

CMA Informal Guidance: Green Agreements Guidance

WWF-UK: WWF Basket – Climate Action

19 March 2024

CMA INFORMAL GUIDANCE: WWF-UK: WWF BASKET – CLIMATE ACTION

1. BACKGROUND

The request

- 1.1 The Competition and Markets Authority (**CMA**) has reviewed the request from WWF-UK¹ seeking informal guidance under the CMA’s Green Agreements Guidance: Guidance on the application of the Chapter I prohibition of the Competition Act 1998 (**the Act**) to environmental sustainability agreements (**the Guidance**).²
- 1.2 The request relates to a proposal being considered by WWF-UK as part of the WWF Basket³ (**the Proposal**). It would involve competing, leading UK supermarkets (**the Retailers**) making a joint commitment to help reduce greenhouse gas (**GHG**) emissions in their supply chains by increasing the number of suppliers setting science-based, net zero⁴ targets (**net-zero SBTs**) by an agreed date, aligned with a 1.5°C increase in temperature compared to pre-industrial levels. WWF-UK told the CMA that all other non-participating retailers would be entitled to join at a later stage if they wish to.⁵

The informal guidance

- 1.3 This document provides informal guidance to WWF-UK on how the Guidance applies to the Proposal. The purpose of CMA informal guidance is not to provide a definitive statement on the legality of an agreement, but to provide clarity on the application of the Guidance, and comfort on the CMA’s expected approach to taking enforcement action, in light of the information provided by WWF-UK.

¹ See paragraph 1.5 below for an explanation of WWF-UK’s name and its relationship with WWF International.

² Defined terms used in this document have the same meaning as in the Guidance unless otherwise defined.

³ The [WWF Basket](#) is a set of proposals which was launched in November 2021 to support the goal of halving the environmental impact of UK shopping baskets by 2030.

⁴ The term net zero applies to a situation where [global greenhouse gas emissions from human activity are in balance with emissions reductions](https://www.weforum.org/agenda/2021/11/net-zero-emissions-cop26-climate-change/), World Economic Forum, <https://www.weforum.org/agenda/2021/11/net-zero-emissions-cop26-climate-change/>.

⁵ Paragraph 1.4 of the request for informal guidance: WWF-UK told the CMA it has an open and regular dialogue with all retailers and would welcome any others that are able to join at any stage.

- 1.4 The CMA is publishing this informal guidance as doing so may provide more clarity or comfort to other businesses considering entering into similar environmental sustainability agreements. This informal guidance should be read in conjunction with the Guidance. As explained in the Guidance, the CMA prepares its informal guidance on the basis of publicly available information and the parties' submitted facts and does not market-test the statements and assessments they contain, nor assess whether any relevant information which would have made a material difference to the CMA's initial assessment was withheld.⁶ As set out in the Guidance, WWF-UK should keep the Proposal under review to ensure it continues to correspond clearly to the principles of the Guidance and that there are no new factors which would make a material difference to the initial assessment set out in this informal guidance.⁷

WWF-UK

- 1.5 WWF was first set up in Switzerland in 1961 (and at that time WWF stood for World Wildlife Fund) (**WWF International**). The name was changed to World Wide Fund for Nature in 1986 to emphasise the broad nature of WWF International's conservation work, which includes not only species, but also habitats and the reversal of environmental degradation. Since 2000, WWF International has been known simply by its initials, WWF. WWF-UK, also founded in 1961, was the first national organisation sitting under the WWF International federated structure and is now one of 29 national organisations. Each national organisation is a separate legal entity.

Science Based Targets (SBTs)

- 1.6 SBTs are targets set through a framework developed by Science Based Target initiative (**SBTi**).⁸ SBTs provide a clearly defined pathway for companies to reduce GHG emissions. Targets are considered 'science-based' if they are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement ie to keep global warming to no more than 1.5°C above pre-industrial levels emissions need to be reduced by 45% by 2030 and reach net zero by 2050.⁹ They are widely used and are generally considered to be robust and credible.¹⁰

⁶ See 'informal assessment by the CMA', paragraphs 7.8 to 7.11 of the Guidance.

⁷ See paragraphs 1.13, 7.1 and 7.13 of the Guidance.

⁸ SBTi is a partnership between the Carbon Disclosure Project (CDP), the United Nations Global Compact, World Resources Institute and WWF International.

⁹ See: [Net Zero Coalition | United Nations](#)

¹⁰ WWF-UK request for informal guidance. Further to United Nations Global Compact, SBTs have become a standard business practice. See <https://unglobalcompact.org/take-action/action/science-based-target>.

Background to the Proposal

- 1.7 WWF-UK told the CMA that the food system accounts for 30% of global GHG emissions¹¹ and that scope 3 emissions (ie indirect emissions in the supply chain)¹² account for 97% of the total GHG footprint of the Retailers.¹³ WWF-UK has submitted that reducing scope 3 emissions in retailers' supply chains is a priority to meet the UK Government's binding climate change targets. The CMA notes that the COP28 'UAE Declaration on Sustainable Agriculture, Resilient Food Systems, and Climate Action' confirmed the importance of addressing emissions from the food system.¹⁴
- 1.8 WWF-UK has been working with retailers to reduce the GHG emissions produced by the groceries sector. As part of this work, in November 2022, five UK supermarkets publicly made a joint commitment with WWF-UK and another non-governmental organisation, WRAP,¹⁵ to (among other things) support their suppliers to reduce their GHG emissions in line with the commitments made by those retailers.
- 1.9 The joint commitment required suppliers representing at least 50% of GHG emissions arising from each of the retailer's purchased goods and services to have robust, science-based, net zero targets, across all scopes, against the following timeline (the '**2022 Commitment**'):¹⁶
- (a) publicly commit to setting net-zero SBTs by the end of 2023 at the latest;
 - (b) publish scope 1, 2 and 3 GHG inventories by the end of 2024; and
 - (c) publicly release net-zero SBTs in all scopes, near and long term by the end of 2025.
- 1.10 In addition, the 2022 Commitment requires the retailers to:

¹¹ Paragraph 2.1 of the request for informal guidance 29 March 2023. This is aligned with a report by Nature Food. Source: Monica Crippa et al, "Food systems are responsible for a third of global anthropogenic GHG emissions", Nature Food, March 2021. See: [Food systems are responsible for a third of global anthropogenic GHG emissions | Nature Food](#)

¹² Scope 1: direct emissions from owned or controlled sources. Scope 2: indirect emissions from the generation of purchased energy. Scope 3: indirect emissions (not included in Scope 2) that occur in the value chain, including both upstream and downstream emissions (eg, purchased products and food waste). WWF-UK request for informal guidance 29 March 2023.

