

Briefing for the Scottish Parliament Rural Affairs and Islands Committee, as part of their evidence gathering into Agriculture Policy in Scotland.

Tesco in Scotland

Tesco is proud to be Scotland's leading retailer, serving customers all across Scotland, including stores on the Western Isles, Orkney and Shetland. Our business in Scotland also includes our distribution hub in Livingston and UK Customer Service Centre in Dundee. Tesco Bank is based in Scotland.

Accumulatively Tesco directly employs over 30,000 colleagues in Scotland, approximately one in eight retail jobs. Our fiscal tax contribution in Scotland is £267m, the equivalent of 6,200 nurses. We pay more than £57m a year in business rates, more than 3% of the total rates paid by all businesses in Scotland. In Dundee alone, Tesco pays some £3.2m in rates, 10% of the total business rates income in the city.

Our dedicated team based in Scotland deals with more than 90 Scottish suppliers large and small across Fresh and Packaged categories. Some of these suppliers, such as Grahams Dairies, have now grown to supply Tesco UK wide, with Grahams Dairies supplying Tesco Finest Jersey Milk and own brand Quark nationally, whilst Deans of Huntly make our own brand shortbread for us.

Supporting Scottish and British Agriculture

Supporting Scottish farmers, growers and suppliers is absolutely vital in safeguarding the future of the food industry in the UK, and we are proud champions of Scottish and British agriculture, providing immediate support in the wake of recent inflationary challenges, and acting as a key partner in tackling long-term challenges such as climate change and nature loss.

We have strong, long-term relationships with many of our Scottish and British suppliers and growers and strive to source produce from Scotland and the UK wherever possible. All our beef is sourced from the UK or ROI, all our fresh chicken, eggs, butter, milk and cream are also British, and our Finest lamb and all our Finest pork cuts and Finest sausages are British. We have a substantial portion of the market share of UK grown fruit and vegetables and always strive to source produce from Britain when in season, where possible.

Recently we have stepped up to support our Scottish and British farmers, growers and suppliers who have been impacted by a combination of the effects of the pandemic, the war in Ukraine and supply chain disruption - which have all driven an increase in input costs such as feed, fertiliser, energy and labour. This support includes:

Scottish Produce

Scotland continues to punch above its weight. For example:

- 68% of all Maris Piper potatoes sold in Tesco UK wide are grown in Scotland
- 68% of all Sprouts sold in Tesco UK wide are grown in Scotland
- 49% of all carrots sold in Tesco UK wide are grown in Scotland
- 45% of all white potatoes sold in Tesco UK wide are grown in Scotland
- 41% of all cabbages sold in Tesco UK wide are grown in Scotland

We increased potato contract pricing for the 2022 harvest by 10% YOY and included an electricity escalator in contracts to help farmers manage the exposure to storage costs. We also renewed our long-term, five-year contract with Branston, who manage the relationship we have with more than 130 Tesco Sustainable Farm Group growers.

We significantly increased our 2022 onion season pricing through our key partner supplier Stourgarden. Despite supply chain challenges relating to poor yield, this has ensured we can continue to source close to 100% of our onions from the UK.

Scottish Eggs

100% of Tesco branded Organic, Free Range, and Barn Eggs sold in Scotland are laid in Scotland from our family-owned supply partner Glenrath Farms based just outside Edinburgh, who have been a proud supplier to Tesco for over 30 years. Over 20% of Tesco UK egg packs across branded and own brand come from Scottish Farms.

Tesco has given a further support package of £10m for the British egg industry, covering the period of April 2023 until March 2024, coming on top of an initial contribution of £27.5m the previous financial year.

Scottish Meat and Fish

Our dedicated Tesco Sustainable Beef Group (TSBG) and Tesco Sustainable Lamb Group (TSLG) includes 100 and 8 Scottish farmers respectively. Members of our TSBG and TSLG benefit from a bonus scheme that awards farmers for improved sustainability standards and offers tools to help them measure their carbon footprint and reduce on-farm emissions.

