The Environment, Food and Rural Affairs Select Committee Inquiry
Fairness in the Food Supply Chain

Sainsbury's Written Evidence
28 July 2023

Executive Summary

- We welcome the opportunity to respond to the Environment, Food and Rural Affairs Select Committee's inquiry into fairness in the food supply chain.

- The UK food system has been under immense pressure in recent years, which has threatened security of supply and the long-term sustainability of the sector.

- Sainsbury's has a long history of actively supporting UK suppliers and we understand our responsibility to support both farmers and growers in our supply chain, alongside delivering great value for the millions of households we serve.

- We remain committed to treating our suppliers fairly and have taken proactive steps to help them tackle the challenges they are facing.

- Policymakers and the agri-food sector have a key role to play in developing a more resilient and sustainable food supply chain, and we are fully supportive of immediate action to deliver long-term UK food security. This will need to include:

    a. **a government-led review of the whole supply chain** to identify risks in the mid to long term and the development of a 10-year strategy, which implements the necessary policies to deliver self-sufficiency in key categories to achieve UK food security;
    b. **accelerating planning permission for agricultural use** to support investment in the infrastructure needed to enable a sustainable UK agricultural sector; and
    c. **tackling labour and skills shortages** with the inclusion of the food supply chain in the Shortage Occupations List, expansion of the Seasonal Agriculture Workers Scheme; and relaxation of the Apprenticeship Levy.

Introduction

1. Over many years, Sainsbury's has invested millions of pounds in building resilient, sustainable and integrated value chains. Together with our suppliers, we have created dedicated UK Farmer and Grower Development Groups across dairy, livestock and crops. These groups enable closer relationships with our farmers and growers, so we can understand and respond to challenges in real time.

2. British farmers and producers are critical to our business and the food system. We will continue to work hard to support them, helping to maintain a resilient British food industry which is fit for the future, whilst ensuring we are paying our suppliers, farmers and producers fairly and keeping prices as affordable as possible for our customers.

3. We are committed to sourcing as much as we possibly can from the UK. Each year, we source over £2 billion of British products, working with over 15,000 British farmers and growers:
    - We source 100% British fresh pork, chicken and milk.
    - We aim to source 100% British eggs.
    - We are 100% British in *Taste the Difference* and *SO Organic* beef.
    - 100% of *by Sainsbury's* beef is British and Irish.
    - 100% of our *Taste the Difference* and *SO Organic* lamb is British.

4. For several of our produce lines, we source exclusively British all year round, which includes:
    - *Taste the Difference* carrots, mushrooms, parsnips and potatoes.
    - *by Sainsbury's* potatoes, shallots, spring greens and Bramley apples.
    - *Stamford Street* cauliflower.

    We also source British all year round for:
    - *by Sainsbury's* cabbage, cauliflower, mushrooms and purple sprouting broccoli.
    - *SO Organic* mushrooms and cauliflower.
    - *Taste the Difference* tomatoes.

5. Over the last 12 months, our suppliers have – like us – had to deal with a number of significant pressures across supply chains because of the war in Ukraine, rising costs of labour and energy, recovery from the Covid pandemic, navigating Brexit, and the increased regulatory burden we face as a sector. We know this has made it tough for many of them. That is why we have prioritised additional financial support for key food supply chains, giving over £66 million above our contractual terms to British meat, dairy and produce farmers over the last year.

6. There are several areas where policymakers can drive system-level change across the industry to develop a more resilient and sustainable food supply chain, which delivers greater self-sufficiency in fresh food and achieves Scope 3 outcomes. This will require farmers, processors, manufacturers, retailers and government to work together to build strategic capabilities, deliver investment and create a regulatory framework that the food system needs. Government has a key role to play here in conducting a whole supply chain review to manage risks in the mid to long term, shaping a 10-year strategy and in developing policies to achieve UK food security. We and the wider industry are fully committed to support this critical work.

7. Our suppliers tell us they need support with labour shortages, e.g., through ensuring the food supply chain is included in the Shortage Occupation List and the Seasonal Agriculture Workers Scheme is expanded so that all farmers and growers can benefit. The industry has consistently called for relaxation of the Apprenticeship Levy to tackle skills gaps in the agri-food sector, and we are keen to explore how the Levy funds we raise can go back into the sector. Our suppliers also face several regulatory barriers including restrictive planning permission, which prevents them investing in long-term and sustainable food production. There is an imperative to speed this up to give the sector the confidence and ability to invest in key supply chains.

Supporting our customers and colleagues

8. Alongside supporting our suppliers, we have been relentlessly focussed on fighting inflation over the last two years to ensure we continue to offer our customers great value when they shop with us, at a time when we know that every penny counts for household budgets.

9. On top of our existing £560 million investment to battle food inflation over the last two years, we have invested £60 million in the last three months alone, focusing on essential products which we know matter the most to customers. Despite the rapid inflation across the market, we have consistently inflated behind and at a slower rate than many of our competitors, running at less than half the headline rate of inflation reported by the Office for National Statistics.

