

TESCO RESPONSE TO SOME THIRD PARTY COMMENTS

Introduction

Tesco has been reading with interest the third party comments on the Groceries Market Investigation that the Competition Commission (*CC*) has been publishing on its website. We welcome the opportunity to engage in dialogue on the issues that have been raised and clear up some of the myths about our business. Our formal submissions have addressed, and will continue to address, the issues raised by the *CC*, the main parties, and some campaign groups.

In addition, however, a number of third party submissions on the Competition Commission's website contain more specific comments about Tesco which we have not covered in our formal submissions. Some of these comments require clarification, and we are providing a series of short notes in order to put the record straight. The fourth such note is below.

CONSUMER NO. 40 (Mr Willits)

Mr Willits has stated that the clearance of the purchase of T&S small grocery stores by Tesco has led to the demise of independently owned smaller stores.

Tesco's acquisition of T&S has been good for customers.

When we acquired the T&S chain (which as Mr Willits rightly notes was approved by the OFT) our intention was to improve these stores for the benefit of customers. Since our acquisition of T&S, prices in those stores (which now operate as Tesco Express or One Stop) have reduced significantly, and the range of products on offer has greatly improved. Feedback from customers has been positive with many commenting on the improved offer, especially the better ranges of fresh foods.

We appreciate that Mr Willits and others are concerned about the decline of independent smaller retailers. This decline is in fact long term and due to a number of factors. It is being driven primarily by long-standing societal, political and technological change. The end of rationing, the construction of motorways (allowing better distribution), the outlawing of resale price maintenance by the Resale Prices Act 1964, the emergence of bar-code scanning and the rise in car ownership have all affected the business models of both independent convenience stores and specialists, while on the supply side improved techniques in supply chain management and logistics have allowed retailers to better respond to changing consumer preferences. More recently, the rise in the number of working women, single households and the cash-rich/time-poor have meant customers' expectations of convenience stores have become more demanding.

The rate of decline in independent convenience store numbers is slowing.¹ Revenues of the convenience sector as a whole have increased, and parts of the sector are doing better than ever before. The IGD concluded in 2005 that, "*the c-store sector is now more competitive than ever*", and in 2007 that "*undoubtedly the entry of retailers such as M&S, Sainsbury's and Tesco into the sector has driven customer expectations and competitor responses*". Customers are responding to the increased rivalry – and the better quality products and lower prices that it has brought – and turnover for the sector is expected by the IGD to reach up to £35.8 billion by 2012, representing growth of some 44% on 2006 turnover of £24.9 billion.²

A recent academic study by Southampton University concluded that the conversion of T&S stores to the Tesco Express format had in fact helped attract shoppers into town

¹ The IGD has reported that the number of convenience stores declined between 2000 and 2005, from 55,798 to 52,085 (6.7% over five years, or an average annual compound rate of 1.37%.) The IGD predicts that this decline will continue between 2005 and 2010, but at a slower rate (4.2% over the five years from 2005 to 2010, or an average annual compound rate of 0.8%). Moreover, the rate of net decline in the number of VAT registered retailers was slower between 2000 and 2005 than it was between 1995 and 2000.

² IGD, *Convenience Retailing 2007*, pages 3-7.

centres, where they make linked trips to other stores (including independents). One customer put it like this:

“I do go into Tesco more now than I did the [former T&S store] and if I have time, or especially if I have some time to kill, because I’m there anyway I usually tend to wander around those other shops nearby... you know just to see if there’s anything in there that takes my fancy. If there is I’ll get it.”

Mr Willits complains that in New Oscott, Sutton Coldfield, Tesco has opened an Express store on Chester Road, which he claims is not needed as it is only 2.5 miles away from an existing superstore.

Mr Willits is correct that we have an Express store 2.5 miles away from one of our larger stores. Both are very popular with customers – sales in the Express store are much improved since we acquired and converted it, while the Extra store offers a very broad range of products and other services. There are also a number of other convenience stores (such as the Nisa Local) in the locality.

WELWYN GARDEN CITY SOCIETY

The Welwyn Garden City Society has raised concerns about our interest in the Broadwater Road East site in Welwyn Garden City.

Choice in Welwyn

As the Welwyn Garden City Society (**WGCS**) points out, residents of Welwyn can currently choose between many different grocery retailers for their shopping (although the nearby Tesco store to which WGCS refers is actually our Hatfield store located five miles away at the junction of the A1(M)).

