House of Commons

Business and Trade Committee

Oral evidence: Food and fuel price inflation: will prices come down this year?, HC 1595

Tuesday 27 June 2023

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Watch the meeting

Members present: Darren Jones (Chair); Jonathan Gullis; Antony Higginbotham; Jane Hunt; Ian Lavery; Anthony Mangnall; Andy McDonald; Mark Pawsey.

Environment, Food and Rural Affairs Committee members also present: Sir Robert Goodwill; Ian Byrne.

Questions 1 - 89

Witnesses

I: Rhian Bartlett, Food Commercial Director, Sainsbury's; Kris Comerford, Chief Commercial Officer, Asda; Gordon Gafa, Commercial Director, Tesco; David Potts, Chief Executive Officer, Morrisons.

Examination of Witnesses

Witnesses: Rhian Bartlett, Kris Comerford, Gordon Gafa and David Potts.

Q1 **Chair:** Welcome to this morning's session of the Business and Trade Committee for our one-off hearing on food and fuel price inflation. We are very grateful that four of the supermarkets have come to give evidence to us this morning.

We have Gordon Gafa, who is the commercial director at Tesco; Kris Comerford, who is the chief commercial officer at Asda; Rhian Bartlett, who is the food commercial director at Sainsbury's; and David Potts, who is the CEO of Morrisons. Good morning to all four of you.

Today we are going to want to ask questions on two issues. First, we are going to ask about long-term structural issues that might exist to evidence higher prices for food and fuel, and we want you to help us to understand what those might be and how they might be changing. Secondly, we want to understand the short-term measures your companies are taking to help your customers at this particularly difficult time with the cost of living crisis.

Before we get into questions, I should just say that we are delighted to welcome Sir Robert Goodwill, who is the Chair of the EFRA Select Committee, and Ian Byrne, who is a member of that Committee, both of whom are joining us today.

Presumably all your companies recognise that we are still in the midst of a cost of living crisis where a very significant number of your customers are unable to afford to buy the food and fuel they need to support their households. I am assuming that everybody agrees with that.

It was announced today that inflation has come down a little bit, to around 8%, but for the public that translates into prices still going up at a rate of 8%. Customers are struggling and prices are still going up. The question that many have been asking, including the Prime Minister, the Chancellor, the Competition and Markets Authority and others, is whether—I am quoting the Government here—the supermarkets have been behaving or not in their pricing.

One of the accusations is that all of your companies, with the exception of Morrisons, have been making increased profits. Therefore, have you been doing enough to keep down the prices of the food you supply to your customers? I just want to take that question head on. In the context of increased profits, are you doing enough to help? Gordon Gafa for Tesco, are you doing enough to help your customers?

Gordon Gafa: I will start by saying that Tesco is, at the moment, the most competitive we have ever been. We have a really powerful combination, in our opinion. We have Aldi Price Match, for example, which we have recently expanded. Just to go into a little bit of detail about what that means, we have 700 lines that we price match every week to Aldi. When customers come to Tesco shops, they are guaranteed that they will not pay anything more for those lines in Tesco.

That is not the only thing we are doing. For example, we have our Low Everyday Prices campaign, in which we lock our prices in over 1,000 lines in the majority of our stores. Those are fixed for periods of three months. That covers all the market with regard to how we price match. Finally, through Clubcard Prices, in any given week we have up to 50% promotions on about 8,000 prices and we offer our Clubcard holders real, unbeatable value.

I want to tackle the profitability question head on. We have not made more profit year on year. We have made 7% less profit versus our last financial year. It is important to be clear on that point at the outset.

Q2 **Chair:** Maybe you can help me. You all run very complicated businesses. I had a quick look at the annual accounts of each of your companies and specifically compared your performance before the Covid lockdowns to the last financial year. Of course, Covid made things much more difficult to understand. To take Tesco as an example, according to your 2018-19 annual accounts, you made a profit of £1.6 billion; in your 2021-22 accounts, you made a profit of £2.03 billion. As a very basic review of the accounts, you have increased your profit quite significantly there, have you not?

Gordon Gafa: When I look at our group profits—we are a business made up of various companies, including retail, wholesale and the international business in the Czech Republic, Slovakia, Hungary and Ireland—our profitability has hovered between 3% and 4% over the last four or five years. I quote from our group accounts since 2019.

As I said, profits for the group business are down year on year. I would like to remind the Committee, in the interest of transparency, that we have sold more year on year and we have made less. That is public information. We have had a really big savings programme at Tesco. We have saved £550 million. We have given our colleagues a 15% pay increase in the last year and a 22% increase over the last couple of years.

If you do the maths and work out what we sold and what we made, you can see there has been a significant investment in our customer offer as well as our colleagues, which we are really quite proud of.

Q3 **Chair:** I understand. I am sorry to cut in, but the public will look at the numbers I presented to you. Your group profits have gone up from £1.6 billion before the Covid pandemic to £2.03 billion now. That is a bigger number. I am sure there are lots of reasons underneath it, but essentially you have more cash in the bank at the end of the day, based on your reported accounts.

Given the Covid pandemic, the energy crisis, the increased costs of your supply and the increased cost to your customers, how can it be possible that you are making hundreds of millions of pounds in additional profit?

Gordon Gafa: I would reiterate the point. I am looking at the numbers. Our adjusted operating profit for the group in 2019 was £2.6 billion, and in 2023 it was £2.6 billion again. I do not know. There may be some discrepancies in what we are comparing.

Q4 **Chair:** I need to move on but, just so you know, for the record, this is the Tesco plc annual report and financial statements from 2018-19, where a chap called Alan Stewart, who was your chief financial officer, reported a group statutory profit before tax of £1.6 billion. When I turn to the same report from 2022, there is a different chap this time, but he reports that the same measure is £2.03 billion. I am just reading the numbers in your accounts.

Gordon Gafa: I am referring to our latest issued accounts for 2022-23. That may be the discrepancy. I am happy to compare notes outside the meeting.

Q5 **Chair:** Mr Comerford, from the perspective of Asda, are you doing enough to help your customers right now?

Kris Comerford: In a similar way to what we have just discussed, if you looked at the Asda full-year 2022 accounts, sales were flat on a year-on-year basis, but profit from the adjusted EBITDA perspective was down by 25%. That reflects what we have been trying to do to manage the inflation we have been seeing. We all know the drivers of inflation in the UK market, whether that has been some of the supply chain issues during the pandemic, the weak pound, labour market costs or the war in Ukraine, which certainly affected food and energy prices out there.

We have done a series of customer-facing initiatives, with the launch of Just Essentials, which is our entry price range, in all of our stores. We have a Dropped and Locked campaign where we have not only dropped their prices of products, but held them for a period of time. We have launched our Asda Rewards loyalty programme. The more you shop at Asda, the more you get rewarded for that. We have also invested in some of the key food offers out there. In our cafés, we offer kids the chance to eat for £1.

As a lot of my competitors have also done, we have also invested in our colleagues as well, with a series of pay increases, which has been necessary as we have faced this cost of living crisis.

Q6 **Chair:** The Asda accounts are quite difficult to read because you have had a significant change in the way your business is owned and financed. One thing I have noticed is that the cost of borrowing has gone from £66 million in 2018-19 to nearly £500 million in 2021-22. Why have your debt payments had to go up so significantly? What does that mean for your customers?

Kris Comerford: We have had an ownership change during that time period. As a consequence, the way we are owned and structured is different from what you are comparing it with, three years prior to that. All I would say, therefore, is that that bit has been factored in as we have looked to our business and our accounts. Despite what you are talking about in terms of the financial structure, we are still investing in the customer offer. That is why we have invested in Just Essentials, Asda Rewards and our Dropped and Locked programme, as well as cafés for our customers.