10. At the same time, we continue to invest in our people; it is the right thing to do, and we know our colleagues are also feeling the pressure of the ongoing cost-of-living crisis. Over the last year, we have invested over £225 million in a range of measures including raising pay three times and offering free food for colleagues to eat on their breaks when working in our stores, depots and warehouses. In total we have increased the pay of our store colleagues by 44% over the past seven years and were the first major supermarket to pay all our colleagues the Living Wage across the UK.

11. We are determined as a business to act responsibly and balance the needs of all stakeholders including our customers, colleagues and suppliers. Through a robust cost savings programme, we have been able to invest nearly £1 billion in the last three years into lowering food prices to help households, consistently increasing colleague pay, and supporting our suppliers. At the same time, while retail sales have risen, we have seen our operating margin fall from 3.3% in Financial Year (FY) 2019/20 to 3% in 2022/23 as we have sought to reinvest in our customers, colleagues and suppliers. Without our cost savings programme and increased retail sales, we will not have been able to do so.

Structure and operation of the food supply chain

To what extent is the UK's food supply chain currently operating effectively and efficiently?

12. In recent years, the UK's food sector has been subject to a series of external, global shocks which have had an acute impact on our supply chain. These conditions have been the most challenging we have seen, ranging from adverse and extreme weather conditions affecting growing conditions and crop yield; significant changes to our trading relationships with European suppliers; labour and skill shortages; Covid, which had a significant impact on our labour, cost base, operations and customer shopping habits; and the Russian invasion of Ukraine, which disrupted global supply chains and affected the prices of essential commodities including energy, fertiliser and feed, leading to rapid inflation.

13. The combined effect of these events has had a profound impact on our operations, particularly with respect to security of supply and cost. While the UK food supply chain has proved resilient, it faces several long-term challenges that will need to be addressed to ensure security of supply. For example, continued labour shortages (we support the recommendations of the Independent Review into Labour Shortages in the Food Supply Chain and have long recommended reform of the Apprenticeship Levy), and high energy costs will have an ongoing impact on cost across the supply chain; and climate change will be a big threat with many countries' weather patterns becoming less predictable and more extreme, causing significant challenges.

14. Earlier this year, the Government met representatives from across the whole UK supply chain, from farm to fork, to discuss how Government and industry can work together to support a thriving UK food industry. One of the key themes our suppliers spoke about was the need for regulation and legislation to be designed to support food businesses to adapt to future challenges. Speeding up planning permission has been raised by our suppliers as one of the biggest challenges facing the sector.

15. For example, farmers and growers want to make better use of resources, such as infrastructure to capture and store water (which can also have flood prevention benefits). However, obtaining planning permission for water storage is hard to achieve, yet without it crops can die in the fields in dry and hot weather. Similarly, many of our chicken and egg suppliers have struggled with planning permission for new sheds, which has been cited as a key reason the UK was unable to react to recent egg shortages caused by avian flu. Earlier this year, we also saw the impact of unseasonable weather in Europe and North Africa on the growing of key lines of fruit and vegetables, which we rely on for supply during the winter months. A planning system that encourages the building of strategic greenhouse capacity with reduced energy costs will be key for the UK to achieve self-sufficiency across fresh year round.

How could structural relationships between farmers and fishers, food producers and manufacturers, handlers and distributors, retailers and consumers be improved for both domestic and foreign foods?

16. For many years, we have been working more closely with our suppliers, farmers and growers, both in the UK and overseas. As the sector has continued to face significant pressures, including the impact of climate change, we believe our industry-leading approach to collaboration with key players within our supply chain has helped us to address challenges as they arise. Examples of where we have seen the benefits of such an approach include:

<u>Sainsbury's Dairy Development (SDDG)</u>

17. The Sainsbury's Dairy Development Group is a unique partnership between dairy farmers, milk processors and Sainsbury's. We believe there are several lessons that can be learnt from this collaborative model, which has provided certainty to the long-term sustainability of the dairy farmers that supply Sainsbury's. Since 2007 we have been working collaboratively with UK dairy farms as part of the SDDG. It was founded when the volatile dairy market was experiencing a particularly dramatic "trough" and prices were at an all-time low. Sainsbury's wanted to get a better understanding of its milk supply chain and the SDDG was created to enable us to work collaboratively with farmers and drive improvements across the whole dairy value chain.

18. The SDDG currently consists of 169 farms that Sainsbury's has been working with since its creation. These longstanding relationships have enabled us to get to know our farmers better; work together to deliver higher animal welfare outcomes; and to deliver greater efficiency. SDDG farmers voted to be paid based on a cost of production model, which is updated to reflect market price changes to key inputs such as feed, fuel and fertiliser. Where changes need to be made to the SDDG cost of production model, we work together with a group of farmer representatives known as the SDDG Steering Committee to agree a solution.

