Environment, Food and Rural Affairs Committee

Oral evidence: Farmgate prices, HC 474

Wednesday 16 December 2015

Ordered by the House of Commons to be published on 16 December 2015.

Written evidence from witnesses:

– Tim Smith, Tesco Group Quality Director, Tesco

– Alex Brown, Fresh Trading Director, Morrisons

– Morrisons additional written evidence

Watch the meeting

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

Questions 451-617

Witnesses: **Tim Smith**, Tesco Group Quality Director, Tesco, **Alex Brown**, Fresh Trading Director, Morrisons, and **Judith Batchelar**, Director of Sainsbury's Brand, Sainsbury's, gave evidence.

Q451 Chair: Good afternoon. Thank you for coming to our inquiry on farmgate prices. We are delighted to have three major retailers with us. Tim, would you like to start off by introducing yourself? Then we'll go across the table, please.

Tim Smith: My name is Tim Smith. I am the group quality director for Tesco, so sourcing and selling all our products globally.

Alex Brown: Good afternoon. I am Alex Brown, the fresh trading director of Morrisons; I am responsible for buying all the fresh food.

Judith Batchelar: I am Judith Batchelar. I am director of the Sainsbury's brand. I am responsible for anything that we sell in our stores that has our name on it, which includes sourcing the agriculture team all the way through to the shelf. I do one other role, which is to co-chair the Government's agri-tech leadership council, which I have done for the past few years.

Q452 Chair: Thank you. Welcome to all of you.

I will start with the first question. Is it fair to say that the supermarkets are engaged in a price war to preserve your individual market share? Who wants to start off with that one, a nice, easy question to get you going?

Tim Smith: I would not put it in those terms, you will not be surprised to know. We are all striving to do the best we can for our customers, which is a combination of price, quality and provenance—all the things that they are interested in. The effect of that, as we—Tesco, at least—have built stronger, shorter supply chains, is that the market is working pretty well with most of the farm-based commodities that we deal in.

Q453 Chair: But surely all you major retailers want as big a chunk of the cake as you can get. Tesco is the biggest and surely you want to remain the biggest.

Tim Smith: Speaking just for Tesco, I would say that our competitive stance is one of winning the battles that matter most and if market share is one of those, I do not think commercially that we ought to be ashamed of that.

Q454 Chair: No, I am not asking you to be ashamed of it. I am just saying, surely, as you fight the corner for a big market share—we will come on to ask how you get to that—surely you must be fighting. What is Morrisons' or Sainsbury's attitude?

Alex Brown: It is a very competitive market. We have had declining market share for a number of years now. Not only are we a retailer, but we are the second biggest food manufacturer in the UK, so we have a lot of factories to fill. It is very competitive. We have to operate in that market. We face a rising discount sector, not only Aldi and Lidl, but the high street discounters in our grocery business. We are feeling some strong competition from them, so we are trying to get back to our roots of doing the right thing for our customers. Price is clearly part of that, but it is also about what we do differently as a retailer, supporting British, doing the right thing, great quality products and what we make in our stores as well as in our factories. It is a very competitive marketplace at the moment.

Q455 Chair: You see British as not only very good food, but a very good marketing tool as well.

Alex Brown: Absolutely, yes. It is pretty vital to us. For instance, we have got three abattoirs that only process British animals, so that is a big asset for us, which we have to keep running efficiently—a lot of jobs are involved in that—and we have two sites that just pack British vegetables. That is crucial for us, and a very important message for the customer.

Judith Batchelar: I do not disagree that it is obviously a very competitive marketplace, and I would add online retailing to the discounters. Online is obviously a different business model, with different cost structures, which enables them to be very competitive in certain instances.

The big thing is that in food retailing, if you look at the UK, it is the second cheapest place to buy food in the world after America, in terms of the percentage of customers' disposable income spent on food. That is a challenge.

The second point is that food retailing is a low-margin, high-volume business. I do not disagree with Tim that it is about market share; the big issue is volume. We would do anything to protect the volume of our business, because that is material to our business model. More importantly, it is material to the business models of the value chains that sit behind our business. If I were to talk to our farmers, they would say, "Absolutely, protect our volume. That is one of the biggest things that you can do to help us in our own businesses."

On British, I absolutely agree from a customer point of view. We have done recent surveys as part of our corporate responsibility work and British comes almost at the top of customers' priorities—because they see British as shorthand for quality. People believe that British food has not travelled so far, so it is fresher; because it is fresher, it is more nutritious. They also fundamentally believe that British food standards, and the standards within the production systems in Britain, are better than in the rest of the world.

Absolutely, it is in our interest to make sure that we have a thriving food and farming sector.

Q456 Chair: That leads me neatly on to the other part of my question. Waitrose told us that reducing retail prices is not sustainable; if you talk to the farmers, they say that to keep driving the prices down to them is not sustainable; and the consumers love to have lower prices. When do you expect food prices to rise, rather than to keep falling? Falling prices is ideal for inflation and for the consumer, but not for the retail trade or, in the end, the farmer. It is difficult for you to predict, but what would you all predict on that?

Tim Smith: We have seen sustained deflation in different markets for a host of different reasons, and that prevails. We have to look into our professional crystal balls and make a judgment of when that might turn up, but the best way of doing so is by having the best sort of relationships with our suppliers in the UK and globally. They are telling us that as long as we can keep the volume up—Judith's point—as long as we can give them the best sort of certainty about what the market will do for their volume and as long as we recognise that all the way through the supply chain there has to be a profitable outcome for each of the players in it, then the deflation-inflation piece they recognise is both a function of demand and—

Q457 Chair: Sorry to interrupt, but although there has got to be a profitable outcome, if prices are being driven down by a price war between retailers and there has to be a profit margin, surely ultimately that means you then drive down the price you pay to the farmer—that is the only logic that I can see.

Tim Smith: I do not think we see the evidence for that. We buy, we think, around a quarter of all the agricultural output in the UK, and when we are talking to our UK supply base—take milk, specifically—we know that where necessary, you have to decouple what the market is doing from the price that we need to pay those farmers, effectively to protect the investment they have put into the supply chain and their assets, which are built to supply Tesco. You have to keep doing that. That is why being close to the supply base and understanding the needs of those individual producers, even though some of that is going through processors, is absolutely vital. Being transparent and providing them with certainty about what the market is likely to do, while recognising the volatility caused by the vagaries of currency and world commodity prices—those are an inevitable part of what we do.

Q458 Chair: On milk, you buy liquid milk and have a liquid milk contract. You are now offering contracts on processed milk, but I have been asked to ask whether the contracts on processed milk are long term or short term. What are you offering?

Tim Smith: The way we are developing the contract for cheese is very similar to the way we have developed the model for fresh liquid milk, which has been in existence since 2007. None of that works unless the dairy farmer involved knows that that contract is going on well into the distance. For the dairy farmer, that has never been an issue, because the length of the contract—

Q459 Chair: I am talking particularly about the contracts that you are now looking to offer for processed milk, rather than liquid milk. Are you looking at long-term contracts for those or what?

Tim Smith: They will pretty much mirror the same situation that we have for the liquid milk contracts. We would not enter into this to have haves and have-nots.

Q460 Chair: As for Morrisons and Sainsbury's, have you got ideas not only on liquid milk, but the milk that goes into processing?

Alex Brown: We are in long-term contracts for liquid milk and cheese. We have two cheddar cheese suppliers with whom we have a long-term deal, and we are just developing how that will work specifically so that both parties benefit and the farmers supplying also benefit. We are supporting quite a small yoghurt and cottage cheese factory up in the Lake District, and we will have our volume in that operation for the foreseeable future. There are no plans to pull out of that at any time, because that is a farmer co-op owned business, and we believe that it is crucial that we have more British yoghurt production staying in the UK. Not just on agriculture, but across the whole piece, we want to get on a much longer term footing with the supply base, because that is where we believe the best results come for both parties.

Q461 Chair: When all of you have a price check on when we go to buy, and you say, "You could have saved so much", or, "You saved so much on your goods", do you do any sort of price check on what you are paying to the farmer?

Tim Smith: There is a league table published on dairy prices, so it is not difficult to do.

Q462 Chair: No, but you bear that in mind when each of you are negotiating contracts.

Tim Smith: The way that our contract works—I will speak first, and others can join in—is that we are solely based on the cost of production. The 650 or so dairy farmers who are part of the sustainable dairy group for us are effectively creating a database of their costs. We are going to pay on that; we are not going to pay on what the market is doing. Customers find this quite difficult, but it is decoupled from the price that they pay in the supermarket.

Q463 Chair: Sainsbury's has got something slightly different, has it not? How do you purchase your liquid milk and your milk for butter and cheese?

Judith Batchelar: On our liquid milk, it is similar to but different from the Tesco model. We have 311 dairy farmers who produce our liquid milk. They have a cost of production model that is slightly different, in that it is calculated annually on their actual costs. They give all their accounts to a third party; we never see the individual farm data, but those are amalgamated and an average cost of production is produced. They voted for that back in 2012. It is reviewed annually, but we then review that price every three months, because 50% of the cost is feed, fuel and fertiliser, and those are extremely volatile, as you will know. Those things are reviewed every three months, and every three months we will change the price that we pay.

Some of that milk is then linked to our other dairy development groups—so we have a cheddar cheese development group—and they will use milk because many of them produce milk for us as well as cheese. It is fair to say that that covers just over half of our British cheese production, but not all because a lot is much more fragmented and therefore difficult for us to manage. One of our challenges is how to manage the cost of liquid milk going into other processes that are not part of that group. That is quite difficult for us because clearly we are not allowed to stipulate where people buy their ingredients or what they pay for them under the GSCOP rules. We are thinking carefully around that one.

Q464 Chair: Yes, because it is still quite a lot of milk that is out of your protection on price.

Judith Batchelar: Yes.

Q465Chair: But you are looking at that quite seriously.

Judith Batchelar: Yes, but it is a difficult one.

Q466 Simon Hart: You have just raised an interesting point about the cost of production. When that calculation is being made, does it factor in an element of profit and, if so, how much?

Judith Batchelar: Yes.

Q467 Simon Hart: And does it factor in capital improvements which may be over a 10 or 15-year horizon?

Judith Batchelar: What price is paid is publicly available so I am not saying anything that would be anti-competitive. At the moment we are paying 30.82p a litre. Within that there is a profit element for the farmer and that profit element will vary depending on how efficient those farmers are. They know that because we collect farm-level data from them on 16 different metrics. We pay for that and it is done by a third party, so it is anonymous. We cannot see individual farm-level data. Those 16 metrics are red, amber, green versus their peer group, and they are told where—

Q468 Simon Hart: You have answered the question yes, which is all I was keen to ascertain at this stage. My other point is that when you were talking about the importance of British as part of the marketing strategy, I think all three of you mentioned that this was the result of customer research. Does that research go as far as saying, if you had a British product at, say, three quid and a non-British identical product at £2.80, what would happen then? What do the shoppers do then and what do your people do then?

Judith Batchelar: That is a very interesting question, which we have asked our customers as part of our research. One thing that they are very clear about is that very high up the priority list is being fair to our suppliers, whether farmers, growers or indeed manufacturers, so they expect us to pay a fair price, but there is a limit to what premium they are prepared to pay for British, so you need to be within around 20% for it to be considered. If it is more than that, price then becomes the factor. It is not British at any cost, but they are prepared to pay a small premium.

Q469 Jim Fitzpatrick: My apologies for not being here from the very beginning.

Ms Batchelar, you said that written into the contract you get three months' assessment of the volatility of factors that affect price. Does that automatically kick in to what you pay the farmers, or does it trigger negotiation? Do they recognise that volatility? You referred to depending on how efficient the farmers are, so they may not have taken into account the volatility in price, but you are monitoring it. Does the price vary automatically or do you then say to the farmers, food stocks have gone down and energy has gone down so we are reducing what we are paying you by 5% or 10%. Is that automatic or is it negotiation?

Judith Batchelar: If I go back a step, they voted for the model that we ended up with. We spent a year looking at alternative, different models and 82% of them voted for this particular model. In that model, they agreed the market indices that we would use to measure feed, fuel and fertiliser. They agreed the figures we would use and they agreed to the fact that basically we would notify them in advance. We would notify them on 1 December—they would be expecting that because they get the letter every three months—that the price we are going to pay based on those indices is 0.45p a litre less than at the moment and that that will kick in in January. They know that. It was agreed up front as part of a model.

Q470 Jim Fitzpatrick: Is this a consistent agreement across all of the suppliers?