¹³ Paragraph 2.1 of the request for informal guidance 29 March 2023.

¹⁴ The Declaration addresses both global emissions while protecting the lives and livelihoods of farmers who live on the frontlines of climate change. "There is no path to achieving the goals of the Paris Climate Agreement and keeping 1.5C within reach, that does not urgently address the interactions between food systems, agriculture, and climate," H.E. Mariam bint Mohammed Almhairi, UAE Minister of Climate Change and Environment and COP28 Food Systems Lead, said. "Countries must put food systems and agriculture at the heart of their climate ambitions, addressing both global emissions and protecting the lives and livelihoods of farmers living on the front line of climate change. Today's commitment from countries around the world will help to build a global food system fit for the future," [COP28 UAE | COP28 Presidency puts food systems transformation on global climate agenda as more than 130 world leaders endorse Food and Agriculture Declaration.](#)

¹⁵ The Waste and Resources Action Programme 'WRAP'.

¹⁶ [WWFs-Retailers-Commitment-for-Nature-Climate-Ambition-2022.pdf](#)

- (a) support suppliers to decarbonise by developing a consistent set of outcomes to aim for and materials to support them achieve these;¹⁷
- (b) deliver a retail action plan for a 50% reduction in emissions in the grocery retail sector by 2030, to be published by the end of 2023. The action plan will focus on the most impactful actions, where collaboration is fundamental to achieving GHG reduction; and
- (c) engage in advocacy for the reduction of emissions in the agriculture and land sectors.

1.11 For the purposes of this informal guidance the CMA has focused on WWF-UK's self-assessment which considered the potential impact of the Proposal over and above the status quo. We have not considered the existing 2022 Commitment more widely, save as relevant context.

The Proposal

1.12 WWF-UK told the CMA that given the scale and pace of change needed to reduce scope 3 emissions, it is considering building upon the 2022 Commitment by: (i) increasing the coverage of suppliers who are required to set net-zero SBTs to 80%; and (ii) introducing incentives and disincentives to ensure that the collective commitment can be fulfilled.¹⁸ Accordingly, WWF-UK is considering the Proposal under which the Retailers¹⁹ would jointly commit:

- (a) to require suppliers who account for at least 80% of each Retailer's supply chain emissions to set net-zero SBTs by an agreed date (meaning the Proposal would affect a larger proportion of supply chain emissions than the status quo).²⁰ There are three milestones that suppliers would need to meet under this requirement:
 - (i) By the end of a specified date, to publicly announce an intention to set net-zero SBTs;
 - (ii) By the end of 12 months following the specified date, to release their GHG inventory (ie a document listing the sources and quantities of their GHG emissions);

¹⁷ This incorporates but is not limited to: setting science-based targets; key GHG reduction interventions that should be targeted in hotspot product supply chains; and aligned protocols for requesting and processing supplier GHG data.

¹⁸ Paragraph 4.2(b) of the request for informal guidance 29 March 2023 and WWF-UK RFI response, 10 August 2023.

¹⁹ WWF-UK told the CMA in its request for informal guidance dated 29 March 2023 that all market participants would remain free to choose whether to participate in the Proposal and that most, if not all, suppliers would be able to set SBTs and therefore comply with the retailers' collective requests. In addition, all retailers would be able to choose whether or not to participate in the Proposal and the Retailers would remain free to set higher standards.

²⁰ The Retailers would unilaterally decide which of their suppliers they require to set net-zero SBTs.

(iii) By the end of 24 months following the specified date, to set net-zero SBTs aligned with 1.5°C; and

(b) to introduce incentives (eg preferred payment terms) to those suppliers who achieve the common net-zero SBT milestones and disincentives (eg penalties such as de-listing) to those that do not.²¹ This contrasts with the status quo, as there is currently no joint commitment by the Retailers on applying incentives or disincentives to suppliers.

1.13 WWF-UK identified, as part of the relevant economic context of the Proposal, the fact that 117.8 million tonnes (or 75%)²² of GHG emissions per year were attributable to agriculture and manufacturing and sit inside grocery retailers' scope 3 emissions.²³ Based on this data, WWF-UK estimated that if 80% of the sector's scope 3 emissions were covered by net-zero SBTs, this could reduce annual emissions by c.33 million tonnes by 2030 and c.68 million tonnes by 2050, compared to 2019 emissions²⁴ (see more details in paragraph 2.38 below).

2. THE CMA'S ASSESSMENT

Is the Proposal within scope of the Guidance?

2.1 WWF-UK has explained that the Proposal is designed to reduce GHG emissions from grocery supply chains by helping suppliers set SBTs more quickly and effectively and, as a result, make a demonstrable contribution to the UK's binding climate change target.²⁵

2.2 Accordingly, the CMA considers that the Proposal would be a climate change agreement (as defined in the Guidance, paragraphs 2.4 and 2.5)²⁶ and is eligible for informal guidance under the CMA's open-door policy.

²¹ The Retailers would unilaterally decide the exact nature / magnitude of any incentive/ disincentive to be applied, and the application of any incentive/ disincentive would be subject to the terms agreed by each Retailer with each supplier.

²² WWF-UK told the CMA that according to analysis by [WRAP](#), the food and drink sector was in 2019 responsible for 158 MtCO₂e, which is equivalent to approximately 35% of the UK's territorial emissions. Email from WWF-UK dated 26 October 2023 responding to the CMA's questions of 20 October 2023.