19. Through this arrangement, we can quickly and effectively update the way we calculate the price we pay for our milk in response to fluctuating costs, giving our farmers greater financial flexibility and security. Specifically, we moved from quarterly to monthly milk pricing; changed our reference periods from backward-looking costs to include a forecasting element to ensure it was reflective of actual on-farm prices; and we paid an additional booster value on top of the headline cost of production to support farmers' cash flow and inflation. This year alone, we invested an additional £28.6m, £8.9m of which was the booster payment to our SDDG farmers, going above and beyond our cost of production model.

20. Since SDDG members moved to our cost of production model in 2007, they have been paid an average 2.44 pence per litre above market price.

> *"The fair price we get for our milk allows us to invest and achieve higher animal welfare standards for our cows"* – **Ian Garnett, Cheshire**
>
> *"The Sainsbury's Dairy Development Group has given us terrific confidence to invest in our farms* – **Ben Jack, Fife**

Chicken

21. In March 2023, we made some changes to our chicken welfare standards to help our *by Sainsbury's* chickens have happier and healthier lives. In an industry first for a business of our scale, we signed an innovative 10-year partnership with Moy Park, our poultry supplier, which has allowed us to change the way we produce our *by Sainsbury's* fresh and frozen chicken. All *by Sainsbury's* chickens are now reared with a reduced stocking density of 30kg/m^2 (the rate at which birds are housed in a shed), providing them with 20% more space than the Red Tractor industry standard, as well as additional stimuli in their living environment, including: extra enrichment bales, pecking objects and platforms for perching. This ground-breaking move is a huge step forward for chicken welfare.

22. This 10-year commitment to Moy Park has also enabled them to make long term investments in their business which include a real drive towards net zero (which supports our own efforts), monitoring carbon footprints on a flock-by-flock basis and identifying areas of opportunity to further reduce our environmental impact. Our customers are now benefitting from chicken with improved welfare standards, at no additional cost and price matched to Aldi but at a higher welfare standard.

Scottish Salmon

23. We have been working with our salmon supplier, Mowi, for 15 years, and this long-standing relationship has allowed us to develop robust supply arrangements. We are the only 'big four' supermarket to offer 100% fresh Scottish salmon that is 100% RSPCA certified for high welfare, as well as 100% ASC (Aquaculture Stewardship Council) certified as truly responsible aquaculture. Our supply chain structure with Mowi is physically very short, with farming and processing all taking place in Scotland, offering an inherently low carbon footprint and increased shelf-life availability to customers, as well as reducing waste.

24. Due to our long-standing relationship with Mowi we have had greater surety as to the supply chain process; for instance, through specifying the feed used, ensuring that it comes from sustainably sourced raw materials and that the omega 3 levels are sufficient to deliver the Government's requirements for a portion of oily fish.

Taste the Difference Pork

25. In 2016, we changed the way we work with the 120 farmers and our supplier, Cranswick, who produce our *Taste the Difference* pork range. We introduced exclusive genetics in our fresh, primal range to an already aligned and fully visible supply chain, as well as a cost of production pricing mechanism. All our *Taste the Difference* pork products are outdoor-bred and RSPCA assured, providing our customers with a great tasting, high quality and high welfare product.

G's Fresh Produce

26. We have been working with G's for over 60 years. They grow and supply us with lettuce, spring onions, celery, radishes and onions. During this time, we have collaborated on several projects to drive efficiencies, deliver security of supply and provide a more consistent product to the customer, which in turn delivers for the industry. For example, we worked together to predict the demand for iceberg lettuce through the summer, which is closely linked to the weather, and understand how we can manipulate the growth curve so that we could match supply and demand. Not only did customers benefit from better supply, but we were also able to reduce food waste.

Thanet Earth

27. We have been working closely with Thanet Earth since they began producing salad crops in 2008. Together we relaunched our premium tomatoes, which has resulted in year round supply from the UK. During the recent energy crisis, we developed an energy tracker to ensure they could continue to produce their crops when the price of energy increased dramatically. Since we have been working together, we have been able to increase the sales of our British premium tomatoes, maintained security of supply during the energy crisis and protected an important UK industry whilst ensuring our customers continue to have healthy salad crops to consume.

Bartletts

28. Bartletts is our main potato supplier, which sources from across the UK, starting the season in Cornwall right up to Scotland as well as from their facility based on Jersey which is designed to deliver the best quality Jersey Royals. As part of our relationship, we have two exclusive varieties in our *Taste the Difference* range, the Vivaldi potato and the Anya potato. Through working in partnership with Bartletts we have developed a loyal customer base for these uniquely flavoured potatoes. Additionally, due to our long-standing relationship, we have also worked together to support our potato growers through the recent cost of living crisis to help with increases in their cost of production.

Market power and regulation

How does the market power of UK supermarkets and manufacturers compare to other participants in the food supply chain, and how does this compare to equivalent relationships in other advanced economies?