To help support the British pig sector, last year we announced a £10million enhanced payment plan for our farmers and suppliers, alongside a number of other initiatives, including an increase in the volume of British pork in store.

All of our Tesco finest smoked salmon is sourced from Scotland. Our finest salmon fillets are sourced exclusively from Scottish farms.

Scottish Dairy

All of our fresh milk is sourced from our Tesco Sustainable Dairy Group (TSDG) which includes 70 Scottish dairy farmers. The TSDG helps farmers invest in animal health and welfare, carbon reduction and supporting nature on farm. Across the UK we've invested more than £300m

over the market price for milk since the initiative launched in 2007. The price we pay is independently set and takes into account inputs such as feed, fuel and fertiliser.

Working with suppliers – principles of approach

We seek to take a long-term approach to our supplier relationships, building our businesses together. This includes making sure our suppliers feel that they are getting a fair price. To do this we work with our suppliers in an open, constructive and sustainable way, with regular dialogue on inputs, costs and other challenges our suppliers may be facing.

Underpinning these relationships and, in particular, the issue of Cost Price Increases (CPIs), is our commitment to the GCA's 'seven golden rules':

- Clear communication by retailers about the process and how long it will take.
- Awareness, and prioritisation, of the possible greater impact on smaller suppliers.
- Support for buyers from colleagues who have experience of dealing with CPI requests.
- Only asking for the information from suppliers that is needed to make a CPI decision.
- Clear communication of the outcome, so there can be no grey areas.
- No automatic delists or fixed delist notice periods following CPI negotiations.
- Reminding buyers about abiding by competition law, e.g. never asking suppliers about other retailers' plans or retail prices.

Where suppliers have concerns, we have a Supplier Helpline in place to deal with invoice queries and any other supplier issues within 48 hours, and a Supplier Protector Line to encourage a 'speak up culture' with Tesco's partners.

Since the pandemic, invoices from our smallest suppliers are now paid immediately and our partnerships have resulted in our suppliers ranking Tesco as the best retailer for overall performance for the seventh year running in the independent Advantage survey.

Looking to the future

Building on our long term sustainable partnerships with the Scottish and UK agriculture sector, our aim is to partner with Scottish farmers, growers and producers to be at the forefront of agricultural and food systems innovations which will boost Scotland and the UK's capacity to sustainably produce more of the food it needs, driving transformational change, and supporting our ability to provide affordable, sustainable and healthy food for all.

The Tesco Agri T Jam competition (now in its 6th year) is designed to help us find the most promising agriculture innovation that can help us build long-term resilience within our supply base, addressing key sustainability challenges. This year, the event was dominated by innovations which can contribute to Tesco's aim of building more sustainable supply chains, incorporating ideas with solutions to support on-farm measurement, data analytics, and supporting farmers in making informed choices around complex sustainability issues.

NatureMetrics won the 2023 competition for its innovative solution which measures biodiversity using eDNA analysis of soil, water, and insects.

Other innovations we're investing in include:

- Vertical farming which improves volumes and affordability.
- Low-carbon fertilisers that can reduce dependence on manufactured fertilisers and protect against price volatility. We are trialling this with five of our vegetable suppliers over 1,300 hectares of land were cultivated using eight different low-carbon fertilisers. Six of them are manufactured in the UK from material including food waste, chicken litter, fire extinguisher waste and algae. Plans to increase the trial to 13,000 hectares next year have been put forward, paving the way for widespread take-up of low-carbon alternatives.
- Scoping solutions to food-waste through Black Soldier Fly protein conversion and the creation of an alternative animal feed that is deforestation-free and can be produced in the UK.
- Technology to measure biodiversity including the use of bioacoustics to monitor pollinators and pest levels on farm alongside trialling a monitoring system that uses birdsong as a science-based biodiversity indicator in grassland farming.

I hope this is of assistance in your considerations.

Tony McElroy
Tesco