²³ WWF-UK's analysis used WRAP data for the food and drink sector published in WRAP's Final Report 6 October 2021 'UK Food system GHG' [Technical report templates \(wrap.org.uk\)](#). Email from WWF-UK dated 26 October 2023 responding to the CMA's questions of 20 October 2023. Email from WWF-UK dated 26 October 2023 responding to the CMA's questions of 20 October 2023.

²⁴ That is, under the Proposal the sector's annual emissions in 2030 would be c.33mn tonnes lower than 2019 emissions and annual emissions in 2050 would be c.68mn tonnes lower than 2019 emissions.

²⁵ WWF-UK request for informal guidance, 29 March 2023.

²⁶ Paragraphs 2.1 to 2.5 of the Guidance.

Competitive Assessment

Summary and overview of competitive assessment

The CMA considers that the Proposal does not have the object of restricting competition. The lack of available information at this stage (eg data about the specific costs and benefits that might arise from this agreement) means that we cannot exclude the possibility of some harm to competition or consumers arising from the Proposal, at least in relation to specific products or sectors. However, based on the information provided by WWF-UK,²⁷ we consider that the risk of significant harm to competition or consumers appears likely to be low.

Additionally, we consider there are credible reasons to believe that the Proposal would produce relevant environmental benefits that could be capable of offsetting any harmful competitive effects that do result from the agreement and that as a result the Proposal could be capable of satisfying the conditions of Section 9 of the Act. Therefore, the CMA would not expect to take enforcement action against the Proposal.²⁸

The CMA is conscious that the Proposal would impact suppliers. However, in line with our intent to conduct a light touch review of requests for informal guidance conducted on the basis of publicly available information and the information shared with us by the parties, we have not sought feedback from suppliers on the Proposal. In light of this, and as explained in paragraph 3.5 below (under Further Comments), the CMA would expect WWF-UK and the Retailers to take feedback from suppliers into account when implementing the Proposal and to reengage with the CMA if suppliers provide credible evidence that gives rise to significant concerns about the potential impact of the Proposal.

2.3 In the paragraphs that follow, the CMA explains how it has approached the Proposal.

Restriction by Object?

2.4 In view of its understanding of the Proposal, assessed in the relevant legal and economic context, the CMA does not consider that the Proposal is likely to restrict competition by object. In particular, implementation of the Proposal does not

²⁷ The request for informal guidance submitted on 29 March 2023 and further information provided in responses to CMA requests. On 13 April 2023 the CMA sent a request for information which WWF-UK responded to on 24 April 2023. On 23 May 2023 the CMA sent a second request for information which WWF-UK responded to on 10 August 2023. In addition, the CMA had three calls with WWF-UK on 16 May 2023, 23 September 2023 and 20 October 2023. Following the call on 20 October 2023, the CMA sent follow up questions by email which WWF-UK responded to on 26 October 2023.

²⁸ As explained in paragraph 1.16 of the Guidance, the CMA would not expect to take enforcement action where parties approach the CMA to discuss their agreement and the CMA does not raise any competition concerns (or where any concerns raised have been addressed).

appear by its nature likely to eliminate or harm competing (non-participating) retailers, nor would it lead to market sharing.²⁹ Similarly, the Proposal does not appear to involve other conduct that would be likely to involve a restriction by object such as fixing trading conditions or limiting production or investment.

Effects of the Proposal

Context for the CMA's assessment

- 2.5 On the basis of the information provided by WWF-UK, the CMA has been able to conduct a light-touch review, as envisaged by the Guidance. We have not sought to reach a definitive view on how the wider market(s) might develop over time in the absence of the Proposal.
- 2.6 Furthermore, certain factors limit the extent to which the CMA can gauge the likely effects of the Proposal. In particular, in light of the breadth of individual products within the grocery sector, the prospective nature of the Proposal and the discretion afforded to each Retailer as to how they would implement the Proposal, the CMA lacks the necessary information to carry out a definitive assessment of the effects of the Proposal in relation to specific products and services markets (e.g. it is not yet known which suppliers would account for (at least) 80% of each Retailer's supply chain emissions and how wide-ranging the products involved may be).³⁰
- 2.7 An important feature of the Proposal in terms of its potential impact on competition is that individual Retailers would keep the freedom to determine unilaterally which of their suppliers fall within the 80%. In this respect, while WWF-UK submitted that the Proposal would effectively increase the coverage of suppliers who are required to set net-zero SBTs,³¹ it was not possible for WWF-UK to identify which suppliers would fall within the 80%.³² The CMA also recognises that it is possible that there would be suppliers who may in any event be planning to reduce their emissions as part of their 'business-as-usual'. As such, when considering the effects of the Proposal, it would be reasonable to assume that even without the Proposal the general direction of travel would be for more suppliers to adopt net-zero SBTs, or take other actions to reduce GHG emissions.
- 2.8 The CMA is not aware of reliable data on which suppliers have already set net-zero SBTs. WWF-UK has told us that, although scope 3 data is not yet available to assess whether retailers are on track to achieving the targets in the 2022

²⁹ The Proposal is akin to a Phasing Out agreement, ie an agreement that involves the phasing out over time of certain non-sustainable products or processes. Phasing Out agreements are discussed in paragraphs 3.19 and 3.20 of the Guidance. The Guidance explains that a Phasing Out agreement is unlikely to raise competition concerns where it does not involve either an appreciable increase in price or reduction in product quality or choice for consumers and provided that the agreement does not have the object of eliminating or harming the parties' competitors or market sharing.

³⁰ These are unilateral decisions depending on each Retailer's supplier base. WWF-UK RFI response 10 August 2023.

³¹ WWF-UK RFI response 10 August 2023.

³² Retailers would have full flexibility to choose which suppliers fall into 80% of their footprint. These would be unilateral decisions depending on each retailer's supplier base. WWF-UK RFI response 10 August 2023.

