

PRESENTATION TO THE SCOTTISH FOOD AND DRINK FEDERATION

MEMBERS' FORUM

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Good morning everyone, and thank you to the Scottish Food and Drink Federation for inviting me to speak today.

For those of you who don't know SCDI, we are an independent economic development network in Scotland with members across the private sector - including many in the food and drink industry – and across the public sector, the trade unions, academia, and the voluntary sector.

Our key role since we formed in circumstances somewhat similar to today's in 1931 has been to lead the debate on delivering stronger economic growth in Scotland. Over the years we have delivered pioneering work on promoting overseas trade, attracting inward investment and measuring Scotland's manufactured exports performance.

We recently published the results for 2007 which illustrate the growing importance of food and drink to the Scottish economy. Whereas when the Scottish Parliament was established in 1999 the sector comprised just under than 12% of Scotland's manufactured exports, the latest survey shows that it now makes up just over 24% of the total. So in the first eight years of the

Scottish Parliament manufactured exports of food and drink more than doubled as a percentage of Scotland's total manufactured exports.

One of the main causes was the decline of the electronics industry. But it also reflects the success of the food and drink sector which has grown in value by over £1bn from £2.4bn in 1999 to £3.5bn in 2007. In the last year alone, whisky was up by 13.9%, gin and vodka were up by 12.5% and other Food Products and Beverages were up by 1.5%. The figures are only just being counted for 2008. But at least in the case of Scotch whisky, while we understand that the last few months of the year were tougher, the year as a whole is likely to show very positive performance.

Overall, domestic and international food and drink sales are now worth about £7.5bn to the Scottish economy. But we know that you are ambitious to go much further and over the next eight years create a Scottish food and drink industry which is valued at £10bn in total by 2017.

SCDI supported this stretching target in our response to the consultation on the National Food Policy. Following discussions with members, we identified and recommended six principle themes for action by government, the industry and its partners. These were:

- I. Scotland should seek to play a constructive role in helping to address the global food challenge
- II. Scotland's competitiveness should be improved across a range of policy areas, especially skills; infrastructure issues including transport, waste management, energy and planning; procurement; trade; and regulations

- III. There is a general need to become innovative, with more innovation and technology utilisation in the supply chain, and better links between the sector and academia
- IV. Collaboration should be strengthened across the sector
- V. A partnership approach, which works with the market, is needed between Government, industry and consumers to address the health and environmental challenges, and to make health and sustainability key elements of the value proposition for Scottish food and drink
- VI. Finally, presentation of our offering should be enhanced with a better joined-up approach to export promotion, international trade and food and drink related tourism

We would like to think that these comments are reflected in the final food and drink policy. Certainly, SCDI believes that it was a further step forward from a draft and I would like to highlight positive support which the Scottish Government is implementing such as the Food Processing, Marketing and Co-operation Grants scheme. But in the five minutes or so allotted to me today it would clearly be impossible to go into depth on all six themes. I therefore intend to offer some comments from SCDI on Scotland's competitive position, and on the health and sustainability challenges.

Firstly, on competitiveness. As I have explained, Scotland's food and drink industry has performed relatively well over the last 10 years. However, there is a persistent concern that it is being held back from taking full advantage of rapidly growing global markets by red tape at home. The weakness of the

pound at present and the demand which is still increasing in places like China offers a tremendous opportunity over the next 3 to 5 years to grow our exports markets and really make strides towards the £10bn target.

However, there is real concern that overregulation is continuing to discourage investment. Take the aquaculture industry, for example. Salmon represents 40 per cent of all Scottish food exports, but the Scottish salmon industry's 10% share of the global market is declining. The Scottish salmon industry must be able to compete effectively for investment from a few multinational companies. The Scottish Government has made sympathetic noises, established working groups and commissioned research. But we are concerned that it does not really appreciate that Scotland is one of the most expensive countries in the world in which to grow salmon and just how much of a disincentive the planning system is to potential developers. The Council of Economic Advisers has taken a close interest in reforms to the planning system. SCDI would urge it to consider the impact on the food and drink sector.

