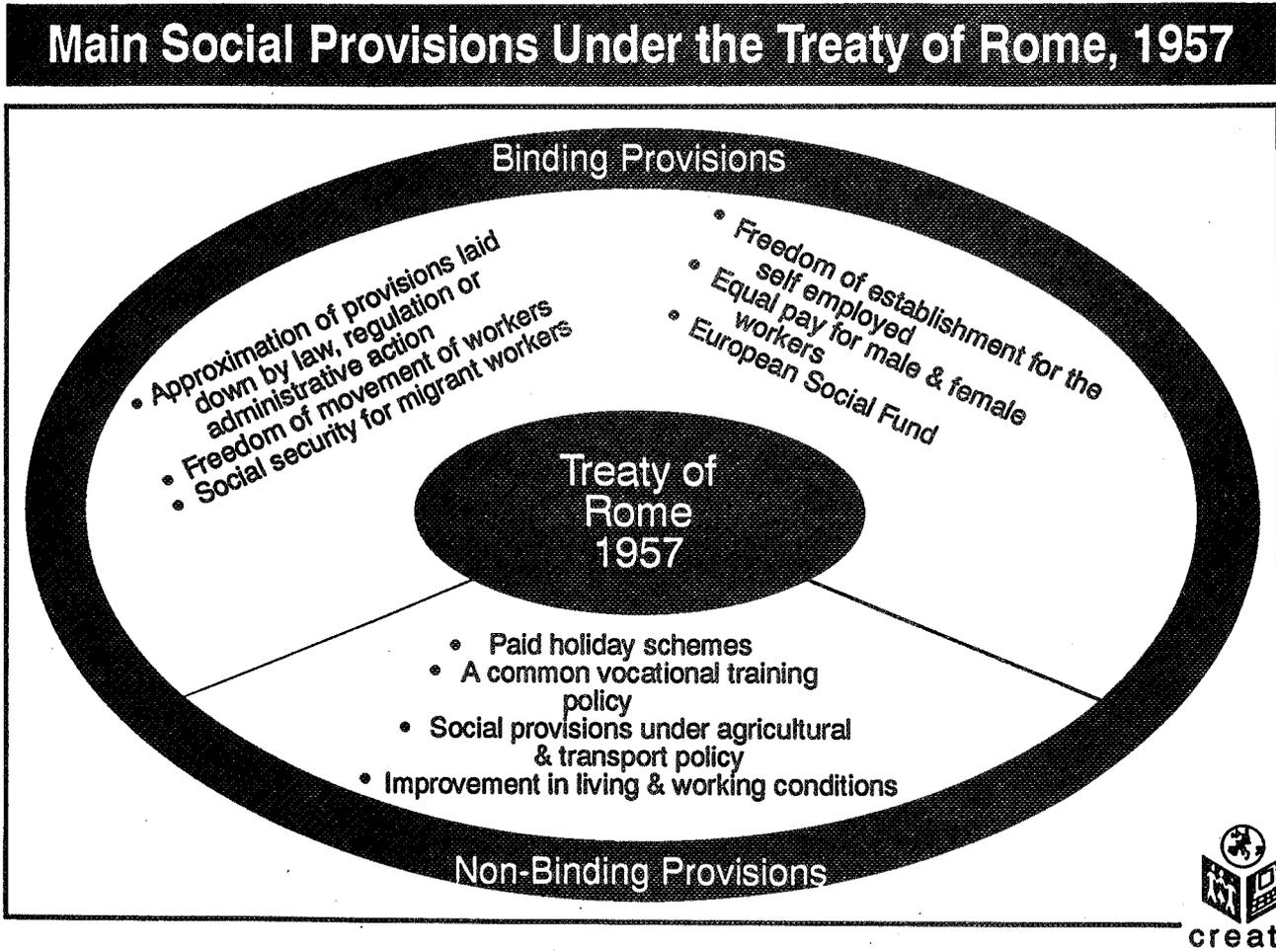