Tim Smith: There are a lot of parallels. We have just, because of volatility, moved to a three-month cycle. We noticed, because farmers would have told us, that the frequency of changes had gone up over the life of the plans, so since 2007. It does not lead to negotiation; it leads to an agreed price, because the individual accounts, the individual farmers, very much as Judith described, go into one independent source, which turns the handle and produces a price based on the cost of production of our members. It is really worth noting, across the board of people sitting here, that the balance of the price that has been paid over the most recent years has generated substantial income for the farmers who are part of these schemes, as compared with the co-operatives. So in our case, we have invested about £200 million over the life of the scheme, as against what we would have paid had we paid a standard co-op price for milk. So the farmers have seen that this is a fair, transparent and clear method of being fairly rewarded for their product.

Q471 Chair: You have talked about 30.8p or 30.4p for liquid milk. Is that the same price that you are paying for contracts for cheese—I know you don't have all contracts, but those that you have got for cheese? Is that milk going for that sort of price as well?

Judith Batchelar: I am not sure that I can answer that question accurately, but I would say that 50% of what is going in is—

Chair: Will you then furnish that to us in writing?

Judith Batchelar: Yes.

Chair: It is very important for all three of you. It is good to have the liquid contracts, but we are very keen to know what is happening with the processed milk, the milk going into the processed products, especially your own-label products, and what you are paying for the milk going into those.

We will move on to Simon and talk about other things.

Q472 Simon Hart: It will still be milk actually. It was put to us in a previous evidence session by competitors of yours that there was no relationship between the price that was paid to producers and the price that was charged to retailers. Do you adopt the same principle?

Tim Smith: For clarity, do you mean the retail price and the price that we pay farmers?

Simon Hart: Yes. I think that is correct.

Tim Smith: Yes, that's right.

Simon Hart: So there is no connection?

Tim Smith: No.

Q473 Simon Hart: I find this astounding. It is a basic business principle, isn't it? Do you do that across all your products, or is it only milk?

Tim Smith: It's pretty unusual.

Alex Brown: To take fresh produce as an example, one of the dynamics is that Aldi and Lidl were not really in the fresh produce market a decade ago. They have gone hard into that market and are taking more share off us in that sector than anyone else, which is probably the same for my colleagues here. They have clearly decided to price that much more aggressively than was done in the past, so we have had to match that. The fact is that we still have to give a fair price to a potato farmer, for example, otherwise he is unable to continue in business—

Q474 Chair: But if you are taking a higher margin than they are, how can you be competitive? Sorry, Simon.

Alex Brown: Well, we were, and we have had to drop prices, but that is decoupled from what we then pay for the product.

Q475 Simon Hart: But you put your milk prices up recently and said that that was in order to pay more to your farmers. Is that not a contradiction of what you have just said?

Alex Brown: We were one of the last to drop—Iceland effectively led the milk price down about three years ago; everyone followed, but we did not. We did drop it about a year ago. We did not see any volume benefit and we did not really get any customer benefit. The Milk for Farmers that we launched showed that customers were prepared to pay a bit more, we believe. Putting the price back up to where we did last Monday, again we have seen no volume impact and we have passed some of that benefit back, even though we did not take any cost out when we dropped the retail price.

Q476 Simon Hart: I am still not absolutely clear about what you are saying. On the one hand, you are saying that here is no connection and, on the other, you are saying that there is a connection. Which can we record?

Alex Brown: There is no connection, but where we have some scope in a price increase to give back to a farming community in distress, which clearly the dairy farmers are, we have taken that opportunity.

Q477 Simon Hart: Okay, so the most recent price increase was a gesture of Christmas cheer from Morrisons to your producers.

Alex Brown: I think we were listening hard to our farmers through our processes. The amount we passed back has allowed us to get the sustainability stamp from Arla.

Q478 Simon Hart: Okay. Last question: to what extent does that all go to British farmers? Do those kind of uplifts go exclusively to British farmers, or to a wider audience?

Alex Brown: We have got two processors—so just speaking for Morrisons, in terms of Dairy Crest: yes, it does; 100% goes straight back. Any supplement we pay goes straight back to them. Arla is a European co-operative.

Simon Hart: So EU farmers are getting the benefit of the marketing, which—let me put it another way: would it be fair to say that customers are paying a higher price for Morrisons milk, which they think will go to UK farmers, and maybe it could be possible that it is actually going to be spread across the whole European Union? Is that a reasonable assertion for us to make?

Alex Brown: Yes, and we have altered the label on the back following two pieces of customer feedback that we were not clear enough.

Q479 Simon Hart: Is that similar with Tesco?

Tim Smith: No. The cost of production model—

Q480 Chair: You have got a different system, haven't you. Just on this one to do with Morrisons, how much do you have from Dairy Crest, and how much do you have from Arla?

Alex Brown: In terms of our liquid?

Chair: Yes, just in volume. Not litres, but in percentage terms.

Alex Brown: Two thirds from Arla, a third from Dairy Crest, broadly.

Q481 Chair: Right, and so are you finding that your customers are actually expecting that premium to go back to British dairy farmers?

Alex Brown: I think if we asked them they would. We have obviously sat down with Arla and asked them if there is a way for them to just pass that premium back, because it is only British milk that we are selling. The fact of the matter is they are a co-op. They legally cannot do that. They would argue—I am not going to labour on this, because it is their business—that benefits in the past that Swedish farmers have got have come back to British farmers. All of their farmer co-op members are voluntary members and happy with the arrangement.

Q482 Chair: The only thing—and I applaud what you have been doing, so I am not trying to catch you out—is that I think certainly the public's concept is that they go in and pay that extra money on those pints of milk and that goes back to the British farmer. I understand the co-op—there might be other promotions across Europe; but this one is particularly for British farmers and I think that is probably where clarification comes in. But you have done that on the label now, you say.

Alex Brown: We have done that on the label, and on the cheese, because that is Lactalis, and that goes as a supplementary payment direct to their milk field.

Q483 Chair: I understand it has been successful. You have good volumes: is that right?

Alex Brown: Yes, we do. We are going to publish the volumes on our website tomorrow: www.morrisons-farming.com.

Q484 Chair: You wouldn't like to publish them a day in advance, would you?

Alex Brown: No, I can tell you. We will pass back, to the end of November, about £900,000 of benefit just on the Milk for Farmers—we also pay a supplement on our core volume as well, but just on that initiative; and our milk is about 10% of our volume and it is five times the volume of organic milk that we sell. So the milk has been very successful.

Q485 Chair: So, what, 10% of what you are actually selling at the moment you are selling on the premium.

Alex Brown: Milk for Farmers, yes.

Chair: I have a friend who said to me that when he went to purchase the milk in Morrisons there did not seem to be quite as many different sizes—you know, 2 or 4 pints, 8 pints and 6 pints—in the farmer extra milk, for want of a better expression to describe it.

Alex Brown: Correct.

Q486 Chair: I do not know whether you are able to have more choice.

Alex Brown: Because, being honest, we were unsure how successful it was going to be, we launched it in semi-skimmed and whole milk, 4 pints. We are now going to roll it out to skimmed milk, and we are also looking at the other sizes for the new year.

Q487 Chair: Okay. What about Sainsbury's and Tesco? Haven't Morrisons stolen your thunder? What are you thinking about this? Perhaps that is an unfair question; but I think it is fair enough.

Tim Smith: Obviously we watch the market really closely. We know what is happening with volumes and sales and we look at the price. The three of us happen to be charging across the piece at the moment the same for 4 pints. Alex said it earlier, what you do on milk pricing tends to have little or no effect on demand, so we don't—we see a bit of footfall change. Without making a comparative point, I think what we rest on is that the decoupling of the cost of production model means our dairy farmers are getting a fair deal, and have since 2007. I am not making a relative point; it is just absolute. On the same side, we try to do the best we can for customers by charging them a price we think is fair in the marketplace. We just kept the two things completely separate.

Q488 Chair: The only thing I would say is that Morrisons is now passing back nearly a million pounds—£900,000. On the amount of milk that you would sell, it would be substantially more. Is it a way of getting more back to the farmer?

Tim Smith: I am not going to speak for the dairy farmer, but given that the price we are currently returning to them is 30.6p or thereabouts and it has been sustainably higher than the market for all the years that it has existed, we do not get that clamour from the 650 members. The deal is cost of production, which includes all the things that Judith and us have mentioned, and they are confident with that.

Q489 Chair: Coming back to Morrisons, what are you actually paying for the milk that you are not putting the farmer premium on?

Alex Brown: We have a different model. We do not have a cost of production model. Up until the summer, we had a process price only with Arla and Dairy Crest. We were approached by the NFU and Farmers for Action, as I am sure you saw. We got into discussions with them. We were clear; we do not have a milk price set with Arla or—

Q490 Chair: What were you paying at that stage? 24p or 25p?

Alex Brown: We were not paying—there was nothing in our contract about a milk price. It was a finished, delivered price.

Q491 Chair: You were just sort of buying on spec.

Alex Brown: A delivered four-pint, as an example, to our stores. Obviously, we listened to what was being said. We worked with the NFU and came to a supplement figure that we put in at the end of August, start of September, with a winter supplement on top that guaranteed a floor of 26.5p. We have been paying ahead of that since then, and we have got a further supplement—

Q492 Chair: That is on all the milk you sell.

Alex Brown: That is on our core volume.

Q493 Chair: Right, and then you have got this system—

Alex Brown: It will be another 10p per litre on top for the "Milk for Farmers" product.

Q494 Chair: In reality, that is coming in at about 37p.

Alex Brown: Yes.

Q495 Chair: But it is only 10% of the volume that you sell, and it still has a 2% or 3% increase overall. What about Sainsbury's? Are you considering a similar sort of thing?

Judith Batchelar: No, although we have done something similar a very long time ago, when there was a lack of organic milk. We sold a milk called "Farm Promise", which was to encourage farmers to move to organic, but we are not considering it at this time. I go back to Tim's point. We have a cost of production model. We know what that cost of production model costs us. We have tracked over time the difference between what we pay and what the market price of milk is. We know the premium that we have paid our dairy farmers in those eight years that we have been paying above the market price. That is probably why over eight years we have never lost a farmer from our dairy development group and why we have a list of farmers who would like to join it. I think they are very happy with the returns that they are getting. They also get a bonus on that price as well, which can be up to 0.8p a litre for improvements in any of the 16 metrics that we measure. I think they are very happy.

Chair: It is laudable what the big buyers and the big retailers are paying for the liquid milk, but what we are really conscious of, when looking at the whole milk market, is ensuring that that is expanded through the processed sector. You have answered questions on that, but that is something that we would particularly press you on.

Q496 Simon Hart: If the retail milk price has no effect on footfall, why do you relentlessly use it as a loss leader—if it makes no difference to the number of people who come into the store? In terms of the relationships between your organisations and producers, one of the things that offends them the most is that you can buy milk cheaper than water. If that does not make any difference, why do you do that?

Alex Brown: Unfortunately, price perception plays a big part in customer behaviour. Iceland dropped, Aldi dropped, Lidl dropped and Asda dropped—you then get into a position where you are 10% uncompetitive on one of the biggest commodities in a household shop, and it is unsustainable from an overall price perception.

Tim Smith: My point was—I may not have been as clear as I should have—that the total fresh milk market does not move when prices are moving up and down. Customers might switch between individual retailers—Alex mentioned that Iceland started a move, and they certainly got some footfall gain, but as it was followed by others, that footfall gain dried up very quickly.

Q497 Chair: So you do follow one another, then.

Tim Smith: It is for other retailers to speak on their positions, but if what happens, as Alex said, is that you take the total basket and discover that customers are preferring to shop elsewhere just on price on those individual commodities, clearly we are following, yes.

Q498 Chair: Going back to Simon's first question, you are taking notice of the prices that you retail at, aren't you? You have to, in order to keep people coming into your shop.

Tim Smith: For the benefit of customers. The clear distinction is that in this case, dairy farmers can sleep easy knowing that the cost of their production is influencing their price, and not what is happening in the rather frenetic world of retail competitiveness.

Chair: Right, okay. Let's move on to red meat—we need some red meat.

Q499 Ms Ritchie: Thank you, Chair. Farmgate prices for red meat, particularly lamb and pork, have been affected in the last few years. What are you doing to support the sector?

Alex Brown: We process our own. We process about 1.5 million British pigs a year, 200,000 cattle and about 750,000 lamb.

Q500 Chair: Is that direct or outsourced?

Alex Brown: We have a mixture of contracts. We are trying to develop longer contracts. We have schemes where we are putting dairy calves into producers to bring on. We finance that, so that they just effectively look after the animal. We pay them for the weight that the animal gains, and then we take it back and process it. We are looking at longer-term contracts on cattle and lamb. All of our pigs are on at least six-month rolling contracts, if not longer.

As I said before, it is absolutely fundamental to our business that we have animals to process—it is absolutely crucial to us. If demand is very high, we might go to the auction markets and buy, occasionally, so we will use all the metrics. We have a big team of livestock buyers who are out in the field talking to and dealing with farmers every day.