29. As a UK supermarket, we are unable to comment on the dynamics at play in other advanced economies, but in the UK groceries market, we do not consider that Sainsbury's possesses any material degree of "market power". The UK retail market is fiercely competitive, as evidenced by the Competition and Markets Authority's (CMA) July 2023 report which confirmed that retail competition is working well, and we work extremely hard to consistently deliver value to our customers and shareholders, whilst also supporting our suppliers, colleagues and communities. We cannot do this in a silo – our operations are heavily impacted by external shocks affecting our suppliers and upstream supply chains, and by the robust levels of competition we and our competitors face in the downstream retail market, to attract and retain customers.

30. As a key component of household budgets, our operations are regulated by government policy and legislation such as the Groceries Supply Code of Practice (GSCOP); and are subject to ongoing scrutiny by dedicated bodies such as the CMA, the Groceries Code Adjudicator (GCA) and Which?, in addition to the media and the public.

Given this, we simply cannot act independently of our customers, suppliers and competitors in a way that would be expected if an entity did, in fact, possess "market power".

31. Considering the position of manufacturers, as outlined in paragraphs 1 and 2, we are proud of the longstanding relationships we have with many of our suppliers and are deeply committed to ensuring these partnerships work well. We believe our efforts have been recognised by our supply base – as per the GCA's annual survey to assess retailer compliance with the GSCOP, c.97% of respondents considered that we had complied consistently well or mostly well with the GSCOP in 2023[1], up from c.94% in the 2022 survey results[2]. In addition, in the last financial year we paid our suppliers on time 97% of the time and we also offer 7 day payment terms for our smallest suppliers. We consider this a testament to our robust compliance programme, and the strong relationships we have nurtured with our suppliers, particularly in supporting them during the current economic climate.

Is existing regulation appropriate, for example the Groceries Supply Code of Practice and the Groceries Code Adjudicator for supermarkets' direct suppliers, as well as the Secretary of State's powers under Part 3 of the Agriculture Act 2020?

32. As above, we recognise that we deliver an important service to customers across the UK. Our operations are regulated and highly scrutinised. We remain fully committed to GSCOP compliance, and the outcomes of the recent GCA survey suggests that our direct suppliers are satisfied both with our performance and the remit / role of GSCOP and the GCA. We would note that the GSCOP is confined to focusing on one relationship (i.e., between the Designated Retailer and a direct supplier) in what can be a long, complex supply chain, including producers, indirect suppliers, food processors and manufacturers. It offers no recourse for the retailer who is often dealing with suppliers many times larger and more dominant in their categories. We would also note that the CMA's recent Groceries Report stated that the GSCOP does not create a reciprocal obligation on suppliers and retailers to act fairly, and accordingly a proportion of suppliers refuse to engage properly in relation to negotiations to effect cost price decreases.[3]

33. We have always sought to be as helpful as possible to the Government when it has requested information relating to food availability. This included submitting regular data on the availability of basic food items during the Covid pandemic, and most recently when we experienced fruit and vegetable shortages in early 2023 due to unseasonable weather in Europe and North Africa.

34. Albeit that the CMA has not identified any competition concerns in the grocery sector to date, we also note that as part of its ongoing activity the CMA plans to do some more focused work to gain a deeper understanding of the price and competition dynamics in play across the supply chain. To this end, the CMA has selected several products (which may evolve) for further consideration, namely baby formula, baked beans, bread, chilled desserts, lemonade, mayonnaise, milk, pet food, poultry and ready meals. We will continue to cooperate with the CMA as its work is ongoing in this space.

How effectively has the Government conducted reviews of contractual practice in specific sectors, for example in the pig and dairy sectors, and should other sectors be reviewed?

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[1] GCA Annual Survey results 2023, page 5.
[2] GCA Annual Survey results 2022, page 6.
(https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1081419/GCA_annual_survey_results_2022_for_publication.pdf).
[3] See for instance page 43 of the CMA's report.

35. The market has continued to be the predominant force in driving change in contractual practices within specific sectors in the agri-food supply chain considering the dynamics of competition, supplier needs and consumer demand. As outlined in paragraph 17, the SDDG has been in operation since 2007 and operating a cost of production model since 2012, pre-empting the Government's review into contractual relationships in the UK dairy sector. We recognise that not all players in the dairy sector use such a model and we utilised the Government review as an opportunity to explain the benefits of the SDDG and the unique partnership between dairy farmers, milk processors and Sainsbury's. Similarly, prior to the review of the pig sector, we already had our premium pigs on a majority cost of production contractual arrangement and a large percentage of our core pigs on a cost of production linked contract due to the pressures of the sector operating in a global market. Any future sectoral reviews should take a proactive and long-term view to anticipate future challenges.

Food prices, security and fairness

What is the relationship between food production costs, food prices and retail prices? How have recent movements in commodity prices and food-price inflation been reflected in retail prices?