Q7 **Chair:** Rhian Bartlett, coming to you next from a Sainsbury's perspective, I want to ask you the same question. I have just looked at the annual accounts. In 2018-19 there was profit before tax of £239 million. In 2021-22, it was £854 million. There has been a significant increase in profit at Sainsbury's. Are you doing enough to help your customers?

Rhian Bartlett: The first thing we would like to say is that we are acutely aware of the impact of the cost of living crisis on our customers and our colleagues. We know how difficult they are all finding it right now. We have spent £560 million on keeping prices low and battling inflation. We are doing absolutely everything we can to keep prices as low as possible for customers.

Like Tesco and Asda, we have a range of price mechanics and activations that we choose to invest in to help our customers. We also have an Aldi Price Match offer. We have about 300 products in that. They are the products our customers buy the most frequently. We have been very choiceful about making sure that covers a set of products that are in their baskets week in and week out. We also have Price Lock and we have loyalty pricing. In addition to that, we have an economy range called Stamford Street. We have just brought all of our lowest-priced products under one brand so they are really easy to find.

In terms of the accounts that you reference, in the most recent year we have published we made £690 million. Our input costs are not being fully passed through to our shelf prices. We have submitted lots of detail on that to the CMA. We have had very good discussions and dialogue with the CMA. We are inflating behind our input costs and we are inflating, wherever possible, behind the market.

Q8 **Chair:** David Potts from Morrisons, the saving grace is that your profit has gone down, not up, from 2018-19 compared to 2021-22. I cannot quite put the same question to you and say you are running away with excess profits. What are you doing to help your customers with the cost of living crisis?

David Potts: Thank you for the opportunity to be here today. It is a privilege for Morrisons, and I am very pleased to be here in person. We are acutely aware of the pressure that many millions of ordinary people have come under as a result of this cost of living crisis and food inflation in particular.

Since it started, we have donated £4 million to food banks to make sure no one is left behind. In that same period, we have helped our customers by collecting the goods they want to donate to food banks and delivering them ourselves. That was worth a further £8 million. That comes on top of the £12 million that I know members of the Select Committee will be aware we donated from the company during the pandemic to food banks.

What have we done this year? I reported on Thursday that our profits were down 10% in half-year 1, as we faced into lower prices. By investing early in lower prices, we are now as close as this company has ever been to Aldi and Lidl prices.

My final remark would be that we have introduced a brand called Savers, which Kantar, which comments on various matters in the industry, said last week is the fastest-growing fighter brand or budget brand in the UK this year. I believe that is because we have lowered prices with that tougher policy for us to get through with those prices of Savers. We have made delivery more attractive, and we have increased the item count to 240 for those items. We have put them where people can see them and buy them.

It is a very fair question and there is more we can do, but I am very confident that so far we are getting at every cost we can in order to put that money into prices.

Q9 **Chair:** Just very lastly from me, all of you are very large employers as well as serving very significant numbers of consumers. I heard recently—they were Asda employees specifically, but I am sure it applies in other supermarkets—about employees having to go to the food bank to pick up the free donations of food they had stacked in their own supermarket because they cannot make ends meet. I just wanted to ask each of you very quickly whether you are a living wage employer.

Gordon Gafa: We are. As I said, we are really quite proud to have given a 15% increase to our colleagues.

Q10 **Chair:** I am conscious of time. I just want a short answer. Are you a living wage employer?

Gordon Gafa: Yes, we are a living wage employer.

Kris Comerford: Yes.

Rhian Bartlett: Yes.

David Potts: The national living wage is £10.42. We are paying £10.92 with a 15% discount.

Q11 **Anthony Mangnall:** I am going to start with you, Mr Gafa, because Tesco has the largest number of fuel courts out of the panellists with us today. Can you just give us an idea as to what has caused the increase in fuel prices both from outside and within your control?

Gordon Gafa: Thank you for the question. Fuel prices have seen a significant increase driven by the impact of the unfortunate war in Ukraine. We should not forget that more than 90% of the price you see at the pump is made of input costs, taxes and duties. The significant spike in the price you saw at the pumps was largely driven by factors outside of our control.

Q12 **Anthony Mangnall:** What about the factors within your control? You have huge purchasing power, you can buy in a wholesale manner and yet prices have remained stubbornly high across all four of your companies. All four of your companies' fuel courts have very high prices and continue to do so. What is within your purchasing power to reduce those prices?

Gordon Gafa: It is probably important to point out that prices have reduced very significantly. If we compare January to now, I believe the current average is around 16p per litre cheaper than what it was at the time. Compared with the peaks we saw last year, from memory, it is about 28% cheaper at the pumps for motorists.

We buy from eight different suppliers. We uplift from over 30 different locations. We are quite proud of how we buy and how we manage what is within our control, which is fairly limited. You have to refer to the Platts price on fuel as the key input for the raw material. A significant chunk of the price is duty and tax—53p per litre is the duty, plus you have VAT at 20% on top.

Q13 **Anthony Mangnall:** I do not take much comfort in the fact you are saying that prices are down from a very high level in the first instance. Consumers are wondering why they still remain incredibly high. There is also a huge concern around transparency within the sector. I know Mr Gullis will come on to this, but in Northern Ireland, for example, there is greater transparency around fuel prices. The RAC is reporting that there is a significantly lower price offered to consumers as a result.

I will start with you, Mr Gafa. I am sorry that I am focusing on you, but I will come on to the others in a second. What consideration have you given to enhancing transparency in real terms or going to a Northern Ireland model where there is a weekly presentation of your figures? That has seen significantly reduced prices being offered to consumers.

That also beats any of the points you have just made around how you are purchasing and what you are doing, because they have been able to keep it consistently low through the pandemic and the fuel crisis.

Gordon Gafa: First and foremost, I will start by saying that we do compete locally. Our pricing policy is structured to compete locally. We are really keen to make sure that we stick with it. We are a retailer in Northern Ireland. We have 19 sites. We are part of Northern Ireland. How we deliver fuel to motorists over there—

Q14 **Anthony Mangnall:** I am sorry. Can I just jump in there? Can you give me a comparison right now of what you are charging for petrol and diesel in Northern Ireland versus what you are charging in England? Presumably you are part of that transparency system.

Gordon Gafa: As I say, we price locally. Within the Tesco policy, we have a spread of about 10p per litre, which we try not to deviate from. Let us not forget that fuel pricing is very volatile. At any one point you could have locations that are within that spread.

On your question specifically around transparency, I would like to remind the Committee that we do put our fuel prices outside each of our locations. We display them on big screens. We are very open about that before you drive into a Tesco versus one of our competitors.

Just to answer the question on transparency specifically, we would welcome more transparency on price in fuel. We have no objection whatsoever to transparent prices. In fact, we would welcome the system that is in Northern Ireland, where you can go online and compare. It is not something we would be against.

Anthony Mangnall: I would just make the point that it does not offer people much comfort to say you are advertising what the price is outside when they have very few other options.

Jane Hunt: It is the law. You have to show the price.

Q15 **Anthony Mangnall:** Precisely. As Ms Hunt says, you have to show those prices. If you have little alternative, it makes no difference. The consideration has to be about how you ensure that you collectively, given the fact you are one of the biggest groups of fuel court owners, are competing at a price that is fair and reasonable to consumers.

Gordon Gafa: Fair and reasonable pricing is at the heart of the Tesco operation. In terms of options, Tesco has 511 petrol fuel stations out of about 8,300 in the UK. Our market share with regards to sites is about 6%, but our actual share with regard to volume is 16%. We have busy sites in convenient locations that are competitively priced so motorists do reward us with their business.