Tim Smith: If I start with the agricultural piece, in a very similar way, we have eight agriculture managers across the various different sectors. The people working on beef are working on the relationship with the beef farmers. The intermediaries in this are two processors who we buy most of our red meat from, so they are doing the sourcing. The relationship that we are building—I have to say, it has been a slow burn—is to have as many direct contracts with farmers as possible, but it would be true to say that at the beef end of the market, it is more difficult to attract farmers into the sort of cost of production model than it is on milk or other livestock.

Nevertheless, we believe that for long-term contracts, transparency about market pricing and the cost of production are key features. At the moment, we only have a very small scheme of 150 beef farmers who are contracted directly to us for long-term deals. We would like that to be much more—it could be much more—and we would prefer the relationship we have with our farmers on beef to be the same as we have on dairy.

Judith Batchelar: Those three sectors all have very different problems and challenges. We collect farm-level data in the same way we do for our dairy farmers, so we are able to benchmark their performance on certain things. For example, on lamb, one of the big challenges is feed conversion rates and, particularly, improving the amount of forage that lamb is fed.

We have done a lot of work with our research and development programmes. In fact, we spend more money on research and development in the lamb sector than we do in any other sector, because it is the one with the most challenges. We have helped farmers with the purchasing of high-sugar grasses, and that high-sugar grass has led to a 20% improvement in forage intake, which in turn means productivity is 20% up and so on, so they are becoming more profitable.

The second area is things like parasites, because the health and welfare of the animal—a healthy animal is a more productive one. Again, we helped with that through a research and development project. Twenty per cent of the income is from the fifth quarter in lamb, so that is important, if you have condemned livers and things like that. It is basically a question of trying to make that sector more profitable—there are 850 producers in our lamb group—and of extending the season as well. This season has been very good. We have extended our 100% British lamb all the way through to January, therefore reducing our imports. Pork is basically—*[Interruption.]*

Sitting suspended for a Division in the House.

On resuming—

Q501 Chair: Judith, you were in mid-stream. Do any of you want to finish off?

Judith Batchelar: Yes. Pork is very different again, because pork is somewhere in a halfway house between chicken and beef and lamb in how it is structured as a value chain and the levels of controls and integration in there. So we have an ability to make a bigger impact on pork than we can do at the moment in the way the beef value chain in particular is structured. So there is a lot going on in pork, and mainly around pork becoming more competitive.

All of the fresh pork we sell is 100% British, but at the moment British pork production is not as efficient as European pork production. That is for reasons of feed conversion rates, pig mortality and the price that we pay for animal feed here in the UK versus the price in Europe. Therefore, we have identified something across that group approaching £20 million of productivity savings and our challenge with pork is to make those pork producers as efficient as they can be.

Q502 Chair: On pork, are you taking into consideration that some European countries are still not producing to as high a welfare standard as Britain? I hope you are.

Judith Batchelar: Yes. Where we have done the benchmarking, we have benchmarked like-for-like welfare schemes, absolutely.

Q503 Ms Ritchie: In relation to that, does the red meat industry need a voluntary code? If so, would you be willing to be part of that code? Further to that, what should that code consist of?

Judith Batchelar: Gosh. I suppose it would be down to what that code consisted of. I think anything that can make the sector more resilient will be a good thing, because it is a sector that continues a long-term decline, whether that is lamb, pork or indeed beef. And when you look at the rise in poultry production and indeed the rise in aquaculture and farmed fish consumption, it is heading in one direction and becoming, particularly in the case of beef, much more fragmented, which makes it really difficult to put anything of scale in as an intervention to drive improvements.

Whether that is a voluntary code, I am not necessarily sure that that is the best way. I do think there is a big job to be done to make the sector much more productive, because if I look at what is coming into our value chain, the average beef producer is supplying us with 30 animals a year. Therefore, that is not their main business; it is being done as a sideshow almost. That is part of the challenge. Something much more structural needs to happen that would drive the improvements that we need to see.

Ms Ritchie: Do the other two have a view on a voluntary code?

Alex Brown: An NFU code on cattle is being developed, which we have signed up to. So Woodheads, which is our abattoir business, is signed up to that code.

Ms Ritchie: What about Mr Smith from Tesco?

Tim Smith: I think neutral on the code in itself, but supportive of anything that allows farmer bodies or individual farmers to be better represented in their marketing of their product and their understanding of what best practice might lead to. Judith has already mentioned the way that the pig industry might learn from some of its foreign competitors and

I completely agree with that. As we are setting up centres of excellence for each individual protein, we are finding that the gap in the knowledge at the farm base is something that we are going to have to intervene and help with, and I think we are happy to do it.

Q504 Ms Ritchie: Do regional price differentials represent retailers taking advantage of areas of the country that are more vulnerable to external shocks in the red meat market? I represent a constituency in Northern Ireland where the price the producer gets is much less than a producer gets in Britain. Obviously, there is then transfer to the consumer as well.

Tim Smith: I saw that you had asked that question previously, so I have had a look at it. I want to be assured that if there is a price differential for any red meat that we are buying in Northern Ireland, there should be a sustainable economic reason for that and it should not be disadvantaging the producer. I have satisfied myself to that extent. I don’t know what evidence I can provide that would help, except that our suppliers talk to our processors and they are very clear about their cost of production and what is impacting on them. There are ups and downs and swings and roundabouts, but I think they are treated fairly on both sides of the water. It is a really challenging question and one that we should be asking ourselves all the time.

Q505 Ms Ritchie: And will you continue to do so?

Tim Smith: Yes, of course. If we are setting up a supply group, you would always include farmers, within and without GB, who allow you to best reflect the true costs. You would also consider forward thinking, how to improve yields and utilisation of carcass and how to help farmers. It’s not just about price; it’s about the whole farming regime.

Alex Brown: We slaughter all our own animals in Aberdeenshire, Lancashire and Lincolnshire, so the animals come from the areas surrounding the abattoirs. We don’t take any Northern Irish product for that reason.

Judith Batchelar: We take a mixture, but all of it is British, including, obviously, Northern Ireland. I am not aware that we pay a different price to farmers in Northern Ireland from the rest of the British Isles. I am happy to go away and double-check that, but we pay one transparent price. We also pay a premium of 15p a kilo for our specification on top of that. That is transparent. I am almost 100% that it is one price.

Ms Ritchie: It may be that we have received information on that, because that point is contested by the unions representing producers.

Q506 Chair: Referring not only to white meat or chicken, how do the three of you deal with the types of meat that you are promoting when people come into the shop? Naturally, it could be pork, chicken, beef or lamb. How do you deal with that? Is it about making sure that people have a choice and that there is lamb or chicken there if they want it? How do you access your markets to chicken? Is it all British?

Tim Smith: All our fresh chicken is British. Promotion depends on a whole raft of thought processes that go behind seasonality. When there is plenty of product, it should be available at the right price so that customers can buy it, such as during British lamb season. The way that we would typically do this is that we will have a marketing approach such as, “This is a good time to be promoting something.” Burgers in the summer, for example, is really quite obvious. Then we line up all of our supply base to ensure that they are prepared and that there are no shocks to the system—up or down. The promotional activity is to give our customers the best possible value and the best possible choice, with quality tied in. It’s about what the quality of individual proteins will be like at any particular time.

Q507 Chair: And poultry is probably uniform for the whole year, is it?

Tim Smith: It is easier to predict, yes.

Q508 Chair: What sort of percentage of poultry would you sell compared with other meats? Is it the biggest amount of meat that you sell?

Alex Brown: It’s number two for—well, it depends. Pork including bacon and sausage would be the biggest, but in terms of fresh meat, it would be beef, poultry, pork and then lamb.

Chair: Beef first and then poultry. Would that be the same for Tesco?

Tim Smith: Yes.

Chair: Interesting. What about Sainsbury’s?

Judith Batchelar: Exactly the same. Chicken breast fillets will always be a top 10 line in our business. Our view is slightly different because we are trying to move away from price-promoting products to what we are calling “value simplicity” so that we can provide more certainty in terms of supply and demand. There are many things that drive volatility in the marketplace; some are within our control and some—China, Russia, what is happening with commodity food prices—are not. One of the big things is evening out the supply and demand curve. Clearly, when you promote things that causes peaks and troughs in supply and demand, which have knock-on effects and create uncertainty, so we are trying to move to the point where we have more consistent pricing and fewer promotions. If you look in our produce section now, only 8% of everything we sell is on promotion; the rest is at the everyday, consistent price. That has driven up volumes but provided certainty for growers. We are doing the same in meat, fish and poultry.

It is interesting to see what that is doing to the relative volumes, because customers are now buying what they want to buy, rather than what you are persuading them to buy through price. We call it democratising choice, but basically it is about creating a much more level playing field. The other interesting thing is that it is increasing the repertoire of what customers are buying, which from a health perspective is a good thing, because we want customers to eat from a wider repertoire of foods.

Q509 Chair: I recently went to a large processing plant in Tiverton that has 750,000 chickens going through a week, and they are bringing that up to 1 million. It was fascinating to see the various chickens come through and disappear into different cellophane bags for Tesco and various other major retailers. How do you buy that? Do you buy directly from the processor? Do you have a contract with the farmers—the growers? Or is it a mixture? How do you buy your poultry?

Tim Smith: Directly from the supplier—from three direct suppliers, in our case. This is one of the parts of the industry that is pretty well consolidated, so each of those three has two forms of vertical integration: they have farms that they own and operate themselves through a normal management system, and farms that they contract. The farmer-owned ones are very like Alex's Morrisons model, which is vertically integrated.

Q510 Chair: But your deal is with the processor, basically.

Tim Smith: Yes, but we still think that the opportunity to help out in the agricultural sector by having sustainable farming groups has genuine merit and value. We can talk to the processor about genetics, breeding regimes and feed regimes—all those issues—so we are actually talking to the farmer representatives, sometimes from the companies concerned and sometimes direct farmer groups.

Q511 Angela Smith: My question is for you all but arises from the written evidence from Tesco, which says: "We source 100% British chicken on fresh cuts". I assume from that that Tesco's processed chicken products—ready meals, chicken kievs, et cetera—will not be 100% British. Is that the case for all of you?

Tim Smith: Some of our poultry is sourced from overseas for ready meals. It is increasingly moving back to being all British, but currently it is not.

Q512 Angela Smith: What are the percentages, broadly?

Tim Smith: Of the processed, probably half is still overseas, but all our fresh poultry is British.

Angela Smith: And for Morrisons?

Alex Brown: We are in a very similar position: all our fresh is British, but ready meals and cooked is a mixture of British and imported. Where it is imported, it is clearly labelled which country it comes from.

Angela Smith: That's the next question. Sainsbury's?

Judith Batchelar: Everything is British: chicken in ready meals, cooked chicken, breaded chicken goujons—things like that.

Angela Smith: It's all British.

Judith Batchelar: All British, and has been for a long time.

Q513 Angela Smith: So where it is not totally British, Morrisons make that clear on the labels?

Alex Brown: Absolutely.

Angela Smith: And Tesco?

Tim Smith: Yes, country of origin is there. If I can add a supplementary answer, one important point is that, even now, if we signalled that we wanted all our chicken to be British, we could not buy it; there would not be enough in the marketplace. Even if we paid a substantial premium, that would then move some volume overseas. There is a big planning issue around farmers who want to understand the market signals that there is going to be more British poultry, whether it is for us or the competition. There is a big planning issue with farmers being able to put up chicken sheds. When we said, as we did in 2013, that we want all our poultry to be British—bringing it closer to home—I don't think we had anticipated the kind of resistance we would meet from planners and others to achieving what I think ultimately we all wanted.

Q514 Angela Smith: Morrisons, do you have a similar issue or experience similar problems?

Alex Brown: I used to work at Tesco, so I am very familiar with those issues. The other point I would make on top of Tim's—I agree with everything he said—is that the British consumer eats white meat massively out of balance with dark meat. We would have a huge surplus of dark meat which would effectively get dumped on the market if we were 100% self-sufficient as a country. We import from countries where it is almost the opposite: the local population eat the dark meat but do not—

Q515 Chair: I actually think that the dark meat on a chicken is much tastier on a chicken than the white meat, so should we promote the dark meat more so that we do not have to buy in so much breast meat and export the other? Are you doing anything about that?

Alex Brown: We are almost constantly trying to promote dark meat because our major processor would be selling a big chunk of that frozen to the Middle East for very little money, so anything we can do to add some value is of benefit to the chain, but the consumer behaviour does not quite stack up. Almost no matter what you do with the dark meat, particularly through the winter months, you cannot move the volume that you need to balance out the bird.

Tim Smith: I am optimistic that we can do a bit more of what we have seen others do, but we are nudging towards it. There has not been a sort of seismic shift away from white meat. We have trained customers to buy and want white meat and that is where they are sitting for the time being.

Q516 Angela Smith: Sainsbury's, you have managed to use 100% British meat, so the issues of dark and white and everything else, and planning issues, have been successfully overcome. Could you explain why?

