Food and Drink Key Sector Report

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1. Overview

1.1 Context: Current Issues

1. There are a number of issues currently affecting the food and drink key sector in Scotland, some of which are external such as: the current global economic slowdown; energy use and the effects of climate change; and issues with SMEs and access to finance. Other issues are specific to the performance of the key sector, namely: low rates of research and development; productivity issues; and skills in the sector.

2. The Scottish food and drink key sector can contribute to sustainable economic growth but there are constraints. The supply of agricultural land is more or less fixed (now that the EU have effectively abolished set-aside). Ploughing up grassland for arable crops releases carbon, so may not satisfy the “sustainable” test. We are exploring over the next year or so how rural land use can best be managed in terms of climate change, and there will be some tensions between food production and carbon sequestration. Our aim is to sustainably optimise our natural resource productivity i.e. make the best use of our natural resources to deliver maximum economic and public benefit now and for future generations. Changes in land use are possible, though some take a long time to effect and expansion of primary production of one commodity implies a reduction in another unless yields can be increased. Changes in production would need to concentrate on areas where value can be added.

1.2 Description of scope and performance of the sector

3. The food and drink ‘key sector’ is defined as agriculture, fishing, and food and drink manufacturing and are described in this paper as the core activities of the food and drink industry in Scotland. However, it is recognised that the food and drink industry in Scotland encompasses a large supply chain including food and drink wholesaling, retailing and the food service sector. These are defined at Annex A.

4. Key statistics on the food and drink key sector (including agriculture and fisheries) for Scotland are provided at Table 1 below. Data in the table is taken from the Annual Business Inquiry (ABI) 2007 unless stated otherwise\(^1\),\(^2\).

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\(^1\) ABI data for sea fisheries underestimates the value of the sector due to the high levels of self employment in the sector but to allow comparability with other key sectors ABI data are used. It is estimated that around 1,000 employees are not included in the ABI data. Similarly, for consistency ABI data for aquaculture is reported but Scottish Government estimates of output are higher than those shown.

\(^2\) More recent data for agriculture is available from the Scottish Government Census for 2008, however, for comparability purposes data for 2007 is provided.
Table 1: Key Statistics

<table>
<thead>
<tr>
<th></th>
<th>Agriculture</th>
<th>Fisheries</th>
<th>Food and Drink Manufacturing</th>
<th>Food and drink wholesaling</th>
<th>Food &amp; Drink Retail</th>
<th>Non-residential catering</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross value added (GVA)</td>
<td>£821m</td>
<td>£155m</td>
<td>£3,152m</td>
<td>£866m</td>
<td>£2,307m</td>
<td>£1,645m</td>
</tr>
<tr>
<td>GVA per employee</td>
<td>£31,652</td>
<td>£33,306</td>
<td>£68,708</td>
<td>£45,236</td>
<td>£21,471</td>
<td>£14,381</td>
</tr>
<tr>
<td>Turnover</td>
<td>£2,121m</td>
<td>£432m</td>
<td>£7,502m</td>
<td>£5,830m</td>
<td>£10,437m</td>
<td>£3,342m</td>
</tr>
<tr>
<td>Employment</td>
<td>25,938</td>
<td>4,600</td>
<td>45,900</td>
<td>19,100</td>
<td>107,400</td>
<td>114,400</td>
</tr>
<tr>
<td>Overseas exports</td>
<td>£5m</td>
<td>105m</td>
<td>£4,695m</td>
<td>£165m</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Number of units</td>
<td>51,319</td>
<td>1,925</td>
<td>1,212</td>
<td>1,297</td>
<td>7,814</td>
<td>11,549</td>
</tr>
</tbody>
</table>

5. The individual contribution of the food manufacturing and drink manufacturing sectors to the Scottish economy are shown below. The target is to grow sales of the food and drink manufacturing sector to £10bn by 2017 - sales were £7.5bn for 2007.

<table>
<thead>
<tr>
<th></th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Food</td>
</tr>
<tr>
<td>Gross Value Added (GVA)</td>
<td>£1.2 billion</td>
</tr>
<tr>
<td>GVA per employee</td>
<td>£34,980</td>
</tr>
<tr>
<td>Sales</td>
<td>£4.1 billion</td>
</tr>
<tr>
<td>Employment</td>
<td>34,600</td>
</tr>
<tr>
<td>Overseas Exports</td>
<td>£0.4 billion</td>
</tr>
<tr>
<td>Number of business units</td>
<td>959</td>
</tr>
</tbody>
</table>

6. The spirits sector within drinks manufacturing, especially whisky, is very important to the Scottish economy in terms of value added and export potential as well as productivity.