Q16 **Anthony Mangnall:** Thank you very much for your responses. I am going to just quickly ask you whether all of you would collectively be happy to enter into a model that is akin to what is being done in Northern Ireland. I am sorry, Mr Gullis. I am stealing a lot of your points. Would you all be happy to enter into a system that would provide better live fuel price transparency? A yes or no would be very helpful in terms of time.

Kris Comerford: In which case, yes, absolutely.

Rhian Bartlett: Yes.

David Potts: We would be happy to look at anything that can benefit consumers.

Q17 **Anthony Mangnall:** We certainly have some work to do on this on our side. Ms Bartlett, what are you expecting in terms of bringing down fuel prices and creating more price stability within your market, and what you are able to offer consumers.

Rhian Bartlett: Pricing today has returned to pre-Russia-Ukraine war pricing. That is a good thing. We have been through a year and a bit of very deep instability in supply, which you will have seen.

That has stabilised over the last number of weeks and months. We now sit at 141p and 140p per litre. It is around that level, which could be compared to more normal levels. The way we price petrol is also local. That is how the market operates. We aim to be the cheapest or the second cheapest in all the catchments we operate in. We run in about 300 catchments.

As you are aware, the CMA has been looking in a great deal of detail at this market. It has been a very productive process. We have engaged closely with them. They have not found particular competition concerns, although they are publishing a fuller report next week. They have found that the presence of a supermarket in a catchment actually helps to keep prices low. If they were to recommend an open data platform like the one you refer to, we would be very supportive of something like that.

Anthony Mangnall: You have mentioned the CMA, and I am in danger of wandering into the next question so I will not do that. I would just make the point that the CMA said that, from a supermarket perspective, you collectively have been very bad at providing information. I make the point that you can do better on that. I have steered into Mr Gullis's territory, so I will hand over to him.

Chair: Just to be clear, the CMA did not name which of your businesses have not been forthcoming in engaging with its market study. I suspect it might do next week. Just to be clear, I do not know which one of you it is that is not playing ball with the CMA.

Q18 **Jonathan Gullis:** To follow on from Mr Mangnall's point, to be perfectly transparent, I am someone who supports and has worked with FairFuelUK and who has been calling for the introduction of a pump watch scheme similar to what we see in Northern Ireland. I am very delighted to hear that 44% of forecourts in the road fuels market space now support this campaign. That will be good news for the Chancellor, who I know has been engaging with the Department for Business and Trade and others to hear their views on this matter.

This Government have frozen fuel duty since 2010. That is over a decade. We have seen two cuts to the actual cost. We saw the Chancellor having worked with myself and the *Sun* newspaper campaign for the 5p cut to remain in place. Yet, sadly, consumers do not believe for a single second that the cut in fuel duty is ever being passed on to the consumer. Ultimately, these stubbornly high prices, particularly for diesel drivers, have meant they feel they are being taken advantage of.

The Competition and Markets Authority has said that between 2017 and 2022 the profit margin for supermarkets in fuel has doubled from 4% to 8%. Is what the CMA has said reflective of what you are seeing within your businesses? Can you explain why customers did not see that 5p cut in fuel duty and the continuation of that scheme passed on to their pockets? I will start with you, Mr Potts.

David Potts: We did pass on the duty cut on the same day. Clearly, the volatility within the market has to be tracked over time. We have provided everything the CMA has asked for and we will continue to do so.

There is a bit more profit at the retail end of fuel. I could not be specific on the timescales but, if that is roughly 8%, I am going to go away from this meeting inspired to have a look at the 92%.

This year, we have done three things on fuel for consumers. We have added more card points to every litre of fuel our customers buy. We have run three promotions on our fuel that have lasted nine weeks, which I know has helped. We have also strengthened our pricing policy within a local catchment so it is tougher for us to hit our price policy within the spreads. We can always do more. The energy costs that exist, the transport costs and the labour cost within our sites have all added to the price, along with the dollar-pound, the oil barrel post Russia and so on.

If I may just go right back for one moment, over four decades the British supermarkets have brought lower prices to consumers in Britain for fuel. These are facts. Right now the fuel prices on our supermarket forecourts are lower than the independents and continue to be so.

Q19 **Jonathan Gullis:** To go back to Mr Mangnall's point, you will be able to have better purchasing power than an independent forecourt, which will therefore drive down those costs. My concern is that the Competition and Markets Authority basically gave a slap on the wrist to the supermarkets over fuel prices. Within two weeks of the Competition and Markets Authority giving a ticking off to the supermarkets, suddenly, by some miracle, we saw average forecourt prices come down by 7p per litre.

It took naming and shaming from the Competition and Markets Authority for, dramatically, 7p to be found overnight from your margins. In that case, why was the 7p not passed on prior to the Competition and Markets Authority making any statement? I will come to you again, Mr Potts.

David Potts: It is a very fair question. If I take the exact same day as last year, we are about 48p a litre lower. I am sure the 7p is in there somewhere with the 5p. I would only be repeating myself, so I will stop there in the interests of time.

Q20 **Jonathan Gullis:** I appreciate that, Mr Potts. Mr Comerford, Asda used to be a market leader. It had a loss leader at the pump in order to build brand loyalty and bring people into the store. Asda seems to have abandoned the policy of being a loss leader and has gone for the more profiteering route. That is why people feel that—I am not going to take a word that I know Ms Hunt is going to use later—there is collective groupthink in this space, which is meaning that we are not seeing the competition in the space as their once was.

Why did Asda abandon that halo effect? That was what it was referred to as by the Competition and Markets Authority. Why did it abandon being a loss leader at the pump to build brand loyalty with the store?

Kris Comerford: The Asda fuel pricing strategy policy has not changed over many years. As the CMA has said, we are still recognised as the best-value fuel provider.

Q21 **Jonathan Gullis:** Is Asda still a loss leader in fuel?

Kris Comerford: The overall strategy of Asda is to be the best-value fuel retailer in the UK. That has not changed.

Q22 **Jonathan Gullis:** You have not seen profit margins go from 4% to 8%.

Kris Comerford: We look at everything in its total round. As we said earlier, our full-year profits in 2022 for Asda in total, which is food, fuel and the total business, have dropped by 25% against a background of a flat sales line. We look at everything in its total entirety.

Q23 **Jonathan Gullis:** You are also having to pay a whopping debt back, as the Chair pointed out. A new buyer came into the company who only put in £800 million of their own money. They made the business heavily debt-laden. That is why nearly £500 million of debt is being serviced. Essentially, you have had to make more money in order to service the debt. From what I understand, the debt deal was the market rate of 5% plus an additional 6%. You are paying an 11% interest rate on the debt. The reality for Asda is that, although you may still remain the most competitive, fuel is no longer the loss leader it was that you use to bring customers into the store. Therefore, you are probably making double profit margins, as the CMA has suggested.

Kris Comerford: As I said in my opening statement, the ownership structure has not changed the business decision to invest in customers. We have invested, as we have said, in the food elements of Just Essentials, Asda Rewards and Kids Eat for £1. It is recognised by the CMA that we are still the best-value fuel provider. That has remained unchanged.

Q24 **Jonathan Gullis:** Mr Comerford, I assume you are not the company the CMA referred to when it said, "At least one supermarket has significantly increased its internal forward-looking margin target since 2019." That would not apply to Asda.

Kris Comerford: I have not gone through the full details of the CMA report. It is due out in the next few weeks, along with some recommendations. We will review those recommendations accordingly and implement any recommendations that come forward.