Judith Batchelar: We have been doing it for a long time, so we have worked out how to finesse that balance, but because a lot of the suppliers that are supplying our whole birds and portions are also supplying our ready meal suppliers, we have an avenue for particularly thigh meat—the dark meat—for those further processed options. We have almost created that and, indeed, where we do see some of those carcass balance problems—not just in poultry, but in other species—obviously the further processed is a route to take that. The other route for those kind of things is also food service, but clearly what you want to do is maximise the income that you get from the whole bird, rather than to downgrade it. I say that because quite often Sainsbury's will be covering the total overhead. For example, when we sell woodland eggs, where the chickens are in farms that have trees planted, we carry the cost of that extra tree cover; or if we are growing things in a higher welfare system, which is great for the animals and actually great for productivity, we are carrying the cost for the whole animal. When we do not use the whole animal, we are effectively subsidising those eggs, or those chickens or that pork being downgraded.

Q517 Angela Smith: This is something we heard from Waitrose the other week—the value of the whole carcass approach—so that is really interesting to hear. The key here is long-term planning and relationships.

Judith Batchelar: Particularly with something like beef or salmon, you might be talking about a two or three-year cycle. We are thinking about how much salmon we want to sell in two Christmases' time, because to produce a salmon that is big enough to produce smoked salmon is a two-and-a-half-year cycle.

Q518 Chair: Tesco and Morrisons, when you are buying in a processed product that is not British chicken, are you conscious of the welfare standards, the way those chickens may have been produced and where they have come from?

Tim Smith: The standard of production and the checks and balances that are applied, wherever that poultry is from, are exactly the same, whether it is the UK or a third country. I have to say, having visited the sites, a lot of the standards—simply because of where else they are exporting to—are extremely high, unimpeachably so. We do not worry so much about the quality or the safety. We do worry about the balance, as Judith has just described it, where our customers are buying so much breast meat that it simply would not be possible to utilise all that dark meat in our ready meals; we just don't sell enough of them.

Chair: Is it the same for the others?

Alex Brown: Exactly the same, yes. We will buy off similar export at very high standards.

Chair: Well, we look forward to you promoting more dark meat and making sure you have nearly all British chicken for processed as well.

Q519 Rishi Sunak: Turning back to red meat, it would be helpful to hear from each of you, for the key red meats, your sourcing policy with regard to British versus non-British, and whether that varies through the year. Tim, do you want to kick off? Just run through the three key meats and the policy for each.

Tim Smith: On beef, when we are talking about our fresh beef, it is British and Irish; that is our proposition to customers. The process we follow for that pretty much assumes that British and Irish are the same source, so the same standards and the same pricing mechanisms are applied. That gives us that mix. On lamb, we are currently just over half British and half New Zealand, and we are working really hard with British lamb producers. When we are buying meat, we are buying 20% of all the UK's output, so little changes for us are big levers for the industry. I anticipate that as we work with those lamb supply groups, that percentage of British will go up. It is always there in season, obviously. Chicken we talked about. On pork, we are just over half British right now, and again we are working with the suppliers and the supply groups to try to bring much of that meat closer to home.

Q520 Rishi Sunak: Just a point of clarification: for the others, when you say British, you mean British, not Irish.

Tim Smith: Yes.

Chair: And when you refer to Irish, you mean the Republic of Ireland.

Tim Smith: I do.

Q521 Rishi Sunak: And that is just for beef. For lamb especially, is it seasonal or is that 50:50 mix reasonably constant through the year?

Tim Smith: There is a constant through the year but, yes, it peaks in the season.

Q522 Rishi Sunak: Is there any period when there would be, for both pork and lamb, no British?

Tim Smith: No.

Alex Brown: On beef, we are 100% British. On pork, we are 100% British. On lamb, everything under the Morrisons brand is 100% British. We bring in a small amount of leg meat at Christmas and at Easter, purely because we sell so much on offer, which we have got on right now.

Q523 Chair: That would be New Zealand?

Alex Brown: New Zealand and Australia. But it is sold under a different label; it is called “Market Deals”. It is clearly country-of-origin badged, and it is purely that we cannot get the availability of legs to satisfy the customers. So we will sell it for probably three or four weeks a year, and it is only bone-in legs.

Judith Batchelar: At Sainsbury’s, it is the same as at Tesco: British and Republic of Ireland—about 75% British and 25% Irish. Again, cooked meats would be British and meat in our ready meals would be British. Fresh pork is 100% British and cooked meats 100%, apart from cooked meats, obviously, like Parma ham and salami and things, which obviously come from places like Italy and Spain. We offer 100% British lamb on our counters in our top tier all year round. In season, we have 100% British lamb, and we are working hard to extend that season. Outside the season, we import New Zealand lamb. The whole split is around 60:40 on lamb, so 60% British and 40% New Zealand, but we expect that New Zealand proportion to decline.

Q524 Chair: Is it 60:40 over the whole year?

Judith Batchelar: Across the whole year. In season, it would be 100% British lamb.

Chair: So 60% British, 40% New Zealand.

Q525 Rishi Sunak: And then out of season?

Judith Batchelar: It is sort of 55:45, and then at certain points—again, because of the promotions on lamb around Christmas and Easter—we bring in large volumes of New Zealand lamb. But we are moving away from that, because we are moving away from those big promotions to try to reduce the volatility.

Q526 Rishi Sunak: This question is for both you and Tim. On the beef side, it seems both of you use Republic of Ireland beef. Is there a price difference to the consumer or a cost difference to you between British and Irish?

Judith Batchelar: They are the same price.

Q527 Chair: The same price in the shop?

Tim Smith: Yes.

Q528 Chair: But not the same price as what you buy it for.

Tim Smith: I think the price depends on a range of things—how the agricultural inputs have altered across the seasons. Sometimes we pay more for Irish than we for British because we are contracting. We are not just going to move about willy-nilly; the process we use depends on a certainty of supply, and they are contracting down through the market for their animals to be brought to slaughter. We are working a long time ahead and taking some risk with the price between here and the Republic.

Q529 Chair: I think I am right in saying that the Irish wholesale price of beef is usually lower than the British price. I suggest it is probably an advantage to you to sell Irish beef.

Tim Smith: Yes, that's right. If we could get all of our volume in the format that we want it—British—at the same price as the average, logistically it would make more sense.

Q530 Chair: So are you not using the fact that you are getting quite a lot of your beef from the Republic of Ireland as a reason to drive the price down for the UK or British element of beef that you buy?

Tim Smith: No, I think they—the Irish market—probably are the price setters because of their conditions and the way that their price seems to work through. From our point of view, if that gives our customers great value for a product and they almost do not differentiate whether it is British or Irish, that makes sense for customers.

Q531 Rishi Sunak: Tim, there were some reports about protests in Wales over the summer with regard to lamb. It would be helpful to understand what was behind that. My understanding from the media reports is that there was no British lamb available at all.

Tim Smith: That wasn't the case. If I might, I suggest you discount the headlines about somebody going into a store and not finding any. The conversation with lamb farmers—I am sure my colleagues will agree—is much more complex because of the number of farming unions and bodies that one deals with. Gathering together the people who actually supply Tesco with lamb is pretty difficult to organise. In comparison, dairy is quite straightforward. With the lamb model, if we move, as we will do, to a system that involves giving them the same certainty as we do on dairy, it is quite difficult to get the group of people together who would supply you.

You get lots of mixed messages, even between ourselves and the head guy that runs this particular part of the NFU. He's on the phone saying, "I've just heard that you said that this product is no longer in season," but actually, dive below the surface and it is usually not the case. The substantive bit of this is that we want to buy more British lamb. We want the British lamb product to be better promoted by us and others. I do not mean in the price sense; I just mean extolling the virtues of a fantastic protein.

Q532 Rishi Sunak: Just to understand specifically, what is stopping you all from having 100% British lamb?

Tim Smith: Mostly supply and quality.

Q533 Rishi Sunak: We could have the sheep farming union here and say, “Here are the biggest supermarkets in the country. They want to buy more from you. You have lots of farmers who obviously want to make more money. Produce more.” What is the issue? Why is this not happening?

Tim Smith: When we talked to farmers, we just could not buy at the right quality that volume sustainably across the year. It just is not there. We cannot have gaps on our shelves. Our customers have a strong affection for New Zealand lamb. It is a very strong alternative to British.

Q534 Chair: Ah, so does the affection for New Zealand lamb mean that you are promoting that more than the British? Is that the case?

Tim Smith: No.

Q535 Chair: That is what a lot of British farmers believe; they really do. It was in August that this happened in Bangor. That is not out of season—I’m a farmer and I know that there are plenty of lambs around in August. Where were they? There was obviously a lack of them. There may have been some British, but there must have been some case to hear. I don’t think you can dismiss it as a load of farming unions causing trouble.

Tim Smith: I don’t think that is what I said.

Chair: Well, as I interpreted it as roughly what you said.

Tim Smith: The balance that we are trying to strike, as a mass market retailer, is to get the best quality price and the best quality product for customers for whom provenance really matters. But talking to our customers about provenance for lamb, we find they are as comfortable with British as they are with New Zealand. Disconnect that. We would then like to have a stronger relationship with our lamb producers and to have more of them produce more lamb for us across the longest possible season—as Judith has already referred to, we would like to extend the season—so the overarching principle that we are trying to follow is how we find a way of persuading lamb producers to understand what it is that we particularly want and to produce it economically so that we can sell it at the right price.

Q536 Chair: Isn’t the issue more that you can buy the New Zealand lamb cheaper, you can promote it equally as much as British lamb—it sells well in your supermarket—and you can probably make more profit on New Zealand lamb than you can on British lamb? This is what we have got to get to the bottom of. You retailers—it is all great charity, and I know you are all lovely people, but in the end you have got to make a profit, to go back to what Simon Hart said earlier. Are you not making more profit on New Zealand lamb, so you are stocking more New Zealand lamb than you should?

Tim Smith: My understanding of the history of the New Zealand lamb trade, which is pretty much true now, is that they offer consistent quality and, because of the shipping time, a volume which we decide together and prescribe. Effectively, they are filling a gap where the British market is not able to produce at the right price for our customers—

Chair: Not in August.

Tim Smith: As I said, with respect, that is a red herring. We are trying to produce or have our lamb farmers give us the lamb we want for our customers—Alex was partly right as well, that you have the issue that you cannot have too many legs, which will always be the case—and the essence of it is that we need a consolidated lamb production concept that works better in an organised way to produce lamb for the whole of the British market, not just for Tesco.

Chair: I am conscious that I am holding it. Angela and then Jim.

Q537 Angela Smith: Thank you, Neil. You will be pleased to know that I only eat British lamb.

May I be seasonal for a moment, as in Christmas seasonal? May I ask the panel whether all their turkey and goose is British? It is the time of year when large quantities of turkey and goose are being sold off the shelves—is it all British?

All witnesses: Yes.

Angela Smith: All of it?

Chair: You can stake your lives on that, can you? We will search your shops to make sure that is right. You are absolutely certain of that?

All witnesses: Yes.

Q538 Jim Fitzpatrick: Some of the most graphic pictures of the summer were of the demonstrations in north Wales and of dairy cows being led through supermarkets. Do you have a view of those protests? Were they very localised? Were they focused on just one retailer, or did all the retailers get a hit? Is there a reaction of saying that you understand, you sympathise, but—? Do you have any comment on those demonstrations?

Tim Smith: The dairy protests are a little bit controversial for us, because the UK produces 14 billion litres of milk—you know that—and we buy just under 10% of that volume. Probably 80% to 90% of that is going to fresh. I have already described what we have done on our milk pricing. So to the farmers who are protesting on dairy, the question that I would ask them, one at a time, calmly over a cup of tea, would be: have you ever supplied Tesco? Because if they had the opportunity to, they might want to take it. The vast majority of the people who are protesting are not protesting about the milk price that comes from a retail source; effectively, they are protesting about the price that the co-ops are able to pay them based on commodity and currency exchange rates around the globe. It would be wise of me to say that dialogue with farmers is always sensible, but sometimes it can be slightly frustrating if their objective is to get attention for their cause and they are aiming slightly in the wrong place.

Q539 Simon Hart: What I find confusing about the line of questioning at the moment is two things. First, there are other competitors who can stock British lamb 100% of the time. It may be a volume issue, but I think, as others have mentioned, that if there were representatives of UK farming here, they would be giving you a much harder time than we are. One reason is that you referred to quality on a number of occasions, giving the very firm impression that UK lamb cannot match the quality of New Zealand lamb at certain times of year. Is it Tesco's official position that our farmers cannot produce lamb of the right quality?

