Environment, Food and Rural Affairs Committee

Oral evidence: Farmgate prices, HC 474

Wednesday 25 November 2015

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Written evidence from witnesses:

– Julie Ashfield, Group Buying Director, Aldi

– Heather Jenkins, Director of Buying for Meat, Poultry, Fish, Frozen Food and Dairy, and Agriculture Strategy, Waitrose

Watch the meeting

Members present: Neil Parish (Chair); Chris Davies; Jim Fitzpatrick; Simon Hart; Dr Paul Monaghan; Rebecca Pow; Ms Margaret Ritchie; David Simpson; Angela Smith; Rishi Sunak

Questions 203-311

Witnesses: **Heather Jenkins**, Director of Buying for Meat, Poultry, Fish, Frozen Food and Dairy, and Agriculture Strategy, Waitrose, and **Julie Ashfield**, Group Buying Director, Aldi, gave evidence.

Q203 Chair: Thank you very much for attending our evidence session on farmgate prices. We were going to be joined by a representative from Tesco but, unfortunately, there was a personal bereavement and the said gentleman could not come today. We are probably going to rearrange so that Tesco, and possibly Sainsbury's, can come and give evidence in the future. Welcome to you both. If you would like to introduce yourselves first, then we will get started.

Heather Jenkins: I am Heather Jenkins. I am the Director of Buying for meat, poultry, fish, dairy and frozen food at Waitrose. I also have an agricultural strategy remit.

Julie Ashfield: Thanks for inviting me here. My name is Julie Ashfield. I am the Group Buying Director at Aldi food stores and I have a buying responsibility for anything chilled, excluding produce.

Q204 Chair: I am going to kick off with the first question. At the moment, the situation out there is a tough retail environment. We have had the largest retailer declaring a loss and we see others struggling, so is it fair to say that supermarkets are currently engaged in a price war to preserve market share?

Heather Jenkins: It is a very tough competitive market, as you say. Price is really important to everyone, but price being driven down consistently will not result in a vibrant food and farming sector in the future so I suggest that there will be change.

Julie Ashfield: I would agree it is a competitive market. From Aldi's perspective, we have been operating for 25 years in the UK and have not changed our business model. We deliver outstanding quality at unbeatable prices, and that is a business model that we have employed since we have traded.

Q205 Chair: I think I am right in saying that Aldi would take a lower percentage of profit and a higher turnover in order to create the business. There are other questions coming as to exactly what effect that has on the price that you pay for the product, but this is what we are particularly keen on ascertaining: with the price war that is going on, who is paying for it? Are you paying for it or is someone else?

Julie Ashfield: We run our business in a way whereby the buying price, the price we pay to suppliers, is not necessarily any different to the price that Waitrose will pay to suppliers. But, in the way we run our operation, our operating costs are, I would suggest, probably the lowest in the market out of any retailer, which therefore enables us to take a lower margin out of every product we sell and still run a profitable business.

Q206 Chair: Naturally, you are originally a German supermarket, so have you any idea of the percentage of meat product that you are selling in your supermarkets that is British?

Julie Ashfield: 100% of our fresh meat range is British, at primary level. If we extend that into other areas, we are very proud of the fact that our liquid milk, cheese, butter and cream is all 100% British sourced.

Chair: I will leave it there, because other questions will cover where we need to go, so thank you for that start.

Q207 Rebecca Pow: I would like to pick up on a point that Heather Jenkins made. Was I right in hearing you say that prices being driven down will not be viable for the future, and you suggested we needed some change? Did you not just say that?

Heather Jenkins: Yes. What I was suggesting was that price is really important to everybody in the supply chain, but, when it comes to farmgate prices, you need to understand where the risk is at, who is taking the risk and how some of that pain is shared.

Q208 Rebecca Pow: Do you think the supermarkets have gone too far in driving down the price to farmers?

Heather Jenkins: We are competing with everyone on the high street. In terms of milk, we are competing at £1 for four pints. We are still able to pay the leading price for our milk. We have sold more volume as a result and our farmers have benefited from that. They have had more premium on more volume, so we have been able to sustain that in a very difficult market. But we are probably at a level where we would not want to see it go any lower.

Q209 Rebecca Pow: My questions were really about milk, but, on that point, are you one of the supermarkets that might be regarded as selling milk as a loss leader in Waitrose?

Heather Jenkins: We are not selling milk as a loss leader per se; we are just being very competitive. We cannot trade in a vacuum, like anyone else. What we have got is our initiative on coffee, which is driving a lot of use of milk, so our farmers are benefiting from that initiative.

Q210 Rebecca Pow: What would Aldi say to that? Are you selling milk as a loss leader? For example, is milk cheaper than water in an Aldi store? I think it is.

Julie Ashfield: It is a good question. In the way we operate within Aldi—and I speak only on behalf of Aldi—there is no correlation between our cost price and our retail price. While a retail price may go up and may come down, there is no connection with our buying price—what we pay our supplier for the product. If you take your example of milk, I can share that, as a category. It is marginally profitable for us, and that includes many different sizes and fat grades within the milk category. It is, in many ways, completely separated from what we will pay for a product. If the retail on milk were to drop to 50p or to increase to £2 for four pints of milk, it would have no effect on our cost price because we do not correlate the two together.

Q211 Rebecca Pow: Do you not think about what you pay the farmer and then what you are going to sell it for in the shop at all?

Julie Ashfield: We base our cost price on the best possible cost price we can get for the level of quality that we require, and our retail price is set by the market. As a discount supermarket, we would aim to achieve a basket discount of 15% to the major supermarkets on the high street, and therefore there is absolutely no direct link between cost price and retail price. They are separate, because our retail is defined by the market.

Q212 Rebecca Pow: So you do not think at all about whether you are driving the supplier of your raw material out of business. Do you consider that at all?

Julie Ashfield: If you look at the GCA annual survey, our suppliers voted us number one for code compliance. The view is, because we separate them so much, how we deal and engage with our suppliers does not change, irrespective of what the retail position is, because that is a position that we take as a retailer. We decided that we can run our business with some items we have to sell below cost price, based on the retail position that the market defines.

Q213 Chair: Surely the fact that you are keeping the milk price down low means that generally, across the piece, you are putting pressure on the milk price for the producer. In the end, Aldi or whoever you are needs to make a profit, so surely there is a bearing on what you pay for that product as to what you can sell it for. Are you not putting pressure not only on the farmer, but also on the processor as well?

Julie Ashfield: There are two parts to that question. On the first part, we are not keeping the retail position low. We are a discount supermarket and we have never and will not reduce our price on milk ahead of the market. We have reacted to market pricing. There are other retailers that have taken the lead on that position, and unfortunately, as a discount supermarket, our position is one whereby we cannot be beaten on price. That is our USP.

Q214 Chair: You are racing to the bottom, then.
Julie Ashfield: We are not racing first. We will follow where necessary.

Chair: Yes, but the result is the same.

Q215 Angela Smith: Just on that, I accept that the difference in retail pricing is not related, at the moment, to the price that you are paying to your producers. If the discounting of milk continues and the price falls even further because of the market, at what point does it start to impact on the price that you pay your producers?
Julie Ashfield: There will be no impact at any stage for any product that we buy based on the retail position that we choose to set within the market. That is the absolute honest answer, and that is the way we operate our business.

Q216 Angela Smith: Even if you start to lose money and it does become a loss product, you will retain that position?
Julie Ashfield: Absolutely. We have many products outside of milk that we sell at a loss, because we cannot buy them at a price that is below the retail price.

Q217 Chair: Can you buy your milk on the spot market or do you have direct contracts?
Julie Ashfield: We have direct contracts with two major processors within our business.

Q218 Rishi Sunak: Julie, I understand over the summer you agreed to pay a minimum floor price of 28p per litre to those suppliers.
Julie Ashfield: Yes, that is right.