Welwyn and Tesco

WGCS rightly notes that Welwyn Garden City has a special character of its own, and it is in our interests to preserve this character. We are proud of our contribution to its current “*lively and fit*” condition. We are a major employer in the town, with around 600 employees at our current stores in the area, and around 3,000 people working at our offices in the Shire Park area of the town.

The Bridgewater Road East site

WGCS has “*no objection to Tesco operating from another site*”, provided it is an appropriate town centre location.

WGCS is concerned that retail provision on the Bridgewater Road East site would have a detrimental effect on the town centre, by shifting its focus. Our policy is to work with the grain of the government’s planning policy which supports town centres. The majority of our new stores are in town centres, or on the edge of centres, and encouraging linked trips with the rest of the town is a key element of any proposal for a new store. We believe that our stores benefit by being part of thriving town centres and we seek to build stores in locations that further enhance the vitality of an area.

We have an interest in the Broadwater East Site – we are part of a consortium of landowners which proposed that the site be allocated for mixed town centre uses (including retail) at the local plan review. The plan ultimately allocated the site for employment purposes, but the planning inspector recommended that a new retail study should look at the future need for additional retail floorspace. This study has not yet been commissioned.

Any retail study recommended by the inspector will hopefully consider this issue, but our view is that the site represents an edge-of-centre opportunity that could be developed without adverse implications for the historic character of the town centre. As with any edge-of-centre site, should any future proposal promote additional retail floorspace as part of the mix of uses, it would have to demonstrate need, satisfy the sequential test and show that the proposal would not have any adverse impact on the vitality and viability of the town centre. WGCS’ concerns would therefore be fully tested before any land use mix was finalised.

FAKENHAM AND SHERINGHAM (Consumer No. 43)

Fakenham

Ms French raises concerns about the impact of our new store in Fakenham on other local retailers, including a Budgens' store (which closed before our store opened) and a Co-Op "Rainbow" store that has closed recently. She also claims that we do not offer the high quality and fair trade lines offered by the Co-Op.

The location of our store in Fakenham reflects our interest in being part of a thriving town centre.³ The more reasons there are for people to visit a town the better it is for all retailers – being part of a thriving town centre means that we can attract more customers to our stores and hopefully our stores will attract new customers to the town so that existing retailers also benefit. The vast majority of our new stores are built in or on the edge of town centres and our intention is to bring more choice and a better food offer to customers, increasing the attractiveness of the town as a place to shop.

The closures of the Budgens' and Co-Op stores

The Budgens store in Fakenham closed in September 2005 – long before the opening of our store in July 2006. Our store is located very close to the town centre³, providing three hours free parking for customers and town centre shoppers and is an example of our approach of working with the grain of the government's "town centre first" planning policies. We are not aware of any evidence that suggests that Budgens' decision to close was related to our approval for a store, and indeed Budgens continues to trade in Fakenham from its Budgens' Local store less than 400 metres from our store.

Rather than remain empty, the former Budgens store has since reopened as an Argos Extra store – bringing a new and different kind of retail provision to the area. Over a period of time the mix of retailers in any town will change, and this kind of churn of retailers is in no way unusual – in towns with or without a supermarket.

The reason the Co-Op closed seems to be the subject of some dispute between the store and the Council – the Co-Op has cited the Council's refusal to permit a redevelopment, which the Council denies. Ms French notes that the Co-Op is set to reopen as a Lidl – evidence that Fakenham is an attractive investment opportunity for food retailers. As one resident notes:

"The Co-Op that is closing has sold the site to Lidl. They are going to re-build the site and open in 6 months. So perhaps the Co-Op should be targeted for not investing. Lidl can see the future potential why can't the Co-Op (Rainbow)?"⁴

Ms French's main concern regarding the loss of the Co-Op is that the town will lose a store selling high quality and Fairtrade lines. The Co-Op is indeed recognised for its

³ In planning terms it is an "edge-of-centre" location.

⁴ Comment on the weblog, iandale.blogspot.com.

Fairtrade range but many other retailers, including Tesco, are also increasing their ranges of Fairtrade products. We offer our customers the widest fair-trade range available in the UK, with 137 product lines, including 29 of our own brand. Fairtrade guarantees that developing world farmers are paid a fair price, i.e. one that covers the cost of production plus a premium to be spent on community projects such as better healthcare, sanitation, education or housing.

Sheringham

Ms French comments on our proposed store in Sheringham, expressing concern about its impact on local shops. She feels the town has adequate provision of grocery retail.