Tim Smith: That isn't what I said either. The market for different cuts and parts of the lamb changes through the year, as does the quality. It is the consistency that we are looking for—we are buying something like 56% British. We want to extend where the tail comes, because it is mostly about volume. It would be deeply confusing to have some stores with a lamb chop from New Zealand and some from the UK. We must try to level that demand and supply.

Q540 Simon Hart: Do you not have stores with both New Zealand lamb and British lamb?

Tim Smith: We do. We have to do that for that very reason. But I would not want to give the impression that British lamb is not the best quality lamb.

Simon Hart: That is what I was concerned about. You were fairly specific in saying that it was about not being able to match quality. I just wanted to understand what you meant by that.

Chair: And not promoting British lamb enough. Chris, do you want to come in with a point?

Chris Davies: I do, and it is primarily directed to Mr Smith. I apologise, Chairman; I have been on a Public Bill Committee, which is why I was late.

Chair: We'll let you off.

Q541 Chris Davies: I'd much rather have been here, that's for sure.

Mr Smith, you seem to change what you say. You say something in your statement, and then when someone picks you up on it you say, "Well, I didn't actually say that, I said something else." That worries me slightly.

There were two points that I did not hear you give an answer to. One was made by the Chairman, relating to New Zealand lamb. The answer is simple. Is there not more profit for Tesco from selling New Zealand lamb than British lamb? You did not answer that. You went on about quality, etc., etc. A simple yes or no answer—is there more profit for Tesco from selling New Zealand lamb?

Tim Smith: No.

Chris Davies: There isn't.

Tim Smith: No.

Q542 Chair: So why aren't you promoting British lamb?

Tim Smith: It is largely a question of availability.

Q543 Chair: There are 14 million breeding ewes. With a lamb and a half each, that is about 22 million lambs according to my arithmetic, and there is not much wrong with my arithmetic. You tell me that there are 22 million lambs in this country and not enough British lamb for you to go from 50% to 60%, 70% or 80%. I accept that there are certain times of the year, but I still think you could do a lot better with British lamb.

The deadweight price for retail lamb in this country is something like £3.70 a kilo, and on average it retails at £14. I accept that there will be some wastage, but there is a really big gap between what you pay the farmer and what you put it in the shop at. I don't think you are supplying enough British lamb. You try to be 100% with chicken, why can't you be 100% with lamb? I think it is because you are making more money, as Chris said, from selling New Zealand lamb and you are pushing the price of British lamb down by selling cheaper New Zealand lamb. That is what you are doing.

Judith Batchelar: May I respond to that? I think I know what Tim is trying to say. It does require foresight and planning, so when we can offer 100% British lamb, which we do on our counters and in our "Taste the Difference", it is because we have phased production from the south-west all the way through up to Scotland.

Chair: At different times of year.

Judith Batchelar: At different times of year, so that we can cover 12 months. That requires some pretty intricate planning and forecasting on our part. If you do not do that, you cannot guarantee the right amount of lamb at the right time at the right quality. I think that is what Tim is trying to say.

Q544 Chair: So then Tesco could do the same, couldn't it? You don't want to be outdone by Sainsbury's, do you? Why can't you do the same?

Tim Smith: The extent to which it is possible depends on the relationship that we have with both the processor and the farmer. What I have been trying to say is that as we build those relationships with the farmer unions and others, we are talking constantly about our annual plan for lamb. Our annual plan does exactly what Jude said: it has got a demand part to it and then it has got a supply part, which will vary over the months. In the same way that we would follow the sun for produce, we follow the way that lamb comes on to the market. All of that happens, and we take all of that product that we commit to. What we want to do—let's say the curve is upwards—is get all of that up so that more of our lamb is British and following that same availability. So there is not much wrong with our planning; our ability to get that product in is something that we are talking to the farmer unions and farmers about.

Q545 Chair: But take the period now—lambs start quite slowly in the spring, build up through the summer and you will have a lot of lambs finishing now into the autumn, so there is a lot of meat there. Just as the New Zealand lamb comes in at the start of their summer in December and January, there is still a lot of British meat around, and that is where there is a problem: you have got too much New Zealand in the shops and you have not got enough British. What are you going to do about it?

Tim Smith: The answer is actually in giving customers the best possible deal with the best quality lamb. So none of us is selling enough lamb. When we start our conversations with farmers, we always say, "Lamb seems to be losing out by comparison to all the other proteins. We might like it as customers and experts in meat, but how do we persuade British customers to return to their love affair with lamb?" That is the first thing.

So let's get the demand up, and then let's have a relationship with the farmers that is pretty much as we see in other parts of the farming world, where they are very clear and we have a very transparent plan about what we are going to need in January, February and all the way through, and then we can fill the gaps where they say that they can produce to the same standard and specification that we demand. The standard does not change; the Tesco spec is the Tesco spec. So it is sometimes British and sometimes New Zealand, but we need to increase the demand and the transparency of what we actually need so that lamb producers know what they are targeting and what we are trying to do.

Q546 Chair: So as a Select Committee we need to say to the farmers, "You need to sit down more with the big retailers, and then you can expand the season and have more British lamb in there," because that is what you are prepared to do.

Tim Smith: With respect, you do not need to say that to them, because that is exactly what we have been saying in meetings with lamb farmers for the last three or four months. We sat with Meurig Raymond round the corner not very long ago and said exactly this: "What is it in our planning that you would like to see? What transparency would give your members confidence that they can produce more British lamb and know that it is going to go to Tesco?" That is the plan that we are working on.

Q547 Chair: So when you come back here in a year or two's time, you will have 75% or 80% British lamb and only about 20% from New Zealand.

Tim Smith: It will be more if farmers are able to respond to those market signals, and I do not doubt that they will. I am sure they will be able to do it.

Q548 Chair: As long as those market signals are not being driven down by all of you putting a lot of New Zealand lamb in your stores at a lower price to keep the price of British lamb down. Will you assure us that that will not be the case?

Tim Smith: That is not the role of New Zealand lamb import. That is not what it is there for.

Chair: It may not be its role, but it may be what happens in practice.

Q549 Angela Smith: I do not want to prolong this, but I am fascinated by the point about quality that Simon raised earlier. Mr Smith, you mentioned the Tesco spec. Can you briefly tell us what the spec is, because this is quite instrumental to the issue of quality? Is the same spec used for British lamb as for New Zealand lamb?

Tim Smith: The first thing to say is that there is no difference in the specification. Whether that is animal welfare or what happens to the animal in the process of slaughter and beyond, it is exactly the same. We buy from three lamb processors in New Zealand, and every one of those would have specifications and standards from us, and they would exceed them—as would the British ones, obviously. What you are really thinking about, in terms of the finished product and its specification and design, is the eating quality. What is it about specific cuts of the lamb? What is it about the breed? What is it about the feeding regime? It is all of that. What we are actually measuring with the farmers and processors is the outputs that we need for our customers to be satisfied that buying lamb versus chicken, pork or beef is the right thing to do. That is what specification is about.

Q550 Angela Smith: On that basis, are you suggesting that the New Zealand producers are better at producing the spec than British producers?

Tim Smith: No. From our point of view, the availability and the volume is the trigger. If we could get, at the same specification, the quantity of lamb that we are buying from New Zealand, more would come from Britain.

Q551 Angela Smith: Is it just that it’s cheaper and that Tesco can buy more in bulk?

Tim Smith: No.

Q552 Angela Smith: I must admit that I’m struggling with this, because the British lamb I buy is local and is absolutely superb. I would never buy New Zealand lamb, because the lamb I buy is absolutely brilliant. I just don’t get it. I think we are all struggling to understand why it is so difficult to transition. If it is about increasing demand, surely you will end up buying more New Zealand lamb to fill the gap. I am really struggling here.

Tim Smith: There are two things that have to happen in parallel. One is that we would prefer lamb to be more attractive to customers because we can sell the attributes of it. That is the market; it is not just a Tesco proposition. If you take the specification across the year, it should not alter. What we want is lamb that has a certain fat composition, has a certain appearance and is cut a particular way, and the specification that we have—our customers are the ones who make the determination—means that, with the same availability, we could not buy all that across the 12 months. The Chair has already said it, and Judith said it, too: the way that the cycle works means that we have to lift up the edges of that supply curve. That is what has to happen, because with the type of lamb that comes into the market at the beginning, there isn't very much of it and it doesn't always meet the specification that we need for our customers.

Q553 Angela Smith: So in other words, it has too much fat on it?

Tim Smith: No, I didn't say too much fat. It is not about a specific plus or minus; it is eating quality and the whole piece that leads you to make those buying decisions.

Q554 Chair: I accept your arguments for the beginning of the season, but at the end of the season there is a lot of British lamb around. That is where the New Zealand lamb is used to depress the price from now on—November, December, January, February. Are you saying that there isn't enough British lamb around at that stage?

Tim Smith: That meets the specification. I would have to look at the detail weeks at a time, but the dialogue we are having with farmers is, "Are we misreading the quality and the availability?" If we are, it will allow us to make some very quick change.

Chair: We have laboured this, so perhaps give us some written evidence on it as well, please.

Q555 Chris Davies: To go back to some previous points, something got missed in translation. Could you give clarity on the fact that you were definitely offering British lamb, as well as New Zealand lamb, in your stores earlier this year and that those demonstrations and so on were incorrect?

Tim Smith: Honestly, we went back and looked at that, and in my reading of it there always seemed to be British lamb available. I would be interested to see the evidence coming the other way. I am not saying that I am going to be 100% right, but I am pretty certain that we always had some British lamb on sale.

Q556 Chair: I think you need to present us with a written statement on that, because somebody was wrong. If you can guarantee that there was British lamb, and say how much British lamb there was compared with New Zealand lamb, it would be interesting, because this point is very valid. It is no good throwing around that it was all the fault of the farming unions, or whatever, and that they misrepresented what was happening in Tesco. We need to know what did actually happen there and what you are going to do about it in future—that is more important.

Tim Smith: Sure.

Q557 Rebecca Pow: I know that I have only just come in, but I have often thought about this. We have such an innovative farming industry in this country, and we can do almost anything. One assumes that Tesco and the other stores do negotiate with the farmers to say, "This is where we have a gap. This is what we need. Could you produce it?" Do you do that?

Tim Smith: That is exactly what we've told you.

Chair: That is what we've been talking about, Rebecca.

Rebecca Pow: Okay, apologies; because I am sure with all the powers that be in innovation and science they could fill the gap.

Chair: In fairness, Sainsbury's are saying that on lamb they have managed to do this. I think we would like to see other big retailers do it.

Alex Brown: We are in a slightly different position. We only buy in for three weeks of the year purely on one cut, clearly labelled, purely because we put it on a deal that we cannot sustain the volume at, of our own abattoirs; for 48 weeks of the year it is 100% British—and even in those weeks every other cut is British. It is purely bone-in leg, which is in store—

Rebecca Pow: So it is possible.

Alex Brown: For us—

Chair: That's right; I am sorry, Tim, to get at you in particular, but you are the largest retailer in the country, and what you do with the stocking of British lamb would really make a difference to the overall market of lamb in the country, because of the sheer volumes, and that is key, really.

Q558 Rishi Sunak: Just to check, so that we make sure we have Sainsbury's position clear, I thought on average you were at 60:40 British-New Zealand. Obviously, Tim, you are about 50:50, so it is not that—

Q559 Chair: Well, it is going in the right direction.

Rishi Sunak: It is not massively dissimilar; so you are 100% in season, I think is how you started.

Judith Batchelar: And we always have fresh British—

Rishi Sunak: I think a lot of you do.

Judith Batchelar: But not in great quantities because it is what we put on our counters and in our top-tier offer.

Rishi Sunak: But the right way to think about it is 60:40, 50:50, and essentially—

Alex Brown: 95%-plus.

Rishi Sunak: There are a few weeks at the end.

Alex Brown: And if it's got Morrisons on it it's 100%.

Rishi Sunak: Just so we are clear about the range here.

Tim Smith: My precise number is 56:44.

Rishi Sunak: Okay, so 56 is actually closer, yes.

Tim Smith: I think the same would be true across retailers—that where British is at a premium that's where it will appear in the stores; so it will appear as our Finest product and it will appear on counters, but it will still be British. That's where, really, Chairman, you would benefit from a written response on it.

Chair: I think we ought soon to move on, but go on, Chris. We have given them a good grilling over lamb but we will carry on.

Q560 Chris Davies: It is highly commendable and I congratulate you on the 95%, if not closer to 100%, but can I ask: is that the percentage of British grown or British killed and cut that you are supplying?

Tim Smith: We are all talking, I think, about the same thing, which is British lambs produced in Britain.

Q561 Chris Davies: It is produced in Britain; it isn't just brought here and cut up, and with a British label on? No. Okay, that's great.

Q562 Chair: And lamb is British and not Republic of Ireland, in this instance.

Well, I think we gave lamb a good going over, and the Clerk said we put you on the rack. Seeing that it is Christmas we will let him get away with that joke. It is probably one for a Christmas cracker.