Commitment, the best proxy for a base line estimate for the changes that would be brought about by the Proposal is that suppliers representing at least 50% of GHG emissions arising from each of the Retailers' purchased goods and services have already set net-zero SBTs. We therefore consider this to be the appropriate benchmark against which to assess the Proposal.³³ On this basis, the Proposal would cover suppliers responsible for up to an incremental c.30% of emissions generated by each Retailer's supply chain (ie an increase in coverage from 50% to 80% of suppliers representing the GHG emissions of each Retailer) together with the use of the new incentives to encourage compliance which is expected to accelerate the adoption of net zero SBTs by suppliers more generally.

- 2.9 The CMA notes that the Proposal applies only to direct suppliers, ie those with whom the Retailers have a direct contractual relationship. However, we understand that some types of suppliers would in turn be likely to require changes from their own suppliers, so that the effects of the agreement would spread up the supply chain.
- 2.10 In addition, while the Proposal only expressly concerns the setting of net zero SBTs, rather than implementation of the steps needed to comply with them, the CMA believes it is reasonable to expect that most suppliers who set net-zero SBTs would then take steps to meet them. As such, when assessing the potential effects of the Proposal it is appropriate to consider the potential costs to suppliers and consumers that might result not only from the requirements on suppliers to set net-zero SBTs but also the potentially more significant costs of taking steps to comply with those targets.³⁴

Effects at the retail level

- 2.11 In the retail market(s), it appears unlikely that the Proposal would generate an adverse impact on competition.³⁵ Other than the requirements that are in the Proposal,³⁶ it does not affect the Retailers' decision-making. The Retailers would be free to determine the price and quality of the products they offer to consumers and would still have the same incentives to compete for customers that they do now. Additionally, we do not believe, the Retailers would have the incentive to harm their suppliers' ability to provide low cost, high quality products. Therefore, competition between the Retailers appears unlikely to be impeded.
- 2.12 The CMA's recent work provides some evidence of the competitiveness of the grocery retail sector, including the existence of price competition between

³³ WWF-UK email to the CMA dated 26 October 2023.

³⁴ The CMA has adopted the same approach to considering the benefits of the Proposed Agreement, see further below.

³⁵ However, given the geographic scope of the Proposal (which is UK wide) and the combined market share of the Retailers (approximately 60% of groceries in the UK), if further evidence came to light that suggested that the Proposal did have an adverse impact on competition, it would likely be considered appreciable.

³⁶ In particular the requirement to ensure that from the end of a specified period suppliers who account for at least 80% of each Retailer's supply chain emissions have set net-zero SBTs.

competing retailers, changes in retailers' market shares and consumers' willingness to shop around for the best deal.³⁷ This suggests that there will continue to be competitive pressure on retailers to minimise the extent to which any cost increases are passed on to consumers. Given that the CMA does not expect the Proposal to lead to a significant effect on competition between retailers, this means that there would continue to be the same competitive pressure on retailers.

Effects at the supply level

2.13 As a general point, competition in upstream and retail grocery markets occurs along multiple parameters, eg quantity supplied, product quality, product range, and importantly price.

2.14 In the CMA's view, anti-competitive effects from the Proposal could, in principle, distort competition between the Retailers and between suppliers:

(a) As between the Retailers, the Proposal would not directly restrict the existing main parameters of competition between the Retailers, such as price and quality. However, if the effect of suppliers setting and taking steps to comply with net zero SBTs is to gradually limit the range of products that suppliers sell to Retailers (as they phase out potentially cheaper, less sustainable products) then the Proposal could potentially over time lead to an increase in the Retailers' cost base or a reduction in range which could potentially harm consumers.

As discussed above, the CMA considers that the Retailers have an incentive to avoid weakening competition between suppliers so that they continue to have a choice of suppliers to source products from. Further, the CMA considers that competition between the Retailers (including the competitive constraint exerted by non-participating retailers) means they will have an incentive to implement the Proposal in a way that minimises any impact on price and quality to consumers.³⁸

(b) As between suppliers, it is possible that the Proposal might lead to some suppliers facing increased costs in order to implement the net zero SBTs when compared to their competitors, which may impact their ability to compete. In addition, there is a risk of suppliers exiting from the market if they are unable, or unwilling, to set and implement net zero SBTs. If this

³⁷ CMA report July 2023: Competition, choice and rising prices in groceries - GOV.UK (www.gov.uk). An update on the CMA's work looking at competition in food and other groceries in the context of high price inflation was published in November 2023: Price inflation and competition in food and grocery manufacturing and supply - GOV.UK (www.gov.uk).

³⁸As the Retailers have an incentive to retain a choice of suppliers they are likely to implement the Proposal in a way which would minimise the impact on suppliers ie by selecting those suppliers that fall within the 80% in a way that is unlikely to weaken competition between suppliers.

were to occur in a market segment with already limited competition, then the Proposal could restrict competition between certain suppliers.

- 2.15 Therefore, in its assessment, the CMA has primarily focused on the potential impact on suppliers' costs, particularly how they may translate into prices for UK consumers in the retail grocery market or impact the ability of suppliers to compete.³⁹

Effects on supplier costs

- 2.16 **In relation to the costs of target-setting**, the Proposal would mean that suppliers face administrative costs in setting and auditing net-zero SBTs.⁴⁰ WWF-UK told the CMA that, under the Proposal, there would be no requirement for external validation by SBTi in order to help suppliers set net-zero SBTs relatively quickly. Further there are a variety of tools and other support, including best practice guidance, that are already available for businesses setting net-zero SBTs.
- 2.17 Regarding smaller businesses specifically, SBTi has introduced an 'SME route' for small and medium sized enterprises⁴¹ meaning that they can benefit from lower cost verification of their targets, as well as less intense target setting and audits than larger suppliers. The CMA understands that the streamlined target-setting and auditing procedures for SMEs would help mitigate the risk of a differential impact on smaller suppliers who may be economically disadvantaged compared to larger suppliers.⁴² Based on the information provided, the CMA believes that the requirement to set targets is unlikely, in itself, to result in an appreciable increase in suppliers' costs and is therefore unlikely to have an appreciable effect on competition between suppliers.
- 2.18 **In relation to the costs to suppliers of implementing net-zero SBTs**, the CMA appreciates the scale of the challenge of transitioning the UK's food supply chains to net zero by 2050. For example, information provided by WWF-UK is indicative of this challenge: a 2020 report produced on behalf of the Climate Change Committee estimated the net private costs of land use change and adoption of low-carbon farming practices to achieve net zero in the UK by 2050 of £0.7 billion per year.⁴³ However, for the purposes of this assessment the CMA is only concerned with the costs which are attributable to the Proposal.