Q219 Rishi Sunak: I very much welcome that and I think everyone here would welcome that. I would be interested to know how you came to that figure of 28p per litre and how long you intend to maintain it, or indeed how it will change going forward.
Julie Ashfield: In the summer period, we decided that we needed to make a decision in this area. We recognised it was a very difficult period for dairy farmers and one of the biggest problems I have heard from farmers is that they struggle with volatility. If you take farmgate pricing, volatility has been particularly difficult for dairy farmers, so we felt that it was necessary to take some action. By setting a minimum floor price, it has helped add some stability into that field. 28p is a figure that we came to after long discussions with both our processors, as well as an independent expert and the NFU, who were very pleased with our position.

In terms of end date, there is no end date in our floor price. As and when farmgate prices rise above 28p, we will of course pay more per litre, as we have done historically when it rose above cost of production models. Several years ago, we were paying above a cost of production model on a farmgate price.

Q220 Rishi Sunak: I went on a bit of a fact-finding trip in the constituency last weekend, and I was pleasantly surprised with the level of commitment you have to British produce, especially in the meat sector, as you mention. I thought it was very prominently displayed and very clear and I could find almost every dairy product sourced with British milk, I think. I commend you for that; please carry on doing that.

Heather, it is the same question, because I understand you have a slightly different way of coming at the price that you pay to your farmers, which I understand is or was around 30p. It would be interesting to know how you come to that figure and how you will adjust that up or down going forward.

Heather Jenkins: Our price is 32.08p per litre. Our approach is very much around collaboration and discussion. We have had a group of farmers in place for 16 years and we base our discussions on the cost of production, the market and the impact of volatility. We do not slavishly adhere to a cost of production model because we believe in motivating continuous improvement and bringing together groups of farmers. If we just based it on cost of production, we would just have one performance.

We also believe that Waitrose cannot trade in a vacuum, like any other retailer, so we need to take a balanced approach, but it is very much a direct discussion with the farmer representatives. We do that on an ongoing basis. We discuss on a monthly basis the market and the pressures that the farmers are under, and we make a decision. We may not change the price from one month to the next, but the dialogue and trust are there and the confidence has been built up over that time.

Q221 Rishi Sunak: Unfortunately I do not have a Waitrose in my constituency, so I was unable to come and do my fact-finding, but do you mind telling the Committee, for your own-brand dairy products outside of milk, so butter, yoghurt and cheese, whether you use British farmers to supply those products?

Heather Jenkins: Yes, we do. All of the milk that comes from our dedicated group is segregated and all of the cream that comes from that milk is sold in Waitrose under our own label. We buy only British butter, with the exception of one line, which is a French authentic line. All of our cheese is British and all of our yoghurt is British.

Q222 Rebecca Pow: Can I ask one supplementary on that line? Are you regularly approached by importers of dairy products to try and get you to change your view and your mind? I know many other supermarkets are not as committed to British produce and I just wonder what your thinking is. I am personally delighted that you are doing it, but what is your positioning on that?

Heather Jenkins: Our position is that there are three things we are concerned about. We are staunch supporters of British food and farming, and have been for 30 years, and we are interested in the long-term supply, the security of that supply, paying a fair and sustainable price and building confidence in the farming base. As long as the British Isles can produce what we need, we are delighted. We go to great lengths to support that initiative and help build resilience into those supply chains for the future, because we believe in British farming.

Q223 Chair: By British Isles, do you mean the Republic of Ireland as well as us?

Heather Jenkins: We take a small amount of produce from southern Ireland—only turkeys—and that is about risk mitigation.

Q224 Chris Davies: We have heard from Aldi that you go to two suppliers, primarily, for producers of milk. What about Waitrose?

Heather Jenkins: We have a dedicated processor.

Q225 Chris Davies: You do not buy straight from the farm gate; you go through a processor?

Heather Jenkins: Yes, via the processor.

Q226 Chris Davies: Following on from that, Morrisons took the lead of having an extra pint with 10p on it for the farmer. Why did neither of your companies go down that route?

Julie Ashfield: While I cannot answer on behalf of the Morrisons decision, what Morrisons has decided to do is try to help the farmer by offering the choice to the customer as to whether or not they would like to pay more for their milk. What we do at Aldi is ensure that we do not offer a choice to a customer to pay more; we give them British without charging for it. We pay a premium for our milk at a farmgate price level without asking the customer to make the choice as to whether or not they want to pay more. I believe that Morrisons' farmgate minimum price at sitting at 26p, which is obviously not as high as 28p. Therefore, we are comfortable with the fact that we have taken the right decision and have offered the best outcome for the farmers within our processor pool.

Q227 Chris Davies: Before we turn to Waitrose, several times now you have said you pay a premium for your milk, but yet it is cheaper than Waitrose. Where does the word "premium" fit into this?

Julie Ashfield: If you pay the farmgate price for milk—and it depends on which processor you get it from, but if you buy it from one of our two main processors today—the farmgate price is around 23.6p, and instead of that we are paying 28p. The difference between those two numbers I would consider as a premium, because it goes back and helps the farmer in terms of increasing how much he is getting for his milk.

Q228 Chris Davies: Is the farmer getting that, or the processor?

Julie Ashfield: We guarantee that that goes to the farmer. That additional amount is separate, outside of any processing cost or anything else.

Chair: The farmer is paid 28p.

Julie Ashfield: Yes, but obviously it depends on the floor.

Q229 Chris Davies: And Waitrose?

Heather Jenkins: From a Waitrose perspective, as I said, we have a direct discussion with our farmers, so we agree the price directly with our farmers. Although it is a dedicated processor relationship, they do not negotiate on our behalf. Sixteen years after establishing that group, that commitment and a consistent price, we did not feel the need to do anything different.

Q230 Chris Davies: Was it the farmer or was it you that decided not to offer a 10p extra offer bottle of milk?

Heather Jenkins: It was not a discussion, because we are already paying a sustainable price.

Q231 Simon Hart: Can you just tell the Committee how many suppliers you are talking about? How many farmers supply Waitrose?

Heather Jenkins: We have 80 dairy farmers.

Q232 Simon Hart: What proportion is that of UK dairy producers, do you know, off the top of your head?

Heather Jenkins: We represent about 5% of the market.

Q233 Ms Ritchie: Witnesses have stated that there is a lack of transparency in contracts between retailers and processors. What is your response to that?

Heather Jenkins: Do you mean in dairy contracts specifically?

Q234 Ms Ritchie: Generally dairy, plus other types of farm produce.

Heather Jenkins: As far as dairy is concerned, the contracts that our farmers have are direct with the processor. They have told me recently that they are happy with the contracts they have, they are transparent and they are aligned to the dairy code.

Julie Ashfield: It is very simple within our business: we have a contract with every supplier for every product they supply into us. It is a very clear, defined contract, which both parties sign. It states a cost price and a delivery-from date, and then there are several other pages involved in that. In terms of clarity and understanding, I would be confident to say that the suppliers we work with are very happy with the contracts we give out, which are for every single line that we sell.

Q235 Ms Ritchie: Do you accept that retailers are the main beneficiaries from a lack of transparency in contracts, and that this creates an inherent disincentive to tackle transparency issues?

Julie Ashfield: It is difficult for me to answer on behalf of other retailers, but I would suggest, within our supplier base, that no one is unhappy. There is an absolutely transparency in what we do and how we trade. We have very clear, defined terms and conditions, and we give a contract for every single product that we buy.

Heather Jenkins: We have no contracts with our suppliers. I am responsible for 30 livestock schemes. Everything we have done over the last 30 years has been built on trust and transparency. We do have long-term agreements with our strategic suppliers. They are five-year agreements, and that allows the suppliers to build contracts or agreements, as they see appropriate, with the farmers.

Q236 Ms Ritchie: Do dedicated supplier groups, if that is applicable, help improve or diminish transparency?

Heather Jenkins: I would say that they improve it. As far as Waitrose is concerned, it is a three-way discussion. We are heavily involved in the discussions with farmers and, as I said earlier, in helping to build resilience into the supply chain and also understanding where risk is apportioned. That is the purpose of our five-year agreement: to understand where risk exists and apportion it in an appropriate manner.

Julie Ashfield: We do not have any dedicated supply groups as such. We have a commitment in that we are a retailer that has signed the NFU's fruit and veg pledge, which is a series of initiatives set up to help suppliers. I think we are the only retailer to have signed that initiative. As I said earlier, I am pretty confident that the suppliers that work within our company are very happy.