Q25 **Jonathan Gullis:** If we as a Committee were to request internal documents from you, would we find evidence of this? Would you be willing to share those documents?

Kris Comerford: All our documents have been submitted. The CMA has everything. We have fully engaged with them on everything. I have been to the CMA. We have had those conversations. They have all of our documentation.

Q26 **Jonathan Gullis:** If I can come to Ms Bartlett and Mr Gafa, on 27 March, the CMA noted that the average diesel retail margins were more than three times the size of average petrol retail margins at over 23p per litre compared to 7p per litre. I will refer to my interests. I am someone who drives a diesel car—I will put that on the record. Do these figures align with your own or have your margins come down since then? I will start with you, Ms Bartlett, and come to you, Mr Gafa.

Rhian Bartlett: As I said earlier, pricing today is 141p and 140p. Although in this format I cannot comment specifically on margins for individual products—I would not be allowed to do that—we have finally seen some stability after a very volatile period. Wholesale prices have been highly volatile; supply has been highly volatile. It has been one of the most difficult years to operate in this market.

It is also a market that is in steep decline. Volumes are reducing as people electrify their vehicles. We are managing the situation for customers as best as we possibly can. We are trying to keep prices as low as we possibly can, which is what we have always done. We have always had the same pricing policy to match the local catchment area. There was a period of time when diesel and petrol prices were further apart than they have been historically, but that was fairly short-lived.

Q27 **Jonathan Gullis:** You mention electrification coming down the track, Ms Bartlett. What is the plan? If more and more people electrify, is the long-term plan that forecourts will disappear from supermarkets? Are you going to keep prices high to make up for the loss in customers who will charge at home?

Rhian Bartlett: We have committed to providing petrol for our customers as long as they need it and as long as we possibly can. Clearly, in parallel with that we will be starting to think about how we can provide EV infrastructure, because that is where all the new demand will be.

Q28 **Jonathan Gullis:** Mr Gafa, could I come to you as well, please? My first question was about the margin on diesel reportedly now being around 23p per litre compared to 7p per litre. Does that match with what Tesco is seeing?

Gordon Gafa: Not at the moment, no. As I said earlier, we do price in each and every local area. We look every day at our 8,000 sites and make sure we are competitive.

Specifically on diesel, we did step out of our price policy, and we believe we led the market down. The volatility in petrol pricing that we have experienced has been really quite tremendous. As soon as we were confident we could do so, we led out and reduced prices outside of our policy pretty quickly to make sure we could return—

Q29 **Jonathan Gullis:** You would disagree with the CMA, which in May said that it felt diesel prices "remain elevated" even though wholesale prices of diesel had been falling since the start of 2020.

Gordon Gafa: In any particular week there will be volatility and there will be variations. It is important to look at the return we make on fuel over a year. As I said earlier, as a business, Tesco makes 4p in every pound from our operations. There will be volatility. At the peak, we were seeing volatility of up to 10p per litre per week, which was quite significant and very difficult to deal with, to be honest.

Jonathan Gullis: I have one last point before I surrender my time. My concern is that the Chair has clearly pointed out from the accounts that overall profits before tax have gone above their pre-pandemic levels. You are all saying, "It is not coming from the stores," where people are buying food, so therefore it must be coming from the forecourt. Otherwise I do not see how, in Tesco's case, you are making £400 million more pre-tax in 2021-22 compared to 2018-19. It just leaves me baffled.

Chair: We will have to keep that as a comment and not a question, I am afraid, because of time.

Q30 **Mark Pawsey:** I want to stick with the CMA report. Do you agree with the assertion of the CMA that there is evidence of retailer margins increasing on fuel over the last four years? That was evidence that the CMA gave before this Committee only a couple of weeks ago. Do you agree with the CMA, Mr Gafa?

Gordon Gafa: We are one of the retailers that has really collaborated—

Q31 **Mark Pawsey:** Mr Gafa, has the CMA got it right or got it wrong?

Gordon Gafa: As one of the retailers that has extensively collaborated with the CMA, that would be representative of what we have seen, yes.

Mark Pawsey: I am sorry. Is that a yes or a no? Has the CMA got it right or got it wrong when they say that retailer margins have increased?

Gordon Gafa: I cannot comment specifically because we are—

Q32 **Mark Pawsey:** Let us move on to Mr Comerford. Is the CMA right or wrong, sir?

Kris Comerford: The CMA has all the information. We have shared everything with it. We are keen to see its report and the output of its study, which will be out in a few weeks' time.

Q33 **Mark Pawsey:** It is wrong in suggesting that there is evidence of increasing retailer margins.

Kris Comerford: I have not seen the report.

Q34 **Mark Pawsey:** Ms Bartlett, is the CMA right or wrong?

Rhian Bartlett: I do not know what other retailer margins are, which is absolutely as it should be.

Q35 **Mark Pawsey:** Your retailer margins are unchanged.

Rhian Bartlett: We will need to wait for the report.

Q36 **Mark Pawsey:** The CMA is wrong, in your view, in its assertion that there is evidence of rising retailer margins.

Rhian Bartlett: The CMA is the only body that can see all of the information, so we need to wait for it to report back.

Q37 **Mark Pawsey:** Do you accept what it is saying?

Rhian Bartlett: When it comes back, we will absolutely take on board what it says.

Q38 **Mark Pawsey:** Mr Potts, where are you on what the CMA is saying?

David Potts: Despite it being the lowest-margin category in the store, as I said earlier to one of your colleagues, there is a bit more profit on fuel in the industry.

Q39 **Mark Pawsey:** The CMA has got it right.

David Potts: That is correct.

Q40 **Mark Pawsey:** One of the things the CMA wants to see is more competition in the sector. You have already told us about putting the price on the forecourt, which I think is an obligation anyway. What about things like readily providing your information to apps so that consumers can determine where the lowest prices are? Would anybody take the initiative on something such as that?

Gordon Gafa: As I said earlier, we honestly welcome price transparency in the sector. If we need to submit information to an app or a website like there is in Northern Ireland, we would be happy to do so.

Q41 **Mark Pawsey:** Do you have any other ideas as to how consumers could know more or how prices could be made more competitive?

Gordon Gafa: We should look at digitisation, using an app or pricing being visible online. It happens in food retail. I will give you a very practical example. When we have a strong promotion, HotUKDeals will show that promotion and customers will vote for it as something they really like. We welcome that because it shows customers online where there is good value in the market.

Q42 **Mark Pawsey:** Do any of our other witnesses have any suggestions as to how we can communicate prices more effectively to consumers so that we get better competition in the sector?

Rhian Bartlett: The proposal is an open data app that includes drive times and the potential cost of travelling to any particular location, if you put your reg in. We would be very supportive of that kind of initiative.

Q43 **Mark Pawsey:** Mr Potts, would you support that initiative?

David Potts: Consumers are very savvy. I have not seen that change. As I said earlier, we are very happy to look at anything that drives a better deal for consumers, including fuel.

Q44 **Mark Pawsey:** Mr Comerford, would you also make your data available to an app so that consumers can know where the cheapest fuel in their area is?

Kris Comerford: Yes, definitely, because they can make the right choices and decide when they are on their journey. Why would we not help?

Chair: As a health warning to colleagues, I have a maximum of 45 minutes and 10 people to call. Please try to keep your questions focused. Witnesses, please try to keep your answers straight so that we can get through this.

Q45 **Jane Hunt:** I am going on to food pricing inflation, please. Food pricing inflation rose to over 19% in March this year, the highest rise in food prices since 1978. To what extent have food prices been hit? Which ones have been worst hit and why?

David Potts: If I can give a specific example, we have certainly seen inflation in eggs. Why? It is due to avian flu. As I understand it, we lost 420 million birds around the world. Therefore, both the meat itself and particularly the eggs are now in short supply.

