HOUSE OF COMMONS

Environment, Food and Rural Affairs Committee

Oral evidence: Fairness in the Food Supply Chain, HC 160

Tuesday 19 March 2024

Ordered by the House of Commons to be published on 19 March 2024.

Watch the meeting

Members present: Sir Robert Goodwill (Chair); Ian Byrne; Rosie Duffield; Barry Gardiner; Dr Neil Hudson; Mrs Sheryll Murray; Cat Smith; Julian Sturdy; Derek Thomas.

Questions 182 - 285

Witnesses

I: Peter Dawson, Policy & Sustainability Director, Dairy UK; Rod Addy, Director General, Provision Trade Federation; and Robert Sheasby, Chief Executive, The Agricultural Industries Confederation.

II: Bas Padberg, UK Managing Director, Arla Foods; Sarah Arrowsmith, Chief Executive of UK Grocery, Associated British Foods; Dominic Hawkins, UK Head of Supply Chain, Kraft Heinz; and Marc Woodward, UK and Ireland Head, Unilever.

Written evidence from witnesses:

– Dairy UK

- Provision Trade Federation

- The Agricultural Industries Confederation

Examination of witnesses

Witnesses: Peter Dawson, Rod Addy and Robert Sheasby.

Q182 **Chair**: Welcome to this session of the Environment, Food and Rural Affairs Committee where we are continuing our inquiry into fairness in the food supply chain. We will have two witness sessions this afternoon. I will start with the usual stricture that we must keep questions and answers as brief and as pointed as possible. If you agree with what one of your colleagues has said, do not be afraid to just say, "I agree" rather than repeating what has been said. I will start by asking our witnesses to introduce themselves and describe their roles.

Peter Dawson: Good afternoon. I am Peter Dawson, the Policy & Sustainability Director of Dairy UK, the trade association that represents dairy processors in the United Kingdom. My responsibilities cover primary economic and commercial issues affecting our members.

Robert Sheasby: I am Robert Sheasby, the Chief Executive of the Agricultural Industries Confederation, a membership organisation with over 230 members across the UK, representing interests in animal feed, arable marketing, crop protection in agronomy, fertiliser and seed.

Chair: Those are mainly things that farmers buy in rather than things farmers sell.

Robert Sheasby: Typically the inputs that farmers require, but it also covers the marketing of seeds, grains and pulses post farm gate.

Chair: Thank you. And Rod Addy?

Rod Addy: I am Rod Addy, the Director General of the Provision Trade Federation. We operate in three food sector areas—dairy, pork and fish—and support our members through trade. We act as a lobbying group—a voice—between our members and the Government. We have just over 100 members, who are mainly based in the UK but some are overseas.

Q183 **Chair:** The background to this inquiry is the massive inflation in food prices that we have seen since the invasion of Ukraine. We have seen inflation of 24.8% in the two years to January this year which, putting it into perspective, is equivalent to the food price inflation over the previous 13 years.

I will start with a question for you, Peter. Farmers in the dairy sector are the ones who seem to be the most exposed to price fluctuations and, in many cases, complain that they cannot make a decent income. How would you say that processors and manufacturers have altered their practices as a result of high rates of food price inflation in recent years?

Peter Dawson: Looking first at the products offered to consumers, there may have been some changes to the product mix because consumers are more focused on value during periods of high food price inflation and there may have been some simplification of product lines. I hope that now consumer confidence has picked up a bit we will be able to revert to the same full spectrum of product offerings that we had before.

The fundamentals of supply chain relationships with farmers remain unchanged. Unfortunately, the dairy industry now is exposed to a global pricing dynamic. The global supply-demand balance for raw milk as manifested in the commodity markets drives raw milk prices. It provides the underlying trend and that is true of all industries exposed to the world market, which includes us.

Q184 **Chair:** I can see that applying to cheese and butter and other commodities that are internationally traded, but are things like liquid milk and some of the more perishable dairy products also susceptible to what is happening globally?

Peter Dawson: To a degree, yes. There is a segment of the UK dairy industry that is, to a degree, isolated from these trends. For dairy farmers under aligned supply chain arrangements with retailers, it is the retailers in those arrangements that determine the price paid, and for many retailers the price is based on the cost of production. However, those arrangements only cover about 20% of milk volume in the UK. The rest of the milk supply is subject to the global pricing dynamic, which ultimately also embraces the liquid milk market. If market prices are rising, the returns from liquid milk must also be competitive and that is the mechanism by which liquid milk is ultimately linked back to commodity markets.

Q185 **Chair:** Robert, you supply farmers, and farmers are facing pressures from above. Are you the meat in the sandwich in some ways with pressure put on you by the farmers?

Robert Sheasby: As Peter touched on, a lot of products are in a global marketplace. Products such as feed materials, sources of feed materials and sources of ag-chem products move around the world, and whatever the global market is tends to be based on if the UK wants to pay that price, and the product is available for UK consumption. If the UK does not want to pay that price, the product will move to a different marketplace. That applies across animal feed, crop protection, agronomy products, fertiliser and seed.

Q186 **Chair:** Understood. Rod, how has the way in which inflation has unfolded affected the sector you represent, particularly for fish? We eat a lot of imported fish but following the problems with buying fish from Russia, which we all understand, you must have had particular problems. Have you?

Rod Addy: Yes. It has been a challenge that highlights the global volatility that we currently face in the food supply chain and the volatility is not going away any time soon, much as we might wish it to. The impact of climate change will continue to ripple through the chain for probably more than a decade, I would suggest. You are looking at decades. I argue that we need a different paradigm for looking at food and food production.

Q187 **Chair:** When inflation hits, prices go up very quickly. However, the prices of wheat, oil seed and quite a lot of commodities have fallen recently. Milk prices have eased off. It has been a little bit like at the petrol pumps where they put the price up straightaway but when the price of crude oil falls it seems to take a long time to trickle through. Is that a fair criticism of the people you represent, Peter?

Peter Dawson: No, I don't think it is. I think our members, the dairy processors, are feeling the impact of food price deflation quite severely. Their prices came under immediate pressure once the commodity markets started to fall back. The cheese sector suffered quite badly because it was buying more milk at a high price and selling the resulting product, which had matured, on to a declining market. The impact on the consumer is very much at the discretion of the retailers and I cannot speak for them about what pricing policies they would adopt.

Q188 **Chair:** Could we see prices in the supermarkets fall? We have talked about inflation easing back to 4% and possibly prices for some commodities not increasing at all. Is it not within the psyche of the retail sector to cut prices rather than just taking advantage of falling input prices and the cost to them of the products they are putting on the shelves to increase their profits?

Peter Dawson: I presume that if there was a sufficient degree of competition between them, ultimately any fall in wholesale prices would percolate through to the consumer. However, that depends on the competitive dynamic among the supermarkets and I am not privy to the pricing strategies they have elected for their own businesses.

Q189 **Chair:** Do you agree with that, Robert?

Robert Sheasby: Yes, Peter is right. When input prices go up, they usually pass through the supply chain, but the marketplace for agricultural inputs is very competitive. They are traded globally and when prices fall, the input prices fall. We have seen that happen across all farm inputs in the last 12 to 18 months. They have come back from the highs of 2022 and moved substantially. Most notably we were talking about the price of ammonium nitrate at £900 a tonne a couple of years ago. It is now back to somewhere around £350 a tonne. Grains that were at £400 per tonne are now trading at nearer to £160 to £170 per tonne.

Q190 **Chair:** Yet the price of bread has not come down.

Robert Sheasby: I am not responsible for bread, I am afraid, Chair. You might want to put that point to another witness. It is not for me to make an observation about what is happening there. Energy prices have moved but that is also for somebody else.

Q191 **Chair:** I think Peter Dawson used the words "percolate down". People get the impression that when prices rise, they rise quickly on the shelves but that when prices of inputs fall, the effect percolates down slowly. Do you recognise that characterisation? You did use the word "percolate", Peter.

Peter Dawson: I sympathise with that impression, but I cannot say authoritatively whether it is so. I would have thought that Government statistics on retail prices would be the best indication of what is going on and the CMA would be the best body to give you an insight. The CMA has been looking into various sectors and did not find a problem with liquid milk, but concluded that it was a low-margin sector and has only singled out infant formulas for further investigation. That is the only information I can provide.

Q192 **Chair:** Do you have anything to add, Rod?

Rod Addy: I approach this slightly differently. Over the years, I have come to experience a lot of oppositional language, retailers versus suppliers, and I think we have to move away from that. I think it is vital to move away from it because if we don't, a lot of the problems will persist. Yes, retailers have to make a margin, and looking at their turnover, that margin seems like quite a lot, but you have to balance that against the fact that they are extremely large businesses and they need to reinvest. It is not that the profit is going nowhere; it is going back into the business. The question is whether the profit could potentially be redistributed in the supply chain. There is something to look at. While you are bogged down in arguments about fat cats making profits, you will never move on to a point where you can have serious discussions about those sorts of things.

Robert Sheasby: I want to add, if I may, that people in the supply industry use written contracts, and those contracts are written into the future. When prices are moving up, people take positions that cover them for a period into the future.

You talk about how quickly prices might come down. I cannot say this applies to all but I have a copy of an AIC contract here as an example. Prices are written in and pre-agreed contracts that are in place have to unwind through the marketing period. Take the animal feed sector. People may take a position every month on their requirements for the coming 12 months, hedging against volatility in the marketplace. The contracts build up and then unwind over time and that might be why, if you are looking at the spot price and then at what is happening more widely, you will not see a direct correlation because you cannot see where the contract prices are factored in because they are private between the contracting parties.

Q193 **Chair:** I think that is what we saw with eggs when the price of chicken feed went through the roof. Some people were cushioned by their contracts while others were losing a lot of money and the supermarkets held them to their contracts and then wondered why there were no eggs in the autumn. Is one of the problems with some of these contracts that they do not allow for flexibility? Rod, do you want to add anything?

Rod Addy: You need a balance in fixed-price contracts. A fixed-price contract is a two-edged sword. They are a bit like mortgages. If you fix when the rate is low, you are quids in until the end of the term. If you fix when rates are relatively high, however, and then the rate goes down, you are held to quite high levels of damage. It works both ways. I think you need a system where you might have a longer-term contract to guarantee the relationship but the contract is perhaps a little more variable—going back to the mortgage analogy—and can respond more flexibly to inflationary pressures up or down and that is built into the system. I would argue for more flexibility.

Q194 **Chair:** Are supermarkets looking for longer and longer contracts? We heard about apples from Ali Capper in an earlier evidence session. Supermarkets were expecting growers to sign contracts before the trees had even blossomed, let alone formed fruit.

Rod Addy: That is where you need the balance. You need a longer guarantee, but you also need flexibility as well as understanding and recognising that the supply chain takes a long time—seven years—to grow an apple crop once planted. Take livestock farming. You cannot turn it around overnight. The investment in farms and all the running costs need to be factored into the equation. Beyond all of this, however, and I am sure we will get on to it, we need a co-ordinated UK-wide food policy that will pull all those strands together and recognise all parts of the supply chain equally.

Chair: The consumer group Which? has found that many shoppers are experiencing shrinkflation, where the size of the pack has reduced. That is usually used as a way of increasing unit prices. What is driving this trend? Is it inflation or the need to differentiate products on the shelf? Some consumers might miss that this pack of butter is 200 grams and that one is 250 grams, and particularly in dairy that seems to be happening, Peter.