- In 2007, turnover for the Scottish spirits sector was £2,710m, generating £1,712m of GVA with 8,700 employees.
- The sector accounts for 77% of turnover and 81% of GVA of total UK output of the industry. This compares with the whole of manufacturing, where Scotland accounts for only around 8% of total UK output.
- The spirits sector accounts for over one third of ‘Scottish food and drink manufacturing’ total turnover and over half of its total GVA.
- Average GVA per employee (£195,874) is over 3 times greater than that found in the manufacturing sector as a whole (£61,252). Whilst average labour costs per employee (£46,600) are 60% higher in spirits sector compared to manufacturing as a whole (£28,866).
- The whisky industry, along with other spirits, accounted for approximately 85% of all food and drink exports outside the UK in 2007.

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3 Agriculture ABI data for Scotland is for SIC 1.4 and 1.5 only, this excludes the growing of crops and farming of animals, therefore, data from the Economic Report on Scottish Agriculture 2009 are used unless stated otherwise.

4 Includes SIC 51.35 wholesale of tobacco products.

5 Global Connections Survey 2007, Scottish Government. For 2006, food manufacturing exports were £0.4 bn and drink manufacturing £3.5 bn.
1.3 Productivity

7. There are different ways to measure productivity, this paper uses labour productivity i.e. GVA per employee. Productivity of the food and drink sector varies greatly between the various sub-sectors. The chart at Annex B shows how GVA per employee compares across the sub-sectors since 1998. Data for agriculture and fisheries has not been included. Agriculture data are not comparable with the ABI data and the structure of employment in agriculture and fisheries is different from the food and drink manufacturing sector where self employment is less evident.

8. Chart 1 at Annex B shows that productivity of the drink manufacturing sector was almost 5 times greater than that of food manufacturing for 2007. Over the period 1998 to 2007:

- Productivity of the drinks manufacturing sector more than doubled - rapidly rising between 2002 and 2007, from £78,020 to £171,429.
- Food manufacturing GVA per employee increased by over 30% between 2003 and 2006.
- Overall food and drink manufacturing productivity increased by 85%.

9. There are various factors driving productivity including ownership. Productivity in food and drink manufacturing Scottish-owned companies (£43,217) is around 40% of productivity for abroad-owned companies (£109,005). 85% of food and drink manufacturing companies are Scottish owned, and these account for 50% of turnover.

10. Company size also drives productivity in the food and drink manufacturing sector. GVA per employee for large firms (250+ employees) is double that of small (0-49 employees) sized enterprises and around 90% higher for medium (50-249) sized enterprises. Large enterprises account for 63% of employees, 71% of turnover and 77% of GVA, this is in comparison to small companies (0-49 employees) which account for 15% of employees, 11% of turnover and 9% of GVA.

1.4 Rationale for Key Sector Status

11. Three criteria are relevant for identifying the key sectors that have the potential to make a significant contribution to increasing Scotland's growth. These are:

- Scotland has distinctive capabilities and businesses with the potential to be internationally successful in areas of global demand;
- they currently account for a significant part of the Scottish economy and reflect the contribution of all areas of Scotland; and
- government intervention can make a significant difference to future success by facilitating or accelerating development in areas where the market alone cannot deliver the best outcome.

12. The food and drink key sector in Scotland meets the above criteria, in particular with regard to the first two points. The Scottish food and drink sector has a strong international reputation at the luxury end of the market, driven by whisky, salmon, seafood and Scotch Beef, and enhanced by strong brands. Scotland's food and drink sector has distinct advantages in terms of the quality of its raw materials, high animal welfare standards and production systems and real strengths in crop, animal husbandry and human nutrition research.
13. Scotland’s is renowned for the quality of its produce, the environment and its world class regulatory regime.

14. The food and drink sector accounts for a significant part of the Scottish economy and reflects the contribution of all areas of Scotland. It is not only important to the economy but it cuts across many other areas of life in Scotland for example health, education and the environment. Food and drink was Scotland top exporting industry in 2007. Also, the spirits sector, especially whisky, is very important in terms of value added and export potential. The sector accounts for over 30% of ‘Scottish food and drink’ total turnover and over half of its total GVA.