Q46 **Jane Hunt:** Just on that point, Mr Potts, a producer has told me that their prices have only increased by 14% and they have passed those on accordingly. They have just passed on that and no extra, and yet we have seen in our notes that egg prices have gone up by 29%. What do you say to that?

David Potts: In the absence of the detail, eggs have gone up a lot more than both of those figures, if I may put that way. We know how important they are. They have started to build the flocks and the eggs are starting to come through across the whole of the UK, including Northern Ireland. I am hopeful and expecting to see a gradual normalising of the egg price.

The other example would be pork. Almost an oversupply of pigs led to a reduction in the rearing and finishing of pigs across the world at a time when demand was going up. That has put what is a relatively cheap meat, and of course a very important protein, under pricing pressure.

Q47 **Jane Hunt:** Ms Bartlett, aside from eggs and pork, what other food prices have been hit?

Rhian Bartlett: The big pressures on inflation have been a combination of wages and labour, energy, and then commodity costs moving around. In terms of how we have seen that coming through the system, it has come through much faster in fresh and chilled food. In packaged and long-life food, it takes a little longer. We have seen prices increase the most and the fastest in produce, and in meat, fish and poultry.

Alongside that there are other pressures in the system, such as the ones that David refers to in agriculture. The core drivers of inflation have been labour, energy and commodities, which are relatively cyclical. We are starting to see some easing in the commodity prices for some of the fresh foods I talked about. We have started to see some prices come down. You will probably have seen media about milk, bread, butter and cheese.

Q48 **Jane Hunt:** I will come on to that in just a moment. Forgive me for interrupting you. Mr Comerford, do you have any comment?

Kris Comerford: Our experience has been similar. In February we also saw some salad shortages. That just shows some of the fragility.

Q49 **Jane Hunt:** The price increases are due to shortages.

Kris Comerford: There was an element of that for some produce. There are also some structural challenges and then, as we said before, there have been challenges for anything that requires energy, labour markets and all of these things. That is why we have seen some global commodity challenges and all the rest of it.

Q50 **Jane Hunt:** Mr Gafa, do you have anything to add on that point?

Gordon Gafa: I just wanted to build on Ms Bartlett's point and, in particular, spend a minute on the role of own-label in the UK. As Tesco, we are quite proud that 50% of what we sell is retailer branded. We have one of the most developed own-label markets in the world. I underline that point because own-label is a really unique tool in the UK for customers to manage their weekly budget.

If you think of own-labels, we have invested—I am quite proud to have personally led this work when I joined Tesco—a lot of time building open-book cost models for own-label with long-term contracts that give transparency. You tend to see inflation in commodities flow through fairly quickly because there is nowhere to go. You can see some of those changes in milk and bread. As the price of cereals starts to decline and the farm gate milk price starts to decline, you can see those coming back. We can clearly see signs of food inflation easing.

Q51 **Jane Hunt:** Both of you managed to cover off two of my next two questions, which I will roll into one. The UN Food and Agricultural Organisation's food price index shows that the price of various commodities—oil, cereals, dairy and meat—has fallen since last summer, and yet those prices do not seem to have been reduced in the supermarkets. Which? says that own-brand budget items have risen by 25%. The ones that you are referring to and that Asda referred to earlier on have increased by 25% compared to the previous year.

Each one of you, as you spoke to my colleagues earlier on, talked about Aldi Price Match and meeting Aldi prices. Is this in fact pegging prices?

Gordon Gafa: It is not pegging prices. Aldi is a German retailer that has very competitive prices. We have grown the coverage of Aldi Price Match with significant investment.

Just to go back on the FAO point and the food price index, there are varying degrees of inflation. Some of it is stickier than other parts of it. The labour cost increases that are in Tesco, in our competitors and in our supply base do not tend to go away. There is some fairly structural inflation that is still in the system and does not tend to change as quickly as the more transitory inflation you see in some of the commodities we have described.

On that point, I am really quite pleased that we have led out on milk and cooking oils, including sunflower oil. There was an exponential impact on sunflower oil, driven by the Ukraine war. Some 60% of the sunflower crop in the world comes from Ukraine. We had to fight hard for customers to secure availability; we had to pay more. Now the actual situation has eased and more sunflower oil is coming out, you can see that we have gone down. We hope to do more as this transitory inflation reduces.

Q52 **Jane Hunt:** Mr Comerford, I am a capitalist in a free-market economy, but is the pricing within supermarkets actually free? There are a small number of you. In 1978, there were many more supermarkets. I remember because I am that old—I was around at the time. There are very few supermarkets now, and you each talk about Aldi. Are you in fact a cartel?

Kris Comerford: The UK retail market is the most competitive market. I have worked in central Europe and I have worked in Asia, as have some of my competitive set. It is strange to be sat on a table alongside those who my teams compete against on a day-to-day basis. We are trying, through our best customer offer, to grow our market share. This is quite a unique opportunity or situation that I and my peers find ourselves in today.

We are absolutely not a cartel. We are driven to grow our business through our customers. We have transparency, in so far as we can see the prices at which our competitive set sell their products on a daily basis, either through the internet or in the stores. That is what drives us and that is what motivates us.

As Mr Potts said earlier, customers are really savvy. They absolutely will make decisions about who they shop with based on pricing. The onus is on us to be the best value.

Q53 **Ian Lavery:** Sharon Graham, the General Secretary of Unite the Union, has said that the biggest supermarkets in the UK are engaged in a "grotesque display of profiteering" at a time when millions of workers are struggling to put food on the table. What do you say to that?

Gordon Gafa: As I said before, the whole group makes 4p in every pound, which is not any example of profiteering. Without customers and without their trade, there is no Tesco. We have doubled down on our competitiveness. Genuinely, as we said recently in our quarterly update, we are the most competitive we have ever been. We monitor our prices weekly. I get a price index against the whole market. It is the strongest it has been. We have made a significant investment in colleagues and customers and we are working collaboratively with suppliers.

Kris Comerford: A 25% reduction in our full-year profitability in 2022 would not dictate or reflect the comment you have just shared with me.

Rhian Bartlett: We make less than 3p in the pound. We have also seen profits step back. As I said earlier, the input cost pressures we have had have not been reflected fully in shelf-edge prices. We are doing absolutely everything we can. We really understand how much customers and colleagues are struggling through this crisis. We are doing absolutely everything we can to make sure we are helping them.

David Potts: I agree with you that the most important thing we can do for consumers right now is to find ways to lower prices. I am not seeing any evidence that the industry is less competitive than it ever was. The earlier answers about profitability probably underline that.

Q54 **Ian Lavery:** I will come back later on this morning with regard to the profits. I will not ask any questions on that now. I find it absolutely staggering, but I will come on to that later on this morning.

This is a time when there are an increasing number of children living in poverty. There was an increase of 50,000 last year in my region. The Food Foundation says that in the last 12 months to January 2023 food insecurity for children doubled. For the top supermarkets to feel as if they are doing the right thing is, quite frankly, really concerning.

Is the profit and risk in the supply chain fairly shared by the food producers, processers and supermarkets, particularly in a highly inflationary environment following external shocks such as major weather events or wars?

Gordon Gafa: We sell both branded items and own-label items. As I said earlier, we tend to have longer-term contracts for own-label, particularly in fresh foods. We really work on pricing collaboratively with our suppliers. I want to go back to the point on eggs, for example. We paid

£28 million in support to the egg industry last year. As Mr Potts said, we have supported the pork industry as well.