Q563 Dr Monaghan: I have a straightforward question about the promotion of meat. I would like you to tell us how closely you each work with the Agriculture and Horticulture Development Board.

Tim Smith: We are obviously at a category level—so where the real work gets done in the organisation, talking to the AHDB about their aims and objectives. I think it is probably fairest to describe it as that they would come and tell us what their plans are, so that, if they are going to promote at a specific time—and some of it is really obvious, like burgers, for example—we can be prepared to work. If we know what they are doing it makes a difference to our processing.

Our customer proposition, there, would be largely derived—the plan would be coming—from our own customer insight into a specific time of year and a specific set of proteins. So are we going to promote legs of lamb at Easter? Yes, of course we are. Will the AHDB make too much difference to that? No.

Q564 Dr Monaghan: Do you think your answer implies a lack of engagement with the AHDB?

Tim Smith: I am not concerned about the engagement. I think I am just saying that in a world where we are really clear about what our customer insight tells us—and they won't have access to the detailed knowledge that we have by region, by store type—we are much more able to make our own determination on what to stock and what to promote at any particular time. So it is an interesting dialogue that we would have, but their primary role with us would be advisory and good consultation.

Alex Brown: I suspect that it is the same. I am afraid I do not know the detail. I can come back with a written response. I know we engage with them; I would say we are always going to be led by the customer.

Judith Batchelar: I would say the same thing. We have a very close relationship with the AHDB, but on other things, such as skills, training, knowledge transfer and sending some of those signals to the market, if that makes sense, from our end of it.

If you go back five years, I think the relationship with the AHDB around the promotions, and the level of transparency and visibility for us of what that promotional programme might look like, would have been better than it is today. I suspect that the reason for that is that at the same time we have all been developing our own agriculture teams and our own development groups for our own dedicated producers. So, when we are talking about promoting lamb, we would be talking to our 850 lamb development group members directly, rather than through the representation that the AHDB provides. The same would be true of the other sectors as well.

Retailers have become closer to farmers. If you go back 15 years ago, none of us had these development groups, none of us were talking directly to farmers and none of us had our own dairy farmers, so it was a very different marketplace then. In that marketplace, the AHDB performed the role that a lot of us are now doing for ourselves, in the way that we liaise with and talk to our own producers as opposed to the collective.

Q565 Dr Monaghan: Given that evolution, is the AHDB fit for purpose today?

Judith Batchelar: As I say, I think we have got a different relationship with them now. There are some big challenges in the UK farming sector, which are around productivity, yields, skills and capability, and the fact that we have got such big job shortages and a lot of temporary labour. Temporary labour has gone up by 9%, which is huge, because there just aren't the people with the right skills and we're not investing in the training that our European counterparts are. If you look at the levels of training in Germany versus the UK, they are doing three times the amount of training and upskilling that we are doing here, and we are almost bottom of the league table. So I think we are very engaged, but on different things—bigger sector issues.

Q566 Dr Monaghan: Let me press you on that: is the AHDB fit for purpose today?

Q567 Chair: Are they relevant?

Judith Batchelar: Very relevant. I think they are probably needed more now than ever, but in a very different way.

Q568 Chair: So what should they be doing?

Judith Batchelar: Some of the things that I have just talked about.

Tim Smith: I would agree with the list that Judith gave; in fact, I could not improve on it. But the question for me about their role is that as we have all built real competency and capability for dealing directly with farmers and then through processors, their role is probably in the area that we do not touch. So, there is knowledge transfer and best practice that I don't think any of us are shy about sharing. As we build competency and capability and centres of excellence, we are quite keen that those things should be transferred and AHDB could be one of the bodies that is effective at doing that, because it is neutral and it has the ear of the farmer. That would be a useful use of their levy income, rather than it simply trying to promote things.

From our point of view, the list that Judith gave is a great one. I would say that there is a huge amount the AHDB could do. If you take the farmer population that is represented just at the table here, all of those would be advocates for the methodologies that we are all using, and could be used to promote those themes with their neighbours, who are not supplying us.

Q569 *Judith Batchelar:* The danger of not having a very relevant and active AHDB is that you end up with a two-tier farming system in this country. You have got those people who are part of development groups and who are receiving skills. In farmer field schools, they are receiving really detailed data about their own performance, and feedback all the way through to the customer. They are getting all that added value and upskilling in many ways. And then you have got those who haven't, and those who haven't far outnumber those who have, which cannot be a good thing overall.

Q570 Dr Monaghan: Does the development board ever say to your organisations, "What would you like us to do? Where are the opportunities for us to contribute to the industry more generally?"?

Judith Batchelar: Yes. We will have had a meeting with them in the past two months.

Tim Smith: Tom Hind used to work for me before he worked for the AHDB, so he and I have a good relationship. When Peter Kendall went there as chair, I was optimistic, and continue to be, that they would change and that they would do the sorts of things that we have been describing, and they seem to be on track to do that. Like Judith, I think we need organisations like that, even if just for agitation and communication across sectors.

Q571 Chair: So is there a role for the AHDB in promoting meat, dishes or the wider use of lamb and beef at different times of the year? You are saying that we have to develop the market and develop the cuts, so surely there is a role there as well. Do you perceive there to be a role?

Tim Smith: We are so well resourced internally but, yes, we would always listen to the insight of others. To reopen the lamb debate briefly—

Chair: That is very dangerous.

Tim Smith: If they were keen to show us a new model or way and if they were bringing and extolling the virtues of a system on which they had got consensus of opinion that meant that it was easy to talk to them, rather than 200 others, the benefits would be there. Without being arrogant, it is less obvious to a big retailer that their promotional efforts and their work on the use of proteins is relevant in 2015.

Q572 Chair: How the farmers would see it is that they are paying a levy and want their products promoted. Are they relying too much on you guys to do it for them? Are you in the meantime promoting New Zealand lamb, not British? You opened the lamb debate again.

Tim Smith: How foolish of me.

Q573 Dr Monaghan: I will not go back to lamb, because I think we have had enough of that, to be honest, but I think what you are saying is that the development board is playing an important role, but it is perhaps not the role that farmers would like them to play. Is that the point?

Tim Smith: Maybe it is that they have not yet managed to convince all of their levy payers that the ideas and the concepts they are working on are the right things to do. If we can help with that, we will. There is a definite sense of change and of a need for something different, so if it is just pure data transfer, utilisation of resources or best practice, we are doing that internally for our farmers. I am sure that each of us will be doing a great job of communicating market signals and what is happening, and we will be buying better together. All of those things will be happening. It is the people who are not benefiting from being part of those schemes that the AHDB is probably going to need to target.

Dr Monaghan: Can we make sure that we get some written evidence from Morrisons? That would be really helpful.

Alex Brown: Of course.

Q574 Chair: Would it be fair to say that you would like the AHDB to engage with you more? Would that be a fair idea?

Tim Smith: I don't think we are lacking contact. If specific things come up and specific ideas need to be responded to, they are there.

Q575 Angela Smith: I'm sorry Mr Smith, but I am back to you again. Apologies, but we are where we are. What are the advantages of long-term agreements with farmers? How willing have processors and farmers been to enter into such agreements?

Tim Smith: The advantages for all parties are that if you have suppliers you know and trust, the shocks that might happen in the marketplace are more easily dealt with. The risks are better balanced, and volatility, which I think we are all the enemy of and would like less of in the market, is certainly attenuated—it goes down. Wherever you have a relationship that is built on a longer term arrangement—the highest proportion of our process suppliers have been with us for 15 years or so—all those relationships mean that they have worked hard at the simple basics to begin with, and then we have concentrated on much more important things: quality, efficiency and a shared understanding of what the market is doing.

On the second part of your question, it varies by sector how much engagement one can have with a different farmer group. Where we do not have the advantage that Alex does of a complete, integrated supply chain, we are effectively trying to create a virtual one. On poultry—we have probably talked about this a bit—we are almost there. You can look all the way down the supply chain and all the way through with track and trace. On pigs it is a bit closer, and on lamb we start to get a bit vague—consignment numbers go down and the ability of a farmer to say where his animal concluded its life and what product it has gone into is much less likely.

The truism would almost be that the larger the animal, the more we have to work harder at the engagement. That does not mean that it is not worth the fight, however, because it genuinely is. Where we know and trust our suppliers, that automatically brings us product quality benefits and availability benefits, and the farmers themselves would say that it brings a better amount of certainty and transparency to the relationship. Certainty for the agricultural sector is a key objective of ours.

Q576 Angela Smith: When we had Aldi and Waitrose in the other week, it was interesting, because Aldi was clear that their approach is to work on the basis of high volume, low price—obviously the price is determined by the volume sold, to some degree. Waitrose really emphasised the fact that they were not answerable to the City, because they are co-operatively owned. In their view, that ownership model allows them to develop a long-term relationship with their suppliers that is much more mutually beneficial. Do you think that your ownership model—I think this question is for all three of you—actually has any impact on the nature of the relationships that you have with your suppliers?

Alex Brown: I do not think that it needs to, no. We are clearly a plc. We have to report to the City, but that is slightly divorced from how we will build our long-term supplier relationships. For the red meat processing, that is us. I sit with our manufacturing director every day. He is my colleague and we work together. On poultry, we are working towards having and have long-term relationships in place. As you say, if you get the basics right, you get innovation. You start focusing on the customer and how to drive better sales and volume for both parties, and you want to get away from that transactional behaviour.

I agree that different sectors respond differently—that is my personal experience. We have got pretty good success with beef farmers, but for lamb farmers in the main we cannot seem to get a mechanism for a longer term contract that they are interested in. We will continue to work on that. We feel that pig farmers are quite well engaged—we have some big relationships there and some good long-term arrangements in place. The vast majority of our farmers are with us week in, week out. We are doing the right thing, but would we like to get on to a more structured way of doing that? Yes, we would. I am sure you are all aware that the average age of a farmer, particularly in red meat, is not going down. I am not sure the younger generation are seeing it as a great place to go. That is a real risk for us all, but particularly for Morrisons.

Chair: We need the young farmers in.

Alex Brown: We need the next generation to come through.

Q577 Angela Smith: You cannot speak for the farmers, but it would be interesting to get your take on whether farmers would agree that they have an equal say on the work that you do to make the supply chain more efficient, price and all the contractual arrangements that you have talked about. Do you feel that farmers are a very equal partner in all this? I think that that is what Waitrose would say—that its membership model delivers that.

Tim Smith: What has changed—Judith alluded to this—is that 15 years ago, none of what I am about to say would be true. Now, farmers have direct contracts with us as a retailer. They have very clear market signals if they are part of that process. They know that they are a key part of building our market position on a particular protein. They have an information transfer system among themselves. They have the ability to give us their opinions in an independent survey—a supplier viewpoint. They can benefit from procurement benefits that we can bring them, because of our scale. They feel part of the Tesco food system. I do not think that they think of themselves as being isolated in the way that was possibly true 15 years ago.

We, like Alex, have got a mind to the future so, for example, we have 100 young farmers going through our Future Farmer Foundation, every one of whom, hopefully, will become a Tesco-supplying farmer. They do not have to, but hopefully the inputs that we have given, the ripple effect of that, the fact that they can then be part of the centres of excellence that we build through each of the key sectors, and all of those things, they can see are genuine investments in their businesses, designed to boost their capability to produce what we need: food security and food supply for the future.

Judith Batchelar: On ownership, I do not think it makes a material difference. If I look at our top 20 suppliers, 70% of them are the same people as 20 years ago; some of them have been there for 50-plus years. If they are not, they have been bought someone else who is in the top 20. So it is a pretty stable supply base in that respect.

What is interesting now is how, if you think about the City and our investors—we have just had a round of interviews with our key investors—the things that they were not interested in before, such as length of contracts and how you are managing market volatility, they are now much more interested in, because they realise that those things have really quite commercial potential outcomes. For example, they were asking us about the level of investment in UK farming and the fact that capital investment is at an all-time low, but borrowings are at an all-time high, which is therefore sending them signals about the sector. They would be talking about price and commodity volatility and the impacts. I think there is a level of challenge to us as a company that has come from being publicly owned, because investors are taking a much more active interest in things that historically they would not have done.

If they are looking at the World Economic Forum 10-year vision that mentions extreme weather, market volatility, commodity price fluctuations—all things that will impact indirectly, but almost directly, on our business, the business they have invested in—they will want to know what we are doing about it at Sainsbury's to make sure that we are managing for resilience. That is not about us and our own operations in running our stores; it is the resilience of our value chains that they are much more concerned with than they have ever been.

Q578 Rebecca Pow: That is very interesting. On that note, does that reflect anything about needing to have resilience of supply from the home market?

Judith Batchelar: Yes.