³⁹ These attributable costs are those costs that would not have been incurred by suppliers without the Proposal.

⁴⁰ For example, consultancy fees and fees incurred in order to make the application.

⁴¹ From 1 January 2024, companies may set targets through the streamlined validation route for SMEs if a number of criteria are met and where two or more are true: (i) Employ <250 employees; (ii) Turnover of <€40 million; (iii) Total assets of <€20 million; (iv) Are not in a mandatory FLAG sector.

⁴² WWF-UK RFI response dated 10 August 2023.

⁴³ WWF-UK RFI response dated 10 August 2023 referred to the Climate Change Committee report here:

<https://www.theccc.org.uk/wp-content/uploads/2020/01/Economic-impacts-of-Net-Zero-land-use-scenarios-Vivid-Economics.pdf>. These figures related just to agriculture and land use, while the Proposal would also impact some manufacturing emissions to a certain extent. Therefore, the CMA considers that some additional costs could be incurred through changes to manufacturing processes.

2.19 WWF-UK told the CMA that SBTi's sector-specific guidance which covers most food retailers' suppliers - the guidance on Forestry, Land and Agriculture (FLAG) - is realistic and that it is not overly costly or administratively burdensome for most suppliers to implement net-zero SBTs. The aim of the FLAG guidance is to enable all food and drink suppliers to set achievable net-zero SBTs.⁴⁴ In particular, the FLAG guidance provides:

- (a) 11 pathways for specific commodities which are tailored to the specific mitigation activities needed for each commodity to reduce emissions. The annual reductions are designed to align with 1.5°C compliant pathways and range from a 2.4% reduction in emissions per annum for beef to 3.9% reduction in emissions per annum for chicken; and
- (b) a general FLAG sector pathway for companies with diversified activities that do not fall within a specific commodity. The FLAG guidance went through a public consultation which received submissions from 165 organisations and a trialling process which included 18 companies representing each stage of the supply chain.⁴⁵ WWF-UK has told the CMA that the FLAG guidance could help minimise any uneven impact on different types of suppliers from the Proposal, as it provides a robust, science based understanding on how much and how quickly a business needs to cut its land related emissions to be aligned with the goals of the Paris Agreement.⁴⁶ The FLAG guidance means that there are lower barriers to suppliers participating in the setting and implementation of targets, as relevant materials for GHG emissions accounting and setting SBTs are publicly available and designed to be fully inclusive for all suppliers.⁴⁷

2.20 Further, in the 2022 Commitment, the retailers committed to supporting suppliers, for example, by developing a consistent set of outcomes for suppliers to work towards in order to reduce GHG emissions and materials to support suppliers to achieve those outcomes which will be published and freely available to all industry players.

2.21 The CMA also understands that the costs attributable to the Proposal would be spread over a number of years in line with the required milestones set out in paragraph 1.12, making it less likely that there would be a significant, sudden costs increase as a result of the Proposal.

⁴⁴ For companies in some heavy emitting industries, the SBTi develops sector specific guidance, tailored to the unique nature of the industry to enable them to develop ambitious and achievable science-based targets. See: [Sector Guidance - Science Based Targets](#)

⁴⁵ WWF-UK request for informal guidance, 29 March 2023.

⁴⁶ See SBTi website here: [SBTiFLAGGuidance.pdf \(sciencebasedtargets.org\)](#)

⁴⁷ See SBTi website here: [SBTiFLAGGuidance.pdf \(sciencebasedtargets.org\)](#)

- 2.22 In addition, the CMA notes that some suppliers would fall entirely outside of the scope of the Proposal because they are not included in any retailer's 80% commitment. The 80% commitment is set by reference to emissions rather than number of suppliers and WWF-UK has told us that the selected suppliers are likely to predominantly be larger suppliers with larger GHG footprints.⁴⁸ Therefore, the proportion of each Retailer's total suppliers who are required to set and implement net-zero SBTs under the Proposal is likely to be less than 80%, leaving a substantial proportion of suppliers who would remain unaffected by the Proposal.
- 2.23 The costs attributable to the Proposal would likely differ across and within sectors. The way in which the costs differ will affect the nature and likelihood of any potential anti-competitive effects arising in the sector. There is a high degree of uncertainty as to whether, and how, the costs might differ but, based on the information provided by WWF-UK, there is no indication at this stage that the Proposal would result in a significant anti-competitive effect for any identifiable products or sectors.

Effects on competition between suppliers

- 2.24 The CMA has also considered the risk that an adverse impact on competition might occur in those supply markets with: (i) higher market concentration (or existing weak competition); and (ii) a more uneven distribution of the costs of complying with net-zero SBTs across different types of suppliers (or across different suppliers of the same type). In such markets an unwillingness by suppliers to adopt net-zero SBTs, the costs associated with complying with net-zero SBTs or the application of the incentives/disincentives for compliance with the net-zero SBTs could lead to the exit or reduced presence of some suppliers. This could weaken competition in the market in which such suppliers are active.
- 2.25 The CMA considers that the risk of such harm arising is however mitigated by the fact that the Retailers, as the customers in the markets for the supply of goods, have an incentive to avoid taking actions that weaken competition so that they continue to have a choice of suppliers to source products from.⁴⁹ Further, a proportion of suppliers (representing up to 20% of Retailers' emissions) would not be required to set net-zero SBTs. This allows some space for the Retailers to accommodate suppliers who are not currently in a position to set net-zero SBTs.
- 2.26 The CMA notes that an additional safeguard against suppliers exiting the market is that the Retailers are all subject to the provisions of the Groceries Supply Code of

⁴⁸ WWF-UK request for informal guidance, 29 March 2023.