Being from Tesco, I am quite proud that, for the seventh year running, the Advantage survey, which is an industry survey, has placed Tesco first with regard to supplier satisfaction about working with us. It is not easy, but I am quite proud of that because it signifies how we want to work with our suppliers and how we do work with our suppliers.

Kris Comerford: I believe we have positive working relationships with our suppliers. We have known them over a long period of time. We work with them; we review their costs; we review where they are seeing commodities in a similar way.

Our relationship is also very closely regulated, quite rightly, by the Groceries Code Adjudicator, who I believe you are seeing shortly. We work with them. Producers know they have a vehicle there. If they do not share things with retailers, they have another route through as well.

Q55 **Ian Lavery:** Can I ask another very brief question? In your Tesco Express and Sainsbury's Local stores—the satellite supermarkets—do you sell your own brand? Do you sell your own-brand Savers items in these outlets?

David Potts: We are new to that game and convenience stores. Having just taken McColl's out of administration, we are just busily rescuing those jobs and that business. I am very happy to look at whether, particularly in this moment of high-food inflation, we can get some of those fighter brands I described earlier in those stores. We were not in that sector.

If I could just spend a few seconds, I want to make one point, if I can go back to your earlier question. Despite being the smallest company on this panel, we are British farming's biggest single supermarket customer. I believe we are the second biggest food maker in Britain, despite being a smaller supermarket chain. We believe very strongly in British food security, which is why we only stock 100% British beef, pork and lamb. I thought that point ought to be made.

Rhian Bartlett: To answer your point on risk and reward, we work very closely with our own-brand suppliers. In many instances we have open-book cost models. That is one of the reasons why inflation moves more quickly. Inflation and deflation move more quickly when you operate that kind of model, because the retailer shares and takes lots of the commodity, labour and energy pricing risk. That is not the model with brands, as you would expect. With brands we have no transparency, really, about what their input costs are, so it is a different kind of conversation.

To the question on convenience stores, how we range them and what we stock in convenience stores, there is lots of own brand in convenience stores. There is not as much of the economy brand, which is what I think you are referring to. Most of our convenience stores are in city centres. They serve a lunchtime mission or a dinner-for-tonight mission.

We have 30,000 products in our big supermarkets. We have 5,000 or 6,000 in a convenience store. We are very constrained on space. We range for the mission the customer is shopping that store for. Most customers do their full shop in a supermarket and not in a convenience store.

Q56 **Ian Lavery:** I have a couple of brief questions to Mr Comerford. I hope we will all agree on how fantastic the employees of all the top supermarkets were during the pandemic. The heroic efforts of your employees were well applauded. They deserved credit then and they deserve credit now. If it was not for the employees in your supermarkets, you would not be making these huge profits.

I have a question for Mr Comerford. It appears that Asda are still using fire and rehire. It is doing it in the south-east to impose a 60p per day pay cut on 7,000 retail workers. Is that right?

Kris Comerford: Fire and rehire tactics are not something that Asda employs. It absolutely does not. What I believe you are referring to is a historical supplement that was paid to a small number of stores. Therefore, as a result, there was an anomaly where some Asda colleagues were paid a different rate to ones in an adjacent area. What we have chosen to do to fix that is look at our total business and therefore award an 8% pay increase to all our hourly paid colleagues last year followed by a further 10% this year.

Q57 **Ian Lavery:** Are you using fire and rehire tactics?

Kris Comerford: Absolutely not, no.

Q58 **Ian Lavery:** You are definitely not. Okay, that is fine. I have another brief question. Again, it refers to Asda, Mr Comerford. It is with regard to the fact that Asda is currently in the largest equal pay claim in the private sector ever, with over 50,000 claimants currently suing Asda for equal pay. There is a huge difference between the retail and the warehouse workers. In the main, it is women who are working in retail and men who are working in the warehouse. There is a discrepancy of at least £3 an hour, which is an absolute fortune.

Next and other organisations have been through tribunal hearings, and those hearings have gone in favour of the workers. I believe Asda has a hearing coming up in September 2024. If you lose that hearing, you will have to pay millions, if not billions, of pounds back to the workers. That will have an impact on your profits. What that means, Mr Comerford, is that you have been making huge profits on the back of underpaying women. Would you agree with that?

Kris Comerford: No, and that is why we are vehemently defending these claims. The pay in our stores and our distribution centres is the same for colleagues doing the same jobs, regardless of gender. You are referencing the fact that retail jobs and distribution centres operate differently. They are in different sectors with different skills, and therefore people get remunerated differently for the different areas that they work in. It has nothing to do with gender.

The case is really complicated. It is a complex case. There is no precedent in the private sector that I am aware of. We are aware of the conversation, and the case will continue until September 2024.

Q59 **Sir Robert Goodwill:** Mr Lavery touched on the relative power of supermarkets compared to processors and manufacturers, and certainly compared to farmers at the bottom end of what is literally the food chain. I would like to direct my question to Mr Gafa. Mr Potts talked about what happened this time last year in the egg market. Although bird flu did have an impact, only about 0.25% of the chickens in this country were affected. For geese and turkeys, it was carnage. We saw the price of chicken feed doubling following the invasion of Ukraine, and when the packers came to the supermarkets and said, "Look, you are going to have to do something; otherwise, we will not have any eggs by the autumn," the supermarkets basically said, "No, we have a contract. You supply at that price."

What happened then is that, as the 13-month cycle of laying hens came around, a number of producers either retired or did not fill up their sheds, so come the autumn there were not any eggs and you had to ship them in from Italy. Do you think, in their quest to absolutely drive down prices, sometimes the supermarkets lose touch with the reality of producing food and say, "We do not care. These farmers are going to lose money and they are going out of business. We do not care because we can sell eggs cheaply today," whereas, in the case of pork, eggs and broilers, the long-term effect was actually not to the benefit of your customers.

Gordon Gafa: I am the commercial director for packaged food, so I do not look after fresh. However, I do have a little bit of knowledge having worked in some fresh departments. I will answer to the best of my knowledge.

At Tesco we have never shipped any Italian eggs. We have no intention to ship any European eggs. We are committed to 100% British, first and foremost.

This was in my time setting up our commodities team, as we call it, where we opened up—I believe we were leaders in the industry—open-cost models with our egg as well as chicken suppliers. We go all the way up to feed and transparently make joint decisions with our packers on when to buy that feed. We have done five-year contracts on areas like eggs, for example, which is a big commitment, but we recognise it is required. Our commitment is to British eggs and fresh British chicken.

Q60 **Sir Robert Goodwill:** That was the problem. There were long-term contracts but you did not take account of the short-term fluctuations.

Gordon Gafa: In Tesco specifically, those contracts—again, to the best of my knowledge—are transparent and do vary from feed, because we go all the way to looking at wheat pricing and soya pricing with the packers and determine when we should buy together. As I mentioned earlier, last year we paid £28 million more to the egg industry to support those really hard times that you refer to.

Q61 **Sir Robert Goodwill:** Do you think maybe there could be more collaborative working, following the example of McCain Foods, which contracts with its farmers based on the price of fuel, machinery and all the other inputs needed. Do we need a little more collaboration, rather than just your guys with red braces on in your purchasing department crushing people trying to supply you?

Gordon Gafa: As I say, we are No. 1 for seven years running in the Advantage survey, which includes our fresh food suppliers as well as our packaged food suppliers. That is an indication of how we collaborate. Our supplier satisfaction is 86%, which is a really high number.

I am a huge advocate of transparency in the supply chain. I remember having some really quite big changes—maybe "revolutionary" is too big a word—in conversations that we are really proud to have adopted and stuck with. They have helped many farmers continue to be aligned with Tesco.