15. Scotland has taken a strong market-led focus in the health, nutrition and wellbeing marketplace – where the global market has grown by 29% since 2002 and is forecast to grow further, by 26% to £282.5bn by 2011\(^6\) - where there are existing natural products with intrinsic health value e.g. oats, berries and fish rich in omega-3 oils. Scotland is now home to one of the world’s largest and best equipped research centres in nutrition and health - The Rowett Research Institute and Aberdeen University have joined to create the Rowett Institute of Nutrition and Health - and this, along with strengths in food science and life-science research can give Scotland a real expertise in the functionality of food and its health giving properties.

16. There are opportunities for government intervention to make a significant difference in the key sector and the purpose of the paper is to explore these.

2. Challenges and Opportunities

Strengths

17. The food and drink key sector in Scotland has many strengths. The agriculture and fisheries sector provide excellent raw materials; high animal welfare standards; family owned businesses which fit with the consumer desire for provenance; and there is a good research base at this end of the supply chain.

18. There are strengths in human nutrition research, food science and life science research.

19. Scotland has a strong premium image and this makes it well placed to gain from the increasing interest and passion for excellence in food. Scotland’s food and drink manufacturers products are internationally renowned e.g. Scottish Langoustines, Scotch Beef, Scotch Whisky and Scotland has a number of strong international brands e.g. Walkers and Baxters. The industry in Scotland has demonstrated that it fits well with global food trends, for example increasing the focus on provenance and a greater emphasis on the health and well-being properties of food.

20. A centre for excellence in the food and drink manufacturing sector is being developed by Improve (the Sector Skills Council for the industry) and the University of Abertay. It will be a Scottish hub of the National Skills Academy for food and drink, and its key purpose will be to help coordinate training provision for the sector in Scotland.

\(^6\) Scottish Enterprise
Weaknesses

21. The food processing sector has focussed on product not process innovation and the sector does not adequately use the food science research available.

22. Productivity of the drink processing sector in Scotland is high but food processing has much lower productivity levels. There is a challenge to increase food processing productivity levels and innovation and also to raise the productivity of small food and drink manufacturing companies.

23. Food and drink manufacturing business enterprise R&D (BERD) spending as a percentage of GVA is low compared to the Scottish average.

24. Exports from food manufacturing are low and static compared to those of the drinks manufacturing sector.

25. Improve, the food and drink Sector Skills Council (SSC) and Lantra, the SSC for the environmental and land-based sector believe that the main skills issues which the sector face are:
   - it needs to be able to make best use of the Scottish Credit and Qualifications Framework;
   - funding support is needed for those who are 20+ to enable progress to a situation where 90% of the workforce can be qualified to at least Level 2 (SCQF Level 5);
   - a step change in the careers strategy to support young people and others looking for a valuable and rewarding role; and
   - a more demand-led approach by the Scottish Funding Council in terms of the long term planning of further and higher education provision that meets the needs of the food and drink manufacturing sector.

26. Increased input costs as a result of increased energy and commodity prices have highlighted the interdependency between food and drink and energy.

27. Some producers/processors are unable to pass on increased costs through the supply chain.

Opportunities

28. There are a great number of opportunities for the Scottish food and drink sector in Scotland. In particular there is the potential for increased differentiation on the environment side, for example, focusing on low carbon emissions and the positive environmental impact of the products; the industry can work to ensure its viability in the higher quality premium food end of the market; export markets may offer a way for processors to escape the pressures of margins being squeezed by the very competitive retail market in the UK; and the sector can benefit from strengths in food research.

- Scotland Food and Drink (SFD) have identified four areas to help drive the food and drink industry strategy for growth and have set up working groups for each, these are: Collaboration, Innovation, Skills, and Reputation. The outputs of these workgroups have fed into the National Food and Drink Policy.
- Opportunities exist for the primary sector as a result of the increasing consumer focus on local produce and the provenance of food. The success of Scotch Beef
the top selling Scottish food brand across Great Britain is a potential example for others.