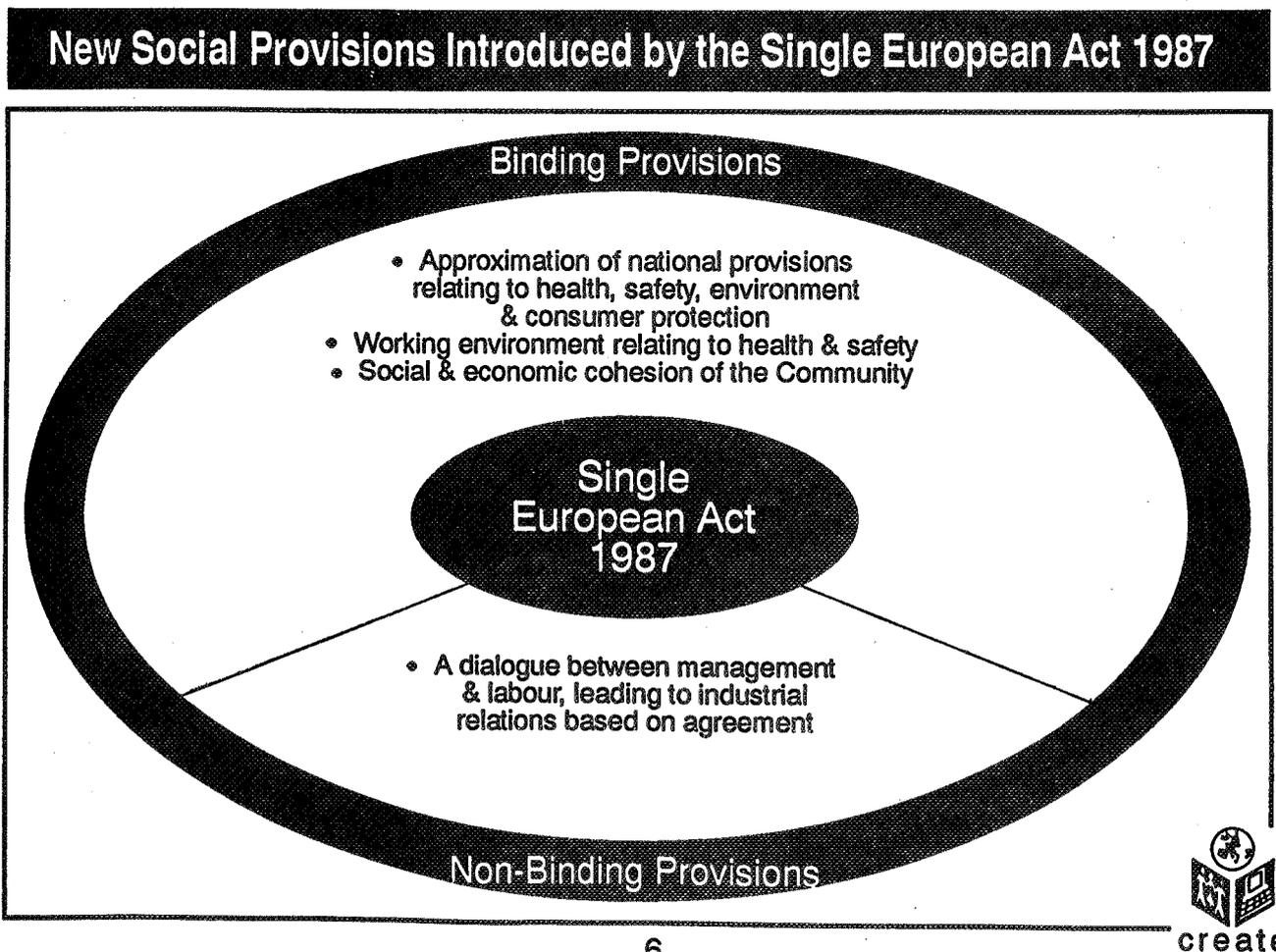