Our proposed Sheringham store has received a lot of media coverage, and we have provided a detailed explanation of our proposals on our Talking Tesco website. While we appreciate that Ms French may feel well-served by the existing Co-Op and Budgens stores in the town this is not a view shared by all Sheringham residents:

“there is an army of us out here who want the luxury, nay necessity, of Tesco in town to help get some value from our pound in the availability and purchase of a few basic items, and not have to travel to, at least, Cromer for them.”⁵

As well as the comment cards we received at the public exhibition in July which showed that 69 per cent of attendees were in favour of our proposed store, we have also undertaken two comprehensive telephone studies of over 1,000 residents. While we acknowledge that many people have voiced concerns about the store, in each of these surveys there were more people supportive of our proposals than against. An independent local radio poll also showed that 84 per cent of residents are in favour of the proposal.⁶

Among those to have supported the new plans is Icarus Hines, who runs a butcher’s shop in the town. He has said, *“at the moment the town does not have a decent supermarket. The majority of people want the store”*.⁷ Mr Hines is well placed to comment since he has another butcher’s shop in nearby Cromer, which he runs as a successful business alongside healthy competition from a large Morrisons. His example shows that small, efficient businesses who deliver what customers want can thrive, whether or not there is also a supermarket in the town.

One former resident of Fakenham (who now lives in Sheringham) welcomes our proposal for a new store. He comments:

⁵ <http://www.northnorfolknews.co.uk/cs/forums/764403/ShowPost.aspx>.

⁶ 513 people responded to a North Norfolk radio poll in 2006, with 429 voting in favour of the store.

⁷ *Tesco submits revised Sheringham plan*, The Telegraph, 6 February 2007.

“From being a dead town on a Saturday, Fakenham is now alive as people enjoy the benefits of the new store.”⁸

Support for our proposals, voiced on many websites and at our July 2006 public exhibition, has come from many residents of the town:

“my weekly grocery bill gets spent outside the town anyway. The local traders can supply my fresh needs but Budgens and Co-Op cannot even come close to offering the range and more importantly the pricing that I require.”⁹

“Tesco's won't spoil Sheringham. It'll bring people like myself back to local shopping and boost local shopkeepers' tills. And definitely save me and loads like me, petrol money and travelling time. It'll create jobs, bring people in from the villages and outlying towns. Especially Saturdays with the market on hand. These people will likely check out the local shops for a better selection of fruit and veg, a better cut of meat, a nick nack or two, or perhaps a special gift.”¹⁰

“I think the proposals you mention for Sheringham now - July '06 - are all excellent - and should be a great asset to the town - I think the "little shops" will be fine as they were when the market came. PLEASE, PLEASE COME - & Good Luck!”¹¹

Poultry

Ms French also complains about the quality of chicken purchased in our Kent and Isle of Wight stores, suggesting that we bought poultry from ‘crooks’.

We are always interested in feedback, and we are sorry to hear about Ms French’s concerns regarding our chicken. If it was in any way related to poultry bought at Tesco we will of course investigate and would be grateful for further details.

We do not buy any poultry products (or any product for that matter) from anyone other than professional, approved suppliers. All of our poultry comes from approved sources that comply with Tesco and UK agricultural and technical standards. All of our poultry is Class 1 and is of a consistently high quality.

⁸ <http://tesco.blogspot.com/2007/01/welcome-to-sheringham.html>.

⁹ <http://www.sheringhamtown.co.uk/grocery.htm>.

¹⁰ <http://www.at-sheringham.co.uk/issue19/page12.htm>.

¹¹ Comments received at our public exhibition held in July 2006.

CONSUMER NO.39 - PARTICK, GLASGOW

Ms Billington suggests that our application for a store on the Beith Street site (a former scrap yard) in Partick, Glasgow was withdrawn following opposition to our proposals from some local residents.

Public support for our proposal

Our first planning application for this site in Partick Glasgow was revised (rather than withdrawn) following extensive consultation with Glasgow City Council, the public and other parties. Although the original application received a number of objections, as Ms Billington notes, we believe (following a recent public exhibition and other supportive feedback) that the current proposals are widely supported.

At our recent public exhibition, we invited feedback from residents and the majority were supportive of our plans. Residents' comments included:

"I think the scheme will support and compliment the surrounding area very well. This land is currently unpleasing to the eye and a supermarket of this size is greatly needed."

"I would very much like to see this project going through as Partick and surrounding areas need more competition."

"Much needed development. Local supermarkets aren't doing enough for us!"

"The regeneration of wasted space is needed. Proposals are good use of space."

"I think it is a great proposal. Generating more public facilities."

"Thank you so much for choosing Partick. Can't wait to be brought into the 21st century. Love your store."