- Scotland’s strengths in human nutrition research and along with strengths in food science and life science research can be used to respond to the increased consumer focus on healthy food as well as to position Scotland strongly from an inward investment perspective based on future opportunities in new ingredients driven by science and technology.
- The processing sector can increase collaboration and innovation through working with SFD. Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE) are working with the industry in order to improve productivity and access international markets to enable the sector to compete globally. SE providing support for lean manufacturing and process development through the Scottish Manufacturing Advisory Service which could help improve productivity.
- There is an opportunity for industry consolidation to develop food and drink businesses of scale.
- The sector is under increasing pressure from government and consumers to contribute to sustainable development actions including energy, waste, transport, water and climate change issues. There is an opportunity for the industry to contribute to meeting the sustainability targets for: the reduction in greenhouse gas emissions; the reduction and recycling of waste; and energy efficiency set out in the Climate Change (Scotland) Act 2009 which received Royal Assent on 4 August 2009.
- The development of carbon labels could identify food products where Scotland has an advantage compared to imported produce creating an opportunity for increased sales within Scotland and the UK but there is the threat that this will also identify products where Scotland has a disadvantage.
- Could increase the range of customers of Scottish food and drink producers to spread risk they may face from relying on only a few large retail contracts in the domestic market. Some companies have already rethought their strategy for growth. As an example, internationalisation now plays an important part in Auld’s strategy.
- SFD are working to develop leadership and management development programs, as well as provide access to expertise.
- The Scottish food and drink sector already export a significant proportion of their products – exports from the food and drink key sector have increased by 60% since 2002 to reach £4.8bn (2007). There are opportunities for the industry to grow further by increasing exports overseas and within the UK. Retail sales of Scottish brands across Britain have increased by a fifth since May 2007.
- Opportunities in the domestic market – food retail sales in the UK are forecast to increase to £128.7bn by 2012 and the foodservice market is forecast to reach a value of £36.6bn by 2012\(^7\). Could increase domestic food sales via long-term investment in education to drive consumer demand for health promoting or other specific product types. Also, imports have become relatively more expensive for consumers creating an opportunity for producers to increase sales in the domestic market.
- Sustainability - opportunity to do more around provenance (i.e. the source/origin of food and drink) and certification as added value projects and on waste minimisation and energy from waste in food and drink production and processing. For example, some distilleries are putting by-product into anaerobic digestion to produce heat/power.

\(^7\) Scottish Enterprise
Threats

29. With the current global economic downturn it is conceivable that there will be many food and drink companies facing difficulties like the rest of the economy, this may result in reductions in staff and closures of businesses. A number of Scottish companies have announced restructuring and job losses e.g. Whyte and Mackay and Diageo. The drinks sector reported record exports last year, however, they have seen declines this year. There is anecdotal evidence of businesses cutting "casual" labour and not re-employing, but this is difficult to quantify.

30. Access to credit for these businesses is crucial and situations of business closures can arise very quickly if access to credit is reduced or stops. There is the threat that the current conditions of tight credit may exacerbate the effects of the economic downturn where for some businesses sufficient access to credit is crucial. This may also affect the effectiveness of grant schemes. There are also particular issues with regard to export credit guarantees for exporters, for example in the fish processing industry. Nevertheless people must still eat. Demand will not collapse, though consumption and purchasing patterns may shift.

3. Public Sector Interactions

31. At the June 2009 Royal Highland Show the Scottish Government launched ‘Recipe for Success’ which sets out the next steps for the National Food and Drink Policy.

32. The aim of the policy is to:

‘promote Scotland’s sustainable economic growth by ensuring that the Scottish Government’s focus in relation to food and drink, and in particular our work with Scotland’s food and drink industry, addresses quality, health and wellbeing, and environmental sustainability, recognising the need for access and affordability at the same time.’

(Richard Lochhead, Cabinet Secretary for Rural Affairs and Environment, 19 June 2008)

33. The policy is about ensuring the Government’s actions and policies on food and drink are joined up and contribute to the Government’s Purpose of sustainable economic growth.

34. SFD, the food and drink industry leadership organisation, was established to bring the Scottish food and drink industry together with a shared vision for the future to make Scotland internationally known as ‘The Land of Food and Drink’ with a mission to place Scotland amongst the top 3 of the world’s producers of premium food and drink products. The establishment of SFD has engaged all the key players within the supply chain – farming, fishing, processing, the whisky industry and academia - with shared ambitions and integrated approach to achieve the vision and the National Food and Drink Policy.

35. Interactions are around grants/financial assistance, information provision and regulation.
3.1 **Strategic level**

36. The Scottish Government is working to deliver the food and drink policy, this sets out how the Scottish Government will support:

- the growth of the food and drink industry;
- building on Scotland’s reputation as a land of food and drink;
- individuals to make healthy and sustainable choices;
- making the public sector an exemplar for sustainable food procurement;
- ensuring food supplies are secure and resilient to change;
- making food both available and affordable to all; and
- ensuring that people understand more about the food they eat.