Peter Dawson: You have to bear in mind that there is a huge spectrum of products made available by the dairy industry. It is not just by UK producers, there is also product coming in from overseas, Europe primarily. You also have to bear in mind that a lot of the production for the retail sector is own label, so it is at the specification of the retailers.

In respect of whether it is a widespread practice in the dairy industry, I have never seen definitive data on it, but I do not think it is the case for liquid milk, because liquid milk normally comes in very standard, uniform packaging sizes and it is difficult to vary those sizes at relatively short notice. For the cheese sector, it has always been the case that you can vary the portion sizes depending on the price point the retailer wants you to meet. That has always been very much a feature of that market.

I do not have much information on other products. While it may have helped to cushion consumers from the full impact of food price inflation, it also helped to protect long-term demand, which could have been significantly eroded if the full impact of prices had gone through. It may reverse itself, I don't know. We do not have enough data on it to speak about the magnitude of impact.

Q195 **Chair:** Anything to add on shrinkflation and the change of packing? Is it something your members consciously look at as a way of keeping their products at the price point or maintaining their profit margins?

Rod Addy: I think less so for our members because the bulk of them—I am sure with Peter as well—operate in the own-label sector, rather than branded. I think you see it more in branded. It is a natural outworking of the huge obsession with keeping prices as low as possible because that is a way of sneaking in what ostensibly looks like the same product but actually is cheaper.

At times it can border on misleading. However, I understand why a supply chain would go down that line and retailers would go down that line. If you are faced with the margin being squeezed on all sides and delivering to the consumer, it is a way of delivering a product to the consumer—it might not be exactly the same product—at the same price point. You are seen to keep the price as low as possible.

We have an obsession with low price above all other considerations. We need to shift from a view of food that is about cost above all else to a view of food that is about value, the value of food in all its areas. If you are going to talk about cost, talk about cost as a whole across the supply chain and not just to the end consumer. I fully understand why that is a political hot potato. However, ironically, if you do that you start to get a handle on cost to the consumer as well.

Q196 **Rosie Duffield:** We are moving on to talk about the relationship between producers, processors and manufacturers. Who do you all think sets food prices?

Peter Dawson: If you look at the length of the dairy supply chain, when it comes to raw milk and the price between the processor and the farmer, that is set by this commodity pricing dynamic that I explained earlier and is subject to global forces. When that is then passed from the processor to the retailer, the retail prices are very much at the discretion of the retailer. They can decide, across the spectrum of their dairy product proposition, what products they want to discount, lead on and use as a means of encouraging footfall and other products in which they want to recover margin or, alternatively, they might want to recover discounting on that dairy product in an entirely different sector. It is very much for them to determine in competition with their competitors as to how they want to go about it.

Wholesale prices between the processor and the retailer for commodity products are determined by global market trends. For branded products, that obviously depends on the value to the consumer and, therefore, the value that the retailer places on that product. Their position in the marketplace varies depending on their own product portfolio. The greater the investment in brands the stronger their product proposition and the better able they are to negotiate a price on behalf of their business. You also have to bear in mind that a significant portion of the British dairy industry is owned by dairy farmers and operated on their behalf. Therefore, their ability to negotiate wholesale prices to retailers is also to the direct benefit of dairy farmers.

It is a complex picture. It is not possible at any given point to say there is one single mechanism that is moving it or one party is responsible. It is the interaction between three marketplaces over time producing their own lags and their own outcomes.

Robert Sheasby: Agriculture inputs are subject to the global marketplace. It is our members who are bidding against other countries around the world for the supply of inputs. They are also taking outputs, grains, from UK farmers and placing them either into domestic markets or in a year of surplus placing them into export markets. Commodities, by their very nature, are a liquid product. The world market price will determine what moves where. That will be influenced by policy, which could be tariffs that are set by Governments around the world. It could be set by weather conditions and the impact that has on productivity in different parts of the world. There is a third factor as well. There are global influences that come into play that will determine prices that people will bid or are prepared to pay for a flow of product to take place. That is a global competitive marketplace. You need that tension in the global market to see flows of trade.

Rod Addy: There is a global dimension. There is also the local dimension. Price is ultimately, on the one hand, determined by negotiation between the retailer and the direct supplier, and also the direct supplier and their supplier down the chain until you get to the farmers. If you have a farming co-operative group, they have more power to be able to push back on those negotiations because they are a larger entity. It is the same in general terms with brands. They have more loyalty with shoppers and command a bigger purchasing base often than own label and have correspondingly more power in the price negotiation. Own label is less so. Obviously the smaller business you are the harder you will find those negotiations.

Over and above that, there is a structural pressure constantly at work—the global supply chain, which is supply and demand internationally from ingredients. Also, I argue it has not been helped of late by—somebody had to say it first—certain trade deals we initially struck recently in the UK market that we are now seeing come back to bite us. You have the potential for supply to come into the UK from a country that has economies of scale that we do not have and, also, not always conforming to all the standards we have. All those standards cost. Therefore, they can undercut domestic suppliers and offer product at a much lower rate. That too will determine price. Again, if all we are is obsessed with is delivering the lowest price to the consumer, we will let that happen and domestic producers in the UK will suffer.

Q197 **Rosie Duffield:** Thank you. There were 200 tractors descending on my constituency a week or so ago because farmers are fed up with cheap imports, to be honest, and they are struggling to make ends meet.

Producers have told us that significant increases in the cost of production are not being reflected in farm-gate prices and that they are largely price takers. Is this an accurate reflection of the relationship between producers and manufacturers? I am thinking of apples in Kent, for example. Their storage and all those kinds of things are costing so much money.

Rod Addy: I think we need to get much closer to the farmer. In all of this, if you develop a food strategy the starting point is the farmer. I am not saying that is all you think about, but the starting point has to be the farmer because they are the start of that process. Honestly, if you read anything about the day-to-day life of a farmer you will realise how many costs are involved in running their farms, not just staffing but also getting around. With the concept that you can always sell your food at farmers markets, for example, you might be in the middle of nowhere, the nearest market might be miles away with the transportation of product involved in that and marketing your products. You are, to a certain extent, held hostage by the environment that you are in. That will pile costs on you, add complexity and also restrict your market to a certain extent, who you can feasibly sell to.

All of those costs—storage costs, staffing costs, cost of fertiliser, feed costs—have to be factored in. There are so many hidden costs and complexities that I do not think a lot of people understand.

Peter Dawson: I will elaborate a bit further. Essentially, as a country, we have opted to use the market to organise the agrifood sector. If you deregulate markets or move away from managed markets, which is what we have done, you end up with price volatility.

As I said, some mechanisms in the dairy industry protect farmers from that volatility, as in aligning supply chains, and also if companies have a strong brand proposition in the marketplace they can do what they can to try to protect their supplying farmers. However, there is a limit to their financial capability to do so. Ultimately, at the end of the supply chain, farmers are in a position where they are very much price takers. That is a result of the global pricing dynamic and the fact that farmers are producing a commodity-type product.

It is almost relatively inescapable. The industry is doing what it can to add value to try to protect farmers as much as it can but, unfortunately, farmers get the lows and the current situation is that prices are below cost production for many farmers. On the other hand, they get the highs. In 2022, dairy farmers had the highest prices on record. It is balancing out the highs and lows and maintaining their position over those cycles that is the challenge.

Robert Sheasby: It is certainly not easy, but there is an ability to sell forward and to buy forward. There are opportunities for farmers to buy their inputs forward at an agreed price. With grains, there are opportunities to sell forward at an agreed price. Therefore, they can manage some of that volatility and risk by entering into forward contracts. However, of course, that is down to the individual to choose and does not apply across all aspects of farm marketing.

Q198 **Rosie Duffield:** Specifically to Peter, you have argued that there is a high degree of competition between processors for raw milk that ensures a fair price for farmers, and that processors try to shield farmers from extreme price movements. We have heard that dairy farmers can usually only sell to one processor and are often receiving less for a litre of milk than it costs to produce. How do you respond to that?

Peter Dawson: I contest the assertion that farmers only have one processor to supply to. if you look at a map of the disposition of the dairy industry, location of dairy farming and the processing sites, you can see that towards the west side of the country, where most of the dairy farmers are located, most locations have a fair degree of choice of who they can supply. Most of them are in a locally competitive raw milk market. I do not think it is the case that they have only one option. That may be true on the east side of the country but there are very few dairy farmers left in that part of the country. Therefore, I contest that proposition.

On whether milk prices fall below the cost of production, as I have said earlier there are occasions in the price cycle where that unfortunately does happen. That is the inevitable outcome of having a market-driven industry.

Q199 **Rosie Duffield:** Do you think that supermarkets are better than they were? We all saw—I think it was Asda—cows being walked into the supermarkets, which I think piqued the nation as to what the problems were. Do you think things have improved since then?

Peter Dawson: If you look at the way supermarkets operate their line supply chains for liquid drinking milk, they have obviously made a commitment to underwrite the cost of production for that portion of farmers. They have not chosen to do that for other dairy products because there are alternative sources of supplies coming into the UK from outside the country, so there is not a necessity to invest in security of supply, which is the reason they did it in the first place.

Retailers are acutely conscious that they would like, if possible, to take a longer-term view. They have made strong commitments in some areas to industry sustainability, but they are constrained by their own competition in the marketplace and their own competitive pressures, so it cannot go as far as many of them would like to because they are in fierce competition with one another.

Q200 **Chair:** I was interested in what you were saying, Peter, about the global market and the way it can be very volatile. We did not always have that situation in the UK. We had the Milk Marketing Board and farmers had to sell to one purchaser. They were limited to how much they could produce by a quota system put upon them and if they produced too much it went into butter mountains and milk-powder stores as well. Is that system one you would like to return to?

Peter Dawson: That system was really a combination of domestic structures like the milk marketing scheme, the common agricultural policy, quotas, intervention purchasing, export subsidies and consumption subsidies. There was an entire architecture designed to try to stabilise prices to producers. As a matter of policy, Governments in the European Union, the European Commission and Governments in this country have been disassembling that market management mechanism and it has taken a great length of time to do it and also sort out what was basically a botched deregulation of the milk marketing scheme at the end of the last century.

We have only now got to a state where the industry has a proper integration of supply chains, greater degree of co-operation between farmers and processors and a better portfolio of branded products. It has taken us a long time to get there, so I do not think there is any keenness to go back to a system that, in itself, seemed to be very wasteful and very inefficient and putting an unnecessary burden on the taxpayer.

Q201 **Chair:** Would you say that British farmers are at a disadvantage because we have Arla, which is a big farmer co-operative but, by and large, farmers do not co-operate in the same way they do in some European countries? Do that mean farmers have less power generally?

Peter Dawson: It is not just Arla, there are other co-operatives in the UK. You have First Milk, Dale Farm, Long Clawson, South Caernarfon Creameries. If you add it all up, the amount of milk going to dairy co-ops in the country is about 40%, which is quite a significant market share. There is not any fundamental difference in the behaviour now between the co-ops and the private dairy companies. They all have to respond to one another, nobody can play fast and loose. I think that farmers can be reasonably confident of their structural position in the supply chain.

Q202 **Rosie Duffield:** I have to do this, I am afraid, Chair. Is anyone on the panel able to tell the Committee that Brexit has made this vicious circle easier and less complicated for everybody in all the bits of the supply chain? Could anyone say it is better or easier?