These comments have been echoed in the local press:

"The much needed redevelopment of a wasted, ugly and unused space that blights Partick Cross? Surely anyone that lives in the local area can appreciate the benefits that a bit of gentrification would bring to the area."

*"The location of Tesco's so near Partick Cross will mean hundreds of local people will be able to walk to a decent supermarket."*¹²

*"No-one I know is opposed to a local Tesco."*¹²

"Having recently moved into the area, I am trying to cut down my car movements. I walk to Morrisons, and Sainsbury's in Partick for shopping but these stores do

¹² http://www.eveningtimes.co.uk/mostpopular.var.1194934.mostviewed.anger_over_tesco_town_coverup.php#comments

not have the choice I want. I admit to jumping in the car and going further for choice. For this reason, I will welcome the new Tesco in my area. I am also acutely aware of the pressure against a new Tesco in the area probably making my opinion in forums like these a minority. But I do think the amenity of the area will be improved with this development.”¹³

Following the public exhibition we took into account the comments made by residents and following further consultation with the Council, the plans were revised once again.

Benefits to Partick

We believe that a new store on this site would bring a host of benefits to the area. At present the site is derelict and highly contaminated after years of use as a scrap yard. A new store would regenerate the site and bring more choice and a greater range of goods and services to the surrounding community including hundreds of jobs, new housing and leisure facilities.

Ms Billington believes the leisure facilities will include a pub, but we can assure Ms Billington that this is not the case. The leisure facilities will comprise of a student union but will not include any facilities for alcohol sales.

We understand concerns about the effect of our store on local shops. However, the new store would help retain within the Partick area business which is currently leaking out to other out-of-centre stores. We are also redeveloping our Maryhill store (enhancing the shopping environment for customers there and providing a further 160 jobs) which is close to Partick. A new Partick store, which keeps trade within Partick, will assist local businesses, reduce car journeys and help improve the general environment of the area around this former scrap yard.

Our interest in the site

It is correct that we have had an interest in the site for a number of years. Acquiring a new site, especially in ‘brownfield’ or inner city regeneration areas, often requires negotiations with several separate landowners in order to assemble a complete site where we can build a single store – here, we still need to purchase some land from the Council. The process of site development can also be delayed by the slow and complex planning system: as mentioned above, our application for this site has been revised.

Our plans for 24 hour trading

Ms Billington comments that we are planning to trade from the store 24 hours a day. At this stage we are not able to confirm what the opening hours would be. This is a matter to be discussed with the planning authority who will ultimately decide on trading hours.

¹³ <http://www.skyscrapercity.com/showthread.php?t=398569>

CONSUMER NO.95 – FAY HARRIS

Ms Harris raises concerns about the site of a former Tesco store in St Andrew's Ridge, Swindon. She claims that our store was closed despite hitting its targets, and that we are in no rush to dispose of the property.

Reason for store closure

We only close stores as a last resort. Our store in St Andrew's Ridge closed in January 2005, after careful consideration, because despite determined efforts to make the store a success people were choosing to do their shopping elsewhere. We can understand Ms Harris' concern that the property remained empty for some time. Our intention was always to find a tenant as quickly as possible because it is not commercially sensible to continue to pay rent on a vacant property.

Site now sublet to a new tenant

We hope Ms Harris will be pleased to hear that a new tenant will shortly take over the store (we were never in a position to sell the property since we have never taken ownership of it, but have been leasing the property from another party). We exchanged contracts and completed on the sublease for the property on 22 February 2007. The new tenant is a convenience retailer trading as a Costcutter and they indicated an intention to open in April 2007.

We would like to assure Ms Harris that ever since the store closed we have worked hard to find a new tenant for this property. The store closed on 15 January 2005 and we instructed our agents to market the property on our behalf in late January. In mid-February the sales particulars were prepared and dispatched to interested parties and a 'for sale' sign was erected. A number of site viewings took place at this stage, although unfortunately none of the parties wished to proceed. We then instructed our agents to roll out a more comprehensive marketing strategy, placing advertisements in trade press and regional media in addition to their own marketing materials.

Rather than assign the lease to a new tenant, the landlord was keen to find someone to sublet the property. There were various expressions of interest in 2005, but these did not result in concrete arrangements. We continued to have discussions with various other parties during 2006, one of which fell through, but as described above our negotiations have now come to fruition and the new tenant is expected to shortly begin trading.

A BUSINESS OWNER IN WOOLWICH (MR CHATER)

A small business owner has raised concerns about plans for the redevelopment of Love Lane, Woolwich. Greenwich Council is applying for compulsory purchase powers to acquire an area of land which includes property from which Mr Chater runs an MOT business.