Q237 Ms Ritchie: What more can be done to improve the negotiating position of farmers outside of dedicated supplier groups, and how easy is it for farmers to break into existing dedicated supplier groups.

Heather Jenkins: It is quite difficult, sometimes, for farmers to break into discussions, but I would say that one of the most important things is insight into the supply chain: sharing information up and down the supply chain to understand what each other's responsibilities are to get to the market place. One of the biggest things we have done over time is share market insight and respect each other's contribution within that.

Julie Ashfield: It is difficult for us to have any real opinion on this. We have no real direct farmer relationship, except in produce, if they are a farmer and a packer so they can deliver a finished good. It is difficult for me to really answer that, if I am honest.

Q238 Ms Ritchie: Ms Jenkins, whom do you share that insight information with?

Heather Jenkins: We would share it with our farming groups. For example, we recently had our Waitrose farming conference. We had 400 farmers there across sectors, so we will very much share across sector, allowing farmers to share information with us. We had our board directors presenting the position as far as Waitrose's business is concerned, its aspirations, its growth plans, and then various presentations throughout the day to represent activity on farm, activity in processing and how we add value to our products.

Q239 Chair: In my constituency, I went to a massive poultry processing plant, and it was fascinating. As all these chickens were going through the plant, some of them were landing up with various supermarkets. They were all wrapped and put in the label. They were all falling down into different bins, being wrapped and going out. With the own label, the suspicion many have is that that is where the big retailers can push the price down to the farmer and the producer. They are buying a product; it is being wrapped by the processor for them, and, if you want to be very competitive in your shop, then you can deliver a chicken at a very reasonable price. But how transparent is that for what the farmer or the grower is receiving for it?

Julie Ashfield: I do not want to sound like a broken record, but, as said previously, we isolate the two things in terms of cost price and retail price. We are a 95% private label business, so the vast majority of what we sell is private label, with 5% branded items within our store. If you take the chicken example, wherever you visit, you will see that ultimately there are a number of chicken suppliers that supply every retailer with, in many ways, the same chicken. The decision is taken at retail end as to what you sell that for. In terms of pressure at the farmer or supplier end, there is not any, from how we operate, and I can speak only on behalf of Aldi.

Q240 Chair: Surely, if you are trying to get as many people into your shop as possible and you want to have a very competitively priced chicken, you are going to keep that price quite low, which is good for the consumer. But I do not necessarily buy the idea that you are not then going to put pressure back on the processor and the supplier of that chicken to supply it to you at a lower rate so that you can still keep your profit in the poultry.

Julie Ashfield: Yes, there is the obvious correlation. One thing that Heather spoke of initially is that there is a direct relationship between volume and efficiency. Therefore, if you take chicken as a prime example, it is a volume-driven business and you have to be efficient and streamlined in how you buy and what you buy. If you take our range of poultry, we versus the bigger supermarkets have a very narrow range of poultry, and therefore we drive all of our volume through a very narrow product count.

Therefore, we benefit, as does our producer, and, in many ways, in chicken, the farmer will also be in that chain. Everyone benefits from volume. We order in a way that helps our supply; it drives efficiency. Our packaging, our delivery and every part of the chain is what we work on to drive efficiency, not with the ultimate aim of driving efficiency by taking cost price out of the person at the very bottom of the chain. That is not what we do, because there is not enough cost there to do that. The cost comes from logistics and transportation. It is a huge cost, and we work really hard at being as efficient as possible in that arena, as well as making sure that, when we get it on shelf, in store, it is competitively priced, it sells very quickly and we buy a huge volume.

Q241 Chair: Heather, we will talk about red meat in the next question, but, as far as poultry and poultry product are concerned, do you have your own contracts or do you buy through processors? How do you access your poultry at Waitrose?

Heather Jenkins: Again, it is a dedicated supplier. We have one processor. The supply of the chicken is ring-fenced for Waitrose, so we have our own farms and our own standards on our own farms. That is ring-fenced. As you suggested, Mr Chairman, they are big businesses, so we are not dedicated at the process level, but we have ring-fenced what we believe is the important part, particularly to get the farming standards that we want and to be able to sustain a good return.

Q242 Chair: You have been very much at the premium end of that market. Is that where you position yourselves?

Heather Jenkins: Retailing is all about choice, so we are positioned at each level. We have chosen to have a stronger standard for our entry-level chicken and, therefore, that would compete in the market place alongside everyone else's.

Q243 David Simpson: It was good to hear that you buy 100% of your meat, lamb and pork, from the British market. The Chairman mentioned the Republic of Ireland, but I would be interested to know whether any of that comes from Northern Ireland. You will know, because you are buyers, that the prices of red meat, especially lamb and pork, have dropped 15% to 20% over the past number of years. They are going through a very difficult time, especially the pork and lamb sectors, at the minute. As companies, as supermarket chains, what are you doing to support those farmers in the red meat sector and the pork sector? Do you think the red meat sector will eventually need a voluntary code?

Julie Ashfield: From an Aldi perspective, as said previously, our relationships are not with the farmers. They are with our processors, the guys who do the work in that section. As you talk about, we have seen the volatility in all of those markets. I would suggest that we give some support to our supplier base. We have a fixed annual cost, which means we will fix and agree a cost over a period, generally 12 months, which helps ensure that, at a supply level, they have stability and knowledge of what the price is going to be.

The biggest problem many farmers face is the volatility. We enable our suppliers to have a stability of pricing, which will then in turn require them to ensure some kind of mechanism to help with farmers' stability of price. Again, a farmer's choice is that he brings his cattle to market when he chooses to do so.

David Simpson: I assume you are in favour of long-term contracts. If there is volatility in the middle of that 12-month contract with the processors, scarcity of red meat or whatever, is there a margin there for movement, even though it is a 12-month contract?

Julie Ashfield: Yes, absolutely. Our suppliers do approach and have approached us mid-contract to say, "The pricing has changed so significantly and has risen so much that the price we agreed is not sustainable." We will then look at the price.

Q244 David Simpson: Are you buying from Northern Ireland?

Julie Ashfield: No, we are not.

David Simpson: I am disappointed to hear that.

Julie Ashfield: We buy British product—

David Simpson: It is good that you are doing that, but Northern Ireland is there.

Heather Jenkins: 95% of our chicken comes from Northern Ireland.

David Simpson: Moy Park?

Heather Jenkins: Yes. On the red meat side, I would like to explain to the Committee that it is slightly different at Waitrose, because we are committing to whole animals, so we have taken the responsibility to sell as much of that carcass as possible. Because of our dedicated strategy, which is the only dedicated and integrated supply chain on pork, we are making a commitment to Dalehead, our dedicated supplier, and those farmers to take those pigs on an annual contractual basis. Our responsibility is to make use of as much as the carcass as possible. I would like to think that does have a bearing on the price, because 80% of that meat is coming to Waitrose.

Similarly on lamb, we have 350 farmers in Wales and 150 in the West Country. We have quietly underpinned pricing in the past. We are already paying above the market price on lamb. In fact, we had a producer meeting last week at our factory in Bury St Edmunds and they thanked us for what we had been doing with regard to holding the price up. We make judgment calls when we feel the price is going below where it should be, although we cannot protect the farmers from every part of the volatility of the market.

Q245 David Simpson: Is it unique for Waitrose to commit to the whole carcass?

Heather Jenkins: Yes.

David Simpson: It is unique. Most of the supermarkets will buy the prime cuts or whatever. It is unique, is it?

Heather Jenkins: It is unique. I would also like to explain that consumers do not buy in balance. They buy what they want to buy, so it is important for us, to be able to sustain that supply long term, to make use of that raw material in a constructive manner. That could be different assortments; it could be forgotten cuts; it could be a new summer assortment.

We are restless. We have restless dissatisfaction. We are absolutely determined to drive carcass balance, because it is worth so much. If you do not add the value, the losses are so great and that eventually arrives back at the farmer.

Q246 Chair: Are consumers buying these new cuts you are putting forward from the whole animal? How is it going? I am a great believer in new product and what have you.