Figure 2



- **Right to vocational training:** each worker should have access to training or retraining on a continuous basis so as to minimise the adverse social impact of industrial restructuring and technological change.
- **Right to equal treatment:** men and women should have equal treatment in matters of remuneration, access to employment, social security, education, vocational training and career development. At present, it is unclear whether this will lead to mandatory quotas for men\women and whites\coloureds.
- **Right to information, consultation and participation of workers:** this applies particularly to areas such as technological change, industrial restructuring, corporate mergers and take-overs and other areas with direct implications for employment.
- **Right to health and safety protection in the workplace:** this involves ensuring satisfactory health and safety conditions and further improvements in them.
- **Rights for children and adolescents:** these involve setting a minimum employment age of 16 years, offering equitable remuneration and complementary vocational training during working hours.
- **Rights to a decent standard of living for the elderly:** this involves ensuring that all citizens in retirement and early retirement have a reasonable income commensurate with a decent standard of living. Mainly, this will be a governmental responsibility.
- **Right to integrate for the disabled:** the disabled should have the opportunity for the fullest possible integration into working life through vocational training, improved accessibility and appropriate means of transport and housing.

In various recent documents from the European Commission, these twelve rights are presented as broad principles. They are too general to the extent that it is virtually impossible to relate them directly to the existing laws in the Community. As a result, it is difficult to assess accurately the extent to which these rights are already enshrined in the national laws of individual member states.

On a looser interpretation, however, it would seem that seven rights are probably available in most, if not all, member states. They include the right to: freedom of movement, fair remuneration, social protection, equal treatment, health and safety protection, a decent standard of living for the elderly and integration for the disabled.

The seeming exclusion of the rights in the general area of collective bargaining and industrial democracy, of course, does not imply that they are not available at present. It is just that it is very difficult to relate the vague principles of the Social Charter in these areas with the legal framework and actual practices in the individual member states. Again, on a looser interpretation, it is possible to say that all the twelve rights are already available in those member states with highly regulated labour markets, as defined in Section 5.3.

### **3.3 The Statute of the European Company**

So much for the Social Charter. While many of its elements are non-controversial, it

does have some that are. Those which have attracted most attention are related to the concepts of worker participation and collective bargaining. The European Commission proposes to implement them through the so-called Statute of the European Company, as presented in an overview form in Figure 4.

Under it, greater industrial democracy is to be achieved through an elaborate quid pro quo devised on the basis of the lessons learnt from two previous attempts: the Fifth Directive on the structure of limited liability companies; and the Vredeling Directive which catered for rights and procedures on information and consultation of workers.

Both these directives have been honoured more in the breach than in the observance. At any rate, the momentum behind them died out in the early 1980s against the background of a severe recession and rising unemployment. Since then, a number of loopholes have been discovered, rendering the directives useless.

Accordingly, in order to generate fresh momentum, the European Commission has come up with a carrot and stick approach through proposals on a new Statute of the European Company.

Under it, trans-national firms can acquire the status of a Community company in order to avoid the current penal system of double taxation associated with their multinational operations. Two elements are noteworthy about the proposals:

- **Free choice:** each company will have the freedom to choose whether to register as a Community company or maintain the *status quo*.
- **Options:** as regards the forms of participation, companies have three choices: the German system under which workers are represented on a main board; the Franco-Italian system of a works council with employee representation and operating independently of the management board; or the Swedish system which lays down the rules for participation under a special agreement.

These, then, are the measures that have been proposed for the creation of what is called Social Europe or the European Social Area. Optimistic though it may sound, the purpose behind it is at once bold and determined.

To a large extent, the purpose is in conformity with the existing law in many member states. On a looser interpretation, it can be argued that the proposed rights are already available under the existing systems of industrial democracy and social security in Belgium, Denmark, France, Germany, Italy and Luxembourg.

In the remaining member states - Belgium, Greece, Ireland, Portugal, The Netherlands, Spain and the United Kingdom - many of the rights are also enshrined in the national law. The notable exceptions include the right to fair remuneration, right to information, consultation and participation of workers. Indeed, it is these exceptions that constitute the most contentious elements of the Social Charter, as far as employers are concerned.