Our Woolwich proposal

The redevelopment of Love Lane will play an important part in the redevelopment of Woolwich. As part of its long-term vision, Greenwich Borough Council is about to embark on the largest investment programme in the borough for over 100 years, and our store is part of the redevelopment of the area.

As the Council told the Competition Commission, “*Tesco have matched the Council’s ambition in the regeneration of Woolwich. It can take a long time to assemble a brownfield site but they have moved quickly to reach a development agreement with the Council. Tesco is the first company in many years to bring forward a major commercial development in the town centre. Prior to this the town has been characterised for many years by under investment and decay, with very poor indicators of poverty and deprivation.*”¹⁴

The development will include many new homes, shops, offices, and a library as well as a new superstore. It will also provide a safe, secure and attractive environment for the residents of Woolwich, and is a good example of one of our Regeneration Schemes. We have undertaken other schemes in deprived areas which most retailers view as too risky or complex to enter. In fact this development was initially led by St James Investments Ltd, who started talking to Greenwich Council around ten years ago about potential development on this site. We were the first retailers who would commit to the scheme and accept the level of risk of the investment.

We are working closely with St James Investments and Greenwich Council to improve this part of Woolwich. This is only one of several schemes in the town centre which will complement each other and promote local regeneration. To ensure that this can happen the Council is applying for compulsory purchase powers to cover a number of properties, a decision that the Council did not take lightly. Compulsory purchase orders are only used as a last resort when they are absolutely necessary to unlock barriers to development. The redevelopment of Woolwich will, when completed, bring significant benefits to the area and to many local businesses.

Mr Chater’s concerns

We do understand that a development such as this can cause disruption during the assembly and construction of the scheme, and we understand that for a small number of businesses this is a difficult time. While we regret difficulties are being caused to

¹⁴ Submission on CC website from Greenwich Council.

existing businesses in Woolwich, we are working with the Council to help regenerate the area and make Woolwich a vibrant, modern place where people want to work, live and visit.

Mr Chater leases property on land necessary to deliver this regeneration scheme, from which he runs an MOT business. The Council has been meeting regularly with Mr Chater, spending a great deal of time trying to find a location which would allow him to continue to offer MOT services to local office workers. Ultimately the Council has been unable to identify any suitable sites for a relocation and therefore he will be fully compensated for the closure of his business. The Council has indicated a willingness to pay for him to have a valuation survey, and is also trying to see for how long it might be possible to work around him to allow a few months more trading.

The benefits of the scheme

The new store alone will create over 400 new jobs as well as almost one thousand new homes in the Thames Gateway area. The site involves the assembly of several parcels of land and we and the Council are negotiating with several land owners. We hope to secure the rest of the parcels and begin trading no later than 2011.

We held a public exhibition to give people an opportunity to come and view the proposals. The exhibition proved a great success, attracting a wide range of local people interested in finding out more about the plans. Over 71% of local people said they believed the proposals would help achieve regeneration in the area, and we received many positive comments from the exhibition:

“Very supportive of the proposal. Will assist in the regeneration of greater Woolwich.”

“An excellent and well thought-out scheme.”

“It would help Woolwich and improve the area and make people want to shop and live there.”

Many people had suggestions as to how the proposals could be made even better, which were carefully considered by the team and many of these have been reflected in the final scheme design.

CONSUMER NO.69

Mr Petty raises concerns about the impact of the Tesco store in Ferndown on competitors in the area. He suggests that the only competition Tesco faces in Ferndown is from Iceland.

We are proud of our contribution to Ferndown. Our store currently employs around 270 people, several of whom have worked at the store since it opened 21 years ago. The store is due to be refurbished this summer and we will be making a significant investment in making the store even better for customers.

There is considerable choice for consumers in Ferndown. In addition to our store there is a Sainsbury, a Lidl an Iceland, several convenience stores (including a Co-Op, an Alldays and a Dillons), three butchers, a greengrocer and two bakers. There are also a further two Sainsbury stores, two Asda stores, a Morrisons, an Aldi and two Lidl stores within five miles of the town.

Our store is located in a shopping centre in the heart of the town. Contributing to thriving town centres is a key objective for Tesco. We believe that retail development in town centres increases the attractiveness of a town as a place for people to shop. This can bring more people to the area to the benefit of all retailers. A district planning officer commended the Tesco store in Ferndown as a good example of how retail development can be integrated into a town centre.¹⁵

Mr Petty suggests that in the 21 years the store has been open 100 jobs have been shed in the store.