Heather Jenkins: Innovation is really important. In new product development, not every idea works, but we have had a lot of support for old fashioned cuts being brought back, prepared in a more convenient manner, not spending hours but being able to cook it quite quickly, because we have done it in the process.

Q247 Ms Ritchie: There is a red meat price differential between farmers in Northern Ireland and those here in Britain, meaning a differential in what they receive from the processors and then consequently others in the supply chain such as the retailers. In that respect, do you think a voluntary code would be helpful? On the opposite side to that, under what circumstances would you feel it worthwhile for policymakers to consider a non-voluntary code?

Julie Ashfield: From our side, it is difficult to have a great deal of input on that. Our beef is British. What we do, which I think is a positive thing, is not dip into Irish beef when it is cheaper, which some other supermarkets will do. We have a British offer that remains

British. That does not necessarily help the position in Northern Ireland, but it does give a very clear position on what we do. We have no stores in Northern Ireland. In terms of a voluntary code, if there were a code suggested, we would be very happy to comply and follow anything that would impact on us as a retailer.

Q248 Chair: Can I ask you a question you are probably not quite expecting? If you look on a European scale, lamb in particular is very much down to the Irish, the British, the Spanish, the French and possibly the Italians. How much are you doing, as the supermarket across Europe, to promote more lamb? As you move into Germany and towards the eastern part of Europe, there is not a lot of lamb eaten, and that is probably a great shame. To what degree can you promote lamb throughout Europe?

Julie Ashfield: From our side, we obviously promote British lamb by being the only retailer to stock it every single month of the year in our core range offer. We do not dip into any country at any point. We are 100% British, 100% of the time. You are right: when you get into Germany, German people are not as keen on lamb. They prefer pork. From our side, as a retailer in the UK, we do our best to promote everything we can, especially British product. When you get into different countries around Europe, it is very difficult for us to influence the eating habits of the Germans.

Chair: I would encourage you to go down that route, because there is a big market to be had there. I am absolutely certain of it.

Julie Ashfield: I will do my best to keep telling them.

Q249 Rebecca Pow: I fully support Mr Chairman in that, as well. I declare a slight interest, in that my husband is a livestock auctioneer. When we are talking about farm prices, do you buy through the market, with the market setting the price, or do you fix your price, as it were, to your farmer-suppliers directly or through your retailer?

Julie Ashfield: From an Aldi perspective, we have a fixed price with our processor. They will then buy on a farmgate open market.

Q250 Rebecca Pow: We have had a lot of very low prices this summer. Prices to the sheep farmers are about 20% lower this year. Have you automatically gone down the road of downgrading your price to the farmers?

Julie Ashfield: No, there is no automatic process within our contracts. When prices have risen significantly, our processors have approached us and said, "We agreed a contact with a deadweight price of X. That has changed so significantly now that we need to have a look at the commercial agreement." In the same way, they would re-approach us, if the price dropped significantly, and say, "The price has dropped and it has been at that level for a period of time. We know the new fixed buying price should be X." They will give that to us.

Heather Jenkins: We set our prices through the market price, because farmers see that as being transparent and published. Then we build in a premium for producing lamb for ourselves. As I said earlier, we have had our own base, rather than just slavishly following the price down, because we believed it was the right thing to do to build in some buffer.

Q251 Chris Davies: There has been great criticism of supermarkets this year for not stocking enough British meat. In supermarkets in my constituency, there was a time, certainly earlier on in the year, where it was only New Zealand lamb one could buy. Is that fair or unfair criticism? Aldi, you have kept on pushing the fact that you only supply British, so perhaps this question does not affect or relate to you. Waitrose, do you buy foreign lamb and foreign red meat purely because it is cheaper? Is that then reflected in the sale price?

Heather Jenkins: As I said, our strategy is to buy 100% British. New Zealand lamb is one exception; the other is venison. Our lamb strategy is about best in season. We sell British lamb from the start of the season, starting in May and carrying through until early January. We maintain a British presence on our service counters, which is a smaller proportion, produced by a very focused group of farmers doing something slightly different in the UK, in the West Country. We then supplement that with New Zealand lamb in the months of January through to early May, when the new season British lamb comes on course.

We have a group in New Zealand and a group here in the UK, in Wales and the West Country, as I have already mentioned. They work off forecasts. We know in advance what their marketing wants to be and we try to accommodate those numbers. We run study tours, so farmers from New Zealand come over here and vice versa. We also support the Waitrose farmer of the year in both hemispheres, and they exchange study tours on that as well. We find that the consumer gets the best quality in a consistent manner, and the farmers are learning from each other and seem to appreciate that approach.

Q252 Chris Davies: Can we take this year as an example and a topic? We still saw a great deal of New Zealand lamb in this country in supermarkets, when our lamb was in season and at its best. Were you still selling New Zealand lamb in crate-loads at that stage or were you clearing your shelves and just putting prime British lamb on your shelves?

Heather Jenkins: We were clearing our shelves and putting prime British lamb on them. That is what best in season means at Waitrose. We do not sell one alongside the other. It is a very clear season, and it is predominantly British. We use New Zealand in the British off-season.

Q253 Chair: What do you consider the New Zealand season, then, and what do you consider to be the British season?

Heather Jenkins: We consider the British season to be from March—we like to be first in with new season lamb—and we work through until early January.

Chair: It is basically February that you stock New Zealand lamb.

Heather Jenkins: It is February, March and April. Obviously, the New Zealand season is much longer than that, but we only take lamb for those three to four months.

Q254 Chair: One of the arguments this year was that New Zealand lamb appeared to stay in the supermarkets for longer. That may not necessarily have been in Waitrose, but was that the case generally? Do you know?

Heather Jenkins: I am afraid I could not comment. I would only reiterate that, being committed to buying whole carcasses, we have a responsibility to make sure that those are marketed to their best effect.

Q255 Chair: As far as Aldi is concerned, do you have New Zealand lamb all year round?
Julie Ashfield: We do not stock any New Zealand lamb.

Chair: You do not.

Julie Ashfield: No. We are 100% British, 100% of the time. It is a relevant question, but one that Heather has answered really well. I cannot add any more value to it. It is one for the other retailers. Neither of us, I would suggest, are the people who should answer that question.

Q256 Chris Davies: Is that something you are suggesting we ask other retailers?
Julie Ashfield: I am not suggesting it. That is just based on the position we both hold.

Dr Monaghan: Can you define "British"?
Julie Ashfield: I can define it like this: whatever you assume "British" to be is what we do.

Dr Monaghan: That is not really an answer, is it?
Julie Ashfield: You could help me by suggesting what is not British. We buy lamb from Scotland and the UK as such, in terms of England and Wales. My geography might let me down, but that seems to be the absolute place. We do not secretly buy it from somewhere else and label it as British. That is where we buy our lamb.

Dr Monaghan: That was a good answer.
Julie Ashfield: The first one was not as good.

Chair: In that one, you mentioned the magic word. Only teasing.

Dr Monaghan: Which word was that?

Chair: Something beginning with "S", but I could not possibly comment on that. You made an interesting point about deer, Heather. The other day I talked to the British Deer Society, because there is actually a lack of venison in the country. You probably have quite a job in accessing British venison throughout the year. Is that right?
Heather Jenkins: We do not have enough volume. Farmers are growing their production, but it is quite a challenge in the UK, particularly with disease.

Q257 Chair: There is a real opportunity for more venison. My question is on how you promote British meat. Naturally, there is a Union flag on it probably. How much do you really go forward and promote this British meat in your retail outlets and your shops? In the last Parliament, we lived through the horsemeat scandal and where the meat was coming from. British meat was a big seller. What are you doing to get the consumption up of British meat?

Heather Jenkins: We already outpunch our weight on beef, for example. We are a 5% share retailer; we are selling over a 7% share of beef. We have worked hard on our packaging and we are very clear about it being British, as we have been, more recently, through our communication, above the line TV advertising and *Waitrose Weekend*. We think that is a great weekly magazine to promote our stories and our farmers, which is what we have been doing over the last 12 months.