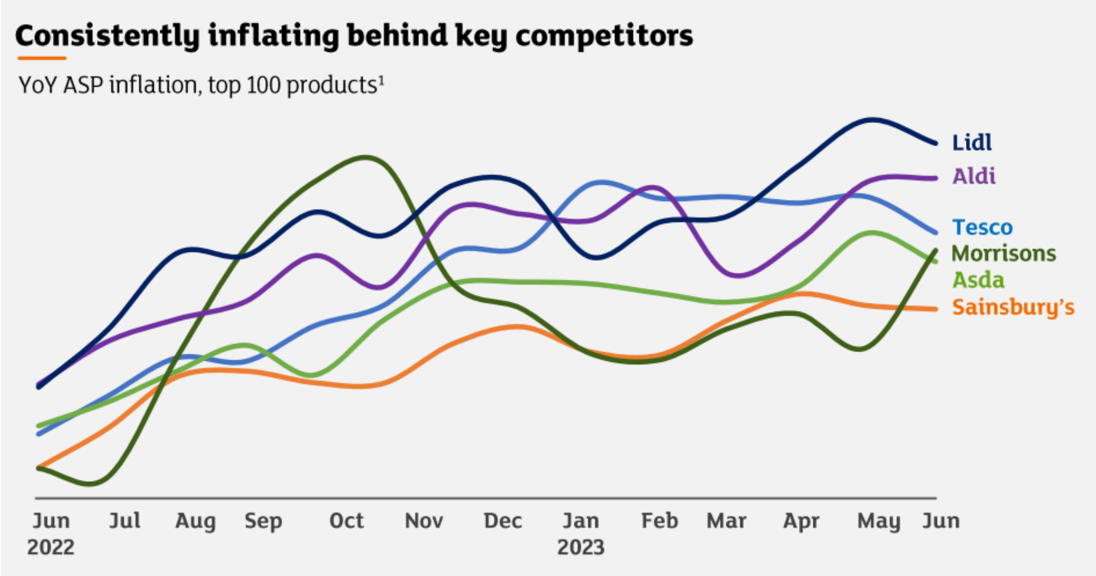
36. Our retail price inflation has increased at a lower rate than our cost price inflation because of the investment we have made as a business. As outlined in paragraph 9, we have invested over £560 million in the last two years as part of our relentless focus on keeping prices low on essential and everyday products through several ongoing initiatives, campaigns and promotional activity. Since March, we have invested an extra £60 million in essential products.

37. In addition, as we have seen inflation in some commodity prices start to slow, we have implemented several ad hoc price drops on key products. For instance:

- In April, we reduced the price of own brand milk to £1.55 for four pints, £1.25 for two pints and 90p for a pint.[4]
- In May, we reduced the price of own brand bread (by up to 11%) and own brand butter (by up to 5%).[5]
- In May, we also reduced the price of over 40 own brand dairy products (by up to 60%).[6]
- In May, for the first time we added our own brand tuna to our Aldi Price Match campaign.[7]
- In June, we reduced the price of own brand milk further to £1.45 for four pints and £1.20 for two pints.
- In June, we reduced the price of own brand toilet paper by 11%.[8]
- In June, we also invested £15 million to cut the prices of household staples, including pasta and rice.[9]

38. As a result of these efforts, we have consistently ensured that our food prices have inflated lower and at a slower rate than almost all our competitors. The growth in our average selling price (ASP) was the lowest in the market at the end of our FY22/23 against our main competitors.[10]

[4] See e.g., report by the Grocery Gazette on 14 April 2023, available online here.
[5] See e.g. report by The Guardian on 9 May 2023, available online here.
[6] As we reported on 30 May 2023, available online here.
[7] As we reported on 24 May 2023, available online here.
[8] As we reported on 14 June 2023, available online here.
[9] As we reported on 26 June 2023, available online here.
[10] Nielsen panel data, Total FMCG excl. Kiosk and Tobacco. Top 100 SKUs by retailer. Average Selling Price YoY growth. 52 weeks to 27 May 2023.



39. The success of our efforts is also evident where we consider inflation analysis from independent data and observations. The inflation in Sainsbury's retail prices from the start of our FY22/23 to date (c.10%) is materially lower than the average market-wide retail price inflation as reported by Nielsen (c.15%) and less than half the headline rate reported by the Office for National Statistics. As the CMA noted in its July 2023 Groceries Report: "*Retailers that have allowed their prices to become materially higher than their competitors have tended to lose market share. The lowest-priced retailers…have gained share from their competitors…This suggests that retailers are constrained in their ability to raise prices without losing market share.*"[11]

What are the consequences of current relationships in the supply chain for:

<u>Risk-sharing</u>

40. We work in different ways with different suppliers and the preferred method is to have established agreements with partner suppliers, which take account of variable costs that the supplier faces. Many suppliers prefer to agree contractual mechanisms through which we can agree cost prices on real time cost input data. We aim to have plans in place with all key suppliers to continually review our ways of working for the benefit of both parties.