Figure 3

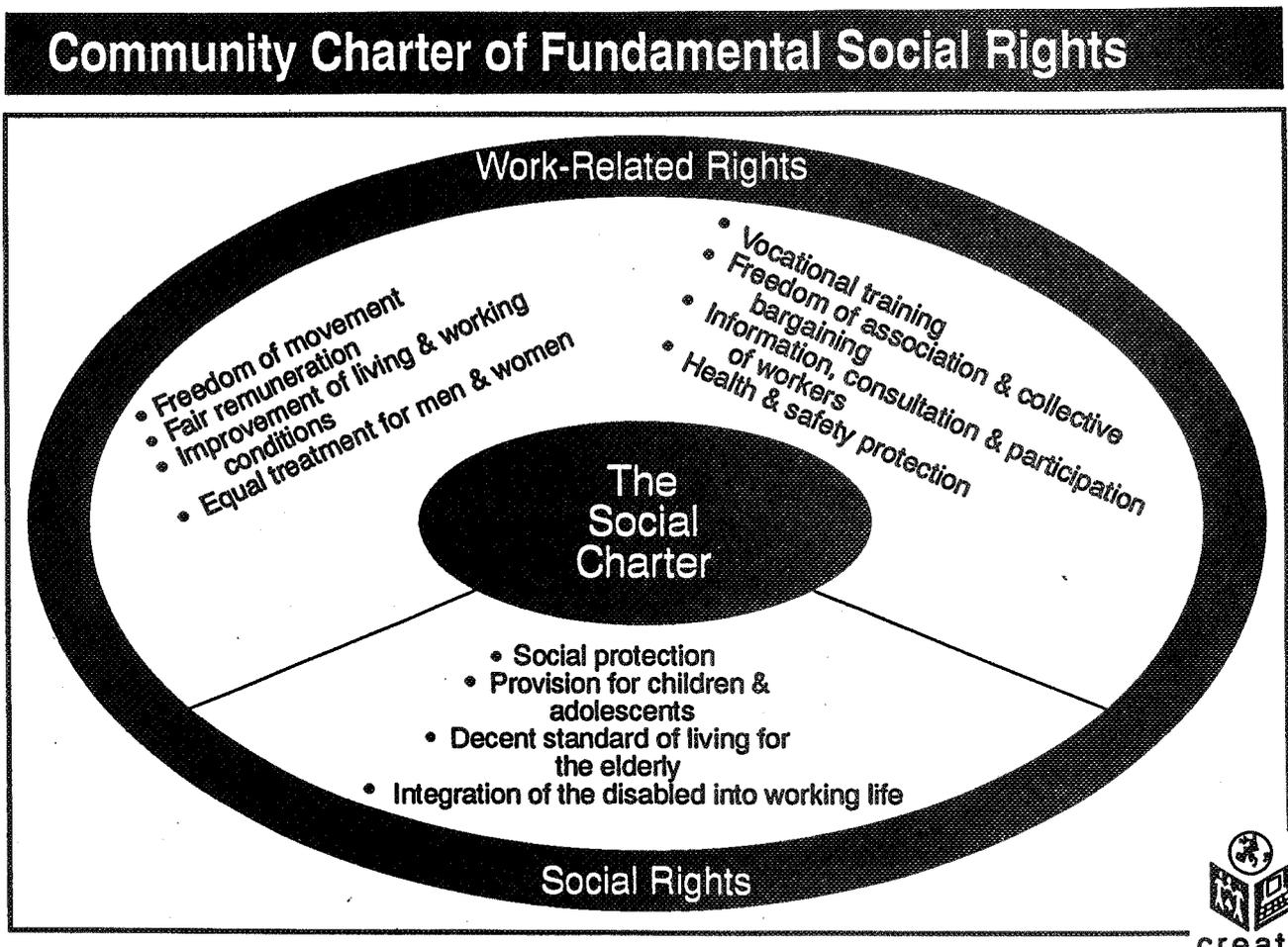