Peter Dawson: I do not think it is any worse, because the volatility started when we were a member of the European Union. If you want to go over the history of the dairy industry, we suffered volatility once the European Union scrapped export subsidies. That is when it started and is when we became fully exposed to the world market. We had volatility before we had Brexit. The problem with Brexit is high export administration costs, but other than it has not fundamentally changed the dynamic of the marketplace. There may be impacts arising from the free trade agreements we have negotiated, but they have yet to come through on dairy. Australia and New Zealand have not shown a great interest in this market, but geopolitical events may change their minds.

Rod Addy: To come in with a slightly different perspective, our members deal with tariff and non-tariff barriers all the time. It has been the mother of all headaches, frankly, for them from day one post-Brexit. I would potentially have been able to buy into Brexit if there had ever been a plan, but it is patently obvious that there was no plan from the beginning. I think that is heinous, frankly. Going back to having a national food strategy, for God's sake, if you are going to do something like that put a plan in place first. I think a lot of what you are seeing as the outworking of this is the fact there was no plan from the beginning and that tells a story.

Chair: We are in danger of departing from the fairness in the food supply agenda to bigger issues that have been debated in this place at length, as you probably realise.

Q203 **Derek Thomas:** Peter, this may not be relevant, but the new arrangements around exclusivity of dairy contracts might come into legislation in the next few weeks. Will that help or hinder some of the problems you have set out today in the relationship between the herds themselves and the producers?

Peter Dawson: We do not see that it should drive any great fundamental change in relationships between processors and dairy farmers. The objective behind the regulation is to give greater transparency in the price-setting process so that farmers should have a better understanding of the reasons as to why prices are changing. As such, it provides them with a mechanism so that if a purchaser is using a variable price mechanism the dairy farmer can perhaps set out in the contract the factors that will be used to determine price changes and can request an explanation as to what role those factors played in any given price change they are subject to. It gives them a dispute resolution procedure and an opportunity to raise a complaint to the Secretary of State. It is more about information and transparency than changing the fundamental market dynamics between the two parties.

Q204 **Mrs Murray:** I would like to turn to the Agriculture Act, which, of course, would not have been in place had it not been for leaving the European Union. Obviously, our colleagues opposite have a different view from me, but I think it is really good.

Chair: Keep to the subject, Sheryll.

Mrs Murray: I am, Chairman—the Agriculture Act. Are the Government making the best use of the fair-dealing clause in the Agriculture Act to promote fairer contractual practices throughout the food supply chain? Of course, we can do that now, which we could not before.

Peter Dawson: The first sector in which they have opted to make use of that power is the dairy industry. The statutory instrument has been laid before Parliament and I understand it has been debated and will come into force relatively soon. I have to use the term—we will be the guinea pig for other sectors where I understand the Government want to roll out this template. We will be the first in which an adjudicator is appointed to oversee any complaints that have been raised within the framework of regulation. That may potentially be a point of concern because what we, as a sector, do not want to see is the politicisation of the price-setting process. We want the adjudicator to stick strictly within the remit of interpreting the regulations, not get involved in recommendations on what would constitute an ideal or fair price—just operating the regulation as it stands. We will have to see how it pans out over time.

Our immediate short-term ask for DEFRA is for guidelines on the interpretation of the regulation. At the moment, our members do not have enough detail to draw up contracts to make them consistent with the requirements of this regulation. Until that guidance is available they are waiting, which will possibly plunge the supply chain into some degree of uncertainty because contracts may no longer be legal under certain deadlines within the regulation. That is what we want to see in the immediate short term.

Robert Sheasby: For many years the AIC, in conjunction with farming organisations, has had written contracts in place. If the Committee would like to see a copy of those, I will very happily submit one afterwards.

Rod Addy: In general terms, nobody could argue with the foundation of the Agriculture Act, part 3, clauses 21 to 26, on better and more transparent data provision subject to potential anonymity. The lack of written contracts, obviously, yes; recognition there are written contracts now.

My biggest concern is joined-up thinking. We have the Groceries Code Adjudicator in place to police the supply chain. How will the Agriculture Act integrate with that and how will the adjudicator in this case work with the GCA? I personally think the GCA as a model was fantastic. It has done tremendously well for the food chain generally. A big part going forward with a food plan would be to lend further support in that area to ensure fairness. The slight pause for concern I have is whether we are in danger of duplicating things and laying legislation on legislation. Is there a way we can look at existing legislation and make it work better?

Q205 **Mrs Murray:** If I can continue with you, Rod, the Government stated that agricultural producers tend to be small and unconsolidated compared with actors further up the supply chain who have substantial market share. Do you share this assessment and what impact does this have on profit and risk sharing along the supply chain?

Rod Addy: Going back to what I was saying earlier, there are supply chain imbalances. Some of those are inherent in any kind of market capitalist system, to be honest, and I have no qualms about the way our systems work in general for competition. There are ways to build in greater fairness, but clearly if you are of a much smaller scale and you are dealing with somebody on a much bigger scale it is a problem.

I do not think the problems end there with the power imbalance. There are ways in which you could improve relations between retailers and producers, and also big processors and suppliers. One way at the retail end, for example, is to encourage a relationship between buyers and their suppliers that spans a period of time. There is a lot of churn in buyers in retail, and the problem with that is that buyers do not have much experience of dealing with suppliers and the issues they face. If there was a mentoring scheme in place, for example, to support them or more experienced buyers who could provide support in those areas, that would certainly help, and also possibly looking at building in a longer-term span of contract for a buyer. I understand from the retail perspective why you need to move around to get some experience, but I think that would certainly help from the retail end. It is structural as well as just about size.

Q206 **Mrs Murray:** Do you have a view on that, Robert?

Robert Sheasby: I do not think I do directly because that is the third party. When you are trying to look at managing inflation I support a little bit of what Rod said earlier about having a land use strategy. That way, you start to give a very clear signal about encouraging inward investment in UK business because then there is a confidence. Tie that up with food security and suddenly you have a production base in the UK that knows what it has to do, knows the policy framework of what the wishes of Government are and can meet that demand, whether that is internal investment or external investment that is encouraged confidently to increase into the UK. Then you start to protect yourself perhaps from global volatility at that point because you have a degree of home production that can help even out some of those shifts in global markets.

Q207 **Mrs Murray:** Peter, obviously you have a lot of small producers.

Peter Dawson: Yes, there are about 10,000 dairy farmers but, as has already been discussed, a lot of them are organised in dairy co-operatives that operate on their behalf. That is about 40% of the milk. In addition to that there is an intermediary organisational form called the producer organisation. This is where producers supplying a private dairy company can come together, create a single entity and that entity then negotiates on their behalf with the buyer. Effectively we have two of those in the

United Kingdom that account also for a significant portion of milk. Then you have informal supply chain arrangements between private dairy companies and their supplying farmers. I think on balance in the dairy sector, farmers are very strongly represented and they structurally have quite a strong position. I do not think that the question of the scale of individual farmers is as much of a problem in dairy as potentially in other sectors.

Building on the point about strategy and confidence, our sector senses a lack of completeness in the framework we are operating in with Government strategy. The one clear signal we are getting is that the Government want us to export more but that is not tied to any production strategy. Do they want the dairy sector to grow, shrink or stay the same? We do not really know, and it would help to give confidence to dairy farmers and processors to invest if they knew exactly where they stood with the Government's aspirations for the sector.

Q208 **Mrs Murray:** Thank you. Continuing with you, Peter, the Government have introduced regulations to promote greater fairness and transparency in the dairy sector, as you quite rightly said. You have argued that it is necessary that these allow producers to retain a degree of pricing flexibility. In your view, do the regulations strike the right balance and why is the price flexibility so necessary?

Peter Dawson: On the whole, we believe it does strike the right balance between greater transparency for the farmer, the producer and maintaining flexibility for the processor because the processor is selling into volatile markets. They operate in a situation with certainty. It would be extremely difficult for dairy processors to commit to fixed prices for any great length of time, so you need to have a flexible pricing arrangement.

What we have always wanted to avoid under the regulation is a requirement to use price formulas where you just put data into a mathematical formula and a number falls out at the other end, because no formula ever describes the vagaries of the world market as it unfolds. As such, we think that DEFRA has found the right balance between that aspiration for transparency while retaining the flexibility that the co-ops and private dairy companies need to compete in what is an international marketplace.

Q209 **Chair:** Before we conclude, would you say, Rod—and I think I get the impression that you were saying this—that the powers of the Groceries Code Adjudicator should be extended further through the supply chain, rather than just those who deal directly with the supermarkets? Do the supermarkets have a role to play in taking a more long-term view on the way they do their purchasing, rather than maybe instructing their purchasers to get the very best deal and not worry about what is going to happen the next year or the year after when the apples have been grubbed or the dairy herds have been sold?

Rod Addy: Yes. I think there is scope for looking at extending the powers of the GCA. That would deal partly with having a coherent approach to the whole supply chain, because that is what you need, not working in silos. Certainly there is scope for extending the work, as has been suggested before, not just by me, to look at big suppliers or more retailers. There is the online piece—obviously Amazon is being looked at by GCA—and consideration for other online retailers and so forth, because we are in that market now. I think there is a piece around that.

Beyond that, yes, to your point about a different way of working from retailers themselves there are good examples of where retailers are working well, reinvesting and supporting suppliers. I think they provide models and examples that could be used. For example, in May 2022, Waitrose said it would cover the full cost of rearing and producing pigs, including labour. In September 2023, Lidl financially incentivised farmers to go into egg production. These are examples where you have retailers working with farmers and suppliers to a joint end, and I think they are instructive.

Chair: Thank you very much for your evidence. We will now move on to the second session.

Examination of witnesses

Witnesses: Bas Padberg, Sarah Arrowsmith, Dominic Hawkins and Marc Woodward.

Q210 **Chair:** Welcome to the second session of the EFRA Committee in which we are looking at fairness in the food supply chain. I will ask our witnesses to introduce themselves, starting with Marc Woodward on my left.

Marc Woodward: Good afternoon. My name is Marc Woodward. I am the Head of Country for Unilever in the UK. We are a UK-headquartered global organisation and we are proud to have served UK shoppers and consumers with several brands for over 100 years. Our business covers food and non-food, although food is about 40% of the UK business with brands such as Colman's and Marmite.

Bas Padberg: Good afternoon. My name is Bas Padberg. I have been working for Arla Foods for the last 10 years, and since January this year I have been responsible for Arla Foods UK. We are a farmer-owned co-operative with almost 2,000 farmers in the United Kingdom, where we collect milk every day and we process that, together with our farmers, into delicious products of milk, butter and cheese.

Sarah Arrowsmith: Good afternoon. I am Sarah Arrowsmith. I am the Chief Executive of ABF's UK Grocery. My division consists of several businesses making a variety of staple foodstuffs, such as Allied Bakeries, which makes Kingsmill and Allinson's; World Foods, which has Patak's and Blue Dragon; and Jordans Dorset Ryvita, which makes cereals and savoury crackers. We make brands and retailer brands and we supply all of the UK retail and food service business. We have 25 sites across the UK and employ about 5,300 people.

Dominic Hawkins: I am Dominic Hawkins. I am the Supply Chain Director for northern Europe at Kraft Heinz and, like my colleagues you have heard here today, we are proud to manufacture a lot of food in the UK. We have three large sites in the UK at Kitt Green, Telford and Worcester, making brands that we have been selling here for well over 100 years—Heinz, HP and Lea and Perrins.