<u>Prices paid and profit margins of farmers, food manufacturers and other suppliers</u>

41. Naturally, the cost price we pay of products must take account of the costs that suppliers incur upstream. For many of our suppliers this would cover the cost of fuel, feed, fertiliser, heating, labour, essential technology / chemicals (e.g., CO2 for refrigeration) etc. The combination of factors outlined in paragraphs 12 and 13, has led to rapid increases in many upstream operating costs, which in turn has substantially increased the total cost to us of purchasing goods.

42. We are proud of the longstanding relationships we have with many suppliers and are deeply committed to making these partnerships work well. We have been working closely with suppliers to minimise the impact of inflationary pressures and global supply chain challenges on supplier costs, and by extension on the cost prices

[11] See for instance page 8 of the CMA's report.

we pay. However, as our margins have fallen year on year, we anticipate that profit margins are likely to have fallen for many of our suppliers, as well as other retailers.

43. As outlined in paragraph 5, over the last year we have paid over £66 million of support to British meat, egg, dairy and produce farmers above our contractual terms. The support we have provided to our farmers includes:

- Updating the way we calculate the price we pay for our milk, giving our farmers flexibility to raise prices in line with inflation. We have also supported farmers to reduce their exposure to price volatility with an extra £28.6 million, including a £8.9 million booster payment for our Dairy Development Groups farmers, going above and beyond our cost of production model.
- While we do not buy eggs from farmers directly, we have steadily increased the amount we pay our packers and producers for eggs over the past 12 months and, in response to high levels of inflation, we accelerated our support, investing £27.2 million more than we were contractually required to. We are also working closely with our packers to understand the needs of producers, specifically being clearer on the cost of production and ensuring the price we pay our producers is considerate to it.
- We offered an additional market leading booster payment of up to £6.4 million for our pork development group.
- Over Christmas, to reduce the impact of avian flu, we invested £1.6 million in our fresh turkey suppliers.

Prices, quality and competition between retailers

44. The UK retail market for groceries is, and always has been, fiercely competitive: on an ongoing basis we compete with Tesco, Aldi, Lidl, Morrisons, Asda, Co-op, Waitrose, M&S and others. Simply put, we must ensure our offer is always attractive and competitive in terms of pricing, range, the quality of our products and customer service, both to win new customers and keep our existing customers from switching to others. Grocery prices and value offers are advertised widely across the retail market, and consumer champion groups and publications such as Which? and The Grocer monitor and publicise the retailer with the cheapest basket of goods on a weekly basis.

45. In our experience, customers are extremely savvy, and, particularly in the current economic climate, will shop around for the best deal. We believe that offering customers great value is fundamental to the success of a grocery business – indeed, we and our competitors are all competing fiercely for market share, and you can see that the grocers that are winning market share are also those that are offering customers the best value, something that was also identified by the CMA in its July report.[12]

Healthy food for consumers

46. We have set a commitment to help support all customers to achieve a healthy and sustainable diet. We work with all suppliers to Sainsbury's, including own-brand and branded product sales, to help make customer baskets healthier.

[12] See for instance page 7 of the report.

47. We recognise that if more people ate in line with the UK's dietary guidelines for health, the Eatwell Guide, then we would deliver improvements in health outcomes alongside improvements in environmental impacts (see here for more details).

48. As a result, we aim to make 85% of our total sales tonnage (from food and soft drinks) a healthier choice by 2025. We report progress against this target annually and publicly. Full details can be found on our corporate website. Definitions of a healthier choice can be found here. They align to Government targets for reformulation, labelling and health and nutrition claims.

49. In addition, for our own-brand ranges, we have had a longstanding commitment to reformulation of everyday essentials. Nutrition benchmarking is built into our product development gate process. Products are routinely benchmarked against their direct competitor(s) for nutrition to ensure they are at parity, at a minimum, for nutrients of concern.

Animal welfare and the environment

50. We have set commitments to improve the animal health and welfare and environmental credentials of our products which we report against annually. Our long-term ambition as a retailer is to sell meat which is farmed to higher animal welfare standards than the UK industry baseline (i.e., Red Tractor).

51. Our suppliers must maintain baseline minimum sourcing standards, including animal welfare and the environment, which apply across all tiers and own brand products. We work closely with our suppliers and aligned farmer groups to positively influence farm practices, improve welfare standards and reduce their environmental impact.

52. We have a long history of using our pioneering and outcome-based approach to measure, monitor and manage animal health and welfare within our supply chains, using KPI data and insights to enable our farmers to benchmark their performance against each other and focus on continuous improvement. This has led to tangible improvements such as reductions in disease and antibiotic usage – more detail on our progress can be seen in our publicly available reports which we update annually here – but some highlights include:

- We have seen a 51% reduction in lameness 2011-2022 in our dairy liquid milk supply chain.
- We have seen a 47% reduction in total antibiotic usage 2017-2022 in our pork supply chain.
- We have seen a 50% reduction in pododermatitis in our chicken supply chain 2019-2022.