Mr Petty is correct that our store now employs fewer people that it did when it opened in 1985. This is due to improvements in efficiency such as the introduction of shelf-ready packaging, and significant technological advancements such as bar code scanning. Retail employment more generally in the area remains strong. A recent report commissioned by the Learning and Skills Council on the retail sector in the Bournemouth, Poole and Dorset area showed that there had been strong growth in the number of retail jobs. Between 1998 and 2004, an estimated 15,000 new retail jobs were created in the area representing an overall growth of 27 per cent.¹⁶

¹⁵ *Public Report – Consultative Draft Planning Statement (PPS)6: Planning for Town Centres*, East Dorset District Council, Policy and Resources Committee, 4th February , 2004.

¹⁶ *Skills issues in the retail sector in Bournemouth, Dorset, Poole, and Somerset*. A report to LSC Bournemouth, Dorset and Poole, December 2006.

FARMER NO.8

Farmer No. 8 is an independent pig producer in an undisclosed area. He or she suggests commercial farmers have been made less competitive partly as a result of welfare reform. The farmer claims welfare reform was started by Tesco a decade ago in the form of the “Malton Code”, the precursor to the Quality Assurance Scheme (QAS). Now there is no premium for this higher quality and commercial farmers have to compete with imported products produced under lower welfare standards.

The health and safety of our products for customers is of the utmost importance. High safety and environmental standards are therefore very important to us and our suppliers. Such standards provide customers with assurance and so support demand for our suppliers’ products.

Farm assurance schemes were developed by the food industry in response to consumer concerns about food safety and animal welfare standards.

The Malton Code mentioned by Farmer No.8 was a code produced by Malton Foods, part of Unigate plc, a food manufacturing group operating in the UK and Europe. As one of the largest pig meat producers in Britain, supplying Tesco among others, it developed its own code for its 2,000 suppliers.¹⁷

Assurance schemes such as the Malton Code or Farm Assured British Pigs Scheme (FABPigs) and now the Assured British Meat (ABM) scheme help suppliers as well as consumers, by allowing farmers to prove that their processes are as robust as customers would wish them to be. For example, they may include stipulations to help prevent the spread of disease, such as ensuring that sick animals are kept away from healthy animals.

UK farmers produce meat of high quality with excellent welfare standards and food safety. Our own brand fresh overseas meat products are produced to the same specifications as domestic products (although castration is permitted in some European countries). These specifications are promoted by our technical managers and independent agencies. Much of the current welfare and safety legislation was brought in by the Government in the wake of disease issues (such as the BSE crisis, and foot-and-mouth disease). Although this has contributed to increased costs in the meat supply chain, some EC member states’ legislation on disease control and environment exceeds equivalent UK legislation. For example, control on meat processing and production at farm level in Holland has a higher veterinary input than required in the UK, and was in operation some seven years prior to the introduction of the equivalent UK controls.

Tesco has a dedicated team who manage the implementation of our Livestock Codes of Practice within the Tesco supply base. The team also work closely with veterinary surgeons, animal welfare experts, food safety experts and environmental specialists to advise on all aspects of livestock production. We also consult with our suppliers and

¹⁷ Malton Foods have since been sold to Grampian, which remains a supplier to Tesco.

processors when discussing what standards can be achieved. In this way, we ensure our Codes of Practice are achievable and based on the latest scientific evidence.

The farmer claims Tesco consistently buys from abroad, because buyers' performance is measured by profit margin and this is higher when we buy from abroad.

We have been strong supporters of UK meat producers over many years and our customers expect us to source meat from the UK. The vast majority (92 per cent) of our fresh pork is British, and we have improved the labelling of fresh pork to make sure customers can differentiate between UK and imported meat. We are currently participating in the "Love Pork" campaign designed to stimulate growth in pork sales with labels emphasising the quality of the pork. We use only UK-produced pork in our premium ranges ("Finest" and "Outdoor Bred") in an attempt to drive sales of UK produced fresh pork. These ranges are receiving more shelf space as they represent major growth areas in our business.

It is not always possible to meet demand for UK sourced products and this is the case in the pork sector. Our imports to supplement UK production are largely for pork loins, which are in high demand compared to other cuts.

While one of the objectives of our commercial teams is to source meat at the best price, so that we can deliver value for customers, this is only one factor involved in our decision. Quality and traceability are other factors and sourcing pork from UK sources is certainly a high priority.

The farmer – who supplies 'commercial' or 'indoor' pigs – complains he or she was unable to renew a contract with an abattoir that supplied Tesco, because Tesco had decided to offer more money for outdoor pigs for our "Finest" range. The abattoir was therefore not interested in cheaper indoor pigs.