Q211 **Chair:** I do not know if this is a coincidence, but two of your organisations have made announcements today. Arla has announced a £179-million investment in the UK. We are very grateful for that confidence in the UK economy with 119 new jobs, but we read that Unilever has announced globally that it will be cutting 7,500 jobs and spinning off the ice-cream business. Is that because of global trends or competition?

Marc Woodward: The global board has announced today that it is going to focus on the ice-cream business in a new way. It is a different supply chain in many ways. It is a frozen supply chain. The seasonality of the business makes it slightly different, with a much bigger emphasis on summer, and the view is that we can do much better focusing on that piece of business by treating it as a stand-alone organisation. It remains part of Unilever but it will stand alone.

Q212 **Chair:** Understood. The 7,500 jobs globally will not be lost but transferred to the new stand-alone ice-cream business?

Marc Woodward: This was only announced this morning and, given it is price sensitive, I am in the position where I am still understanding how it will work. For context, it is 7,500 jobs across the globe and we employ about 128,000 people across the globe. It will take a little time before we understand exactly what the implications of that are.

Q213 **Chair:** Will there be any impact on UK jobs?

Marc Woodward: It is too early to tell at this stage. When I get an understanding of what that will be, I will want to discuss it first and foremost and consult with people in the UK. The focus will be on head office staff in the main, but it is a global programme, not focused on the UK.

Q214 **Chair:** Okay. The announcement made this morning was disconnected. It was not that you wanted us to ask you about it today particularly.

Marc Woodward: I think that is fair, yes.

Chair: Thank you very much. Maybe you could write to us when you do know a little bit more about the UK impact. That would be useful. Derek, would you like to start the questions?

Q215 **Derek Thomas:** Yes. It is nice to know that this Select Committee has such powers over a global company. This is to anybody who wants to chip in. How have the high rates of food price inflation experienced in recent years affected your company and how do you expect prices to change in the short and medium term? I think everyone is interested in that. Who wants to start? How have they impacted you so far? How do you expect it to look in the short and medium term? Dominic, you are looking keen.

Dominic Hawkins: Yes, I can go first on that one. It is a great and very important question and an area that preoccupies us. We went through a very long period of relatively stable pricing in the UK. We heard it referenced at the beginning of the last session that probably for the 10 or 13 years running up to the beginning of the pandemic we saw quite stable rates of inflation and relatively stable rates of food pricing. If I look at what has happened to us and a lot of the industry, we have seen a big change since 2020-21 driven by two or three key factors—the pandemic and the impact on global shipping had a significant impact on the cost of moving goods around the world.

It is worth saying that we have a global supply chain, so a lot of the key commodities that we use to manufacture products in the UK come from a long way afield—tomatoes come from places such as California and the continent, the beans that go in baked beans predominantly come from North America in the Great Lakes area. Things such as transport have a big impact, the war in Ukraine clearly had a very significant impact, as well as other geopolitical or policy changes such as some of the additional complexity we see with tariff and non-tariff barriers post-Brexit.

To answer the second part of your question, looking forward, we have seen some easing in inflation over the last year and we take the opportunity when we do that to start to look at how we can reinvest to ensure that our products are as competitive as possible. If you were to look at shelf prices for some of our products today you would see that we have invested very deliberately over the last six months to ensure that they are as competitive as possible for our consumers. To answer your question, there was a long period, or a two or three-year period, where we saw very significant inflation, and there is some easing of that, but I would not say that means there is deflation in most of our key commodities. They are still significantly more expensive than they were certainly pre-pandemic and pre-war in Ukraine but as we get the opportunity we now invest in prices to ensure that we can remain competitive for our consumers.

Q216 **Derek Thomas:** Not necessarily Dominic but anybody who wants to answer, when you see prices go as they have done with quite significant increases, does that change your business model so that you do not invest in the business as much as you would do normally, or do you try to invest in the business to get the prices to be more realistic? Bas, do you want to pick up on that?

Bas Padberg: To comment a little bit on your earlier question, I think where it starts for all of us with food and price inflation is at the farm. That is really where it started in 2022, for the same reasons as just described. Cost on-farm has exploded, in that fertilisers have increased—I am looking at 59%. Petrol has increased 29% and the cost of feed has increased 14%. It is very simple for the farmers—if they do not get paid the price they need they cannot continue to farm. That is where it presses.

There is also the necessity to bring those costs to the retailers and that, I think, is the whole tension and that sits in the supply chain. At the end of the day we all want the same favour and it is the favour of the consumer who is buying an affordable, good-quality product. That is where the competition in the supply chain starts, from the cost at the bottom versus competing for the favour of the consumer.

Moving forward on that, our assumption is that volatility will remain. It will not go away. We will have higher highs and lower lows for milk prices and global trading that some of the other witnesses explained to you earlier. Working in partnerships with retail is very important for us to get stability in the supply chain. At the end of the day, the farmer needs to get a fair price, otherwise it is not sustainable.

Q217 **Derek Thomas:** We saw with milk that it started to get to what I suspect is probably the right price rather than an expensive price. Was it you determining the price to the retailer and to the farmer or was it global supply? What determined that increase in the price of milk to consumers?

Bas Padberg: In 2022, it happened almost simultaneously. The volatility that happened with the whole situation in the Ukraine has never been seen before. The rally of prices going up was unusual and I have never seen it before. If it is that high, there is no other way than taking price increases. It is as simple as that. If it is just a few per cent sometimes you can manage it, but with these kinds of increases there is no other way than to increase prices.

Q218 **Derek Thomas:** I hear that and I do not want to prolong this, but farmers will always tell us that they get paid quite often, certainly before the recent increases, less than the price of production, but that has not necessarily put the prices up in supermarkets. You get a flurry of activity and Morrisons and others might put it up 10 pence per litre for the farmers to get more, but how can you be confident going forward that as milk and dairy prices come down that farmers are not going to be plunged, if they are not already, back into producing milk for less than their cost of production?

Bas Padberg: I think our view on moving forward is what the company is doing now. We have organised ourselves as a big dairy co-operative where we can spread our risks and businesses around different parts of the world, hence the announcement this morning where we are starting to invest in the UK, instead of the odd factory. That would allow us to sell whey products in the UK but also outside the UK, so that we have options to get the best possible price for our farmers. Playing at those different levels will allow us to better deal with that situation.

Q219 **Derek Thomas:** It will iron out the peaks and the troughs. Sarah, in your particular area, ONS data showed that annual food price inflation for breakfast cereals had increased by 8.7%. How much have your production costs for Dorset Cereals, for example, increased and what has driven these increases? What has the retail price increased by? Is there a comparison between your input costs and the price on the shelf?

Sarah Arrowsmith: The main cause of the increase in Dorset, which is a muesli, is the base grains inflation, which is the same as colleagues have just spoken about. We have had base grain inflation, and then we have had some significant inflation in fruit and nuts as well. Vine fruits have almost doubled in price because of the drought in Turkey particularly. Most vine fruits come from Turkey. There has been significant inflation. I think our input inflation runs at around 18% for Dorset. What we have had to do on several of our Dorset packs, having spoken to our consumers and discovered that they could not and would not pay the necessary price, is take our pack size down. We tried to hit a price point that consumers were prepared to pay. We did not change the pence per 100 grams; we just made the boxes smaller so it was an affordable price for consumers. Oats have continued to go up. Although we have seen growing prices come down, we have seen oat prices continue to increase because there was a smaller acreage of oats grown last year.

Q220 **Derek Thomas:** But still above you there is retail—the retailers that sell it.

Sarah Arrowsmith: The retailers choose the retail price. We have no influence over the retail price.

Q221 **Derek Thomas:** Does what they are charging reflect your increased costs or not?

Sarah Arrowsmith: Broadly speaking it does. The challenge, as Bas said, is where there are small increases the producers in the middle end up absorbing small increases. With very large increases there is nothing we can do. We must pass that on.

Q222 **Derek Thomas:** Bas, can I come back to you? ONS data also showed that prices for whole milk and butter are in deflation territory, as I hinted at earlier. Are you seeing processing and manufacturing costs decrease in relation to the production of these items? I know you are trying to create a smarter business to allow that to happen, but are you seeing it? Are farmers and you seeing that it is costing less to produce the milk, so that the shelf price is more reflective of what it is costing?

Bas Padberg: I do not see how it will cost less to produce milk. Energy costs are still high, labour cost is still increasing, so it is not less. The way we are dealing with it is running a programme that we target to deal with the efficiencies in our company so it starts to reduce cost. That is where size helps to become efficient and not to pass on cost increases that sit in our supply chain. That is how we deal with it. We have annual efficiency programmes to deal with the cost.

Q223 **Derek Thomas:** I said earlier that it could be the case that we started paying the right price for milk rather than a below-cost-of-production price. Did we gain anything by that or do you still feel the pressure of consumers and retailers expecting milk to be even cheaper than bottled water?

Bas Padberg: I think what we have gained, and it is not over yet, is an awareness of the cost of food. The whole industry has gained that knowledge—that food has a cost price and that the global food chain is very much connected. If there is an issue somewhere it impacts the total food market. We have seen that in the situation with Ukraine. It starts a domino effect. I think the big gain that we have is the awareness of food and the cost of food and the relevance of the efficiency of producing food to keep it affordable. That is the biggest gain that we have now and there is an opportunity for us to find out how we come out stronger in this and collar a fair price or a good price but a sustainable price where farmers and every player in the value chain can continue to invest in the future and all of the sustainability matters that are coming our way.

Q224 **Derek Thomas:** I am the west Cornwall MP and we have Arla badges on gates and the end of drives all over the place, but I am getting the impression locally that some farmers are getting out of dairy altogether. Are you seeing that and is it just that you are getting bigger and bigger dairy herds, or is it still quite spread across the country?

Bas Padberg: I am in the fortunate position that I do not recognise that within the Arla co-operative, but of course I hear it. I am in the market so I hear it, yes.

Q225 **Barry Gardiner:** I do not know what your public affairs people said to you before you came in today. I know that the Committee Clerks had to ask your companies several times to get somebody to come before us today, but I want to remind you that as witnesses before this Committee if you were to give false, misleading, or incomplete information and evidence to the Committee on the face of it that would be contempt of Parliament.

I want to start off by setting out what the public feel. You have confected this issue around the previous responses you have given about how it is tough out there, but the thing is when the public look at your companies they know it has been tough out there but they do not know that it has been tough for you. Eight out of the top 10 food manufacturers, including Unilever and Associated British Foods, made £23 billion of profit in post-pandemic to pre-pandemic and only 11% of public limited companies saw their profits increase during that period. The public look at this and say, "Well, we understand all the things that you have said about Ukraine, all the things that you said about the pandemic and all the shocks that have taken place and they are fair." They are fair-minded and they look and they say, "Well, look, fine. If the input costs have increased we expect that those will be passed on" as you have suggested. But if all you were doing was passing on the input costs, the increased costs of your supply chain, they expect your profits to stay roughly the same.

Mr Hawkins, the report from IPPR that looked at your company, Kraft, during the period saw your profit rise from £265 million to £1.8 billion. That is 6.79 times as much profit. How do you justify that to the family that is struggling?

Dominic Hawkins: I think that is directed at me.

Barry Gardiner: Kraft. Sorry, I have you mixed up.

Dominic Hawkins: I think you are referring to our global profit numbers, not our UK entity numbers, so I cannot comment on the specifics.