⁴⁹ This includes competitive constraints from non-participating retailers who are able to purchase from suppliers not covered by the Proposal. However, because the CMA understands that the number of retailers who are participating in the Proposal may increase over time the CMA has not placed significant weight on this factor in its assessment. The CMA also recognises that some suppliers will supply both participating Retailers and non-participating retailers so there is the potential for the Proposal to have effects in the wider supply chain.

Practice (**GSCOP**). The CMA has engaged with the Groceries Code Adjudicator (**GCA**) about the possible impact of the Proposal on suppliers, including the use of penalties, such as delisting. The GSCOP contains rules relating to de-listing which serve to protect suppliers' investments in their businesses. The existence of the GSCOP serves to reduce the risk that the implementation of the Proposal would lead to adverse impacts in supply markets, since it would temper the application by the Retailers of any disincentives to suppliers under the Proposal.

- 2.27 The GCA has indicated to the CMA that, while the Proposal would not, in itself, necessarily result in a significant adverse impact on most suppliers, concerns could arise under GSCOP if a Retailer later decided, for any reason, to delist a supplier which had made a significant investment in setting or implementing the net-zero SBTs required by the Proposal. In this context, the GCA told the CMA it would take into account any investments that the Retailers had required suppliers to make in setting and implementing net-zero SBTs, as well as any costs/liabilities incurred in doing so, when deciding what constitutes reasonable notice, in the event of delisting of suppliers for any reason in the future.⁵⁰
- 2.28 The GCA noted that the Retailers must ensure they continue to comply with the GSCOP and it will follow up with the Retailers regarding the implementation of the Proposal.

Conclusion on the effects of the Proposal

- 2.29 Given the prospective nature of the Proposal and in particular the fact that the suppliers who would be affected have not yet been identified, the CMA lacks the information necessary to reach a definitive conclusion on the potential effects of the Proposal. However, while we cannot exclude the risk of some harm to competition or consumers arising from the Proposal, at least in relation to some specific products or sectors, for the reasons set out above, the CMA considers that the risk of significant harm to competition and consumers resulting from the Proposal appears likely to be low.

Potential benefits of the Proposal under section 9 of the Act

- 2.30 Given the uncertainties about the impact of the Proposal and the potential for some anticompetitive effects, at least in certain supply markets, the CMA has, also considered the potential benefits of the Proposal.
- 2.31 In order to satisfy the requirements of section 9, it is necessary for the Proposal to meet each of the following four criteria:

⁵⁰ Call between the CMA and the GCA on 10 October 2023.

- (a) the agreement must contribute certain **benefits**, namely improving production or distribution or contribute to promoting technical or economic progress;
- (b) the agreement and any restrictions of competition within the agreement must be **indispensable** to the achievement of those benefits;
- (c) **consumers must receive a fair share of the benefits**; and
- (d) the agreement must not eliminate competition in respect of a substantial part of the products concerned.⁵¹

2.32 While the CMA lacks the necessary information to carry out a definitive section 9 assessment (and it would be for the parties to establish exemption under section 9), based on the information available to it, the CMA believes that there are credible reasons to believe that the Proposal may generate environmental benefits for UK consumers in the form of GHG emissions reductions, that could offset any potential harm that might arise from the Proposal, and therefore that the Proposal could be capable of satisfying the conditions of section 9 of the Act.

Benefits

2.33 The Proposal involves requiring suppliers to adopt net-zero SBTs. As noted above, the CMA considers it is reasonable to expect that most suppliers who set net-zero SBTs would then take steps to meet them. The CMA is therefore satisfied that the Proposal is likely to result in suppliers taking steps to reduce their GHG emissions which would constitute a relevant environmental benefit.

2.34 There must be cogent empirical evidence of objective benefits arising from the agreement. Various approaches are available to quantify environmental benefits generated by the Proposal.

2.35 WWF-UK have told the CMA that it is unable, at this stage, to determine the specific reduction in emissions that might be attributable to the Proposal. As set out in paragraph 1.13, to help inform the CMA's consideration of the Proposal WWF-UK has, however, provided an indicative estimate of what might be achieved if the coverage of net-zero SBTs increased from the current target of 50% to 80% of scope 3 emissions across the market as a whole (ie if all UK grocery retailers were participating in the Proposal - which is not the case).⁵²

⁵¹ See paragraph 5.2 of the Guidance.

⁵² WWF-UK estimates that the reduction in emissions under the status quo (ie, the situation where 50% of the sector's scope 3 emissions are covered by net-zero SBTs) would represent c.21 million tonnes annually by 2030 and c.42 million tonnes annually by 2050.⁵² Those estimates show that the reduction of emissions across the sector (ie increasing reductions in GHG emissions over the status quo) is for the abatement of up to an additional c.12 million tonnes of emissions annually by 2030 and of up to an additional c.25-26 million tonnes of emissions annually by 2050.

- 2.36 In practice, the Proposal would not result in all retailers participating, but in a subset of those retailers taking part - the subset representing c. 60% of the grocery market. For that reason, it is reasonable to adjust the benefits expected from the Proposal to that market share. It is worth noting that however, due to the complex and overlapping nature of food retail supply chains, it is highly uncertain how significant a proportion of the food supply chain would actually be affected by the Proposal. Notwithstanding this, as an indicative estimate, if the participating retailers' estimated 60% combined market share were to translate to 60% coverage of emissions for the Agreement in the food supply chain, the abatement impact of the agreement would be an additional c.7 million tonnes of emissions abatement annually by 2030 and of an additional c.15 million tonnes of emissions abatement annually by 2050.
- 2.37 In the context of the Proposal, the CMA considers that it would be reasonable for the parties to use HM Treasury's Green Book's target consistent real values for carbon abatement. They are, in real terms: 'Low' of £147 per tonne. 'Central' of £294' per tonne and 'High' of £442 per tonne in 2030; 'Low' of £199 per tonne, 'Central' of £398 per tonne and 'High' of £596 per tonne in 2050.⁵³ Table 1 sets out the approximate magnitude of the environmental benefits of the Proposal based on the indicative estimate of the potential scale of the reductions in GHG emissions that might be attributable to the Proposal provided by WWF-UK when the Proposal results in 100% and 60% coverage of food supply chains