It is difficult to comment on individual cases. However, the abattoir to which we understand the farmer is referring does supply us with outdoor reared pigs for our Finest pork range. The Finest range was developed based on outdoor production systems which provide better welfare for the animals and can therefore command a cost-related premium.

We believe that Farmer No.8 is referring to an occasion last year when we were negotiating with the abattoir as to how many 'commercial' (or 'indoor') pigs we would need for the latter part of 2006. In the event, we did not reduce the 'commercial' pig buying from this site at all, and we continue to buy 'commercial pigs' from this abattoir. We currently buy in the region of 4,000 pigs a week, based on a weekly price negotiation. This arrangement is managed on a contract basis by the abattoir itself with their producers.

Farmer No. 8 complains that Tesco was getting good press for helping pig farmers by producing a contract to help them, when actually it was only helping a small sector – producers of "outdoor pigs". He also says that a key problem is that producers cannot

deal directly with supermarkets and if they want to pay a premium for British product this goes to the abattoir.

We have contracts directly with our outdoor-reared pig farmers and our intention was to have similar contracts with the indoor ('commercial') pig farmers on the same basis.

In early summer 2006, we sat down with the processors with whom we deal directly to find a means to provide greater security of return for pig farmers which would also be commercially sensible for Tesco and its processors. Our aim was to improve transparency across the supply chain, so that we had direct contracts with farmers who knew they were supplying Tesco. As it happened the market dynamics of last summer rendered this impossible due to a lack of farmer interest as market prices increased.

It remains our intention to establish contracts with indoor pig producers when market dynamics allow. We continue to work on developing such contracts to make sure that they are the best possible contracts to implement when the time is right.

Farmer No. 8 claims Tesco stated that it would not mind if he castrated his animals, when this goes against the QAS rules.

We do abide by the QAS rules and would not seek to operate outside of them. While not illegal, castration is banned under QAS rules in the UK and all our UK pork comes from sources that comply with these rules. In other parts of Europe (such as Denmark and Holland) welfare standards are similarly high but castration is commonplace, and some of our imported pork comes from these countries.¹⁸

The farmer claims that if there were longer term contracts farmers would be able to invest in product innovation

The CC itself has looked at levels of investment in research and development in supermarkets' supply chains, and found that in general levels of expenditure are not low and have not been decreasing in recent years.¹⁹ Specifically with regard to the pig meat sector, the CC found pig meat prices improving over the period it examined (up until the end of 2005), and expects that 2006 will also have seen higher pig farm income.²⁰

As mentioned above, we continue to investigate the possibility of having contracts directly with farmers. However, we will continue in any event to use abattoirs for the logistical services they provide in dealing with a number of farmers on a day-to-day basis, and the efficiency gains they can achieve through volume.

¹⁸ For example, it is a legal requirement that pork sold into the German market is from castrated animals. We have ensured that all other aspects of our overseas pig farmers' operations meet production standards which are equivalent to the UK.

¹⁹ See the Competition Commission's *Supply Chain Practices Working Paper*, paragraph 17.

²⁰ See the Competition Commission's *Supply Chain Profitability Working Paper*, paragraphs 47-48.

NATIONAL ASSOCIATION OF MASTER BAKERS

The National Association of Master Bakers have raised concerns about the price differential between own-brand loaves and branded loaves suggesting that they are probably produced at the same factory.

For bread as with every other category in our range, our aim is to provide customers with choice in terms of quality and price point.

Whilst our own-brand loaves are baked at the same factories as some of the branded loaves, there are several reasons for differences in price which include differences in the cost of ingredients (for example different grades of flour will incur different costs). Branded suppliers also incur overheads which are not incurred by our own-brand suppliers: for example, brand advertising, multi-site production and direct distribution (our branded bread suppliers deliver direct to around 1,400 of our stores).

It is worth noting that sales of own-brand bread have been in decline in recent months whereas branded bread sales have generally grown. It is a heavily brand-dominated market and customers generally prefer branded bread over own-brand, despite the price premium. Although price is important to some customers, the Competition Commission itself has observed an apparent trend towards a premium on quality.²¹

²¹ CC Emerging Thinking paper, 'buyer power', paragraph 23.

CONSUMER NO. 55 AND CONSUMER NO.59 (UNTHANK ROAD, NORWICH)

Annelise and James Savill have raised objections to our proposal for an Express store in Norwich.

We are proposing to build a new Express store on Unthank Road, Norwich. Formerly occupied by a service station, the site is currently vacant and lies in an unattractive and semi-derelict state on a prominent corner, adjacent to local shops. Our scheme would regenerate this site, contributing to the vitality and viability of the area.