Q226 **Barry Gardiner:** No, I do not think that is the case. I think IPPR were simply looking at the UK because your global figures were more. Your global figures were up at about £6.8 billion, weren't they?

Dominic Hawkins: It is worth saying that our corporate set-up means that we have different entities in different regions and locales. We can reply in writing to that. It is quite a complex topic.

Q227 **Barry Gardiner:** I would like you to reply now because you owe it to this Committee. You knew what you were coming here for. You knew that we were concerned about GDP, gouging, greedflation, profiteering. You knew that was what you were going to be drilled on, so please give me the answer now, not in some letter later on when it is not in the public eye.

Dominic Hawkins: I understand. There are two things I can say. First, it is important we have always passed on less than the input inflation that we have seen. I can give you some examples of that and look at some specifics around the inflation we have seen and our input costs. In the years from 2021 to 2023 we have seen a 16% increase in the cost of our beans. We have seen a 101% increase in the cost of our tomatoes, which is a key ingredient in our beans and in tomato ketchup, and we have seen around a 50% increase in the cost of tinplate, which we use to manufacture our tins. I can assure the Committee that on a percentage basis we have put through fewer cost price increases than we have seen as our input inflation.

Q228 **Barry Gardiner:** How have you made not quite but almost seven times the profit, the annualised profit? It is 6.79 times.

Dominic Hawkins: I think if you are looking at an EBITDA basis on an annualised basis there are lots of other things in there, including one-offs. Again, I will come back to reinforce the point that when we look at the input costs and then the inflation that we have passed on, we have passed on less on a percentage basis than we have seen on input costs. There are a lot of other factors that make up an EBITDA or a bottom-line profit that are not necessarily directly associated with that, including one-off costs.

Q229 **Barry Gardiner:** What is your message to the public, who love your products and buy your products? In fact, sometimes you even use them as leverage with the supermarkets to say that you will not allow them to stock your products unless they give you a better price. What is your message to them to explain why your profits are seven times what they were?

Dominic Hawkins: It is important to remember that we really remain committed to offering tasty, nutritious and high-quality products to our consumers. I will also reinforce the point I made earlier to your colleague that as we have seen inflation ease off, we have reinvested in price to our consumers. To reinforce a couple of key points, first, we have never put through more inflation than we have seen as input costs. Secondly, in Ocado, Sainsbury's and Tesco in recent months you will have seen a reduction in promotional pricing on our key products to help bring prices down for our consumers.

Q230 **Barry Gardiner:** Yes, but if you look at the three major supermarkets in this country, you will also know that with pre-pandemic profits and post-pandemic profits, their profit margins afterwards rose by 97%. Saying things are now coming down there, yes, but the same has applied to them. We even had the situation on Laura Kuenssberg's programme one morning when the chair of one of the supermarkets admitted that gouging was going on in the sector. He did not say it for his own company, but he said it was going on in the sector.

Are you really sitting there and telling us that there is no such thing as gouging, no such thing as greedflation, no such thing as profiteering? It just happens to be the case that at a time when the public is under huge pressure and stress in the economy you are making, in some cases, the best profits you have ever made. Cargill, not one of you sitting here, has record profits in 157 years. You are not taking advantage of the situation to gouge. Is that what you are telling us?

Dominic Hawkins: There are several things I would say. First, I cannot comment on supermarket profits.

Q231 **Barry Gardiner:** You did. You just passed it on. You deflected my question and started talking about the supermarkets, so do not say you cannot talk about them.

Dominic Hawkins: With respect, I disagree with that. What I referenced with the supermarkets is the prices that we have helped to pass on to consumers as we have reinvested in price. I cannot comment on Cargill, who are not one of our suppliers, to my knowledge, nor can I comment specifically on supermarket profits. I understand you have a session with supermarkets in the coming weeks.

What I can say, and I will reinforce the point again, is that we have passed on less inflation than we have seen in our input costs over the period from before the pandemic, let's say 2019-2020, to today. As we have seen inflation ease, not come down because on some of our most key commodities—we are the world's largest procurer of tomatoes—we continue to see inflation, predominantly driven by issues such as climate change, we have consistently passed on less price than we have seen in inflation.

Q232 **Barry Gardiner:** Well, what has given you that huge rise in your profits? What has given you that extra £1.5 billion? Is it good luck?

Dominic Hawkins: With respect I am not sure which period you are referring to.

Barry Gardiner: The period that IPPR was looking at—it was IPPR and Common Wealth in their report. You must have been briefed on this coming into this Committee. Don't tell me that your public affairs people did not say, "Look, you had better read this before you go in there because some mug is going to get you on it".

Dominic Hawkins: I am not aware of the specific numbers that you are talking about. I will come back to the point that there are a lot of one-offs that can affect profit in an individual year. If you look at the inflation that we have seen as input and the price that we have passed on, that indicates that we have not passed on more price than we have seen as an inflation in our costs. If I refer to some of the things that you have heard from other panel members today, clearly we do have things such as efficiency programmes, but the bigger impact tends to be things like one-offs on an annualised basis if you are comparing profit from one period to another.

Certainly if you are looking at profit after tax, in a publicly listed company or a limited company, as we have in our UK entity, there are a lot of one-off variables that can affect that, which will not necessarily mean that you are comparing like with like on a year-to-year basis if you are talking purely from an inflation perspective.

Q233 **Barry Gardiner:** No, they would not, so we would have to look at your profit margins over a period of time, wouldn't we? Yes.

Mr Woodward, if I can turn to you and Unilever, you have reported a rise in pre-tax profit of 21% for the first half of 2023, but your companies claim that it has not been profiteering in any form from rising prices. How have you have tried to protect the consumer? How have you have tried to ensure that you pass on less than the price rises that you have experienced in the same way as Mr Hawkins has?

Marc Woodward: Absolutely, I concur. From our point of view, we only ever pass through pricing as a last resort. It is certainly not the first place that we would go. We look within our own organisations to save costs first.

Q234 **Barry Gardiner:** Surely you look in the first instance to make profit, and you have made hugely increased profits. In one year, the jump was from £5.1 billion to £6.5 billion.

Marc Woodward: If I take a step back, the UK market is incredibly competitive, and I sit here alongside some of my competitors who have brands in the same categories that we do. We are acutely aware of how sensitive price and value are at the moment. You simply cannot run a successful organisation in this market by pushing forward prices that are not justified. We always look at other ways before we go to market with cost price increases, and after a period of stability which has been discussed—

Barry Gardiner: Arla is sitting next to you. If we go to its net margins over the past few years: 3%, 3%, 2.8%. Let's go to your net margins: 10.8%, 11.5%, 12.7%. They are going up. They are huge and they are going up. This is not just, "Oh, this year on a one-off basis we managed to reduce our costs phenomenally". No, actually, this is huge. We have the regulated industries before us. If they are making 2% a year, we think we had better look at them more carefully. These are huge net margins, aren't they?

Marc Woodward: If I could refer to the UK statutory accounts, I am not familiar with the numbers that you are coming up with, but I do have published accounts for the UK. We have got very static turnover since 2017 in this market of about £1.8 billion. Our operating margin—which I think is the margin to which you are referring—is relatively static at between 4.5% and 6% in the UK. Last year, our operating profits in the UK went down. If you check the statutory accounts, they went down. We made an operating profit of 4.5% in this market, so I do not recognise the numbers that you are talking about.

Q235 **Barry Gardiner:** One of the worst things of sitting on this Committee is that sometimes we just get down to trading statistics. Nobody out there who watches these proceedings is ever impressed by that. I come back to the main point that just 11% of publicly listed companies saw their profits increase. Yours did. The public are suffering, and they look at your companies and they think not just, "Why aren't these guys helping us?" They think, "We are owed a bloody apology. You have been taking us for mugs."

Sarah Arrowsmith: As far as my division is concerned, we supply safe, affordable, nutritious food and we supply across a range of different product areas. If you take our bread business, for example, as was confirmed by the CMA investigation, we make negative margins on bread. That is because we are price takers in the market. We take the price of grain and it is a very competitive marketplace. There is oversupply in the market, so retailers have a choice.

Barry Gardiner: A great example.

Sarah Arrowsmith: Therefore, we are working really hard to increase the margin in that product because it is a negative margin.

In our other products, again, like my fellow people on the panel, we have not taken as much inflation as was absorbed. We have absorbed a great deal of our cost increases. We have worked with our customers, in our businesses, to try to take cost out of the supply chain by delivering a little less frequently or delivering a different mix of product. We are filling lorries better. We are going to very small stores with our bread slightly less frequently, to try to take some cost out to keep our products affordable for our consumers. We talk to our consumers all the time. We are for ever talking to our consumers because this is a really competitive marketplace. If our consumers do not like our products, they will not buy them. They will go somewhere else.

Barry Gardiner: Chair, I do have to leave. I am not leaving in a pique, I am not leaving in disgust, but I do have to leave to go to another Committee.

Chair: Thank you, Barry.

Q236 **Cat Smith:** Carrying on from Mr Gardiner's comments about the pressures on consumers, do any of the panel want to share what percentage of the UK population they think have used a food bank in the last year?

Sarah Arrowsmith: I do not know the number, but I do know that it is shockingly high. We supply a number of food banks with food that we redistribute. The number is much higher than it should be.

Q237 **Cat Smith:** It is much higher than it should be. It should obviously be zero, because nobody should be relying on food banks, not least those who are going out to work, many of whom finish a shift in a hospital working as a nurse and then go to a food bank on the way home. The figure is 4% have used a food bank to feed them or their family in the last year. Actual food poverty, of course, is much higher, because the point at which someone is accessing a food bank is a point of absolute desperation. We know that 7% of people have fed other members of their household ahead of themselves. That is usually a parent skipping a meal to feed a child in the family or someone with a disability in their family or someone who is vulnerable in their family.

Consumers obviously know that they have to shop around. They have to be smart, but they do not appreciate it when they feel like they have been conned, and 77% of people have experienced shrinkflation when they have been doing the grocery shopping. People feel like it is a con. Would any member of the panel like to respond to the way in which this is done, in a way that is not transparent and is not overtly done, and often feels from the consumer's point of view as if they are having the wool pulled over their eyes?

Dominic Hawkins: I can start. At Kraft Heinz, clearly consumers' perception of value is really important. We have not engaged in what you term shrinkflation of product sizes. Although we have a whole range of different product sizes, we have not engaged in downsizing of products while maintaining price, to my knowledge. We checked this beforehand and we cannot see that we have changed pack sizes specifically on products to manage pricing. Clearly, we have talked about pricing a lot today, but that is not something we do.

The other bit that I will flag is that we see the problems that you mentioned with food poverty. We are a big supporter of a number of charities that we feel very strongly about, including Magic Breakfast, supporting breakfast into schools for those who suffer from food poverty. As some of my other peers have talked about here, we also support various food banks in the communities we operate in and nationally.

Q238 **Cat Smith:** Kraft Heinz did not decrease the volume of beans in the 415 gram from 51% beans to 50% this year, meaning a 4 gram reduction in beans?

Dominic Hawkins: That specific example was not a deliberate reduction. What we did do—

Cat Smith: It is definitely a reduction in beans.

Dominic Hawkins: No, it is well within a normal tolerance for what was in beans. We did not deliberately reduce the number of beans in the tin. We reformulated based on what our consumers wanted. There was not a cost or efficiency saving driven by the number of beans in the can that you see in that particular report. We changed our recipe to make it taste better, based on taste testing with consumers to improve the quality of our product. There was not a particular shrinkflation initiative to reduce the beans in the can. It is also worth saying the things that that is replaced with, such as tomato and other ingredients, are not necessarily cheaper.