53. We also have a defined health and welfare roadmap for each species, which ensures we are always looking for ways to source to standards above and beyond Red Tractor, whilst continuing to provide competitive prices.

54. As we outlined in paragraphs 21 and 22, in our chicken supply chain we have improved baseline animal welfare standards and, due to how we work in partnership with our suppliers, this has not come at any additional cost to our customers, so they can buy better welfare chicken from us at the same affordable prices. This builds on the same approach we took to improving laying hen welfare many years ago, having moved to selling 100% cage free eggs over 10 years ago to provide our customers with higher welfare eggs at the same affordable prices.

Does the structure of the UK food supply chain support overall domestic food security (both self-sufficiency and the availability of imported foods)?

55. As outlined in paragraphs 12 and 13, the UK's food supply chain has been subject to a series of significant external and global shocks, which have had an extreme impact on our supply chain. Despite these challenges, overall domestic food security has proved resilient, and the overall availability delivered day in day out is indicative of the industry's strength in many areas. However, the UK food supply chain will continue to come under increasing pressure to support overall domestic food security in the coming years with continued labour shortages, the threat of climate change, increased regulation and difficulties with the planning system. As outlined in paragraph 6, we believe that greater collaboration between all players in the agri-food supply chain can help to a) tackle these challenges and b) deliver increased sustainability for the agri-food sector and wider economy.

56. As the Government implements the new Environmental Land Management Scheme and delinks payments for farmers between 2024 to 2027, it will need to ensure that it balances the requirement to maintain food security with its sustainability objectives. As part of this, it will be imperative for policymakers to develop a clear strategy for areas of the agri-food supply chain which we want to prioritise as a country for self-sufficiency, and areas where we will import foods to support domestic food security.

Affordable and healthy food

How successfully are supermarkets promoting affordable and healthy eating in the current high food inflation environment and what steps could they take to increase the take-up and affordability of healthy options? How are promotions, such as multi-buy offers, supporting healthy eating including for those on low incomes, and also affecting levels of food waste?

<u>Our commitment to supporting healthier choices for all</u>

57. Helping customers to eat well has always been at the heart of Sainsbury's. Historically this has been driven through healthier product ranges, product reformulation of core essentials and by helping customers to make informed decisions at the point of choice.

58. As outlined in paragraph 48, we have set an ambition to increase healthier sales (tonnage) from 82% to 85% by 2025, from both branded and own-brand sales. To support this commitment, in the last year, we have invested over £560 million into the price of centre-of-plate items such as produce, dairy, meat, fish and poultry. In addition, as part of our Aldi Price Match campaign, over 70% of lines included were a healthy or better-for-you choice, helping to make them more affordable too. We ceased running unhealthy multibuys as a promotional mechanic on food and soft drinks in 2016, well ahead of the Government's plans to restrict unhealthy multibuy promotions in England, so we cannot comment on the impact of this on affordability during this time.

<u>Dedicated help to healthy options for the most vulnerable customers</u>

59. To help support the most vulnerable customers, we were the only retailer to top up the Healthy Start Vouchers (a benefit given to very low income pregnant women and families with children aged 4 or younger) with an additional weekly £2 towards fruit and vegetable purchases. The campaign has run 3 times since 2021, for a period of 3-6 months each time. Redemption of this voucher was almost three times the national average for coupons at that time. Independent analysis of this campaign by Leeds University has shown that among customers who redeemed the voucher, purchases of fruit and vegetables increased by an average of 13 portions in redeeming baskets versus non-redeeming baskets. Analysis also showed that discretionary choices were modestly lower in a redeeming basket too, meaning that baskets got healthier overall.

Investing in initiatives to learn 'what works' to transition customer baskets towards healthier choices

60. Sainsbury's has been a longstanding partner in public health research. We have been actively running healthier retailing initiatives and working with academic partners to independently evaluate their impact on healthier and more sustainable diet outcomes.

61. Findings from the majority of these studies can be found in the reports from the Consumer Goods Forum and Impact for Urban Health, and in a report and case studies by the Institute of Grocery Distribution. This work has shown that whilst price reductions (to 60p) can help encourage purchase intent in fruit and vegetables, this behaviour is not sustained post-promotion and the impact of these discounts can vary according to the type of product on offer and the perceived value that this can offer.

62. In contrast, work to personalise and incentivise greater fruit and vegetable purchases, as part of our annual Nectar Great Fruit and Veg Challenge – where customers are rewarded with loyalty points for increasing their purchase of fruit and veg and for trying something new – has proved to help significantly increase purchases with year-on-year participation in the challenge. Moreover, analysis by Leeds University has shown that these behaviours can 'stick' for up to 8-weeks post-intervention, especially for vegetables.

63. Finally, our studies have shown that placement interventions – moving healthier cereals to eye-level or ranging plant-based meat alternatives next to the meat options – had no significant impact on cereal purchases, or on meat purchases, respectively. This work shows that we need to continue to test and learn to understand what works in practice, to help customers make better choices.