Table 1: Monetary value of WWF-UK Calculations of the Proposal's Environmental Benefits in 2030 and in 2050⁵⁴

	<i>£bn</i>	
	<i>2030</i>	<i>2050</i>
	<i>60%</i>	<i>60%</i>
Low	1.1	3.0
Central	2.2	6.1
High	3.3	9.1

Source: CMA calculations

- 2.38 As noted above, when assessing the benefits of the Proposal (both in terms of emissions reduction and the monetary value of such reductions), the CMA recognises that there is a high degree of uncertainty accompanying these calculations and the actual benefits attributable to the Proposal are likely to be lower than these figures suggest.⁵⁵ In particular:

⁵³ [Green Book supplementary guidance: valuation of energy use and greenhouse gas emissions for appraisal - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/106481/gb-supplementary-guidance-valuation-of-energy-use-and-greenhouse-gas-emissions-for-appraisal-2022.pdf), 'Data tables 1 to 19: supporting the toolkit and the guidance', Tab 3. Monetary values are expressed in 2022 prices and are not discounted.

⁵⁴ Table 1 reflects the value of the emissions reduction under the status quo of 50% compared to the emissions reduction occurring under the 80% of the Proposal.

⁵⁵ Table 1

- (a) As discussed above at paragraph 2.10, 2.11 and 2.12, there is uncertainty about the scale of emissions reduction which would occur absent the Proposal. Some suppliers may fail, in whole or in part, to meet the targets they have set, while others may have taken steps to reduce GHG emissions even without the Proposal, either of their own initiative or due to other factors such as Government incentives or requirements.
- (b) The environmental benefits of the Proposal would be realised over long time periods. In general, the further away from the present benefits are realised, the less value society places on them today. To account for this, discounting techniques can be used to assess future benefits. The CMA notes that, if the Proposal accelerates GHG emissions reduction, the present value of the agreement's environmental benefits will increase.

2.39 Conversely, the CMA recognises that it is likely that some suppliers would be implementing net zero SBTs for all retailers they supply, including retailers that are not participating in the Proposal. The CMA also recognises that the possibility exists for more Retailers to join the Proposal over time. These are factors which could be expected to increase the environmental benefits potentially attributable to the Proposal.

2.40 Notwithstanding the uncertainty about the precise size of the emissions reductions that may result from the Proposal, the CMA considers that there are reasonable grounds to expect that the relevant environmental benefits attributable to the Proposal would make a material contribution to reducing GHG emissions in the UK's food supply chain.

Fair share

2.41 As set out in paragraph 2.2 above, the CMA considers that the Proposal constitutes a Climate Change Agreement and therefore that it would be appropriate – exceptionally – to take into account the totality of the climate change benefits accruing to all UK consumers in line with paragraphs 6.1 to 6.7 of the Guidance. The CMA considers there are credible reasons to believe that the Proposal would produce benefits to all UK consumers by reducing GHG emissions and thereby helping to mitigate the impact of climate change, which in turn will help to reduce the costs that consumers would otherwise incur due to climate change. As WWF-UK has submitted that there are costs to society of not transitioning to net zero, including the impact of rising temperatures and the associated extreme weather patterns impacting global supply chains and as such, UK food prices.⁵⁶

⁵⁶ WWF-UK RFI response of 10 August 2023.

2.42 Notwithstanding the uncertainty about the precise size of the costs and benefits that might be attributable to the Proposal, given the CMA's provisional conclusion that the risk of harm to competition and consumers resulting from the Proposal appears likely to be low (see paragraph 2.3 above), the CMA considers that there are reasonable grounds to expect that the potential relevant benefits would equal, or exceed, any adverse effects on consumers resulting from the Proposal on aggregate over this period.⁵⁷

Indispensability

2.43 As referred to at paragraph 1.12, WWF-UK submitted that collective action is needed due to the scale and pace of scope 3 emission reduction that is required. Reasons WWF-UK have given for why a collaborative approach is needed are as follows:

- (a) Common supply chains: the major retailers in the UK share the same supply chains, up to manufacturers and farmers and, accordingly, initiatives to reduce emissions through the supply chains are much more likely to be successful if requests are consistent and cover a greater proportion of each supplier's customer base, allowing a simpler and more efficient roll-out of net zero policies by suppliers.
- (b) A consistent approach: the collective commitment provides a single and consistent set of criteria for suppliers to work towards publishing SBTs aligned with 1.5°C in all scopes by the end of 2025.
- (c) Benefits for the whole supply chain: there are benefits to be derived if retailers set consistent requirements. These include increased certainty and reduced compliance costs by replacing the current multiple bilateral and divergent conversations between each supplier and a number of retailers, with multilateral engagement. One of the barriers currently facing suppliers when setting net zero goals is the prohibitive costs incurred when multiple retailers make different and potentially conflicting requests.

⁵⁷ The CMA also notes the conclusions of the Climate Change Committee Report 2020 that assessed the benefits of land use change and adoption of low-carbon farming practices to achieve net zero emissions in the UK by 2050. The report estimates that this would result in £96bn of non-market benefits of which 67% are attributable to the avoidance/reduction of greenhouse gas emissions (compared to around an estimated £29bn in total costs). The report also estimates that each £1 invested in low carbon land use changes generates over £3.30 on average when both market and non-market benefits are considered. While we recognise that only a small portion of these benefits would be potentially attributable to the Proposal, we believe this assessment suggests that, at least in agriculture, the likely benefits of setting and meeting robust targets can be expected to significantly outweigh the costs on average. The CMA also notes that uncertainty as to the number of suppliers who may take action to meet net-zero SBTs because of the Proposal is one of the primary reasons for the uncertainty about the potential costs and benefits that may be attributable to the Proposal. If the Proposal leads to more suppliers investing in lower carbon agriculture and production processes, that might lead to higher costs in the supply chain, however, the CMA also believes that it is reasonable to expect that this would result in proportionately higher levels of emission reductions.