Julie Ashfield: From our side, we are strong advocates for British products. We do everything we can to get a British flag on something within store. Where it is British, it is labelled on every single price card; it is stickered on every single product; it is on every single outer case. We have in-store point of sale information that highlights very clearly that our fresh meat range is all British. There are not as many driving around London, but, if you see our delivery trucks, they have a very large British message on them. Every truck we have has "Championing British Quality" across it. We try very hard to push that message.

Q258 Chair: Not only do you believe it right, but you would both consider that it is also a very good selling point to be selling the British product. Do you believe that to be so?

Heather Jenkins: Yes, absolutely. As I said, we are very committed to British agriculture. One thing that is very telling is, when there are challenges to the integrity of raw material, consumers want to purchase meat that is produced closer to home. We have certainly seen that. I could not think of doing anything else, but it is really important to maintain its integrity.

Chair: Naturally, the farmers would argue that, unless we can get a decent price at the farm gate, it is keeping that quantity of supply. Therefore, it is very important to make sure you have the product there, but also that there is a price for it that is right.

Q259 Dr Monaghan: This is a question for Heather, really. Several times today, you have emphasised the importance of long-term contracts to your organisation. How willing do you find farmers and other processors to enter into long-term agreements?

Heather Jenkins: Quite willing. I guess that is because we have been doing it for quite a long time and we have built the trust and confidence within the supply chain. Farmers are less willing, but more recently have been looking for more stability and trying to reduce volatility. We are developing different models to try to mitigate risk at farmgate level.

Q260 Dr Monaghan: You have also emphasised the importance of innovation. In terms of innovation, creativity and new products, what opportunities do you afford to new suppliers to come into your organisation, potentially, and supply you with goods and produce through a long-term contract?

Heather Jenkins: For clarification, are we talking farmers?

Dr Monaghan: Farmers and processors.

Heather Jenkins: It is quite difficult. New suppliers are quite difficult, because we are still only 5% of the market. I just wish we were a bigger business. When you look at the investment that is in poultry, for example, which we have already discussed, to justify that investment you need a significant amount of volume.

In terms of farmers, it is quite hard. We have waiting lists for our schemes. We just do not have the pace of growth that we would like to have, although we have opened a lot of stores. Our growth has been significant in the last five years. It would be great if we could get UK Retail plc to have a bit more commitment.

Q261 Dr Monaghan: You are emphasising that your organisation wants to be loyal to your farmers and processors, and that is clearly a good thing. What sort of turnover, then, would you expect to have on an annual basis in terms of farmers and processors?

Heather Jenkins: We have very little turnover on processors, because we have made those commitments to dedicated suppliers, and we are shoring that up. What is important to us is that those suppliers will be there in the next five to 10 years to cope with our growth, whatever that might be.

In terms of farmers, we are very pleased to see second and third-generation farmers coming through in the existing businesses that are serving us. We would be very careful to ensure, whatever commitment we make today for the marketing of livestock or produce in the next three years, we are there to receive and we are not turning those farmers away. We have prided ourselves on that approach, because it is a very long-term business. Whatever I decide today, I have to be there to commit to in three to five years' time.

Q262 Dr Monaghan: Nevertheless, you still do have some turnover in terms of farmers and processors and some opportunities for new people to come in.

Heather Jenkins: Yes, we do have some turnover in farmers and there are some opportunities. Most of the farmers who have left our schemes have either decided not to stay in that sector or retired. We do have some who feel it is not for them. Given the challenges we ask our farmers to rise to, some decide it is not for them and they decide to leave, but they are in the minority.

Q263 Dr Monaghan: Julie, do you get a lot of farmers and processors wanting to enter into long-term agreements with you?

Julie Ashfield: Yes. We have no direct farmer relationships, unlike Waitrose. We have very low turnover in processors, exactly the same as Heather. Within our business, we are one of the fastest growing retailers. Therefore, we continue to drive volume, so what you see is a movement of business between our core processors. We may have two main processors for beef, but, as our business continues to grow, we then decide which processor—and, therefore, which of their farmers—will benefit from that additional volume, which is how you generate opportunity at the farmer end.

Q264 Dr Monaghan: Without direct links to the farmer, how do you manage quality?

Julie Ashfield: Quality is managed by our processors. If you take beef as an example, within Aldi we are very flat organisation. I have one buyer for beef—he also buys lamb and chicken—and one assistant for beef. There are two people in that very short chain. He personally, as well as I, will have agreed and set a quality benchmark with our processor. Based on the number of people in our organisation, we will look and check every product that we list and range on a four-weekly basis. We have a much narrower range count than any other supermarket, and that enables us to be absolutely clear on the quality of what we get in at the back door, which is what leaves the processor, and what our customers ultimately buy.

Q265 Dr Monaghan: You rely very heavily on your processors.

Julie Ashfield: Absolutely. I have no idea how many people are in Heather's team, but, for Aldi, two people look after the total beef buying from our retailer side, which is a very small team. In partnership with our suppliers, we work really hard to ensure we deliver best in class.

Q266 Dr Monaghan: Is that business model consistent across Europe?

Julie Ashfield: Yes, it is.

Q267 Chair: Surely, when you choose your different processor, you go for one based not only on quality but on price as well, do you not?

Julie Ashfield: Yes, but, when you say "choose your processor", there are only a certain number of processors in each field. We work with two main processors, one of which we have worked with for 18 years; the other, based in Scotland, for seven years.

Q268 Chair: Does it not drive the price down, the moment you start doing that? If you have a dedicated contract at a set price, that holds the price to a degree. As soon as you start switching around, surely you are driving the price down.

Julie Ashfield: Switching around between processors?

Chair: Yes.

Julie Ashfield: The movement within processors comes because certain products a processor can supply and deliver more efficiently than others. There are five or six processors. Each of our two main processors has specialist areas. Ultimately, we have dual supply. We have two suppliers on every single line that we stock, because our volume is so significant through those lines that we could not run without it. Whatever the price difference is, we pay them both. They have different prices, but they are two prices that we will negotiate and agree separately with our producers.

Q269 Angela Smith: I just wanted to ask Heather from Waitrose a question. I read your submission and I have listened carefully to what you have said. I am quite fascinated, actually, because it seems to me that you place an emphasis on quality in terms of livestock and animal welfare, efficiency and long-term sustainability. You mentioned that point about market price plus a premium. It is really interesting, and it is quite unusual. You talk in your document about how you build your relationships on open dialogue, building genuine trust, and that that underpins the relationships you have with suppliers and processors. How much of that approach is owed to the structures of ownership of—I nearly said John Lewis—Waitrose? How much of a difference does the corporate structure and ownership of Waitrose make to the way you do business with farmers?

Heather Jenkins: You make a good point. Our approach to business in terms of being able to take a longer-term approach is a perfect fit with agri-food production. Because we are a partnership, we are not answerable on a quarterly basis to the City, so we are not put off course. The fact remains that we are still operating in a very tough commercial marketplace, so we have to compete in the same way as everyone else. But, yes, we are able to take that long-term view. You could say that was an advantage or you could say it was a mindset.

Q270 Angela Smith: I could say it was a mindset. Is there room in the retail world for more than one Waitrose? Could Waitrose's way of working be adapted elsewhere?

Heather Jenkins: It is about commitment to British agriculture. In terms of food retail in the UK, there is an opportunity to commit a bit more than is being done today. It is not wholly a retailer's requirement, but some of it may be. That would bring greater stability in UK agriculture.

Angela Smith: That is fascinating.

Q271 Rebecca Pow: I am interested to hear what you say. Waitrose is a really good model. You mentioned sustainability at the very beginning, and that would be something I think we should explore in terms of what we are doing to our land and agriculture.

My questions are particularly about other products made from milk: ice cream, yoghurts and suchlike. Our Secretary of State is setting a lot of store in the fact that we can help our British farmers by turning more things into these value-added products. Could we do that? Would that help British farmers?

Heather Jenkins: Absolutely. The more added value we bring, the more value there is in the supply chain. Going back to my point about taking responsibility for the whole pint of milk, the whole animal or whatever, if it is broken up into its constituent parts and then finding a return somewhere in the market, that is ultimately not going to add value and the sustainability at the farm gate is going to be reduced. There is no question about that. The more products we can sell at prime retail, the better for the risk and also for the amount of money that is in that supply chain.