37. A key issue is supporting collaboration and co-operation across the sectors breadth.

38. The policy follows on from a national discussion on food which took place in early 2008, inviting producers, suppliers and consumers to have a say.

39. SFD was established in 2007 to provide leadership and strategic thinking to the food and drink industry in Scotland and is a public/private partnership. It helps set strategy for Scottish Enterprise and Highlands and Islands Enterprise and is a key organisation in taking forward many strands of the National Food and Drink Policy.

3.2 **Operational level**

**Grants / Financial Incentives**

*Scottish Government*

40. The main grants/incentives at present are for the food and drink processing sector, these are:

- £60m funding over 5 years as part of the Food Processing, Marketing and Co-operation grant scheme within the Scotland Rural Development Programme (SRDP). The scheme is open to primary producers, processors and third parties within or connected to the food supply chain (for the co-operation element). Funding to date of £18.8 million under the scheme is expected to generate investment in excess of £68.4 million in the food and drink sector in Scotland. This will create over 304 jobs and safeguard a further 2,966.

- 0.9m per year for the Marketing Development Scheme to support Scotland’s food and drink companies to grow into developing markets.

- Fisheries and Aquaculture Processing and Marketing Grants Scheme is one of several wide ranging measures within the European Fisheries Fund. The scheme is open to primary producers, processors and third parties within or connected to the fishing industry. The overall budget of the European Fisheries Fund within Scotland is £38.83 million. Awards totalling £5.8 million under the scheme are expected to generate investment in excess of £13.9 million in the food and drink sector in Scotland. This investment is expected to create 72 jobs. The main objectives of the scheme are to: guide production in line with foreseeable market trends; encourage product development; strengthen local supply chains; increase co-operation; and improve the profitability, efficiency and transparency of the supply chain.

- Investment Grants – Regional Selective Assistance is the main scheme and is aimed at encouraging investment and job creation mainly in the areas of
Scotland designated for regional aid under European Community law. Over the period 1999/00 and 2008/09, 125 offers were accepted amounting to £42.4m by the agriculture, forestry, fishing and food and drink manufacturing sector.

- Innovation Grants, including SMART: Scotland and R&D grants are provided to promote innovation in businesses in Scotland. Food and drink accepted £584,691 SMART: Scotland offers between 2003/04 and 2008/09.
- LEADER (part of SRDP) is aimed at promoting economic and community development within rural areas. Support is aimed primarily at small-scale, community driven projects that are pilot and innovative in nature which allows support for the development of local food projects.
- European Structural Funds – In 2008/09 awards were made to the food and drink sector to enhance skills in the bakery and meat sectors totalling £100,000.
- Food and drink retail can benefit from funding provided for Modern Apprenticeships as part of ScotAction - the Scottish Government’s skills support package to help support Scotland's economy out of recession and back to economic growth. A retail element was announced in June where employers such as Tesco, Asda and Sainsbury's are working with Skills Development Scotland to take on apprentices of all ages.

41. Scotland’s primary producers also receive specific support:
- Single Farm Payment - farmers get some £460m per year from the EU for: being involved in agricultural activity; maintaining land in Good Agricultural and Environmental Condition and meeting Statutory Management Requirements covering the environment, food safety, animal and plant health and animal welfare.
- A share of the Scotland Rural Development Programme (£1.6bn over 7 years, including £61m/yr for Less Favoured Area support). This includes £10m dedicated New Entrants measure and grant support towards farm business modernisation, restructuring or diversification.

Scottish Enterprise (SE)
- SE support is designed to help the industry achieve its strategic growth ambitions through individual company support and building the business environment. SE have invested £11.5m over the last 3 years on developing the food and drink industry, including £5.2m on productivity and adding value for example, through quality improvement or new product development.
  - Individual company support includes business advice, grants and investment funding. This aims to help companies with growth potential to exploit value-add opportunities, improve productivity (especially in food processing), exploit premium growth market opportunities within the UK and internationally, enhance leadership and business capability, increase investment in innovation and R&D, and increase collaboration with other companies, suppliers and academia.
  - Business environment support involves sharing the risk with partners on projects which can bring about a step-change in industry performance. These focus on the main drivers for economic growth under the strategic direction of Scotland Food & Drink. The key projects are:
    - Supporting Scotland Food & Drink to operate as the industry leadership organisation. This includes contributing to the industry strategy refresh.
• Creating a **Food & Health Innovation Centre** which will turn cutting-edge research into commercial opportunities, increase innovation investment and capitalise on the growth food health markets.
• Building **Industry Scale** to develop enterprises with the scale needed to invest in R&D and operate successfully in global markets;
• **Premium Market Development** to help companies exploit growth opportunities in UK and international markets;
• **Insights service** – to provide rapid access to the latest market/consumer trend data and other research to support individual business growth and inform industry-wide action.