The transport system is another barrier to growth. For the food and drink industry, being able to access the raw ingredients for your produce and efficiently ship that produce to market is clearly important. But for too long, freight was neglected in transport policy. SCDI welcomed the publication of the Freight Action Plan in 2006. However, we have concerns that the recently published Strategic Transport Projects Review appears to view the city-regions as driving economic development and, despite the opportunities in

food, drink and tourism, not rural areas. For example, the A95 which links food and drink producers in Moray with Central Scotland was not even considered, and the A82 in the west Highlands is scheduled to receive only relatively modest investment over the next 20 years.

Finally, on Scotland's competitive position, rising to the skills challenge. There is no doubt that falling numbers of Eastern Europe migrant workers could be a significant constraint on the sector over the next three to five years which will need to be compensated for from elsewhere. However, we also need to look to the long-term. With the retirements due at all levels, the total figure for the recruitment requirements of the industry by 2017 is 16,000. Moreover, expanding number of high-skills level occupations are predicted – Managers, Food Scientists, Technicians – with recruitment equivalent to over 50% of current levels necessary to meet employer demands. Government, industry and education will need to work together to encourage young people into these careers.

Turning to health and sustainability issues. SCDI believes that there is a third way between liberty and licence, and that this is the promotion of respect for food and drink. Fundamentally, we believe that government, industry and society as a whole all have a part to play in influencing consumer behaviours through informed choice.

Of course, it would be impossible to touch on these issues today without commenting on the Scottish Government's alcohol framework launched yesterday. Indeed, I believe that it is right to do so because whisky, in particular, is an iconic international product for the entire Scottish sector, and the framework may provide a template for government policy in other areas. SCDI has strong reservations about the international legality of minimum pricing and the risk that some country markets may regard this as a perfect opportunity for copycat measures which discriminate against imports of Scotch whisky. But today I want to flag up the potential impact in the domestic market.

- If the amount of shelf and promotional space in stores for alcohol is to be restricted, small Scottish suppliers will bear the brunt. Retailers are unlikely to de-list popular, high volume lines such as Stella or Guinness, Low volume lines tend to be Scottish microbreweries. With the Scottish Government putting up the premium on every inch of shelf space, there are some niche Scottish lines that will be put under pressure and may not be viable without additional in store promotions.
- This goes for crossover sales too. If whisky cannot be put next to the Fathers Day Cards, sales will be affected.
- Lots of food and drinks suppliers use supermarkets as a method of accessing far bigger markets. For example, Scot Herbs in Longforgan became a Tesco supplier in Tayside, then all of Scotland and now they have two lines for the whole of the UK. Under the alcohol

framework it could be more difficult to get a listing. So Scottish businesses will not be able to grow through the existing distribution reach of the UK supermarkets.

So the alcohol framework has implications for the entire food and drink industry, for other important industries such as tourism and for the Scottish economy at this challenging time. The need for immediate action is widely recognised, but these proposals are likely to be ineffective and economically damaging. We would urge the Scottish Government, the industry and all stakeholders to make a joint commitment to agreeing to an improved framework.

Finally, sustainability is a priority for the industry. Issues such as energy efficiency and waste management and the opportunities in biomass and biofuels are central to the thinking of a number of companies in SCDI membership. But the Government – central and local – needs to provide clearer signals on policy, better incentives – for example to reuse waste heat – and more consistency in areas such as recycling of materials which would send signals to retailers about what type of packages to use for their products. Without offering an opinion one way or the other, I also think that the issue of GM food is likely to return over the next 3 to 5 years, given their claimed potential to reduce greenhouse gas emissions and increase production.

In conclusion, I hope that I have shown the increasing importance of the food and drink sector to the Scottish economy. SCDI welcomes the national food and drink policy and the attention which the Council of Economic Advisers is

giving to the sector. I have highlighted areas of concern to SCDI, but the main message should be the opportunities if we get it right. We look forward to working with the industry, Ministers, the CEA and all stakeholders through the next stages of the food and drink policy.