Q272 Rebecca Pow: Could you and, for example, Aldi take on more farmers providing more value-added products? Do you have room in your markets to do that?

Julie Ashfield: We will endeavour to do the best we can to list as much British product as possible. 69% of our total range is British-sourced in terms of being supplied here. In terms of ingredients, we are very proud of what we do for British. If we take yoghurts, 50% of our range is using British milk.

Again, that position is driven by the supply base. We have two main suppliers in yoghurts. Unfortunately, one of them is based in France. Therefore, that element of what they supply us does not use British milk. We are engaged in dialogue with them, to try to ensure we get a production facility in the UK, which would in turn mean we could move all of our yoghurts to British milk. It is a focus within the buying teams to do what we can to bring as much British as possible into our range.

Q273 Chair: When both of you are bringing the yoghurts and cheese into your retail outlets, do you buy it as your own label? You pay a contract price for liquid milk, but the largest major retailer is suggesting that they would pay a standard price for the milk that goes into yoghurt, cheese and butter. There is a suspicion within the dairy industry that one of the ways of driving the price down is through the price paid to farmers for a processed product. How do you deal with that in both Waitrose and Aldi?

Heather Jenkins: All our own-label cheese is British. We have two main suppliers. One is a major co-operative, and the other is not. We have put a floor in the milk price for cheese.

Q274 Chair: When you say a floor, is that the same price as it would be for liquid milk?

Heather Jenkins: No, it is not, but we have benchmarked a price. We have checked that against the public information for milk for cheese. We have put a stake in the ground, I would say, in making sure that it is not going to fall.

Q275 Chair: Is that lower or higher than the price paid for liquid milk?

Heather Jenkins: It is 25p.

Chair: It is 3p lower.

Heather Jenkins: It is a price that we believe is the right place to start, given all of the other components that are impacting the manufacture of dairy products. On yoghurt, we are 100% British milk. We are buying that through a private company in the UK.

Q276 Chair: So you would have no influence over what they were paying.

Heather Jenkins: The milk comes from co-operatives, so, again, we are supporting the co-operative model.

Q277 Chair: What about Aldi?

Julie Ashfield: We do not currently have an agreement for anything outside of liquid milk, which we sell at 28p per litre. We are currently in discussions about this and trying to understand what the landscape is going to look like. For us, the issue is that we are a very lean and efficient business. As and when we add in different variables to our contract, it is adding complexity to our business, which is something that does not necessarily work with our model. What we do is set and fix a price with our supplier of cheese, which, in every sense, will give an absolute stability of price. Therefore, they have the ability to keep that price consistent. It is something we are considering and something we would not rule out.

Q278 Chair: I would urge you to do so. If you look at milk production in this country, you will find that probably just under half goes into liquid milk consumption. The rest goes into manufacture of one sort or another. If you take the Waitrose position of 32p on liquid milk and 25p on cheese, you can see there is a big difference. That drives the average price of milk down. If we could deal with the contracts on the processed milk product, it would push the average price of milk up overall.

Julie Ashfield: Waitrose have already confirmed that they have a floor on cheese pricing. We are considering it. Together, we represent 10% of the retail market. While we are genuinely doing everything we can to help promote British farming, again, that is a question that would benefit from some other retailers having an opinion on it.

Chair: Do not worry. You will not be alone in the dock, because the big retailers will be in at some stage, all being well. Thank you very much for that answer. Anything you can do on getting a better price for processed milk would be good, because it would drive up the overall price of milk.

Q279 Angela Smith: Can I just confirm my understanding of the answer you gave earlier to the Chair about labelling? Both companies ensure that all your labelling reflects truly whether or not the raw ingredients have been produced and sourced in the UK. That is true, so milk from mainland Europe is not passed on as a British product on your merchandise.

Heather Jenkins: No.

Julie Ashfield: No.

Angela Smith: That is good.

Chair: I am sorry, Angela. That is voluntary, isn't it, because there is no compulsory system for milk? Carry on.

Q280 Angela Smith: Yes. There is a big debate about this and, of course, the European Union has ruled out bringing in new regulations around all of this. Does there need to be a change to country-of-origin labelling? In many ways, it is very unfair that other retailers are indulging in the practice of labelling things as British when they are not actually British. Should there be some regulation around all of this?

Heather Jenkins: There should be transparency.

Angela Smith: That is exactly the point.

Julie Ashfield: That is a really good answer. From our position, we do what we believe to be the right thing every time. If we sell some bacon and that pig is Danish, but it is processed in Huddersfield, we do not label that as British; that is labelled as Danish. We are very clear in what we do. We do what we believe is the right thing and what people would expect.

Angela Smith: Actually, the MP who is trying to move on that is called Richard Bacon, which is quite interesting.

Julie Ashfield: Is he from Huddersfield?

Angela Smith: The other question I have is around the attractiveness to British consumers of the Union flag on the products you sell. Is there any concrete evidence you could present to us that demonstrates having the Union flag on fresh produce makes a difference in terms of selling patterns? In other words, is it a premium people look for? Is it something they are prepared to pay good money for?

Heather Jenkins: I would say they are, but it is a package. From the Waitrose perspective, our consumers expect us to do the right thing. They hold the Waitrose brand up in terms of doing the right thing by animal welfare and ensuring it has been British-sourced if it says it has been British-sourced. In terms of the decision tree, it is about the Waitrose brand and what that stands for. The other decisions are then combined. As I say, when there are issues, consumers do come closer to home. If there are disease issues or food-safety issues, they definitely buy in to something that is closer to home, providing the home nation is not causing the problem.

Julie Ashfield: It is clear that Waitrose and Aldi have marginal differences in their demographics. I sit and have sat through quite a few discussion groups with our customers to say, “Are you aware that our fresh meat range is British?” Lots of them are not, even though we try really hard in store to promote that. Because we are a German retailer, they assume that we are not British. When you ask them, “Do you want British?”, the answer is 100%, in the room, people say, “Yes, absolutely.”

The difficulty comes when you have to make a buying decision and you have to pay for the privilege of British. If you take pork as an example, we are proud that we sell British pork 100% of the time. We discount the major retailers, who are in some situations selling EU pork, and we are selling British pork at a 15% discount. That enables our customer not to have to make the choice. It is a very difficult decision, when you get in front of the chiller, to decide to pay an additional premium for the privilege of British. We try to take away the difficulty of having to make that decision.

Q281 Angela Smith: When it comes to customer choices, Aldi are not yet in the internet trade, are you?

Julie Ashfield: No, not yet. We go live in January, but only for wine and special buys.

Q282 Angela Smith: Waitrose are, via your own scheme but also via Ocado.

Heather Jenkins: Yes.

Q283 Angela Smith: I buy from Ocado. Is there a difference in terms of customer choices? Is the use of the internet for buying groceries making any difference in terms of consumer choices to buy British? Is there any evidence of that?

Heather Jenkins: We are certainly able to give consumers more information about country of origin and the provenance of our meat, for example. That seems to be positive. I would have to go back and ask that team specifically, if that was something you wanted, and we could send some information under separate cover, if that is required.

Q284 Angela Smith: The internet is so different; it really is. You have a small screen with various items on it, as compared with being in the shop and—this is the point Julie made—being at the chiller, looking at the different packs of meat and the labels clearly displayed. I wonder whether that has an impact and whether it will, long term.

Heather Jenkins: It has been a positive experience for customers, in that it has not put them off buying fresh meat online. They are over that hurdle. We have more space online to talk more about provenance. As to having concrete consumer research, I would have to go back and ask that team.

Angela Smith: That would be really good to know.

Chair: Simon is wishing to come in here.

Q285 Simon Hart: I want to jump in for a moment only because, for the last half an hour, I have been doing the equivalent of internet shopping on the two websites for exactly this purpose. It is really interesting. The first thing is how many of the products are labelled with a clear Union flag, which is great, but many of them also are not. I was just looking at four chicken Kievs from Aldi, and I could not find out anywhere where on earth they came from. It highlights Angela's point, actually. If you are like me, you tend to do it all online anyway. I am not saying there is anything wrong with them, but, compared with some of your other products, I cannot turn the box over online; I cannot spend too much time doing that. That is one question I want to find out for things like some of your frozen lines.