Q579 Rebecca Pow: Obviously, what this Committee is really interested in is the future of farming and food production in the UK. We want to do our best for it and for farmers. Is that reflected and is it something that ought to be encouraged more, given that we are only 65% self-sufficient in many of our products?

Judith Batchelar: Yes. If you look at that self-sufficiency and go back 30 years, we were 78% self-sufficient. If you couple that with the fact that our balance of trade has reduced 25% in terms of food import-export, all of the measures are saying that this is not moving in the right direction. We are not building that resilience in in a number of ways: we are not building it in the primary value chains, or in manufacturing and further process. A lot of the way that you can provide that buffer is through adding the added value aspects to those primary value chains. That is why milk, which is minimally processed, probably bears the brunt of that volatility in a way that other sectors that have safety valves cannot. If the beef price drops, the beef producer, who has only got 30 animals on average anyway, will keep those animals back until the price goes up again. A dairy farmer cannot do that, because that milk has to leave his farm.

Rebecca Pow: On that point—

Chair: I am conscious of the time.

Rebecca Pow: I am jumping to another question, which is important—

Chair: You have got a question coming up in a minute. Quickly, please.

Rebecca Pow: But I think we can get to it and it fits so well—it is very related.

Chair: I am very conscious that we have got to get through the rest of the questions.

Tim Smith: Coming back to what Judith said, I think the other thing that certainly Tesco would support is a much clearer, 25-year-window horizon plan from Defra and Government, because once you have got the context and you can send the market signals that we think we are capable of sending through the system, then you start to unblock the barriers. I talked about chicken—

Q580 Chair: Are you feeding into the Defra 25-year plan?

Tim Smith: Yes, with enthusiasm.

Chair: Good.

Q581 Angela Smith: I assume that the comments Judith just made about investors and the longer term outlook that they are now taking is shared by the investors in Morrisons and Tesco. Is it the same?

Tim Smith: Without being glib about it, they will be a lot of the same people and their investment decisions are based on those risk profiles, yes.

Angela Smith: Morrisons?

Alex Brown: Probably even more so for us, with the manufacturing assets all in the UK. The majority of them process and pack British products.

Angela Smith: Are we seeing an outbreak of responsible capitalism? That is what I am hearing.

Chair: I don't think we will get into responsible capitalism, but that is well put in. We will move to question 9, which I think Rebecca is doing. Is that right?

Q582 Rebecca Pow: Okay, I will ask No. 9—hopefully Rishi will chip in. It is very interesting and related to what you are talking about. We believe that we have a gap in the market in that, with our milk, we could make more processed products such as yoghurt and ice cream, because we import the majority of them. Have your investors spotted that? Do you see anything happening about that? We need the investment put in before milk can be turned into these other products.

Judith Batchelar: No, we haven't, in terms of our investors. All of the milk that goes into our ice cream is British milk and all the milk that goes into our yoghurts—apart from French yoghurts that are made in France—is British milk; butter, cream and everything is British. We do that because it is the right thing to do, because we want that stability in further processed products.

If you were to ask whether we could do that more efficiently, then the answer is probably yes, because as well as the farming sector, the manufacturing sector has been under-invested in over a long period of time. So in a lot of the new areas for further processed—things like whey protein powders and more novel ingredients—a lot of that investment has gone into mainland Europe and not into the UK. Therefore, in order to maximise the opportunity for British agriculture, we have to talk to British manufacturing and processing as well. You cannot do one without the other.

Q583 Chair: May I chip in here? For the three of you, what percentage of ice cream and yoghurt in your supermarkets is British?

Alex Brown: Yoghurt for us is 85%. I do not have ice cream figures.

Rebecca Pow: Sainsbury's?

Judith Batchelar: 100%.

Tim Smith: On yoghurt we are in transition: we were at 60% and we will be at 100% in March, so we are moving the volume to British.

Q584 Rishi Sunak: May I ask that same question for cheese—your own-brand cheddar?

Judith Batchelar: 100%.

Alex Brown: 99.5%. We have one Canadian skew.

Judith Batchelar: Sorry, we have a Canadian cheddar too. This is quite an interesting one from a labelling perspective. All of our British cheddar is made with British milk from British cows that were born and bred in Britain, and is and packed and processed in Britain.

Alex Brown: Same for us.

Rebecca Pow: And Tesco?

Tim Smith: We still buy about 10% of our cheddar from Ireland—the Republic—and the rest from Britain.

Q585 Chair: On yoghurt, you were saying you were moving from 60% to 100%, but on cheese you are virtually on 100%—is that right?

Tim Smith: No, it is 90:10.

Q586 Rebecca Pow: One of the big drivers that the Secretary of State talks about is the drive to try to get more cheese and yoghurt and all the rest of it, but you're saying that you cannot do any more because you are already at 100% or 90% or whatever. Is that right?

Angela Smith: You can do more than 90%, can't you? Another 10%.

Rebecca Pow: So there isn't a market there.

Tim Smith: One of the things to bear in mind, which links to the question about investment, is that over the past decade we have seen a move of the big capital investment programmes—apart from fresh milk—outside the UK. Alex mentioned Arla, so forgive me, but there isn't really an equivalent cheese plan to the fresh milk investments that they made recently at Aylesbury and Leeds. We are largely supporting the Britishness of our cheese for the benefit of our customers, because that's what they want, but whether that is the most efficiently produced cheese in the world, I doubt. We would encourage inward investment in capital-intensive dairy plant.

Q587 Chair: On the milk that you buy for yoghurts, or that is producing the yoghurts for your own-brand yoghurts, are you paying a standard price for that, or do you just pay a spot price? Are you paying similar to the liquid milk price or not?

Tim Smith: To be honest, I don't know the exact price that we pay for milk for yoghurt, but as it is moving in from the same field I would anticipate it being caught up in the same pricing mechanism.

Chair: I think we would like to have clarification of that, if we may. What about Morrisons?

Alex Brown: We pay a finished delivered price for yoghurt; we don't have a specified milk price.

Chair: Right, you buy the yoghurt after it is made so the price could be lower. You don't know the price that was paid for the milk.

Alex Brown: We don't know the price.

Chair: And what about Sainsbury's?

Judith Batchelar: We are the same. We pay a finished-goods price. For some products—yoghurt is not one of them, but beef would be—we have what we call an open-book costing, so we can see everything, including transport, packaging, labour and all those kinds of things. Yoghurt is not one of those areas where our arrangement with the supplier is for an open-book costing. We cannot force them, under the regulations, to share that information with us. They have to willingly want to share it.

Chair: Okay.

Q588 Dr Monaghan: How do you intend to cater for consumers who in future might actually want to buy products that originate outside the UK?

Tim Smith: That are sourced outside?

Dr Monaghan: Yes.

Tim Smith: We have a fairly extensive world foods range that caters specifically for those people who have an interest in products sourced in, for example, the US or other countries. That is growing very fast. It exists in depth and breadth in 42 of our big stores, and it is a very nicely growing part of our estate.

Alex Brown: We have a very large ethnic customer base, which we cater to. We also have a big range of continental cheese, which is clearly produced in Italy, France or Spain, and the same for continental meats and wine. The key thing for us is that it is very clear where it is from. If you want to buy British, it is clearly British, and if it is not from the UK, it is clearly labelled.

Judith Batchelar: The same thing for us. Apart from Free From foods for people with allergies and intolerances, the fastest growing part of our business is world foods, which tend to be imported brands. There are growing bits of that business. It is really interesting to look at the foods that we import and the percentage of those foods that are protected. A good example is Italy, which is the second biggest place that we import from, after Spain: 70% of what we import from Italy can come only from Italy because it is protected, whether it is wine, Parma ham, Parmigiano-Reggiano, balsamic vinegar—there is a huge list. The Italians do a very good job of promoting and protecting the products that are unique. That is an opportunity.

Q589 Dr Monaghan: Correct me if I am wrong, but I think all three of you are saying that consumer interest in products that originate outside the UK is a growth area for your businesses.

Tim Smith: It is provenance and authenticity that matter. The other side of the argument for Judith's protected status is that those products are usually strong enough to carry that sub-branding. That is what customers are interested in: the provenance and the authenticity of the product.

Q590 Ms Ritchie: Moving on to the Groceries Code Adjudicator, do you believe that the adjudicator has strengthened the relationship between the retailers and the suppliers? Tim first of all. We know that there is an ongoing investigation—

Tim Smith: —which means that I am a bit restricted in what I can say. We have been engaged with the adjudicator since she was appointed. I think because of the transparency that we have been prepared to share with her and because of the way that they have worked, it is bound to have been an advantage to have created an environment in which that kind of information can flow more freely. I think we will have to wait and see how the investigation plays out to know what the impact is.

Alex Brown: We have been in contact with the adjudicator from the very beginning. She was at our offices a few months ago and kindly spoke to all of our senior commercial people just to give her view of the market. We are on a journey in terms of engaging with the supplier base more actively; it certainly has done no harm, because it makes it front and centre of the thinking.

Q591 Ms Ritchie: So you do believe that the relationship has strengthened between yourselves, the retailers, and the suppliers as a result of the involvement of the GCA.

Alex Brown: I think it has helped, yes.

Judith Batchelar: I agree with that. In terms of the training that we have had to give our colleagues—everyone has been through the training, which is done annually—it has made it really clear what the rules are. It sounds bizarre, but there is therefore almost a freedom within the framework, because you know what the boundaries are and you are very clear on how you need to communicate, so it has improved communication and the clarity of communication and it has removed any ambiguity in the way in which we would have dealt with suppliers historically. Most people think the code is a good thing.

Q592 Ms Ritchie: Should the Groceries Code Adjudicator be charged with investigating the whole of the supply chain? That is, given more responsibility.

Judith Batchelar: I think she probably has enough on her plate already. There are actually some big, meaty topics about to come up, which she has already talked about, in terms of how this part of the value chain operates already.

Alex Brown: If the area of responsibility grew, we would co-operate fully.

Ms Ritchie: I presume you cannot say very much, Mr Smith.

Tim Smith: I only add that it is really not for us to determine what the adjudicator's remit is, but we have enthusiasm for co-operating and helping. As Judith described, the investment in training and removing ambiguity from the relationship have been helpful.

Q593 Chair: The code has been in place for some time, but the Groceries Code Adjudicator in place for not so long. Why did you not change your practices while the code was there? You have actually waited for the adjudicator to come along. There has been some evidence of some fairly rough buying by large retailers in the past, so why did it need the adjudicator to bring you into a position in which you were being a little more careful about how you bought?

Alex Brown: We started the process as the code came in. My point is that it has certainly helped having her actively in the building. It was really powerful her talking to probably our top 100 buyers for one of the titles. She was very clear about how it works.

Q594 Chair: Her argument is that she has changed the culture. You would probably argue that the culture was never there—of being rough with those whom you purchased from—but when you have powerful amounts of product that you want to buy, you have big muscle in the marketplace. The concept is that you have abused that in the past—not any individual, just generally—so is your culture changing?

Alex Brown: Yes.

Judith Batchelar *indicated assent.*

Q595 Chair: All three of you would admit that, would you?

Tim Smith: The code and our ability to respond to it has been brought to life by the appointment of the adjudicator. I think Alex is right that the trade and the suppliers were waiting to see how this would affect things and who would talk to whom differently. We were all starting the training process and going through a compliance approach by the time that Christine arrived, and we are probably going at roughly the same speed as we would have, but it is helpful to have her as the figurehead of the drive to do that.

Q596 Chair: From the other side, those supplying you also see her very much as a watchdog watching what is going and helping to ensure a fair trade. Would that be a fair point to make?

Tim Smith: It has helped us to open our minds to the idea of getting better, more independent supplier feedback. We are measuring more carefully what suppliers say and think about us. We have set up independent helplines for suppliers who feel that something has gone wrong in the relationship between buyer and supplier. My sense is that it is a wave that needs to be followed through. We will go through—we are doing this—a big set of activities and that will leave behind a different culture and a different regime for training and the implementation of buying policies.

Judith Batchelar: I agree that we were doing the training and working hard to be compliant with the code before the Groceries Code Adjudicator came along. What she has done differently is that she has given confidence to the supply base that there is a much more rigorous process in place for them to give feedback. Collectively, all of us have run a retailer supplier survey for years, but it now has a different emphasis in terms of the kind of feedback that we get, which is much more insightful. The other thing is that it has raised the total level of professionalism in the way that the whole sector behaves, and I think that's a good thing.

Q597 Angela Smith: Should the Government be doing more at a European level to press for better labelling of dairy products?

Judith Batchelar: Yes. I think there are loopholes that mean that it is not a level playing field. The more transparent and structured the guidelines can be, versus regulation, the better it will be for everybody, because the whole industry has to work to the same standard.

Alex Brown: I am in exactly the same place. We want a level playing field.