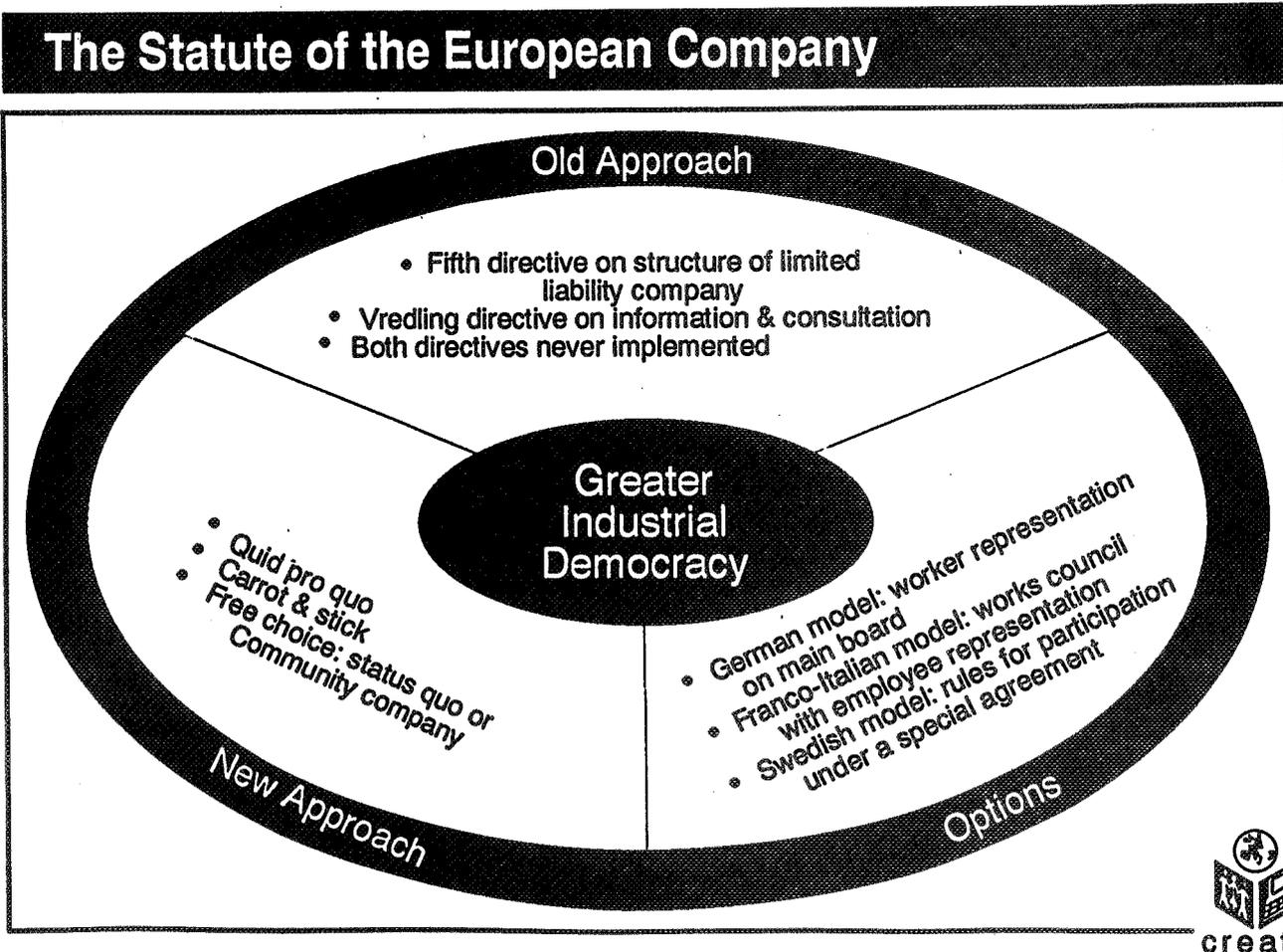