Julie Ashfield: The first point is that it is a non-transactional website you are looking at, so it is not anything to be compared to. You could not buy that product.

Simon Hart: It says "add to shopping list". Can I not do that?

Julie Ashfield: You can add it to your shopping list, which means, when you arrive in store, your shopping list is populated with your chicken Kievs. We do not offer an internet service. What we are trying to do there is highlight the products that are on sale in our stores. In terms of the usability of our website, it is getting better. We are improving it and, in January, you will absolutely be able to turn that product around and have a look at it, but not buy it.

Q286 Simon Hart: Brilliant. It is just a contrast. Union flag and non-Union flag is really the point that I am making.

Julie Ashfield: I cannot see it, but I assume that is a frozen product.

Simon Hart: Yes.

Julie Ashfield: It is a beautiful picture. If it is frozen, we, and I think every retailer, would have a different message there. At fresh primary protein level, we are 100% British.

Simon Hart: The second question is on the positioning of goods in the store. Again, this is slightly picking up on Angela's point. I know, in stores in my constituency of different companies, the price ranges of the same product are stocked so adjacently that it is very obvious which is the cheapest, thereby very much encouraging you to go to the bottom shelf rather than the top shelf, or whatever it is, to buy a product one would cynically argue had a greater margin on it. You have appeased your conscience as a retailer, but it is obvious that we are going to buy the cheaper one. I wonder whether there is a big difference between online shopping habits and in-store shopping habits in that respect. This is for both of you.

Julie Ashfield: I can offer very little of value on that basis. We do not operate online and therefore I cannot give any comparison.

Simon Hart: I am not going to buy online, but I can do my recce online.

Julie Ashfield: Yes, our entire range is not there. We just list a delightful insight into what you could add to your shopping list.

Heather Jenkins: In terms of having the customer's attention, in shops you do not have much of their time. They probably take nine seconds to make a decision. Online, it is all about the navigation. I have no doubt you will tell me about the navigation of our site

Simon Hart: I will have to get back to you on that.

Heather Jenkins: We are working quite hard to improve navigation. That does seem to be one of the biggest issues for customers. If it is not easy to navigate, you suffer the consequences of not securing that customer.

Q287 Chair: Can I follow up on the chicken Kiev point that Simon mentioned?

Julie Ashfield: Yes, please do.

Jim Fitzpatrick: The chicken from Kiev?

Julie Ashfield: We do not have any.

Chair: Is it Ukrainian? Seriously, this is a real issue with processed products, because it is much more difficult to label a processed product. I have always been arguing that the principal meat ingredients should be labelled. For instance, in a chicken Kiev it should be labelled as British chicken or whatever. Do you do that? You do not have to, do you?

Julie Ashfield: That frozen chicken Kiev will absolutely be labelled with the country of origin.

Q288 Simon Hart: It is not on the front.

Julie Ashfield: No.

Simon Hart: That was the problem.

Julie Ashfield: Online, you get that issue. In reality, it is a six-sided box. You flip it over and you will be able to see where that chicken comes from.

Q289 Chair: That must be an issue for Waitrose as well. When it comes to a processed product, it is probably much more difficult, one, to make sure people do know where the product has come from and, two, to get a British product for that particular processed product. Would that be the case?

Heather Jenkins: Yes, we would use the raw material coming from the dedicated suppliers I described in our manufactured goods, so ham, pork pies or quiche. Anything that is a manufactured meat product uses that raw material and would carry the British mark and the Red Tractor mark. The same goes for dairy.

Q290 Chair: Does Aldi use the Red Tractor mark?

Julie Ashfield: Yes, absolutely, we do, across every fresh line. We are really proud of our use of it.

Chair: Simon has already seen that online.

Q291 Dr Monaghan: I was going to ask this question, for balance. What is the point of origin for Waitrose's chicken Kievs?

Heather Jenkins: The chicken Kiev is made by the same company that grows and processes the chicken. That supply chain is audited by our auditors and independently audited as well.

Q292 Dr Monaghan: Would we be able to tell all of that from the website?

Heather Jenkins: I would like to think you can.

Simon Hart: Give me a chance.

Heather Jenkins: I am sure Mr Hart will tell us.

Q293 Chair: That is a very qualified answer, if I may say so, but I can understand why. I have a question probably to both of you, but first to Waitrose. What types of foods are you successfully exporting? What discussions, if any, have you had with Defra on identifying and opening markets for British goods, or do you not involve yourselves in that?

Heather Jenkins: We do have an export business. We are exporting to about 50 countries, mostly on the grocery side. I am pleased to tell the Committee that we do export own-label cheddar. Our Managing Director, Mark Price, has had a meeting only last week with the Secretary of State. They have discussed a number of areas we can work more closely in.

Q294 Chair: Broadening that slightly to UKTI, which we have in various countries across the world, our trade organisations and our embassies, are you finding help and co-operation there if you are trying to move into the Chinese market or whatever?

Heather Jenkins: I know that the Chinese market was discussed with the Secretary of State last week. We will be seeking help and support here. May I also offer up that our suppliers are doing a very similar thing, particularly in the abattoir sector? They have Chinese and USDA approvals. They would have varying support, but that again is really important in terms of adding value to those supply chains.

Q295 Chair: Is the message to Defra or Government "doing well" or "could do better"? What is your verdict on that?

Heather Jenkins: Doing well in terms of approvals. Abattoirs are being approved, but the flow of product is probably too slow to make a difference to British farmers.

Q296 Chair: On Aldi, naturally you are very much a European supermarket. You are looking to promote British products here, but you also will have products from the rest of Europe and probably across the world. How much are you doing to take the British product and put it back into France, Germany or further abroad?

Julie Ashfield: We currently export £300 million worth of goods into the Republic of Ireland, where we have 110 stores. In whatever country we are operating in, we have a buying office. We have buying offices in every country we operate in, and they are all driven with the same motivation. Therefore, the German buying office is motivated to range and list as much German product as they can. If you take Australia, America or Austria, they all have the same mindset as we do.

Therefore, I would answer that we are not actively pushing British into any of the other Aldi countries, albeit that we have a good relationship whereby there is transparency in what we are buying and whom we buy from. There are a certain number of suppliers that supply the UK, Germany and Austria.

Q297 Chair: Going back to a previous point, you see, if there was not much lamb being produced in Germany, you could promote British lamb in Germany.

Julie Ashfield: Yes, absolutely. We just have to convince the German consumer to buy it.

Chair: Yes, and to eat it.

Q298 Ms Ritchie: Have you found your export operations have been disadvantaged by current exchange rates? If so, what support could be provided to ameliorate these effects?

Heather Jenkins: Yes, we have been impacted, but I am not best qualified to answer that. We have a department that looks after our export business. If you would like further information on that, we would be very happy to provide it.

Ms Ritchie: We would. Yes, that would be very useful.

Q299 Chair: Aldi must trade a lot in the eurozone. The euro to the pound must affect you quite a lot. Does it?

Julie Ashfield: It affects our buying price. Obviously, we have the Republic of Ireland and our office set up separately, but, yes, it has an impact on our price. Again, that is part of the negotiated cost price.

Chair: It is probably beyond the remit of this Committee as to whether we should be in the euro or not.

Q300 Ms Ritchie: I have another little question. How have you adapted to the trade ban with Russia?

Heather Jenkins: I could not answer that question, I am afraid. That is not my area of responsibility.

Q301 Chair: From the perspective of Aldi, that must affect you a bit across Eastern Europe.

Julie Ashfield: I am definitely not your expert in this field. As we all know from knowledge of markets, the Russian ban has created some difficulty for the dairy market. The volatility in that pricing is probably much more at home in that arena than it is due to what we are doing the UK. But, again, I am not qualified to answer that.