What challenges do low-income households face, in both urban and rural areas, in terms of accessing affordable and healthy food from a choice of retailers?

64. We support our customers to access affordable and healthy food in both urban and rural areas. We have over 600 supermarkets and 800 convenience stores across the UK, in addition to our groceries online operation, so our customers have a wide range of ways through which they can choose to shop with us.

65. We are committed to offering the very best prices for our customers when they shop with us, and there is consistency across pricing whether shopping online or in-store at our supermarkets. As outlined in paragraph 58, 70% of our products in our Aldi Price Match are healthy or better-for-you, helping to make healthy choices more affordable too. Additionally, our Nectar Prices scheme is now available online, meaning customers with a Nectar card can make great savings on a wide range of products, both online and in-store. We are constantly reviewing this offer and are also exploring options for roll out of our Your Nectar Price offer online as well.

66. Our convenience stores face a considerably higher cost to serve in terms of rents, rates and labour than our supermarkets and we operate different price files to reflect these costs. We also have a significantly smaller range of lines given the limited availability of physical space. Indeed, our convenience stores' typical range is around 5,000 SKUs (v over 30,000 SKUs in an average supermarket) and is carefully curated based on local customer demand and competition, typically serving a "food to go" or "food for tonight" customer mission. Our customers can continue to access our other channels which stock wider ranges whether that is through one of our nearby supermarkets, Neighbourhood stores or through our online offering. As for entry price point products, we will be reviewing the performance of our Stamford Street range, stocking it where appropriate.

What measures could be taken by central and local government, and others, to enhance cooking skills to reduce reliance on processed food and improve access to self-grown food, in particular for lower income households? What challenges do such ambitions face given the pressures of modern living?

<u>Understanding customer barriers to eating well</u>

67. Cooking skills are not the only drivers of less healthy food choices. Three in four of our customers tell us that they aspire to a healthier diet, but achieving this can be complex for many people. In our research with customers, we have identified the three biggest barriers to eating well:

    - #1 Affordability – 'Healthy' food is often perceived to be more expensive both in terms of the price of ingredients and the cost of preparing meals from scratch. In recent times the cost of cooking has played an increasing role in the affordability of healthy meals.
    - #2 Inspiration – Customers often find themselves stuck in the day-to-day routine of preparing the same meals to simply survive the week – health is a consideration, but not a driving factor. In fact, 1 in 10 customers say they want to eat healthy meals, but they need inspiration.
    - #3 Time & Effort – Often eating well is felt to be more effort, take more time and overall, not meeting the need for convenience. This encompasses all the stages of cooking/eating – from pre-planning, shopping to preparing and cooking meals. Each stage requires extra thought to actively build in health, therefore creating a heavier mental load.

68. Recent research also shows us that there is a notable say-do gap when it comes to healthy eating. This is particularly evident when we look at specific food groups; whilst customers are effective at estimating their fruit and vegetable purchases, they are much less accurate when it comes to starchy carbohydrates and, more importantly, discretionary foods.

69. There are differences across the various national demographic groups with C2DEs having the highest proportion of discretionary items in their diet. The over-55s are overestimating the healthy choices they are making and the 18-34s are making the greatest improvement in this area.

70. There is a real opportunity for industry to support shoppers along their health journey; guiding shoppers towards healthier options through education and navigation, targeting interventions based on personal health barriers, as well as celebrating and reinforcing positive behaviour.

<u>Understanding how we can help everyone eat well, and identifying community-led priority areas for action</u>

71. Sainsbury's has a long history in the communities we serve, and through our Community & Partnership strategy we are focussed on tackling food poverty to support the needs of the most vulnerable. In the last year, we have raised £34.5 million for good causes and earlier this year we reached a significant 10 million meal donation milestone with our food redistribution partner Neighbourly, saving 4,500 tonnes of food going to waste in the process.

72. In 2022, we launched Nourish the Nation with Comic Relief to tackle food poverty. This programme funds initiatives to help communities access balanced, nutritional, sustainable food, as well as projects to help prevent people and communities falling into food poverty. Through this partnership we have been supporting Feeding Britain and The Bread and Butter Thing:

- Feeding Britain works in partnership with local food networks to develop community-based projects which supports families on low incomes before they reach crisis point and need to rely on food banks. Funding from Sainsbury's is supporting four food clubs to prevent hunger, reduce food waste and lift people out of poverty through a combination of affordable fresh ingredients for families to take home, cookery sessions, and wraparound support to maximise family incomes, manage debts and budgeting.

- The Bread and Butter Thing runs more than 75 mobile food clubs, delivered in partnership with local community hubs, which provides people who are struggling financially with easy access to nutritious, quality and diverse food at an affordable price. With support from Sainsbury's, The Bread and Butter Thing will widen its impact to ensure communities in deprived locations have access to quality and sustainable food and support services.