**Highlands and Islands Enterprise (HIE)**

• HIE are committed to the sector and to the national ambition to move the industry from £7.5bn to £10bn of sales. In the Highlands & Islands, this requires an additional £625m GVA by 2017. HIE works to 3 priorities aimed at making the food & drink sector more competitive within the region and driving that growth of £625m. These are around reputation, collaboration and leadership and are closely aligned in support of national strategy and of Scotland Food & Drink who are part funded by HIE:

• HIE will deliver against these priorities in two main ways:
  • HIE targets support to those individual companies capable of demonstrating high growth potential and trading beyond local markets. HIE will accelerate company growth through investment, leadership development, intelligence, market development and productivity improvements. This is anticipated to include somewhere in the region of 150 companies over the next two years, to generate around £100m GVA and sales increase of over £1bn.
  • HIE will develop strong partnerships around strategic projects which are driven by industry demand. Initial priorities are around collaboration and supply chain issues and some examples of work underway would include: development of Scotland Food & Drink and of their access to markets programme; support for collaboration via Food Forum; enhancing industry leadership through a virtual conference programme and partnering with Institute of Directors; innovation support via Fusion and a £1.5m package of support through HIE’s partnership with Massachusetts Institute of Technology. HIE works closely with SDI to help companies internationalise and to identify and capitalise on inward propositions.

**Waste & Resources Action Programme (WRAP)**

• The Waste & Resources Action Programme (WRAP) helps individuals, businesses and local authorities to reduce waste and recycle more. When a strategic need or market failure has been identified by WRAP, capital grants are made available to help address this shortfall.
Information provision

Scottish Development International (SDI)
- SDI primary role is to assist the growth of the Scottish economy through attracting inward investment projects and helping Scottish companies develop international trade.
- It helps international food and drink companies in setting up in Scotland or developing projects that would benefit the Scottish economy. Many business grant schemes are provided by government and SDI helps make businesses aware of all the relevant schemes that may be of benefit to them.
- Also, SDI helps Scottish food and drink companies access international markets through a range of services and interactions e.g. by helping companies access specialist international market information services, identifying potential international opportunities available to them or by supporting companies in Scottish pavilions at major international food and drink exhibitions such as Anuga and the European Seafood Exposition.

Scotland Food and Drink (SFD)
- Scotland Food & Drink is a unique industry-led organisation that offers a range of benefits to its members, including a product development service, marketing support, sales advice, consumer research, information on access to markets, a meet the buyer programme, PR support and a free legal consultation.

Quality Meat Scotland (QMS)
- The aim of QMS is to work with the Scottish red meat sector to help it become more profitable and sustainable. Funding of QMS is mainly from a legal levy and assurance scheme fees.

Scottish Quality Salmon (SQS)
- The Scottish Salmon Producers’ Organisation (SSPO) is the trade association for the salmon farming industry. SSPO is responsible for representing the whole industry in political, regulatory and technical issues.
- Funding of SQS is mainly from the salmon farmer voluntary levy (estimated 85% of income).

Seafood Scotland/Seafish Industry Authority (SFIA)
- Seafood Scotland is a trade organisation that was set up in 1999 by the main representatives of the Scottish seafood industry to promote, market and develop Scottish seafood with the aim of improving the value return to industry. Funded by a levy on seafood and sponsored by the four UK government fisheries departments.

Regulation

42. Annex C provides details of the main regulatory bodies for the key sector.

43. The strategic level interactions and interventions focus on the big picture and cut across the various sub-sectors, whereas the appropriate operational interventions may vary depending on the sub-sector they are targeting.
4. Assessment of the Effectiveness of Interactions & Interventions

4.1 Strategic Level

44. Though the national food and drink policy has been developed, relationships between the public sector and the food and drink sector can be improved further. The Scottish Government is working with SFD in a new and innovative way to benefit the food and drink sector and the Scottish economy. Relationships between the public sector organisations – especially between the Food Standards Agency Scotland (FSAS), SDI and SE/HIE - are improving through strategic engagement and working through SFD. The agreement to position all consumer facing and trade activity under SFD branding has greatly improved the ability to make meaningful impacts in key markets.