Q302 David Simpson: Heather, when the Chairman asked you what more DEFRA could do, you said that DEFRA was very good at delivering as regards, I assume, licensing for exporting but not so good at other things. That is interesting, because we find the opposite in Northern Ireland. It is very slow to get licensing for export. We will have to have a word with them on that one. This is just clarification. You have no difficulty with licensing, if you want to export product to other countries.

Heather Jenkins: I understand from our suppliers that they have gone through this process. Whether it was an easy process, I could not comment, but they certainly have got their licensing. It is the actual ability to start exporting, though.

Q303 Chris Davies: One of the questions for this whole discussion in this inquiry is that our constituents who are farmers are saying that, while they are being paid low prices, the supermarkets are still charging higher prices. I am sure your answer is going to be no to this, so I will not go down that road. How can you reassure our farmers and producers out there that supermarkets are not making vast profits on the back of them when they are earning low prices? As an industry, how would you change that image?

Heather Jenkins: It is quite hard to change that image. Our response would be that dialogue and working together allows us to give insight. We present information to our farmers about the market, how we are performing and how we can help. At the same time, we look to help them drive some profit to their bottom line. There are a number of initiatives we would encourage our farmers to do.

One of the biggest issues is what happens to those constituent parts once you start to take the raw material apart. That is why, for us, taking responsibility for the whole animal is so important, because we are asking farmers to do something specific for us. Therefore, we feel a responsibility to market that to best effect. What is happening in the market in general is that it is more broken down into the constituent parts and not every retailer would buy everything in balance. That is where the value is driven out of the supply chain.

Ms Ritchie mentioned Russia. Russia is impacting beef, for example, because the value of the trims and the ability to export that effectively and make a contribution to the overall price is diminished. Explaining that and having the relationships in place where you can front that up with farmers is what we do.

Julie Ashfield: That is a very good answer. As I have said, it is difficult, and you are right to raise it. From our side, it would be hard to level at us that we are making so much profit in our business and we are squeezing the bottom line. As I have said, we place no correlation between what we buy at and what we sell at. Therefore, irrespective of what we sell a product at, our buying price remains the same. It is difficult to convince the Committee, let alone a farmer, of that.

It is difficult and I am not sure I have the answer today, but we continue to do what we do in the best way we can by promoting British and selling a huge range of British product at affordable prices. Something we feel very proud to have done is enabling the consumer to buy British as often as possible without paying a premium, which only helps our farmers, because we are driving volume at a rapid pace. Our growth is significant, as it has been for many years, and that will benefit the British farmer.

Q304 Chair: Can I follow up on Chris's question? If you take lamb, for instance, this year it has fluctuated a lot in price and come down many times quite significantly. With Waitrose, you have a contract, so that probably levels out the price to the farmer. The point I want to make is perhaps slightly the reverse of what we have been talking about. If the price you are buying your lamb for drops, do you then make sure you drop that price in the shop, so that you stimulate demand? One of the issues is that, if you do not do that, the farmer remains having a low price and the consumption does not rise. If the price drops in the shop, the consumption rises. Theoretically, you start to see market forces driving the price up again. To what extent does your retail price follow the wholesale price?

Julie Ashfield: If the wholesale price increased, we would not increase our retail position, in the same way that, as it drops, we do not reduce our retail price. The reason these huge fluctuations exist—and I am absolutely not the expert in lamb—is that there is a supply and demand issue. What we need to look at is this: we are buying British every day of every week and doing all we can to promote British. We sell it at the best possible price we can, which makes it affordable and drives consumption. There are other retailers who are perhaps moving around where they are buying their lamb from, which creates the decline in demand and reduces and softens the price. We at Aldi are not responsible for that.

Q305 Dr Monaghan: You have alluded to your business growth. What has your business growth been over the last five years?

Julie Ashfield: In terms of market share, we are sitting at around 5.6%. We have doubled; we have gone from 2.5% to 5.6%. If you take our fresh areas, year on year for the past four years, we have seen very high growth figures, which sit at around 30% to 40% every year, compounded each year. We are very proud of that fact. We employ over 28,000 people, and, by 2022, we are expecting that number to be around 35,000. We continue to be a player within the market, albeit one that still sits at the lower end in terms of share.

Q306 Dr Monaghan: Is your market share growing across Europe?

Julie Ashfield: No is the answer. We have a very stable market share in Germany. That tends to sit at a similar level. We are growing in Austria. We are called Hofer in Austria and, yes, it is increasing. Our second biggest market is Australia, where we are seeing significant growth figures, in the same way we are in the UK.

Q307 Angela Smith: Heather, I thought the section in your submission about innovation in agriculture was absolutely fascinating: the Waitrose Chair of Food and Farming at Aberystwyth University, the work on grassland soils to reduce flooding downstream and to develop longer roots that are more drought-resistant, domestic fava beans and all of that as a replacement for soya bean feed. Is the thinking behind that principally ethical or is it also based on economics, in the sense that we will get, I imagine, more security of supply in the long term? Is it a mix of both?

Heather Jenkins: It is a mix of both. It is coming back to that resilience in our supply chain. We are trying to help our farmers with market insight, showing them that we cannot keep asking consumers to pay for product without absolutely knowing on farm how much they could help themselves. It is about trying to open a discussion and apply some science. Waitrose has committed to that chair at Aberystwyth, which has been five years in the making now and has demonstrated how beneficial that is to our farming groups. They will get the benefit of that work.

That is the whole point of the cross-sectional working, the study tours and the farm walks. We were farmers ourselves. We have to look to ourselves to ask how we influence one of the most important parts of cost in livestock production, i.e. feed. That is a great worry. Where are we doing to get it from? Actually, we have all this stuff called grass that we could maybe make better use of. That has been one of the drivers.

The fava bean work is about whether we can really depend on getting our protein supplements from across the other side of the world. There are plenty of sceptics, but I must say that work has been surprisingly rewarding. That research project is coming to an end. It has highlighted that it works, but now the work starts for the breeders, the genetic companies. There is potential and the research has been well worthwhile.

Q308 Angela Smith: Long live agri-tech. Julie, Aldi’s model is based on volume.

Julie Ashfield: Efficiency.

Q309 Angela Smith: Well, I would hope that all retailers are looking for efficiency, but yours is about being able to sell quality British produce without asking customers to pay a premium. Does that effectively rule out that kind of engagement with farmers on helping them build agri-tech strategies into their production methods? In the end, British farmers will need help from agri-tech to stay resilient in the long term.

Julie Ashfield: It is a good question. Our business model is one that is so lean and efficient that we do not have an agricultural department; we do not have any departments outside of my area that will focus on buying. The way our business model works is that it is simple and efficient. It is not something we would be investigating at this stage or in the medium-to-long term, realistically, based on what our model is and how it works for us.

Q310 Angela Smith: Do you think retailers that do not engage in this will look to compensate Waitrose in the long term for helping make farmers more sustainable in the future?

Julie Ashfield: There are lots of things retailers do that other retailers benefit from. In a more shared arena, I am certain that Waitrose may, on occasion, benefit from what Aldi does. We are very grateful for all the work Heather and her team are doing.

Angela Smith: It was slightly facetious.

Q311 Jim Fitzpatrick: My apologies for not being here for your evidence, ladies, which is why I have not asked my question. I might have missed an answer previously, but, following on from what Angela has asked, as a regular Waitrose customer declaring an interest, you charge higher prices. I mean no disrespect to Aldi. Given the effort and investment you make in agri-tech, does that come out of your profit margin or does the customer contribute to that? Is the higher price the ability you then have to do more than some of the more economic, more efficient lower-market models?

Heather Jenkins: There are quite a number of questions there. We have higher prices than Aldi, maybe, but not higher than the major retailers. In that regard, no, we are not taking money from our customers to pay for farmer activity. On the contrary, we are encouraging farmers to find it within their own gift, with our help and support, to drive profit to their bottom lines.

Chair: Can I thank you both very much for giving evidence this afternoon? You have been very straightforward with your answers. Thank you. It is most appreciated. Farmgate prices are very important to this Committee and this country, because it is about making sure that our consumers get a fair deal, but that our farmers get one as well. Thank you very much for your evidence and for giving your time this afternoon.