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Scrutiny on Loblaws is likely not over, despite what executives hope

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After his corporate empire agreed to a landmark \$500-million settlement this week in lawsuits over a bread price-fixing scheme, Galen Weston apologized to Canadians, and acknowledged that Loblaw Cos. Ltd.'s business relies on the trust of its customers.

"We have the privilege of serving Canadians from coast to coast. That privilege needs to be earned each and every day," Mr. Weston, who is chairman of Loblaw and chairman and chief executive officer of parent company George Weston Ltd., wrote in a statement on Thursday.

Executives are hoping that the settlements will allow the companies to put the scandal in the rearview mirror. "It's over," Richard Dufresne, chief financial officer of both companies and president at George Weston, said on Loblaw's second-quarter earnings call on Thursday.

But it is unlikely to be that simple. With grocers – and especially Canada's largest, Loblaw – facing intense scrutiny over skyrocketing food inflation in recent years, consumers' trust has already been shaken.

"It couldn't happen at a worse time, really, because grocers have been in the spotlight so much," said food market analyst Kevin Grier.

Loblaw and Weston first alerted the federal Competition Bureau to their role in an "industry-wide" scheme to fix prices – in exchange for immunity from prosecution – back in 2015. That led to a criminal investigation that is still continuing.

The companies revealed their participation in the scheme to the public in 2017. Last year, Canada Bread, one of the country's largest bread manufacturers, also pleaded guilty and agreed to pay a \$50-million fine to settle its part of that investigation.

Parallel class-action lawsuits have also been in progress in Ontario and Quebec, which led to this week's settlement. The slow drip-drip of news about the investigation has kept the story of price manipulation in Canadians' minds, Mr. Grier said.

In 2018, Mr. Grier wrote a report analyzing Statistics Canada data. During the period that Loblaw and George Weston said the scheme was in place, from 2001 to 2015, he found that bread price increases exceeded the overall food inflation rate in Canada, and also exceeded the increases in commodity prices such as flour and wheat. He also noted that bread prices in Canada rose more than they did in the United States during that period.

The Ontario lawsuit has estimated that Canadians were overcharged as much as \$5-billion as a result of the alleged scheme.

Mr. Grier believes that – with this scheme as a shocking exception – Canada’s grocery industry is very competitive. But the price-fixing news creates an image problem for the sector.

“I don’t believe they are doing well because of price gouging and because of lack of competition,” he said. “...This is a horrible thing and a black eye to the industry.”