Removal of these inconsistencies benefits the whole supply chain, including end consumers.⁵⁸

- 2.44 Based on the information provided by WWF-UK, our view is that there are credible reasons to believe that the Proposal is likely to satisfy the indispensability condition. WWF-UK's experience and the mixed success of prior unilateral steps taken by retailers provide support for the need for stronger action to drive change among suppliers. It appears reasonable to assume that, in the absence of the Proposal, the same level of benefits would not have been achievable, or that the introduction of that agreement which incorporates a mechanism for applying incentives and disincentives is necessary to enable the parties to achieve the required benefits more efficiently (eg more quickly and effectively).
- 2.45 The CMA also considers that WWF-UK is correct that other aspects related to the Proposal, in particular which individual suppliers should be required to adopt the net-zero SBTs and the nature and extent of such incentives to be offered to the Relevant Suppliers, do not need to be collectively agreed on by the Retailers in order to achieve the objectives of the Proposal. It is therefore right that these aspects of the Proposal should be left as unilateral decisions for each Retailer.

No elimination of competition

- 2.46 The Proposal requires suppliers to set net-zero SBTs and, as the CMA explains at paragraph 2.13 above, it is reasonable to expect that suppliers will implement these SBTs. It does not directly regulate price or costs at either the supplier or retailer level. This proposal would be only one of a number of factors that may influence the price suppliers charge for their products. The CMA considers there should continue to be significant competition between the Retailers, including on price and quality. As set out in paragraph 2.17 above, competition between the Retailers (including the competitive constraint exerted by non-participating retailers) means they would have an incentive to implement the Proposal in a way that minimises any impact on price and quality to consumers. This is supported by the CMA's recent work which provides some evidence on the competitiveness of the grocery retail sector. In relation to supply markets, it is also appropriate to bear in mind that a proportion of suppliers representing up to 20% of Retailers' emissions would not be required to set net-zero SBTs which should allow space

⁵⁸ WWF-UK request for informal guidance dated 29 March 2023.

for suppliers who are not currently in a position to set net-zero SBTs to continue to compete.

3. CONCLUSION

- 3.1 Based on the high-level assessment set out above, and on the basis of the CMA's understanding of the facts as submitted by WWF-UK, the CMA does not expect to take enforcement action against the Proposal.

4. FURTHER COMMENTS

- 4.1 If in the future we were to conclude that further consideration of the Proposal was necessary, the CMA would not issue fines against WWF-UK or the Retailers if it were to subsequently conclude that the Proposal infringed the Chapter I prohibition of the Act.
- 4.2 As set out in the Guidance, this informal guidance is subject to certain conditions and caveats, including the requirement for WWF-UK and the Retailers to take reasonable steps to keep the Proposal under review and to reassess its compliance with competition law, for instance, if market circumstances change, or new information comes to light.
- 4.3 In particular, the Proposal is capable of having an impact on suppliers. However, in line with our intent to conduct a light touch and proportionate review of requests for informal guidance, we have not sought feedback from suppliers on the Proposal. While we appreciate that WWF-UK's proposal only covers the setting of targets, as explained in paragraph 2.13, it is reasonable to expect that most suppliers who set targets would then take steps to meet them. As such, we believe that when assessing the potential impact of the Proposal it is necessary to consider the potential costs to competition and consumers that might result not only from the requirements on suppliers to set net zero SBTs but also from the steps suppliers may need to take to meet those targets.
- 4.4 As part of the requirement for WWF-UK and the Retailers to take reasonable steps to keep the agreement under review, we would therefore expect:
- (a) The Retailers to take account of feedback from suppliers when implementing the Proposal (eg deciding which suppliers each retailer will require to set net zero SBTs); and
 - (b) WWF-UK and the Retailers to reengage with the CMA if they receive credible evidence which suggests the setting of net-zero SBTs by suppliers is likely to have a significant negative impact on competition either overall or in particular product markets, taking into account paragraph 7.15 of the Guidance and the potential need to agree adjustments with the CMA to

bring an agreement into line with competition law).⁵⁹ For example, if in the lead up to the 24 month milestone the Retailers became aware that the requirement on suppliers to set net-zero SBTs would lead to the suppliers of a particular product incurring disproportionate costs that would lead to a reduction in competition, eg through exit of suppliers or an appreciable reduction of supply, the Retailers should consider whether to take action either unilaterally or collectively, to mitigate the potential costs for those suppliers, or whether to carve that product category out of the scope of the Proposal.

- 4.5 This informal guidance also assumes that whenever appropriate adequate safeguards are in place to ensure no competitively sensitive pricing or strategic business information is exchanged between the Retailers and that the Retailers continue to comply with the GSCOP.⁶⁰
- 4.6 If it is clear that the basis on which this informal guidance was given no longer applies, WWF-UK and the Retailers will need to reassess the Proposal's compliance with the competition rules and if necessary, agree with the CMA adjustments to bring the Proposal back into line with competition law.
- 4.7 If the parties fail to implement adjustments that are required to bring the Proposal back into line with competition law, the CMA reserves the right to withdraw the protection from fines from that point forward.
- 4.8 The assurance that the CMA does not expect to take enforcement action in relation to the Proposal, and that no fines would be issued if it were to subsequently conclude that the Proposal infringed the Chapter I prohibition of the Act, is given on the condition that WWF-UK did not withhold relevant information from the CMA which would have made a material difference to the CMA's assessment as set out in this informal guidance.

⁵⁹ For the avoidance of doubt the requirement to keep the Proposal under review will not remove the benefit of the CMA's assurances that it will not impose fines for any conduct prior to the information being brought to the Retailers attention.

⁶⁰ If there are additional retailers that join the Proposal in future, that are not 'retailers' designated under the Groceries (Supply Chain Practices) Market Investigation Order 2009 (GSCOP), the GSCOP will not apply to them.