Tim Smith: To add a little bit to that, I used to deal with trading standards officers and one of them once told me that if one consumer is confused by a label, that is one too many, and I tend to agree. Customers should never be misled, so we should do anything that we can to improve visibility and knowledge and make more information available. The tricky bit is putting that in a place where hard-pressed customers have the opportunity to see it and make a decision.

Q598 Angela Smith: I get that. So on the basis of what you have said, can I assume that you do not label products containing raw milk or meat that have simply been processed in the UK as British?

All witnesses: No.

Q599 Angela Smith: On the issue of buying British, it is a Government initiative, but I think it is right. Do you have any evidence that customers prefer to buy British?

Alex Brown: Yes.

Tim Smith: It varies. We had this conversation right at the beginning of the session. There is a point at which price causes a break away from allegiance to British and British alone. That varies by product, store type and demographic. That is one of the truths that we have to wrestle with. The second part of the story is that it is true that if customers, given the right information—the primary goal is to ensure that they have the right information to make a choice. There is a predisposition to understand that bacon from Denmark is probably pretty good, because there is a heritage story.

Angela Smith: Like Lurpak.

Tim Smith: I declare an interest, having run the company that made Lurpak. With Lurpak, the same is true. Brands are in a stronger place when it comes to that, but as for the overall question of, “Would customers prefer us to bring more food back to Britain?”, the answer is yes.

Q600 Angela Smith: That is interesting, because I registered the point about world foods earlier, which I thought was fascinating. We all buy parmesan and mozzarella, I suspect, and there’s nothing wrong with that, but do you think the Government could do more to promote, for instance, great British cheeses such as Wensleydale? I mean, our own Chair’s party last night had wonderful home-made cheddar, but no Wensleydale. Is that true, Chair? Somerset cheese, but no Wensleydale?

Chair: True—I plead guilty to that.

Angela Smith: Seriously, do you think the Government could do more to promote British brands of cheese, including great British cheeses such as Wensleydale?

Judith Batchelar: Yes. I also think that they could create the environment for the export of those products, in the same way that the Italians are very good at exporting to us, because exporting is challenging, particularly when you’ve got smaller organisations that do not have the infrastructure to be able to export. Cheese is a good example, because as well as the big cheese producers, there are some smaller producers who just don’t have the resources to understand the challenges around exporting, particularly outside Europe.

Q601 Rebecca Pow: On that very same note, should our Government be pressing for more of these protected status products?

Judith Batchelar: I think we have got some fantastic products in the UK, with great provenance and great processing stories, with the time, care and attention that is put into some of those processes, and cheese making is a good example. It’s a shame that we lag way behind the rest of Europe in protecting such products.

Q602 Rebecca Pow: What is required to change that? How do you see that moving forward?

Judith Batchelar: Support going through the process, because it’s quite a laborious process.

Tim Smith: There is quite a lot to be done on produce. We’ve all seen a revolution in the interest in home grown, home produced varieties, whether it is top fruit or stone fruit—whatever it is. The growers and those who we are engaged with have got a really good story to tell. Regarding that protected nature, they need help with it.

Rebecca Pow: I totally agree. I was on holiday just this summer, and a small vineyard where we stayed, an olive oil producer, was so proud to tell you, “Our olive oil from this orchard is protected”—some little old producer in the middle of nowhere—so I definitely think we need to be pressing for this, Chairman.

Q603 Chair: Definitely. Finally on labelling, I think that as far as meat is concerned, it’s compulsory to have country-of-origin labelling. As far as dairy products are concerned, it’s a voluntary system, isn’t it?

Tim Smith: Yes.

Q604 Chair: And you choose to label everything “British”, and keep “British” in there, but you don’t have to, do you?

All Witnesses: *indicated assent.*

Q605 Chair: I think that’s the argument, and the argument is that we’d like to see it across the board with dairy, because other stores that may be less scrupulous are perhaps misleading sometimes.

Judith Batchelar: And the voluntary code has loopholes in it, so even if you follow the code, you can work round it.

Q606 Chair: Right. So you’re saying that the voluntary code has loopholes in it?

Judith Batchelar: Yes.

Q607 Chair: Those loopholes want to be closed then, do they?

Judith Batchelar: Yes.

Chair: Very interesting. Would you two agree with that?

Tim Smith: I am intrigued by what Judith means, but I agree with the point completely.

Alex Brown: I agree with the point.

Tim Smith: Having watched this code go through the regulatory framework, I think it was diluted at various different stages so that it’s not as strong as it should be.

Chair: Rebecca, you can now come in with your own question.

Q608 Rebecca Pow: We might have covered this, as it is about overseas sales, but there is just one extension, which I think Judith referred to. It does not really relate to your own stores, but are our British brands strong enough abroad, and how do you think we could improve them, given your experience as retailers?

Judith Batchelar: If I look at some of our producers, they have fantastic stories to tell. Walkers Shortbread is a good one; they export more shortbread than they sell in the UK. If you go to any international airport, all you ever see are tins of Walkers tartan shortbread. Scottish salmon has done a good job indeed in terms of exports. If you look back to the figures and the balance of trade in terms of what we are exporting versus what we are importing, clearly we have not done a very good job, because that balance is 25% down on where it was five years ago. All the facts would say that we need to do a better job of supporting the producers of great British products to export.

Q609 Rebecca Pow: Is that balance of trade in food and drink?

Judith Batchelar: Yes.

Tim Smith: There is an interesting difference in our market, which perhaps points at a different sort of support being needed. Because of the way our retail sector has developed, we have a high level of our own-labelled products and we have manufacturers who are very competent and capable, with well-invested facilities, who produce for UK retailers. Because they are not branded, they tend not to have the export mindset that they might have if they could see those opportunities. There are some entrepreneurial businesses that have gone out and done that, but perhaps the strength of our manufacturing base is slightly distorted by the fact that a lot of that activity is focused on the UK and on the private label. If some of those owners and operators of those businesses could think more about the utilisation of those products elsewhere, even if still unbranded, that might be another opportunity.

Q610 Rebecca Pow: Are you retailers not helping, given that you often take people’s prized products? For example, there was a wonderful goat’s cheese, called Capricorn goats cheese, which was produced in Somerset by the same people who produce Somerset Brie. Sainsbury’s took it, made it Sainsbury’s own label, and now Capricorn has disappeared, although the fantastic cheese still exists. Do you accept that you are not helping by forcing producers to do that and by taking away their identity and slapping yours on to it?

Judith Batchelar: I have never really thought about it in that sense. I thought that we were helping them.

Rebecca Pow: It’s just an observation.

Angela Smith: It is a very good cheese.

Rebecca Pow: It is my favourite goats cheese.

Judith Batchelar: It is interesting, because we are exporting our own-brand products to the far east.

Rebecca Pow: But then they only know Sainsbury’s; they don’t know Capricorn goats cheese.

Judith Batchelar: Yes.

Q611 Rebecca Pow: You wouldn't be allowed to do that with those Italian products that are all protected.

Judith Batchelar: Well, that's the point.

Chair: Some of the Italian products are protected and some they think are protected. That is another issue.

Tim Smith: We operate in nearly a dozen markets as Tesco or brands that we own as retailers. It is quite difficult to persuade manufacturers of the merit of opening effectively another distribution point for their products, because of the complexity of getting established in another country. In terms of our business in Thailand, the largest retailer there, we have not got the groundswell of opinion and support for the idea of setting up fantastic businesses like we have in the UK to mirror that distribution in those Thai businesses. That is another export opportunity that, generally speaking, could do with a bit of catalytic work underneath to get it going.

Q612 Chair: How much choice are you giving consumers in other countries that you have stores in to promote British products?

Tim Smith: That is branded. That is the point. In Thailand, for example, you can walk the aisles and see lots of very familiar UK brands, which have got the sales infrastructure and distribution network to sell those products overseas. We would like that blend of private labels—so, some more Tesco manufacture and some more brands. We are not trying to rule the world, but we would like the quality of the foods that we sell in the UK replicated in those markets. That is a big opportunity.

Chair: I thought Tesco always wanted to rule the world, but that's not true, is it? I only being facetious.

Rebecca Pow: We do have a drive in the 25-year plan to increase exports.

Chair: Hang on—we are coming on to that. Don't pinch everybody's questions. That moves us neatly on to the last question on the 25-year plan.

Q613 Dr Monaghan: As the figures suggest—Tim, you spoke about it earlier on—the UK Government are working on a 25-year plan or strategy to encourage the exporting of food and the opening up of foreign markets and so on. What would each of you hope to see that plan achieve?

Judith Batchelar: The overall plan is a good one, in that the elements within it are all the elements that need to be addressed to have a very productive UK food and farming sector. If you were to ask about being competitive in a world market, to have products that can be exported and countries that want to import our products because they represent great quality and great value for money, efficiently and consistently produced, then the two big issues that I see—and see on behalf of Sainsbury's—are the skills and the attractiveness of the sector to young people. That is, the attractiveness not only of the farming sector, but of food manufacturing and retailing to young people—and we have just removed the A-level on food science, so there is no A-level to study at school if you are interested in the food sector.

So we have a big skills and capability gap. That is also a capacity gap and, as the biggest sector—manufacturing, food and agriculture—in the UK, we have got the biggest potential job shortage looming. If you look at the symptoms, that is a lot of temporary and migrant labour in the sector, so some operations will be operating with 50% of their workforce being temporary labour from labour providers. There are challenges around that.

The other part that we need to focus on is innovation and research and development, particularly in the gap between agriculture and further processing, because that is where the opportunity is to connect the farm gate to processing and manufacturing in a much more joined-up way—a real end-to-end value chain approach. Obviously the research and development needs to come from the research councils and Innovate UK to support that. That would be our view.

Q614 Dr Monaghan: Do you think that the plan will cover only England for the main part?

Judith Batchelar: That is a challenge, because a lot of those end-to-end value chains—and it is the end-to-end approach that matters, obviously—are across the whole of the British Isles.

Q615 Chair: As you all answer Paul's question, are you happy with the level of relationship and dialogue that you have with Defra over the 25-year plan? Are you able to feed in enough? Would you like to feed in more? What is the situation?

Judith Batchelar: We have had huge involvement.

Alex Brown: I will have to come back in writing because another individual in Morrisons would have been doing that.

Q616 Chair: We would like you to give it to us in writing. The whole Government emphasis is on food and farming, from producers through to eating what is in your retail shops. It is really important that we get your views into that and promote British food and food generally.

Alex Brown: One thing that I would call out is that, as a manufacturer, access to export is quite challenging. We are trying to get our Chinese licence at the moment, so it is about things like that and making it easier. We have to use agents in a lot of cases. That is a challenge.

Q617 Chair: We are happy to take evidence on that as well, because it is about the changes in Defra and whether we have the right export team in place. That would be useful information.

Tim Smith: For me, this is all about growth. We want a vibrant, energised industry, and not just for our own purposes. There has been a lack of really good, strong capital investment and a lack of investment in skills—which Judith has covered more than ably, so I won't attempt the skills argument again. When I go around our factories and think about what happened as foods were being developed in the '80s and '90s, that has slowed. That points to an opportunity for growth for our big manufacturers and branded manufacturers to do much more in the export world. This is where my passion for joining in comes in. In that plan, anything that we can do to help with the barriers to that growth, we should do.

The market signals needed by the primary processor and an investor in capital assets need to come, by and large, from the market, but that can be put in a sensible wrapper: the Government's direction of travel. I get slightly nervous about short-term promotional activity, and I get very interested when Government is talking about finding the innovative, creative ways to generate export opportunities. Alex is right—I am sure he finds this from his manufacturing base—that we are much too bound up in the regulatory stuff and, when somebody wants to import into the UK, it is a lot easier, on balance, than it is for us to export to those other nations.

The other part, which some of us have made reference to a couple of times, is supply chain resilience. We need our citizens generally and customers and retailers to feel that the system that exists will be resilient, whatever the world and changes in climate, and so on, create. I do not think that we have created enough public sense of, "We've got a plan and, if we follow this, food security will not be an issue for the United Kingdom."

I do take Dr Monaghan's point about the narrowness of this—only England. I have been trained in a past life never to talk about devolution, but the food industry does not work like that. The food industry is across borders; it doesn't really take too much notice of that. So we do have to think, and when I am talking to Defra, as I am about the food plan, I am constantly talking about making sure that the plan has got at least consensus from other parts of the United Kingdom.

Chair: Right, okay. Thank you very much. We have grilled you now for nearly three hours and there was only a very short break in the middle. I thank you very much for your straightforward answers. We have asked you for various written bits of information. I am particularly interested, Judith, in where you think the voluntary code has loopholes—we can make sure that Government knows all about that.

We have taken some very good evidence from all of you this afternoon. May we wish you a successful Christmas and prosperous new year—and may some of that prosperity get back to those who supply you? There is always a little sting in the tail with what I have got to say. Thank you very much. I wish you all a happy Christmas. May I also wish Members again a happy Christmas, and the staff? Thank you very much.