Let us not forget the Tesco Sustainable Dairy Group, which has been in place for more than 10 years. We believe—it is there to see—that we have paid more than £300 million to those 500 aligned farmers that are specifically dedicated to Tesco over the lifespan of the Tesco Sustainable Dairy Group. I have visited quite a few of those farmers. They are really proud, and we are really proud of working with them. We have more sustainable groups that have launched. More transparency is not something that we are against with our suppliers at all.

Q62 **Sir Robert Goodwill:** Ms Bartlett, there has been some speculation about a possible statutory or voluntary price cap for customers. Would you say that would be workable or advantageous?

Rhian Bartlett: It is a very fiercely competitive industry that we work in, and we have talked quite a lot this morning about how much we are watching and matching each other's prices all of the time. We are waiting, of course, to hear what the CMA has to say about it. My observation would be that this is fiercely competitive as a market. We are generally considered one of the most competitive food markets in the world. I am not sure what price caps would add to that process, other than the bureaucracy we have seen when they have been applied in France and so on. It can have unintended consequences of selling out and other prices moving up and down around it. This market self-regulates to a positive extent, so we would not be in support of price caps.

Q63 **Sir Robert Goodwill:** Did you have a similar experience with eggs? This time last year there were 43 million laying birds in the country. By the autumn that was down to 38 million. That was not bird flu; that was just farmers losing money and going out of eggs, despite what we heard Mr Gafa say.

Rhian Bartlett: Eggs is one of the most fragmented supply chains that we deal with. We have spent the last 10 or 20 years supporting the consolidation of different supply chains so that we can play a more active role in making sure safe and good-value food comes through the system.

Eggs is probably further behind some of the other value chains. We primarily deal with packers and not with farmers; that has been a problem over the last 12 months or so. We have imported eggs from Italy because we wanted customers to have eggs. We have a policy that we want to be 100% British, but the supply was not there. There has not been the supply for the best part of a year. That is coming back on stream now. The suppliers tell me that there are long delays in planning permissions for new egg sheds. If I could land one ask, it would be for that.

Q64 **Sir Robert Goodwill:** There are plenty of empty sheds up and down the country that farmers did not fill this time last year and during the summer. That was the problem.

Rhian Bartlett: The farmers we are engaging with as we are trying to get further back into the supply chains are calling out planning permission as something that would help them at this stage.

Q65 **Ian Byrne:** I am going to ask three questions for a "yes" or "no" answer. Ms Bartlett has just touched on one. If we look at the images of baby formula milk in locks, it haunts me; I hope it haunts you. In the light of what the IMF reported today about profiteering causing inflation, would you, like your counterpart in France, support capping essential items? Yes or no—we have no time.

Gordon Gafa: You cannot compare France to the UK.

Q66 **Ian Byrne:** You can, when you have locks around baby formula. I am asking the question. Can you just give me an answer? Yes or no—would you support it?

Gordon Gafa: We do not believe in price caps.

Kris Comerford: I agree.

David Potts: I am just checking in on the question.

Q67 **Ian Byrne:** Do you support price caps on essential food items like baby milk, which are now locked?

David Potts: Competition leads you to the right place. The industry requires volume and you will see it coming.

Q68 **Ian Byrne:** In the light of where we are with the youth public health crisis we face from obesity, a lot of it is largely down to ultra-processed foods. Do you support the Government's decision to delay a further two years to October 2025 the introduction of volume price promotions on food high in fat, sugar and salt—yes or no?

Gordon Gafa: You need to explain.

Q69 **Ian Byrne:** We genuinely do not have the time. Do you agree with the Government's position?

Gordon Gafa: I am agreeing with you, but we are not doing any high fat, salt and sugar multibuys. We have said no from the outset.

Kris Comerford: I am fine with the Government delaying it.

Rhian Bartlett: We have not run multibuys on HFSS products since 2016.

David Potts: Our job is to execute Government legislation and that is what we are doing.

Q70 **Ian Byrne:** This is again a "yes" or "no". Are you promoting fresh fruit and vegetables to the same extent as you are promoting food high in fat, salt and sugar?

Gordon Gafa: We believe that fresh food should be as much of a promotion and competitive of everyday low price as possible.

Kris Comerford: When you walk into our stores you see fruit and vegetable promotions.

Rhian Bartlett: We do.

David Potts: We give it away, even.

Q71 **Ian Byrne:** Do you agree with the Food Minister that obesity can be successfully tackled primarily through just informing customers about the effects of obesity, instead of actually bringing in measures to tackle it? It is about the nanny state.

Gordon Gafa: I am not sure. It needs more than that.

Kris Comerford: Helping customers with healthy, sustainable choices, whether that is what we can do to help reformulate products, is why we—

Ian Byrne: Or through Government policy.

Kris Comerford: I would agree with anything that helps customers with reformulated products.

Rhian Bartlett: We supported HFSS. It is just a frustration that only one of the three elements of the policy has actually been implemented. We have re-laid all of our stores, but the multibuy component and the advertising component is not in place. On its own the location of products probably is not enough to make a difference.

David Potts: It is a big question. We are opening in fresh food desert places by buying McColl's. You will have seen that in Liverpool. We will do everything we can.

Q72 **Chair:** Rhian, you said that Sainsbury's had put a voluntary ban on high fat, sugar and salt multibuys, but there is some evidence to suggest that you are price-discounting HFSS products for your loyalty customers. That is right, is it not?

Rhian Bartlett: Yes, that is correct. We run promotions, but we do not run multi-buy promotions.

Q73 **Antony Higginbotham:** We have touched on convenience stores a little bit—the smaller model—but I want to just touch on them again. Between the four of you, you have around about 3,500 convenience stores, the absolute lion's share with you, Mr Gafa, at Tesco. You must have seen the recent Which? Study that said that customers who rely on those smaller convenience stores—Tesco Express, Sainsbury's Local, Morrisons Daily and Asda Express—could not access a decent range of cheap, healthy food. Would you agree with that categorisation?

Gordon Gafa: First and foremost, we are really very competitive in Express. We compare our pricing weekly in that channel. Our ranging in Express is based on customer insight. We make really careful choices, because there are a lot of brands that we range in Express that are very important to the customers that shop locally in those stores.

Q74 **Antony Higginbotham:** When you say you do it based on customer insight, is that based on customer demand or by research you are conducting?

Gordon Gafa: It is a bit of both. I will give you an example. Let us say that in our Bolton Express we decide that, because we just want to range own label, we will not have any branded bread. We would have a little bit of a problem because of the loyalty that certain branded suppliers have in those stores. That is what I mean.

Just on the point on affordability, last year we introduced Clubcard prices in Express to make sure that our promotions are also available in that channel.

Q75 **Antony Higginbotham:** You will have seen in the same Which? report that they say that the customers who rely on those stores—so they are not using it for convenience—are typically on lower income, with less access to cars or good public transport. What are you doing to help make sure in those stores there is a better range of own-brand essentials, and what more could you do?

Gordon Gafa: We constantly review our ranges. In fact, this year we are reviewing the vast majority of our merchandising groups. We will be constantly looking to see if there are areas where we can help with different introductions. Through really competitive pricing across that convenience market and through the value that Clubcard gives, we think we deliver really good value.

Q76 **Antony Higginbotham:** Would you agree with the categorisation that the customers who rely on those stores are typically lower-income? Is that your experience?

Gordon Gafa: In my experience, there is a broad customer base. It depends on location. We are proud to serve millions of customers through those stores.

Q77 **Antony Higginbotham:** There are some of those convenience stores that will have a lower-income demographic who rely on them. In those stores, are you prioritising essential items and own brand over others?