The local Councillor, Chris Thomas, commented on the Tesco proposals:

“I have had letters from residents who are not car owners and who would welcome an opportunity to shop daily at a small supermarket which they feel will complement the specialist shops.”²²

The company secretary of the hardware store, A Burrell and Son, also commented on our proposals:

“Anything which brings business into the area has got to be good for us, but Budgens may lose out.”²³

This refers to a Budgens convenience store located opposite our site. Our Express store would bring improved choice to the area.

Traffic Issues

Many of those objecting to the proposals were concerned about traffic issues and this appears to be Annelise Savill’s main objection to the store. The site is located on a shopping parade very close to a large residential population and so we would anticipate that the store would be used predominantly by local people traveling on foot. However parking would be provided for customers who may be passing through or for whom walking is less easy. It is worth bearing in mind that the former service station attracted 500 to 750 cars in a 12 hour period. We have emphasised to the Council that compared to the service station our store would involve many less vehicle movements. Traffic generation has never been given as a reason for refusal and the Council has accepted that the store would generate less traffic than its former use as a PFS.

Although the site is small there is room for delivery vehicles to get in and out. On average there would be 2-3 small delivery lorries during the day and 5-6 vans serving the store as needed. Tesco deliveries are deliberately managed to ensure that only one delivery occurs at any time. Delivery vehicles are only at the store for short periods, timed to occur outside of the busiest trading times.

²² <http://antonylittle.blogspot.com/2006/11/are-libdems-going-to-drop-their.html>

²³ <http://new.en24.co.uk/search/story.aspx?brand=ENOnline&Category=News&itemid=NOED05%20Oct%202004%2012:22:37:470&Brand=EONnline&Category=search&archive=0>

Our application for planning consent at the Unthank Road site was refused because of design and amenity concerns. The Council has advised us to submit a revised scheme to overcome these concerns. Considerable consultation with residents and the Council has helped us to review our plans and any further application would seek to address the issues that have been raised. We would like to come up with a scheme that is right for the area.

We believe that with the right design a new Express store could bring a host of benefits to the area including:

- Regenerating a derelict site
- Encouraging people to shop locally and stop people having to travel to other areas to shop
- Encouraging customers to link shopping trips to other shops and services
- Creating new jobs for local people
- Contributing to the vitality and viability of the area
- Providing more choice, quality and value
- Reducing the need to make car journeys

Competition in Norwich

Competition is fierce in Norwich, as it is across the whole country. We have an Extra superstore and a Metro, plus several small Express stores. Sainsbury also have three large stores in the area, and Waitrose have two stores. Asda, Morrisons, Somerfield, Marks & Spencer and Lidl are also represented in the area. Local independent Roys of Wroxham also have two large stores. In addition there are many other convenience stores.

Supporting local farmers and small suppliers

We have recently announced our plan to open a regional buying office for the East of England which will make it easier for small producers to sell goods through our stores. It is the second of eight planned across the country and will result in hundreds of new local lines being stocked in supermarkets across the region.

East Anglia is already known for its high quality products and we purchase fruit, vegetables and meat from hundreds of farms in the area. But we know there are many other regional products that would be attractive to customers and we want to make it as easy as possible for local producers to come and talk to us. We know our customers want to be able to buy more regional products. We also know that smaller suppliers have sometimes found it hard to approach the supermarkets. We want to make both these issues a thing of past.

By opening an Eastern regional buying office with a dedicated team on the ground, we are determined to achieve this and will be able to stock more local lines for our customers in this part of the country.

We will also be holding a roadshow in the area later in the year and inviting small suppliers to come along and show us their products, even if they do not have the means to produce enough to supply every store in the area.

Annelise Savill claims we use “loss-leaders” to compete

We do not engage in this practice. We price a very small number of items below cost primarily because we do not wish to be beaten on price on those items by our competitors. Our policy on pricing is to aim to be the best value retailer in this fiercely competitive market, and customers have benefited from retail prices falling by over 7.5% between 2000 and 2006 – saving consumers £3 billion over the last three years.²⁴

Annelise Savill also claims we have flouted planning restrictions at stores in and around Norwich

Our approach is to work to open new stores professionally and in accordance with government policies and guidance. Incidents of non-compliance regarding planning restrictions are rare and we would always seek to resolve the issue as quickly as possible. Ms Savill does not provide any detail or evidence of such incidents in the Norwich area. However if she would like to provide us with more detail we will fully investigate the matter.

²⁴ Source: OFT and CC estimates.