Q239 **Chair:** Is the sauce more expensive than the beans or the other way around?

Dominic Hawkins: It depends which component of the sauce, and I would probably have to come back in writing on that. It is also slightly commercially sensitive, but the report that you saw on the change in the number of beans in the can was not something that we did as an efficiency saving. There is a tolerance of the number of beans in the can that may vary slightly from can to can in any case.

Q240 **Cat Smith:** Mr Padberg, I am aware that Lurpak butters were shrunk 20%. Which? found that Lurpak has shrunk 20% in July 2023 and you have gone from 250 grams to 200 grams, but Arla also then lowered the recommended price for the retailer to sell its 250 gram packs by 20%. Why did the co-operative make that decision to lower the sizes and prices? How much power do you have in ensuring that retailers are going to follow your recommendation, or are you finding that retailers are not following your recommendation on price?

Bas Padberg: The answer to the first part of the question is that we have done it. If you look at our biggest item, which is Lurpak Spreadable, which we had at 500 grams, we have taken that to 400 grams, but we have equally reduced the price. It was purely an adjustment of what we call the out-of-pocket price, so what consumers actually pay for a pack; we have not taken any price increase at that time. It is really trying to serve consumers who are tightening their belts at the end of the month, to try to serve them and to allow them to continue to get access to the product, and it was effective in that sense.

If we have enough power, from an Arla point of view, the power for us is pretty balanced in the value chain. Retailers are strong enough, and our brand is strong enough, to effectively operate as supplier and customer. That is why we have done it. We have lowered it to allow consumers to continue to buy it. We have not taken a price increase.

Q241 **Cat Smith:** I have been in supermarkets and seen your Lurpak products with security tags either in the secure boxes or with the stickers on. How does that make you feel about food poverty?

Bas Padberg: It is not what we want. It is what I described when your colleague was asking questions earlier. If our farmers get a 59% cost increase on their cost, if I do not pass this on, they will not survive. Without farmers, no food.

Q242 **Cat Smith:** Can I move on to ask Marc about Hellmann's mayonnaise? The *Grocery Gazette* reported last year that Hellmann's mayonnaise jars have been reduced from 800 grams to 600 grams, and were costing 9p more per 100 grams. What was the rationale for those changes and how do you think it benefits consumers?

Marc Woodward: Can I say up front that I completely share your concerns on the growth of food banks? Unilever has been working with FareShare since 2022 and has donated 6 million products to food banks across the country. I absolutely share your concerns, to recognise that up front.

On the sizing of our products, we offer multiple sizing across all our brands. It is not the primary place we would go to to pass on the inflation that we experience, as we have talked out before. We are always looking to find a balance of entry price points that represent good value, and that is value and quality. On a brand like Hellmann's, we make sure that we stay in jars, even though glass is more expensive. We buy free-range eggs, and we are the first company to buy only free-range eggs, even though they are more expensive. We want to offer that product in different sizes, for different occasions and for different price points.

To answer your question, we also have a 400 gram, 600 gram and 800 gram in the marketplace, and we try to offer value, which is with a discount curve where you get better value in the bigger packs, but there is a really good value at an entry price point as well.

Q243 **Cat Smith:** Do you concede that reducing the size of those jars is shrinkflation?

Marc Woodward: As I said before, we would never go to using just a pack size to achieve a price, if it was not justified through the cost.

Q244 **Cat Smith:** It was not the case that you were reducing from 800 gram to 600 gram?

Marc Woodward: If I give you some facts behind Hellmann's mayonnaise, maybe it will reassure you. The cost of one of our main ingredients, sustainable rapeseed oil, was up 80%. Our energy costs in that particular factory in Burton are up 100%.

Q245 **Cat Smith:** I am not disputing the fact that the price is going up for producing it. What I am concerned about—and I am hoping that you are going to reassure me about what I have so far not been reassured about—is the way in which shrinkflation happens, when products are becoming more expensive to produce and are put into smaller packets or jars, and the way in which that is not communicated to consumers. I am concerned that consumers are being misled. Why are food producers not being more transparent about the fact that a packet of Dorset Cereals has got smaller or a jar of Hellmann's mayonnaise has got smaller? Why is that not more overt?

Marc Woodward: I can only speak for ourselves and not the others on the panel. Shoppers are super savvy and they know exactly what is going on. We are completely transparent.

Q246 **Cat Smith:** Some shoppers are super savvy and some shoppers are really rushed off their feet and busy and stretched and juggling four jobs, single parenting. Do you know what? They have not got time to look at how many grams of mayonnaise there is in a jar or how many grams of cereal there are in a box.

Marc Woodward: We are transparent in any changes that we make on our pack size because of that.

Q247 **Cat Smith:** It is not transparent, is it?

Marc Woodward: We put it on our websites, make sure we are clear about the grammage and it is on all our tickets. We try to be transparent.

Q248 **Cat Smith:** It is not on that shelf edge. Perhaps it should be. Perhaps when a product changes the size of a packet or the jar, it should be on the shelf edge. It should be explicit, perhaps. Do you agree with that?

Marc Woodward: You will find the grammage, the price and the price per gram on shelf-edge ticketing. It is explicit.

Q249 **Cat Smith:** It is in the small print on the label and on the shelf, but when it has changed, when there has been a change in the size of the packaging, should that be in larger print? Should that be more explicit so that a consumer who is in a rush, who is juggling a crying baby and having to rush home to care for an elderly parent, can see that that jar of mayonnaise or any product—I am using mayonnaise because I am asking you the question, but this has happened with other products as well—has changed and has shrunk? Should that be more explicit?

Marc Woodward: I think that if we are not explicit and transparent in what we are doing, consumers make a choice and they will choose not to buy your brands over time. If they do not feel they are getting value because you have not communicated correctly, you miss an opportunity. It is part of our role with our brands to make sure that we are transparent. If we do not do that, they will not buy our products.

Q250 **Cat Smith:** Does anyone else on the panel want to say anything about the explicit nature in which we should be communicating shrinkflation?

Sarah Arrowsmith: As Marc said, we have communication of the pence per 100 gram. When we have talked to consumers, they do look at that. They take notice of the pence per 100 gram of the pack. If that changes, consumers notice. Should that be in bigger writing? I think that is a supermarket point. When we talk to consumers, our Dorset consumers that we have communicated with understand, they know what has happened and they will be very quick to tell us if that is a problem for them.

Q251 **Cat Smith:** Does anyone else want to comment? A lot of people are very explicit when they increase the size of something, like, "20% extra free". That changes the design of a box of cereal when there is 20% extra free, but when there is 20% taken out that is not explicit on the box, is it?

Dominic Hawkins: I will reinforce the point that I have seen from two of my peers here today. One is that consumers are savvy. If you look at what happens as price changes, prices are elastic and there is choice for consumers. Although I obviously do not represent the retailers and cannot comment on their specific businesses, they all have very large private label businesses, from both a fairness and a supply chain perspective—the retailers have some visibility of what it costs to produce similar products—but also in giving consumers choice at different price points. For our own various sizes of, say, some of the competitor products I might have with Marc in mayonnaise or through products where the retailer has a direct competitor, like baked beans, there is a range of choices for consumers.

I also agree that if you look at the shelf price, it is reasonably transparent on the shelf. Again, it is a retailer concern, but it shows both the absolute price and the pence per gram or pence per litre, depending on what type of product you are looking at.

Q252 **Derek Thomas:** I want to come in on a similar subject to do with labelling. One thing that really concerns retailers, very small shops placed in local communities where they can meet some of the needs that have been addressed, is the recommended retail price, which sometimes is a loss leader for them. If it is exactly the same price in a supermarket, they cannot run their business and deliver the same product for that price. As a result, those items are not made available to local consumers.

I appreciate that this is a more complex thing than I am making it sound but the Isles of Scilly are a real example where freight costs push up the price and consumers do not have access to choice because of the recommended retail prices. What is the reason for putting recommended retailer prices across the whole of the sector, so that whether you buy that item in a supermarket or in a tiny corner shop serving an isolated community, there is no movement on the price? Does that make sense?

Dominic Hawkins: The first thing I will say is that retail pricing is at the sole discretion of the retailer. We can't influence what a retailer chooses to sell at. Legally, we cannot influence that. I cannot comment on the fact that retailers choose to sell at different prices.

Q253 **Derek Thomas:** If you put on a label "Recommended retail price £1.99", going back to the transparency for the consumer, that is what they expect to pay.

Dominic Hawkins: Sorry, can I ask for clarity what you mean by "on the label"?

Derek Thomas: On a label you might have, "Recommended retail price £1.99".

Dominic Hawkins: On the shelf-edge label?

Derek Thomas: On the item itself. We are talking about labelling. You are right that the retailer who has the extra cost of running a tiny outlet in an important remote community might have the right to put the price up, but with transparency and justice for the consumer the retailer is under pressure to sell it for the recommended retail price. That is a decision.

Dominic Hawkins: What is worth saying in that instance is that you would never have a situation where you only had what we call a price-marked pack. There would always be a non-price-marked pack available as well in our portfolio. It is entirely up to the retailer if it chooses to buy the price-marked pack, which is typically linked to a promotional offer for it as well. Again, there would always be a choice between the two. I think characterising it as "no choice for the retailer" is not accurate because typically—and, I think, always—there would be a choice of a non-price-marked and a price-marked pack. Again, I come back to the point that price on the shelf is at the sole discretion of the retailer. It is not something that we are allowed to influence.

Q254 **Derek Thomas:** That is a question for wholesalers. In an area like mine, west Cornwall, there are only one or two wholesalers and they all carry the recommended retail price. Good. I appreciate what you are saying and I appreciate that you are giving choice, but it might not get anywhere near the consumer. Would that be relevant to you as well, Marc?

Marc Woodward: A relatively small part of our business goes through wholesale, to be perfectly honest, but I agree with Dominic that there would always be two different areas. A price-marked pack is not typically used. It is usually associated with a discounted product. The idea behind a price-marked pack for the small retailers is that they are not taking advantage of the discounted price and not passing it on to their consumers. As Dominic said, we always have two offerings—non-price-marked and price-marked.

Derek Thomas: Come on holiday to Cornwall, come into some of our little stores and you will see exactly what I am talking about. Sorry about that, Chair.

Q255 **Chair:** Going back to baked beans, if we may, Dominic, you said it was price-sensitive whether it is the sauce or the beans. I have been sent shopping and bought the cheapest beans I could find, and I have to say that it is all sauce and not many beans. I would hazard a guess that beans are more expensive than the sauce and, therefore, by taking 10 beans out of a can, you are probably making that can slightly cheaper to put on the shelf. Do you agree?

Dominic Hawkins: I reinforce the point that we have not deliberately reformulated to reduce the number of beans in the can. The reformulation that I think was referred to was very deliberately done to improve quality perceptions for our consumers. It was not linked to any pricing initiative. One of the things about the products that we sell is that we deliberately formulate them for the things that our consumers love. If we make the product worse—and you talk about your experience of another baked bean that was, I think, all sauce and no bean, as you characterised it—

Chair: Yes. It was an own-label one.