Figure 4



## 4 Implementation Process

### 4.1 The Action Programme

The proposed Statute of the European Company is viewed as a separate entity in its own right. The European Commission is proceeding with the consultation process before the legislative channels are activated. There is a reasonable chance that the Statute will be enacted by the end of 1992.

As for the Social Charter, it too has a separate entity from the substantive 1992 programme. At present it is mainly a declaration of principles that were endorsed by all the member states except the United Kingdom at the Strasbourg summit in December 1989. Since then, however, significant momentum has been generated by creating what has come to be known as the action programme. Its aims are to implement the Social Charter through the issue of directives, communications, and recommendations. As the terms imply, the first of these is binding on the member states but the other two are not.

*Directives* are likely to be issued in the following areas:

- atypical work, involving part-time and short-contract workers
- working time
- collective redundancies
- pregnant women
- health and safety requirements
- young people
- travel conditions for people with physical disabilities.

*Communications and recommendations* are likely to be issued in the following areas:

- collective bargaining
- information, consultation and participation leading to greater industrial democracy
- vocational training and retraining
- mutual recognition of qualifications.

Currently three directives are going through the legislative process: one on atypical work, one on pregnant women, and one on working time. Over the next two years, others will be issued as will some 15 communications and recommendations.

## 4.2 Prospects for Implementation

At the legislative level, considerable momentum has been established since the European Parliament elections in mid-1989. The newly emerging socialist majority has intensified the pressure on the European Commission to hasten the action programme, with the suggestion that the whole of the 1992 programme will be slowed down, if the Social Charter is not implemented. All the member states, except the United Kingdom, have accepted the inevitability of the Social Charter, though Denmark and The Netherlands still harbour certain reservations. As a result, the European Commission has softened its own stance somewhat.

That much is clearly evident from the way it has tried to progress the recent directive on working hours, which has not yet been approved by the Council of Ministers. Uncharacteristically, the Commission has indicated that it would be flexible about how this directive is implemented: employers and unions are given the option to implement it themselves and thereby avoid statutory legislation. However, if the implementation does not occur through the 'back-door' of collective bargaining, individual member states will be exposed to legal proceedings in the European Court of Justice.

In other words, a climate of voluntary implementation is being created but with the ultimate legal sanctions where voluntarism fails. Underlying this evident pragmatism lies the Commission's determination to ensure a full implementation of the Social Charter throughout the Community by the end of 1992.

Of course, the declared opposition from the United Kingdom could frustrate the timetable since many of the necessary directives require unanimous voting in the Council of Ministers where the UK has a long history of exercising its veto in the area of employment legislation.

Yet, the question now is not 'if' but 'when' will the Charter be adopted. This is because there is a momentum behind it which could receive a fresh impetus from two sources. First, there could be a change in government in the UK before the end of 1992. A new Labour Government would be more accommodating. Secondly, governments of other member states have increasingly come under pressure from trade unions in their own countries. In deference to vested interests, such governments could change the voting requirements from unanimity to qualified majority in the Council of Ministers.

Even employer bodies like UNICE (Union des Confédérations de l'Industrie et des Employeurs d'Europe), CECD (Cofédération Européenne du Commerce de Détail) and FEWITA (Federation of European Wholesale and International Trade Sector) have come to accept that the implementation of the Social Charter may be inevitable. Of late, they have acknowledged this whilst at the same time registering various reservations.

The actual process of implementation may be slow and piecemeal. At any rate, it will differ between the member states. But that does not detract from the fact that the chances of the Social Charter being adopted are now high enough to warrant an assessment of its impact on food retailing.

## 5 Impact of the Social Charter

### 5.1 An Overview

Once it begins to be implemented in individual member states, the Social Charter will have certain short and longer-term effects.

However, as with all new legislation, the scale of the likely effects will be influenced by various prevailing moderators and accelerators: the former serving to dilute the impact and the latter serving to accelerate it. In the final analysis, the overall size of the effects will depend upon the relative strengths of these moderators and accelerators.

This section attempts to identify the short and longer-term effects first and then goes on to provide a more complete assessment by bringing the key moderators and accelerators into the analysis.

### 5.2 Short and Longer Term Effects in Food Retailing

Upon its implementation, the Social Charter is expected to generate some economic effects immediately and others over time.

In the *short-term*, to say 1994, it is likely:

- to raise pay-roll costs because of the Charter's emphasis on improving working and living conditions, on equal pay and on training and retraining
- to increase trade union influence markedly in companies registered under the Statute of the European Company and notably in others
- to discourage employment creation on the part of management since managers will have to spend more time on job-related issues.

Between them, these three effects will bring about some adverse outcomes. They will:

- undermine profitability
- reduce employment directly
- encourage technological substitution for labour.

In the *longer-term*, to say 1999, the Social Charter is likely:

- to improve industrial relations through a framework that has the potential for reducing the endemic tension between management and labour
- to improve the skills' base of the industry's workforce through training and retraining
- to improve competitiveness through the resulting improvement in the quality and quantity of customer service.

However, when the two kinds of effects are brought together, it is likely that the Social Charter may well reduce profitability and jobs in retailing by the end of this decade. In other words, from the employers' point of view, the overall impact will be adverse. This assessment invites three caveats, however.