45. There is a continuing need for good cross agency collaboration in supporting SMEs, in the wake of the re-positioning of Business Gateway.

4.2 Operational Level

Grants to food businesses

46. Evidence from an evaluation of previous processing and marketing grant schemes suggests that the grants provide access to capital that would otherwise not be available to businesses. For example, at the point the evaluation was conducted, grants totalling £13.1 million were estimated to have resulted in directly attributable sales increases of £51.8m, with the potential for a further £31.8m increase in sales over the next 2 years. In terms of employment, some 536 FTE jobs were generated, with a further 241 FTE positions likely to be introduced over the next 2 years. Around £64m of private funding was levered in by the scheme, giving a ratio of 4.9:1 (private to public). Grant awards have assisted rural areas with 18% of businesses in remote rural areas.

47. Support of this kind continues under SRDP (estimated at £60m for the Food Processing, Marketing and Co-operation scheme) and will help grow businesses and labour productivity, new product development and employment.

Direct payments to farmers

48. Compared to grants for food businesses, a higher amount of public money goes directly to farmers through the Single Farm Payment scheme (£433.6m). The money is decoupled from production so does not necessarily support food production.

49. To date, policy initiatives have been predominantly grants or subsidies.
5. **International Perspectives**

50. SE recently conducted research on three Scottish comparator countries - Norway, Finland and Ireland. Two areas which have contributed to economic performance in all 3 countries are exports and innovation.

51. The research found that for exports all other countries had:
   - Significantly higher percentage increase between 2002 and 2005 (Scotland 10% compared to Finland 36%, Norway 38% and Ireland 46%).
   - Significantly higher % of non-spirits food and drink exports (Scotland 41% compared to Finland 91%, Norway 99%, Ireland 87%).
   - Higher levels of food and drink exports as % of GDP (Scotland 0.5% compared to Finland 0.7%, Norway 2.4% and Ireland 5.1%).

52. The domestic market is significant in Finland for primary produce (49% sold to domestic processors compared to 24% in Scotland), but driven by strong, ‘sophisticated demand’, based on health promoting foods, and influenced by long-term public health agenda.

53. The research found that for the 3 countries a range of factors were evident which could explain their success for exports:
   - Strong image and reputation in global markets (Norway, Ireland)
   - High quality standards and strong environmental credentials (Norway, Finland)
   - National investment in marketing (Ireland, e.g. Ireland, the Food Island, Bord Bia with international offices)
   - Differentiated marketing (Finland as a country - focused on health promoting foods; Norway as a country – aquaculture 95% exported, common origin marketing for SMEs; Ireland – individual companies with specific focus)
   - Company scale to invest in brands (Ireland’s big 3 – Kerry, Glanbia, IAWS)
   - Industry scale to invest in differentiated marketing (Finland – collaborative working around health promoting foods)
   - Structured public sector support (Ireland – Bord Bia and Enterprise Ireland; Norway – Seafood Export Council)

54. The main areas where more could be done to increase exports in Scotland are:
   - New market penetration strategy – match Scotland’s capability to market opportunities; key stakeholders work together to support industry – leading to co-ordinated approach to marketing and clear USP for Scotland’s food and drink industry
   - Make more of environmental and animal welfare credentials
   - Increased focus on company/supply chain capability via workshops and international conference.
   - Increase industry scale via individual company growth and new collaborative models

55. The SE research also found that all 3 countries have higher overall GVA than Scotland (esp. Norway at $196bn, compared to Ireland and Finland at $139bn, and Scotland at $133bn) and innovation was found to be a key driver.
Finland
- Strong, integrated innovation system; it tops global innovation scoreboard and has 2nd highest R&D spend of OECD countries
- Government works with industry, research & academia to support collaborative approaches to innovation; funding linked to collaboration
- Strong links to public health as market driver
- Collaboration to develop new products and get to market (e.g. ingredients marketing partnerships)
- Specific focus for innovation - food & health
- SMEs have high levels of international co-operation on innovation
- R&D centres for health promoting foods

Norway
- Fishing and aquaculture sector makes strong contribution to national GVA, partly through investment in technology and research
- Close co-operation between industry, research & academia, with specialist support from banking sector
- Public research institutions focused on sector and feed manufacturers have own research facilities
- Export levy (0.3%) generates finance for research
- Strong links with other sectors (e.g. pharmaceuticals)

Ireland
- 3 large companies set the trend for innovation and government provides broad range of support
- Have scale to invest in technology and R&D
- Include collaboration via co-operative element to structure
- Government support includes seed and venture capital for innovative businesses, R&D advocates, industry foresight studies, R&D voucher schemes to use with Irish research institutions, management & leadership development specifically for innovation

56. The research concluded that it was difficult to get a comprehensive picture using economic indicators but there was strong evidence of successful food and drink industries being built on exporting and innovation. Also, the comparator country data validated SE’s current approach, based on the strategic priorities of reputation, innovation, collaboration and skills for growth.

