



Mr Neil Parish MP
Chairman
Environment, Food and Rural Affairs Committee
Committee Office
House of Commons
London SW1A 0AA

Tesco PLC
Tesco House
Shire Park
Kestrel Way
Welwyn Garden City
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18 December 2019

Dear Mr Parish

Thank you for your letter of 28 October about the Committee's recent evidence session on beef prices.

I would like to begin responding to your questions by highlighting the changing ways in which customers are shopping, eating and cooking, and the impact this is having on the UK beef market.

With a growing emphasis on convenience, there is an increasing trend towards consumers buying more mince (for dishes such as lasagne and bolognese) and burgers, and, as a result, less of the more traditional and expensive cuts such as steaks and joints for roasting. Of all beef sold by Tesco, 67.6% is products made from minced beef, and this has grown from 65.5% in the past year alone.

This growing imbalance in the market poses a number of challenges for the retail sector and, as we have seen this year, it means that, while there has been a fall in the wholesale price of cattle, there has not been a surplus at a deflationary price of the parts of the cattle that we as a retailer can sell to our customers.

At Tesco we use a carcass balancing buying model for the majority the beef that we buy from our suppliers. This means that we buy the parts of the cattle that can be put into products to be sold to our customers. The model also means that we're responsible for those parts of the cattle for which there is decreasing demand among the public. With an increasing shift towards buying more mince, the cost price that we pay for the most popular products we sell has not fallen. In fact, it continues to rise. This is creating a growing disconnect between movement in the wholesale market and the overall cost of goods sold for retailers.

Another consumer trend means that the cost of the beef products that our customers want to buy is increasing. Our customers are moving away from 15-20% fat beef mince, and are buying more of the leaner 5% fat beef mince. Over the last five years lean 5% fat mince has grown from being 26.2% of the beef mince category in 2015 to 51.6% in 2019. With meat being more expensive than fat, this creates an additional inflationary pressure.

That said, ensuring that our customers are able to buy good quality beef at affordable prices, as well as our commitment to our suppliers, means that we have promoted a variety of cuts and continue to do so. For example, during the period of 29 May to 1 October 2019 we ran 21 promotions across beef, across multiple product groups, including all steak cuts, burgers, meatballs, beef ingredients and mince.

The UK has some of the highest animal welfare and plant health standards in the world. These standards give consumers confidence that the food they buy is safe to eat, responsibly sourced and of high quality. As retailers our customers expect us to abide by high standards and ensure that these underpin how our suppliers produce and process food.

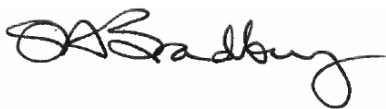
As we prepare to leave the EU, we believe that UK standards should be protected and strengthened to ensure that our consumers continue to have confidence in the food they eat and that our suppliers are not put at a competitive disadvantage for meeting these high standards.

We recognise the role that we have to play as a retailer, not least through our Sustainable Farming Groups (SFGs). These SFGs are led by our suppliers, farmers and Tesco colleagues. They provide a forum to discuss sustainable production; customer needs; our standards; and, how we can work more closely together. They help drive improvements in quality, consistency and taste, as well as supply chain efficiency and farm animal health and welfare. We also continue to invest in the growth of the British Aberdeen Angus herd, with certain farmers who supply our Finest steaks, minces and joints benefitting from contractual security.

These investments, and many others, are central to our desire to build strong partnerships with our suppliers, enabling them to build their businesses and provide our customers with safe, good quality food.

I do hope this information is helpful.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S Bradbury', with a stylized, cursive script.

Sarah Bradbury
Group Quality Director