First, the assessment relates exclusively to food retailing and not other industries. It is largely influenced by its two significant characteristics: a highly competitive market environment in which the net profit margins on sales average around 4 per cent; and the industry's high labour intensity which makes pay-roll cost a crucial element in the profits equation.

Second, the size of the anticipated adverse impact on profitability and jobs will depend upon the strengths of the relevant moderators and accelerators that are likely to prevail within individual member states in the 1990s. As such, the impact will vary, as we shall see in the next section.

Third, irrespective of the overall impact, certain historical trends will continue, either because they have their own momentum or because the Social Charter itself will accentuate them. Yet there are other trends which may discontinue largely because of the Social Charter.

Those that will *continue* are:

- greater industrial concentration and gradual demise of the SMEs (small and medium sized enterprises)
- greater use of technology
- prevalence of economies of scale
- diversification into wholesale and production.

Those that will *discontinue* are:

- growing use of part-time female workers
- growth in total employment
- ad hoc-ary in training and manpower planning.

The foregoing analysis thus emphasizes two points. First, the food retailing industry will continue to undergo structural changes both because of and in spite of the Social Charter. Secondly, the impact of the Social Charter will vary between countries, depending on their circumstances in the 1990s. It is time now to turn to the circumstances of individual member states.

### 5.3 Moderators and Accelerators: A Country-Based Approach

The overall impact of the Social Charter on individual countries in this decade will depend on two opposing forces:

- **Moderators:** these have the potential to counter the adverse impact on profitability and jobs by generating a higher level of spending. In this context, a high economic growth is perhaps the best moderator. There are, of course, others (like convergence in living standards and patterns). But they are of lesser importance.
- **Accelerators:** these have the potential to accelerate the adverse impact. An outstanding example in this context is the degree to which the labour market in individual member states is regulated by the state. The lower the degree, the greater the likely impact of the Social Charter. After all, the Social Charter essentially amounts to increased regulation.

Discussions with national experts have helped us to identify tentatively the position of the member states on two axis: one on economic growth in the 1990s and one on the current degree of labour market regulation, as shown in Figure 5. These, in turn, have helped to identify three kinds of impact on food retailing as follows:

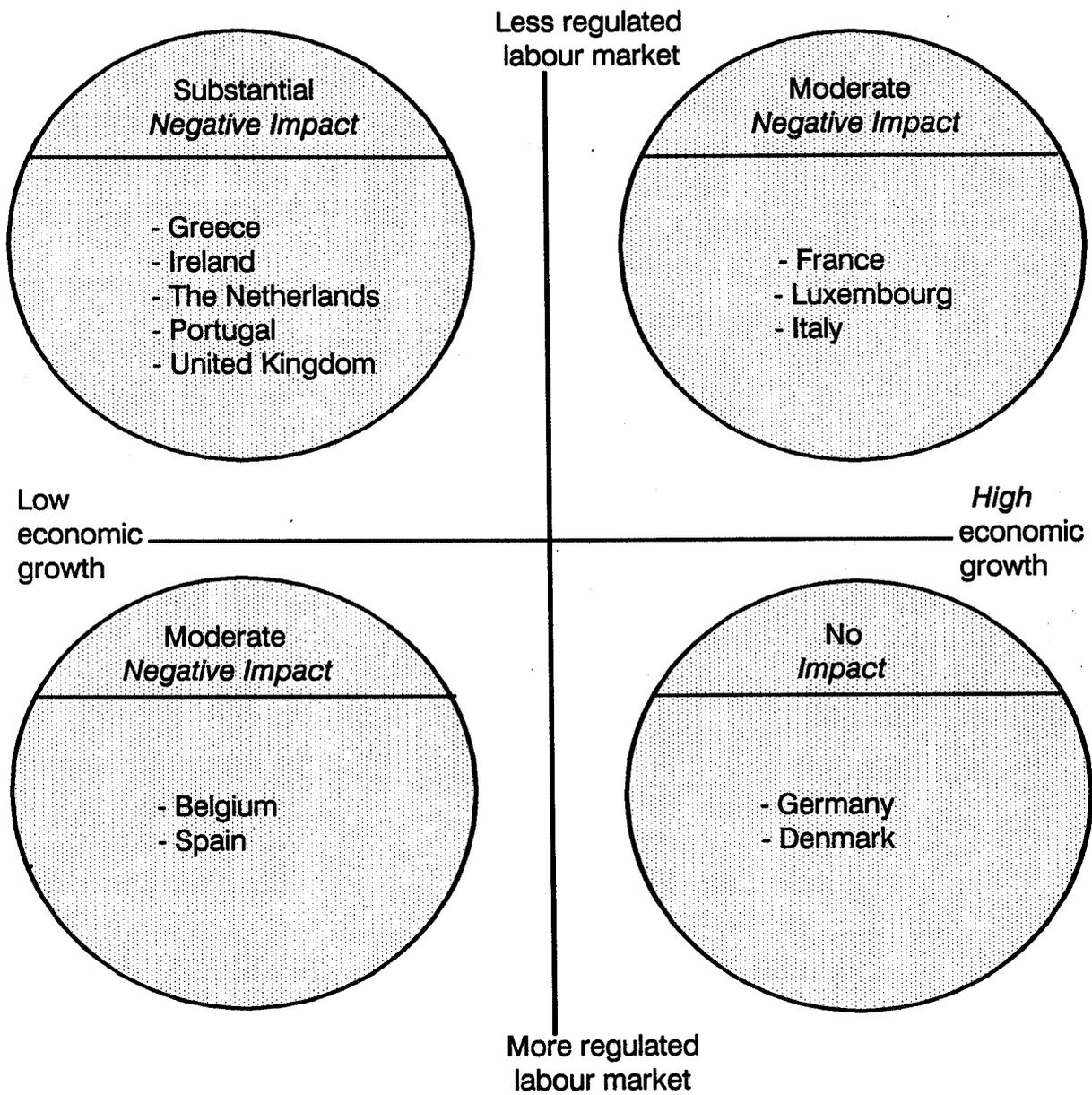
- **a substantial negative impact** is likely to be felt in five countries (north-west quadrant) because on present reckoning they have less regulated labour markets at present to the extent that the Social Charter has clear potential for generating a big effect. This at a time when these countries are likely to have a low economic growth that cannot serve as a countervailing influence.
- **a moderate negative impact** is likely to be felt in further five countries because of the combination of two differing sets of circumstances. Countries in the south-west quadrant will experience a low impact because they already have a high degree of labour market regulation; and such impact that they do experience will not be countered by their expected low economic growth. Countries in the north-east quadrant will also experience a low impact but for precisely the opposite reason: ie. the impact from low market regulation being moderated by a high economic growth.
- **no perceptible impact** will be felt in two countries because their labour markets are already highly regulated (south-east quadrant). In any event, their expected high economic growth will serve to counter any adverse impact of the Social Charter.

To conclude this section, therefore, it is clear that the extent of the impact of the Social Charter will vary considerably between the countries and will substantially depend upon their respective circumstances. From our tentative investigation, it appears that the impact on profits and jobs will be negative in ten out of twelve member states.

Food retailing has been shaped by many significant influences in the recent years. The Social Charter will be yet another influence. That much is clear from this analysis.

At the same time, it is worth emphasizing that this is a broad assessment which necessarily invites three caveats.

**Figure 5 Country By Country Impact**



First, if the present recessionary conditions in some member states either worsen unduly or spread to other member states, then it is quite likely that the current momentum behind the Social Charter may well weaken. This observation is based on the fact that the 1979-81 economic recession effectively killed off the Vredeling Directive on industrial democracy. This time, however, the momentum is too powerful for the recession to do anything other than delay the implementation of the action programme.

Second, the impact of the Social Charter will clearly vary by size and location of individual retailers. The large incorporated stores are likely to experience a greater impact than independent/franchise retailers. This is because they are more highly controlled by the national authorities and have more trade union members compared to smaller retailers. Similarly, those retailers operating on a transnational basis will also experience a greater impact because they will come under increasing pressure to provide the same advantages and benefits as those prevailing in the countries providing maximum rights.

Third, irrespective of size and location, the Social Charter will work towards enhancing the importance of trade unions. Implicit in it is a vision of industrial democracy that anticipates greater worker participation through the traditional system of collective bargaining. However, the vision envisages *responsible* unionism, leading to improved business competitiveness, in a way that is far removed from the old conflictual model of industrial relations.