57. Given the closure of ‘Food from Britain’ Scottish companies will be promoted at a range of overseas trade events by SDI under the Saltire and ‘Scotland Food and Drink’ branding. Scottish food and drink produce enjoys a world-class reputation and this enhanced package of international promotion of the sector, will offer businesses a higher profile and the opportunity to tap into Scotland’s global reputation. Support will be provided to over 100 companies at more than 12 events over the coming year. It is estimated the promotional activity will deliver over £60m in sales.

58. There is a strong opportunity to build Scotland’s international reputation as a land of food and drink in terms of both exports and promoting Scotland’s international reputation. A key action of the food and drink policy is to protect and enhance Scotland’s reputation as a ‘Land for food and drink’.
Annex A

This paper looks at the whole of the Scottish food and drink industry supply chain although the ‘key sector’ is defined as only the core activities of the industry. Table 1 below categorises the food and drink industry into sub-sectors and demonstrates the diverse range of activities.

**Table 1: The Food and Drink Sector Supply Chain**

<table>
<thead>
<tr>
<th>Core or Holistic Definition</th>
<th>Sector</th>
<th>Sub-sectors</th>
<th>Statistical definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>Agriculture</td>
<td>Livestock, Crops, Horticulture</td>
<td>Scottish Government, Agriculture Census data</td>
</tr>
<tr>
<td>Core</td>
<td>Fisheries</td>
<td>Fish catching, Aquaculture</td>
<td>ABI SIC 5 Fishing, operation of fish hatcheries and fish farms; service activities incidental to fishing</td>
</tr>
<tr>
<td>Core</td>
<td>Food and drink manufacturing</td>
<td>Meat processing, Fish processing, Dairy, Fruit and vegetable processing, Oils and fats, Animal feed, Starches, Other food products, Drinks</td>
<td>ABI SIC 15 Manufacture of food products, beverages (includes fish processing)</td>
</tr>
<tr>
<td>Holistic</td>
<td>Food and drink wholesaling</td>
<td>Wholesale of food, beverages and tobacco (excluding wholesale of tobacco products)</td>
<td>ABI SIC 51.3 wholesale of food, beverages and tobacco (excluding 51.35 wholesale of tobacco products)</td>
</tr>
<tr>
<td>Holistic</td>
<td>Food and drink retailing</td>
<td>Retail sale in non-specialised stores (excluding wholesale of tobacco products), Retail sale of food, beverages and tobacco in specialised stores (excluding retail sale of tobacco products)</td>
<td>ABI SIC 52.1 retail sale of food in non-specialised stores (excluding other retail sale in non-specialised stores) 52.2 retail sale of food, beverages and tobacco in specialised stores (excluding 52.26 retail sale of tobacco products)</td>
</tr>
<tr>
<td>Holistic</td>
<td>Non residential catering</td>
<td>Restaurants, Bars, Canteens and catering</td>
<td>ABI SIC 55.3, ABI SIC 55.4, ABI SIC 55.5</td>
</tr>
</tbody>
</table>
Annex B

Chart 1: Productivity per employee

Annex C

Regulation

The food and drink key sector must operate within the regulation set by:

- **EU** - Regulation to assure a high level of food safety, animal health, animal welfare and plant health within the EU through coherent farm-to-table measures and adequate monitoring, while ensuring the effective functioning of the internal market.

- **UK Government** - Food Industry Better Regulation Group; Food Standards Agency

- **Scottish Government** - Food labelling; Food safety and hygiene; Accreditation schemes; Environmental protection

- **Food Standards Agency Scotland** - have a commitment to improve food safety and standards and protect the health of Scotland's population in relation to food.

- **Health and Safety Executive (HSE)** - mission to prevent death, injury and ill health in Great Britain; Concordat between HSE and Scottish Executive.