Dominic Hawkins: —people probably will not buy it again. If we are going to ensure that people continue to love the products we sell and continue to love Heinz baked beans, we need to maintain quality on them. Simply, people will choose a different product if they do not believe that the value we ask for the product meets the quality standards and the taste they expect from the product.

Chair: Okay. I am afraid I put curry powder in my beans, which probably spoils all your fantasy formulations.

Dominic Hawkins: We do have an excellent curry beans that will do it for you if you would like.

Chair: Wonderful. That is presumably where the term "bean counters" comes from—the people who look into how many there are in a can of beans. Neil, let us move on.

Q256 **Dr Hudson:** Thank you. Other products are available. I want to explore further the relationship between processors, manufacturers and retailers. Broadly, how have the high rates of food price inflation affected your relationship with retailers? Do you want to start with that, Sarah?

Sarah Arrowsmith: As the previous panel said, we buy mainly grains from farmers, so we are a price taker because it is an internationally traded commodity. In fact, the AIC, who were here earlier—there are contracts that we trade on. We tend to be price takers of our raw materials. When we get raw material price input, we then see if we can find a way to manage that in our supply chain. If we cannot, we pass that on to the retailer.

The retailers buy in different groups. There tends to be a buying group for each food sector and one's relationship differs depending on the market dynamics in that particular sector. If there is more supply than there is demand it is much harder to get a price increase because the retailers have lots of places to go. Retailers tend to have a partnership relationship with one supplier in a category and the others tend to be more transactional, and that varies across different retailers. Changing from partnership to transaction is a painful process, but it does happen and that also changes the longevity of the conversation that you have.

I think that the Groceries Code Adjudicator has done a great job over the last 10 years that it has existed in improving the trading relationships between suppliers and retailers. Retailers have got much better about their responsibilities for holding to contracts. They write more contracts, and I fully appreciate that if you do not have legal support in an organisation, if you are a small business, you can sign contracts and not quite realise what you are signing up to. I can see that being an issue, but I think the Groceries Code Adjudicator has made a much more level playing field of what we are dealing with.

Q257 **Dr Hudson:** Okay. I will come to specific examples for Marc and Dominic but, Bas, did you want to comment? How healthy is your relationship with the retailers and what is going on?

Bas Padberg: Especially if you go back to early 2022, when we had exceptional cost increases around the globe on all kinds of products, it was a new dynamic that nobody was figuring out in the early days. Will this continue or not? Is this just a month or not? Of course, in that period there was a natural tension in the supply chain for the region. As I just said, everybody continues to strive for the preference of the consumer and nobody wants to pass on price increases, but it is needed. I have to say that we have found a very constructive and sustainable way to deal with our pricing with retailers. Of course, when it suddenly goes up there is always tension about when to increase prices that sits there. I think that is a natural part of the value chain that we sit in.

Q258 **Dr Hudson:** Thank you. I will come to you, Dominic, on the cycle of inflationary prices and, if they are coming down, how that then is passed on to the customer via the retailer. You used the phrase, "We invest in our pricing".

Dominic Hawkins: Yes.

Dr Hudson: Can you elaborate on what exactly you mean? How does that process work? You have also said that you cannot influence pricing. How do you invest in pricing in your products? How does that work?

Dominic Hawkins: I am very happy to explain. To clarify for a moment, we did not say that pricing as a whole was coming down. We are still seeing inflation in our key commodities. Let me explain. I was giving specific examples of promotional pricing. There are a number of different ways we can help to influence it. Clearly, we agree a promotional plan with retailers and then we help fund those promotional discounts that you see in retailers.

As we have seen less inflation than in, say, 2020 to 2022, as we have seen through 2023 that start to ease somewhat, we have been able to reinvest in lower promotional prices that we support the retailers to do. If you were to look at things like our four-pack or six-pack beans that are bought with very high frequency by consumers—and the same would go for our large-format tomato ketchup—you will see lower promotional discount prices than you did through 2023. It helps to pass on a lower price to consumers, although it still remains at the sole discretion of the retailer exactly what it chooses to sell it for. We have recommended discounts and we help fund those discounts to the retailers to pass them on to the consumer.

Q259 **Dr Hudson:** Thank you. I will keep going on the bean side of things. I am going to push a slightly different angle on Beangate. In June 2022, Kraft Heinz stopped supplying some key products to Tesco. I am talking about Heinz beans, tomato ketchup and, I think, soup as well. This was following a dispute about absorbing increases in raw material, energy and fuel costs. Do you want to give us the background to that dispute, and what does that dispute reveal about the power of the processors over the retailers? What happened with Beangate?

Dominic Hawkins: Without going into anything that is commercially sensitive, I think that exhibits well that the retailers have significant power to help maintain fairness in the supply chain. We have talked about it being a competitive market, and that applies to retailers and to consumers, who have choice across different products that, say, would compete with beans. It is probably quite a good example of where certain retailers were able to push back on the price that we may want to put through from a cost-price perspective to the retailer. They have various tools at their disposal if they do not want to accept pricing that we put through. It could be that we get into a dispute and we are unable to agree pricing. It could be that they choose to delist products or not list new product developments that we have.

For me, and for us, it demonstrates that there is inevitably a commercial tension in the supply chain when there is a time of strong inflation. We have heard Bas from Arla talk about similar sorts of challenges. In that period, when we were seeing unprecedented and very extreme inflation, it led to difficult commercial discussions with all our retail partners. Everybody wants to try to maintain low prices for consumers. The retailers obviously want to make sure that they remain competitive as well. It is one of the things that shows how fairness can work in the supply chain. They have a lot of tools at their disposal to push back. We do not have the ability to put through price if the retailer will not accept it and it shows how they were able to push back with one of the tools in their toolbox.

Q260 **Dr Hudson:** With respect, you said that these were difficult commercial discussions. You wanted the price increases to be passed on and Tesco has played a bit of hardball with you, saying, "We will not pass on unjustifiable price increases to our customers". Then you played hardball by saying, "Okay, we will stop supplying you", which led to shortages for a short period. Then, in July 2022, both companies issued a joint statement saying that they had reached an agreement. You said that these were difficult commercial discussions, but there was hardball and you said, "Right, we are stopping you", which led to shortages, and then there was an agreement. That sounds a bit stronger than "difficult commercial discussions", does it not?

Dominic Hawkins: At any time when you are trying to negotiate some pretty extreme changes in input cost inflation, you inevitably end up in very difficult commercial discussions. You have referenced the joint statement we made with Tesco at the time, which reflects the joint position we came to, but there is no hiding away from the fact that it was a very public and very difficult negotiation with them as we tried to come to an agreement on what was appropriate. We have said and been very public about the fact that we came to an agreement on that but, again, it was very clear that it was a very difficult discussion with them for a time.

Q261 **Dr Hudson:** Would you do that again? Would you play hardball again and say, "Well, if you will not do what we want you to do, we will not supply you"?

Dominic Hawkins: We would have to review it case by case. At the moment, we have no plans to put through cost price as things stand. It is not something we are contemplating at the moment, to be clear, but we would have to review things case by case. It was a very extreme example, to be clear, not something that we would do lightly, and it was a very difficult negotiation, as I think was very public at the time.

Q262 **Dr Hudson:** Thank you. Over to you now, Marc, on Unilever. In September 2023, it was reported that Unilever wanted Wilko to pay outstanding debts up front before it supplied products to the chain. Again, difficult commercial discussions or playing hardball, "We will not supply you until you pay up front"; what is your take on that?

Marc Woodward: Without wanting to go into the absolutes because these are confidential discussions, the case of Wilko was a great tragedy, to be perfectly honest, to see that important part of the UK high street disappear. We worked closely with Wilko during that period to make sure we could supply products to them. I will not go into the details of how that occurs, but when a company goes into administration you need to have some security over its ability to pay for the products that it wants from you. Plus, all our retailers have a certain degree of credit and, therefore, they will have quite a lot of stock in their supply chains that they have not necessarily paid for. You have to work through that with administrators and that is what we did at the time. I am proud to say—this was not reported at the time because it could not be—that we were able to find ways to supply Wilko right until the end.

Q263 **Dr Hudson:** I take your point that it is a situation where the company is under threat and you are trying to work things through. I guess what I am trying to get at with my line of questioning is what that example, which is a more extreme example, and the other examples we have talked about—to all four of you—tells us about suppliers and their strength or bargaining power over retailers. What can we as a Committee do to recommend that that is a balanced arrangement that ultimately supports customers in the front line to get affordable, good-quality, nutritious food at affordable prices, and also supports our farmers and the food producers who are supplying that? How can we get a balance in that sector so that there is fairness in the system?

Marc Woodward: I think the examples you show point to a fairness in the system. As Dominic also says, there is a balance. In the end, manufacturers of food and food retailers are both focused on getting great offers to shoppers. That is very much the focus of both organisations. There is common ground in that space. I echo the comments from Sarah about GSCOP being there to adjudicate, just to make sure that everything is always in that space, but my experience is that there is a great deal of collaboration to make sure that the right result happens for UK consumers.

Of course there is tension in that system and that is quite right. That will mean that occasionally, in extreme examples, which have been discussed, some products may not be delivered in the way that we would like, but that is never the focus.

Q264 **Dr Hudson:** Can all of you give assurances that you are thinking of the consumer, to do the right thing by them, but also thinking of the farmer and the grower, to make sure that there is fairness for them? We have seen them struggling and, as my colleague has said, we have seen consumers struggling. Can you give assurances to the Committee that you are looking out for all sides of the equation?

Bas Padberg: We are a farmer-owned company. That is where it starts for us, that we honestly represent the farmer out there. That is where it all starts in the food chain, absolutely.

Sarah Arrowsmith: We are constantly looking for ways to pay our farmers more than just the market. With Jordans Cereal, for example, we have the Jordans Farm Partnership, which pays a premium over the market for farmers to do environmental work on their farms. We have the same with some wheat farmers for Allied Mills who are farming in a more environmental way. We pay them a premium over the market. We work hard to do that on both sides.

Dominic Hawkins: We say the same. Clearly, on the consumer side, we are focused on delivering value for our consumers and they have a choice if we do not. It is critical for our own interests and for the interests of the consumers that we do that.

It is worth saying that we probably have a much smaller agricultural footprint in the UK than, say, Arla or ABF, but we interact with a lot of farmers all over the world. I talked about tomatoes and beans earlier. It is incumbent on us to have transparency and fairness with our farmers so that they can succeed, particularly in an area like tomatoes where we have such a big footprint and we buy all over the world. It is absolutely critical that we work with farmers to ensure supply now but also in the future, when we look at things like climate change that will have a big impact on tomatoes in the future. It is in our interests but it is also the right thing to do and something that we are very committed to.

Dr Hudson: Thank you very much.

Q265 **Chair:** My key takeaway from this session is that if I went to Tesco with a shopping list and my wife to buy Heinz ketchup and there was not any, it would be a matter of some discussion. We always buy Cravendale because it lasts for ever.

Bas Padberg: Thank you very much.

Chair: You invest in the quality of your product and you invest in advertising so that people know this, but what about the other suppliers who cannot have this standoff with Tesco because Tesco said, "Well, forget it, we just will not stock your product"? How do you feel their negotiations with the big supermarkets go and do you think they ever win?

Dominic Hawkins: The first thing is that I cannot comment specifically on other suppliers. I reference what some of my peers have said here though. I think that the Groceries Code Adjudicator has had quite a big impact on that over the last decade. It has been there to help address some of those concerns. Not being a representative of one of those smaller suppliers, I probably cannot comment with a great deal of knowledge, I am afraid.