Gordon Gafa: We range in those stores with ranges that we believe are relevant for those customers. If there are any specifics that we need to look at, I am happy to take it away, if there are any important ones that we are missing. We do not always get it right, but we think we are competitive. We have just opened our 2,000th Tesco Express store, because we really see the importance of being where customers want us to be.

Q78 **Antony Higginbotham:** Ms Bartlett, you are the second-biggest in terms of convenience stores. Are you doing enough to help those who rely on those stores?

Rhian Bartlett: As I said earlier, we would range according to the customer mission. We do not find that customers in the most part would use a convenience store as their main shop. Most of them are in city and town centres and cater to a lunchtime and a just-after-work dinner mission. We do have some that we call neighbourhood hubs, which are in more neighbourhood areas. Those catchments are really well served by supermarkets. We are very rarely the only store.

We would also range according to demand, but we segment that demand. We use a lot of our loyalty data to support us with this, according to which missions that customer is shopping in those stores. We have very constrained ranges. We need to give customers what they want to buy in that store on that day, knowing that most of their shop is going to a larger supermarket or to an online offer.

Q79 **Antony Higginbotham:** Mr Potts, you are obviously growing quite significantly in your acquisitions.

David Potts: Not me personally, but yes. Thank you for the idea. It is a well-made point. I was on a housing estate in Aberdeen a couple of weeks ago and I felt the type of thing you are getting at, whereas a Tesco Express right outside of a Tube station over the road has a different level of elasticity. I take that point.

As you say, we are new into this game, but there is plenty of own brand in the convenience stores across Britain. We have lowered the prices opposite McColl's by up to 10% when you go to Morrisons Daily as a conversion. I am happy to shove a few Savers that we talked about earlier in this meeting into those stores, especially up until the food inflation normalises in this country. It would be a good thing to do, particularly in those areas where people are relying on that site.

Q80 **Antony Higginbotham:** Thinking about the customers we are talking about—more vulnerable; lower income; less access to cars and public transport—at Tesco, Mr Gafa, you have a minimum online order of £50. If you do not hit that, you pay a surcharge. Are you just pricing out lower income families from online shopping? That is double the Morrisons minimum order.

Gordon Gafa: The £50 minimum basket charge is the first change that we have done to that level in eight years. The average basket size online is £90. Click and collect is still at £25.

Q81 **Antony Higginbotham:** We are talking specifically about customers who cannot access, so you are pricing them out. Unless they can click and collect, they have to go to a different supermarket if they want their online shopping.

Gordon Gafa: As I say, with an average basket size of £90, £50 is reasonable with regards to the first change we have done to that minimum basket size in eight years, with inflationary pressures and the number of online orders that we are serving. It is about 1.1 million orders, which is significantly higher versus what it was before the pandemic.

Q82 **Antony Higginbotham:** Average shop is not necessarily those on the lower incomes. Ms Bartlett, your minimum order is slightly lower. You are at £40, but your surcharge is higher, at £7. Do you think it is fair for a low-income household to pay a surcharge of £7?

Rhian Bartlett: I am going to need to take that one away. I need to get a little closer, probably, to where we have surcharges. I know click and collect works, but it does not answer your point, because you need a car to click and collect.

Q83 **Andy McDonald:** How much are you planning to pay out in dividends this year? How do these figures compare to the dividends paid out to shareholders over the last five years?

Gordon Gafa: The Tesco dividend is 10.9p, which is flat year on year.

Kris Comerford: We are privately owned.

Rhian Bartlett: We have not announced our dividend yet. That is coming up very soon.

David Potts: We currently have no plans to pay any dividends this year.

Q84 **Andy McDonald:** I have something in front of me that tells me that the Tesco and Sainsbury's annual report and accounts show that you plan to pay £859 million and £319 million in dividends in 2023. According to Unite, that is your highest common dividend since 2015. That is higher than last year. In 2022 Tesco paid out £731 million in dividends, and Sainsbury's paid out dividends of £238 million. Do those figures ring true with you?

Gordon Gafa: For Tesco specifically, last year we paid 10.9p and we are paying 10.9p again this year. We should not forget that many of our shareholders are also small retail shareholders who rely on dividends. Many of our shareholders are actually colleagues of the business as well, who supplement their income with the dividends that the business pays up.

Rhian Bartlett: We are expecting to announce a dividend that is roughly flat year on year.

Q85 **Andy McDonald:** That is really interesting. Can I come back to you, Mr Gafa? We have figures in our brief that show us that the share dividend has increased by 89% since 2018-19. Is that something that you would recognise? Is it accurate or in the area?

Gordon Gafa: I do not have the 2018 number with me. As I say, I am the commercial director for packaged foods.

Q86 **Chair:** I can give it to you, Mr Gafa, if you would like it. For Tesco in 2018-19, it was 5.8p; for Tesco in 2022-23, it was 10.9p.

Gordon Gafa: It is important to remember that at Tesco we have been busy restructuring the business. We rebuilt a little bit to make sure that we are the best for customers throughout the last eight years, and the growth in dividend progression reflects the growth of the health of the business to make sure that Tesco is in a sustainable place to be able to serve as many customers as we can.

Q87 **Andy McDonald:** Do you understand that you have said throughout this morning's session that the focus is upon customers and delivering the best outcomes for them? I am putting to you figures here about the dividend pay-outs that tends to suggest that the focus is elsewhere. That really does impact upon people. It has been said before that this business is not about selling food; it is about making money. One of your predecessors said that some years ago. You have talked about it being fiercely competitive, but it is obviously fiercely profitable as well.

I am looking at Sainsbury's annual report and the chief executive, Mr Roberts, is paid almost £4 million in bonuses on top of his salary. I would really like to know how you justify that in the midst of a cost of living crisis. If you look at Mr Roberts, it is £408,000 a month, £94,000 a week, £2,298 an hour. Workers are paid £11 an hour. How is that justifiable when the people who work for you and the people who come into the stores are suffering from a grotesque cost of living crisis? How can that possibly be justified?

Rhian Bartlett: You will know that, as a listed company, all of our board directors' salaries are published. They are set by the RemCo. I do not sit on the RemCo. I do not have any remit over setting any of those salaries, so I cannot really comment any further on that today.

Q88 **Andy McDonald:** Do you not get the point that this discussion is couched around a cost of living crisis, and yet I have to say that chief executives across the board are in the same ballpark in terms of their pay. Do you not understand how it sits with the general public that these sorts of wages are being paid? You tell us that your purpose is to provide the most reasonably priced food for your customers, and yet dividends are paid out and these salaries are at this level. Does that not chime with any of you? No. That is just absolutely, utterly staggering, quite frankly.

I just want to finish with a point that my colleague Mr Lavery raised about Asda in the south-east. Mr Comerford, will Asda commit to collectively bargain on pay and conditions for its retail workers, the majority of whom are women? Will you commit today to recognition of the GMB and to collectively bargaining with them over these matters?

Kris Comerford: We have an open relationship with the GMB. We speak with the GMB collectively and together. We speak with them frequently. We will discuss anything with them.

Q89 **Andy McDonald:** Will you collectively bargain with them? Will you enter into a collective bargaining agreement with the GMB?

Kris Comerford: As the chief commercial officer sitting here today, I cannot commit to that. I will absolutely take it away with my team and we will discuss it at a board level.

Chair: We have timed out, unfortunately, but we may have to come back with some further questions, either in subsequent written form or maybe in further hearings. I know our colleagues on the EFRA Committee are looking at the structural issues underpinning food price changes as well. I look forward to the evidence that your organisations will give to them. Of course, we have the CMA report coming as well, which may be a reason for us to come back to you. Thank you to all four of you for this morning.