Chair: I can see a situation where a supermarket comes to me as a supplier and says, "Good news, we are going to promote your product. The bad news is you will have to pay for the promotion". You are in a difficult position to negotiate with the supermarkets, which is where I think this Committee hopefully will have some conclusions and may bring those forward. Ian has been waiting very patiently to ask the last question.

Q266 **Ian Byrne:** It is on affordable and healthy food, and I just want to put into context the seriousness of where we find ourselves now. Matt Ashton, the Director of Public Health for Liverpool, wrote this week, "Without action, food preferences will be shaped at such a young age that they cause ongoing ill-health—and therefore demand on health and social care—for generations to come, widening the already unacceptable 20-year gap in healthy life expectancy between the richest and poorest members of society. To bring about real change, we need to create an environment that promotes good health and healthy eating. Achieving this will require bold thinking from national and local governments, and collaborative working across all sectors, including the food and drink industry."

I will start with you first, Sarah. What steps is your company taking to promote affordable and healthy eating and do you have any examples?

Sarah Arrowsmith: Safe, affordable, nutritious food is what we are all about. That is what we are trying to do. We are constantly striving to improve the quality of the products we have and to launch new products that consumers want to buy, which taste great but are also healthier. Kingsmill 50/50 bread is a great example of that. That has been around for many years now and it is a way of getting fibre into kids who will not eat brown bread. That is the leading bread in its sector and it is also affordable. We have a "no added sugar" granola, relatively newly launched, in which we were trying to get a great-tasting product to give consumers a healthy breakfast because granola is healthy. Then we have reduced fat and salt content in our cooking sauces.

The products that we make are generally staples for people to consume at home, so we work hard to try to make those healthy. Generally speaking, a curry made at home from a Patak's sauce will be healthier than a takeaway.

Q267 **Ian Byrne:** Do you have any foods within your range that would be classed as HFSS?

Sarah Arrowsmith: We have 6% of our entire portfolio within categories that are measured as HFSS, which are things like Kingsmill pancakes and some of the mueslis that have a high nut content, because with nuts you are looking at—

Q268 **Ian Byrne:** Are you looking at reducing that percentage?

Sarah Arrowsmith: We will try to bring down that down the best we can, absolutely.

Q269 **Ian Byrne:** Thanks. Bas?

Bas Padberg: This is what dairy is all about, health. Milk and yoghurt are sold in almost every store in the UK. I think it is fair to say that it is still at an affordable price to buy. Milk is one of the most nutritionally dense products there is and it is available in almost every store in the UK at, we believe, an affordable, responsible price. It is what we are all about.

Q270 **Ian Byrne:** In your company, are there any products in HFSS? I know that yoghurts can fall foul of that.

Bas Padberg: I do not know top of mind, but we sell products with high sugar. We have those, which could be a milk-based beverage, for example.

Q271 **Ian Byrne:** Would it be possible for you to find out and inform the Committee what would be classified as HFSS?

Bas Padberg: Of course. That would be no problem at all. Just as a comment in general on that, at the end it is all about having a balanced diet. Sometimes people also enjoy a product that might not be that healthy. You should not drink three a day.

Q272 **Ian Byrne:** You talk about cheap food, and if you are on, as Cat mentioned, a budget that at the moment is extremely stretched, unfortunately you might only be able to afford food that is classed as HFSS, which then adds a knock-on impact, from a life expectancy point of view. It is a hugely important subject that we ensure that the nation’s health is looked after and that if you are not economically well off you have the opportunity to eat good, nutritious food.

Bas Padberg: I agree, yes. I hope they will continue to buy milk. It helps.

Q273 **Ian Byrne:** Dominic, would you like to—

Dominic Hawkins: I will come back with the exact figure. I am pretty sure it is 95% non-HFSS. Again, I reinforce the same things that Sarah has said.

Q274 **Ian Byrne:** Just on that, Dominic, according to the Oxford research, 33% of Kraft Heinz sales comes from HFSS.

Dominic Hawkins: I think we would have to check if that is global or local. We checked our figures beforehand and according to the Government guidance on things considered non-HFSS from a retail perspective, we had 95% non-HFSS. We can come back and write to—

Q275 **Ian Byrne:** You are saying that you have 5%?

Dominic Hawkins: That is the figure that I was provided beforehand. We can double check and inform the Committee.

Q276 **Ian Byrne:** Can you make sure that you inform the Committee? Someone is telling porkies.

Dominic Hawkins: No problem at all. We can come back in writing on that.

Again, I reinforce what Sarah has said. We offer low fat, salt and sugar versions of many of our products. You will see it on beans and ketchup and you will see lower-fat versions of our mayonnaise and salad cream. We also reformulate our products over a period, but make sure at the same time that we are offering new products that give choice to consumers. You will see that in other diet choices. For example, we have offered plant-based versions of cream of tomato soup and have done the same on our Heinz beans and sausage. Where there are other dietary requirements, we are aiming to fulfil that part of the market too.

Q277 **Ian Byrne:** Can you tell me whether Kraft opposed Henry Dimbleby's national food strategy recommendations for the salt and sugar reformulation tax? Do you have that knowledge?

Dominic Hawkins: I do not have that specific knowledge. I have read the national food strategy but I will have to go back and check our position on that.

Q278 **Ian Byrne:** Is that possible, so that we can get that position clear on where Kraft Heinz stood?

Dominic Hawkins: Yes, I can come back to you on that.

Q279 **Ian Byrne:** Coming to you, Marc, research by the University of Oxford has found that 84% of Unilever sales come from packaged food and drink classified as being high in fat, salt and sugar. Do you worry about that figure? It keeps me awake at night, to be honest, because we are talking about the health of a nation. A lot of those figures will be diametrically pointed at people who are struggling economically. You touched on the food banks before. Many of your products will be in the food banks and again people do not have choice but they are eating, potentially, something that is extremely unhealthy for them.

Marc Woodward: We are constantly looking at ways to make our food products healthier. We do not offer core foods. Most of our foods are supplements, like mayonnaise or Marmite, for example. To your numbers, I think we are now at about 65% from HFSS and 35% non-HFSS. We reformulated products like Marmite and we offer a low-salt version; of course it is used in very small quantities. We have changed completely the way in which we produce Pot Noodle, using sunflower oil now, which is 70% less saturated fat than previous Pot Noodles. We have a big ice-cream business. We are working extremely hard to make sure that we get that as healthy as possible, but it is a treat.

The most important part of our portfolio is our children's portfolio and our entire children's portfolio is now non-HFFS, so less than 110 calories per serving and complies with all HFSS measures. We are always looking for ways to improve our products but we are also operating in treat categories, so it is a bit of both.

Q280 **Ian Byrne:** I understand that element of it, but it feels as if sometimes the food industry is poisoning the nation. When we see that some of the things that are coming out with HFFS, the impact on the National Health Service and the nation's health is terrifying. There is a moral responsibility to go far quicker than you are going with 65%. Genuinely, you have a moral responsibility and your company especially if you look at Port Sunlight, the social responsibility element of it. Has that been lost in the chase for profit?

Marc Woodward: Not at all. It is fundamental to what we do. We really take that responsibility seriously. There is a lot we can do, not just with our formulations but also working on campaigns and marketing. We have done a lot of work on, for example, how you can use Hellmann's mayonnaise to use up food that you may not have used and reduce food waste.

There are lots of ways that you can make people eat healthier, encourage people to cook and have cooking skills. We have a big programme with Knorr, which is our stocks, to encourage people to cook at home. All those things improve the nation's health and we take it extremely seriously. We share your concerns and we are working extremely hard to make sure we have healthy products but that we also play our role in making sure that UK consumers have better ways to eat food and know how to cook again.

Q281 **Ian Byrne:** I will go back to Sarah. Bite Back has called on the Government to mandate businesses to report publicly and consistently on sales of unhealthy food and drinks and sustainability metrics yearly. Do you support the introduction of such a measure?

Sarah Arrowsmith: We absolutely support the reporting. The assurance, the auditing, can be an enormous cost with no particular added value. We have been reporting food waste to WRAP for the last 10 years, I think, since 2015 when WRAP introduced it. We are absolutely happy to report, but the cost and increase in assurance, the constant bills that auditors charge us to assure things that are hard to assure by an auditor, are a cost we don't support. We absolutely support the concept and the emotion behind it.

Dominic Hawkins: I don't really have anything to add to what Sarah said. I think she has put it really well. There is quite an administrative burden if it is not well thought through, but we support the principle.

Q282 **Ian Byrne:** That would drive down HFSS, surely? It is hugely important. Do you support it, Bas?

Bas Padberg: Yes, fully support it.

Marc Woodward: The same position.

Q283 **Ian Byrne:** Marc, I should have asked you before, did your company actually oppose Dimbleby's national food strategy recommendations about salt and sugar reformulation?

Marc Woodward: I would have to check.

Ian Byrne: If you could let me know, because I think it is important for the context of the Committee's work. Thank you.

Q284 **Dr Hudson:** Following on from my colleague Derek, you are the big guys in what you do and you are dealing with the big guys in the front line that, as you rightly say, we will be talking to in a few weeks—the big supermarkets. When you have a small convenience store, a community store in a rural village or a corner store in a city or a town that cannot compete with the big guys but the customers going in there with their busy lives and they are farmers or workers in the local hospital or whatever, what can you do to help those small retailers sell some of your product at a reasonable price? Your trade negotiations are with the big guys, but what can you do to help get your product out into the more dispersed areas, whether it is in cities on street corners, or in rural villages, so that we can get equality of access for the products that you have been banging the drum for today? How can we have a level playing field in that sense?

Sarah Arrowsmith: I think that there is an enormous role here for the food wholesalers, as Derek said. We supply a number of the big wholesalers, who then service the smaller stores and making sure that those wholesalers get a competitive price that they can pass on to their customers is absolutely key. One of the biggest is owned by Tesco. Booker, which is a big supplier into that sector, is Tesco-owned. They get all of the benefits of the big guy negotiations, but we work hard to make sure that the wholesalers that can get into those convenience areas get a good deal that is commensurate with the retailer so that they can pass on the prices. We deliver bread ourselves to many of those stores.

Bas Padberg: I think that is exactly the role of the wholesaler, that they consolidate on behalf of the smaller stores, you could argue. Therefore, they have a certain balance of purchasing but also a certain balance of ready-to-go efficiency where they can consolidate the supply chain and we do the same. We work closely with the wholesalers, making sure that our products are also distributed in those stores.

Q285 **Rosie Duffield:** Sorry to burst in in the middle of this discussion about healthy food and I am sorry if it has already been covered. To what extent do you guys control the prices charged? I am looking at Ben and Jerry's just on delivery. We are talking about corner stores and the discrepancy is Morrisons are selling it for £5.49 for a 465 ml tub, someone else is selling it for £9.95 and the average price seems to be about £7.50, £8. Do you have any say in that or any influence in that whatsoever?

Marc Woodward: No, we do not have an influence over retail pricing and that is important. It is part of the legal way in which we do business. Nobody on this panel will have an influence over retail pricing, so I cannot comment on any of those prices.

Rosie Duffield: Okay. I was just interested. Thank you.

Chair: Thank you very much indeed for coming to give evidence. I have worked out that this week I have had something made by each of your companies and I feel very well and fit and healthy, so it is all about quantities and balance, I suspect. Thanks very much for coming.