SUBMISSION FROM NFU SCOTLAND

Introduction

1. NFU Scotland (NFUS) welcomes the opportunity to respond to the Economy, Energy and Tourism Committee inquiry on internationalising Scottish business.

2. NFUS considers that 2014 was a year of unprecedented exposure for Scotland on the international stage. As the key body in Scotland representing farmers, crofters, land managers and rural businesses, it is our view that the timing of this inquiry is opportune, taking into consideration the current discussion of the transfer of further devolution to Scotland and 2015 as the Year of Scottish Food and Drink. This consultation response will therefore examine the inquiry’s questions taking the current political climate into account.

3. Firstly, it is prudent to note that the view expressed in its response to the Smith Commission consultation was that NFUS considers it crucial for the rural economy and the food and drink sector that UK and EU markets are open to unrestricted movements and services. To ensure open movements and parity of standards, and to optimise basic costs, basic regulatory standards and enforcement should be maintained at a UK level.

4. It is also relevant to highlight that NFU Scotland has recently given evidence to the Scottish Parliament’s European and External Relations Committee as part of its examination of the Transatlantic Trade and Investment Partnership (TTIP), and has outlined key opportunities and concerns about Scottish agricultural exports in relation to this ongoing deal.

The experiences and challenges faced by Scottish exporters

5. The food and drink sector is the largest manufacturing sector in Scotland supporting some 360,000 jobs and with a turnover of £13.1bn. With a turnover target of £16.5 billion, and an export value target of £7.1 billion for 2017, clearly there is room for growth in the sector.

6. Food and drink is one of Scotland’s leading export industries, totalling a value of £5.3bn in 2014 with exports to over 100 countries. Of this, Scottish red meat exports amounted to £73 million, and Scottish dairy exports made up £58 million. Scotland also grows one-quarter of the UK’s barley; one-third of the UK’s soft fruit; and supplies the majority of the UK’s seed potato industry.

7. It is therefore clear that without farmers, it would be simply impossible to maintain Scotland’s reputation as a leading nation of food and drink. NFUS members work towards the Scottish Government’s vision of a Good Food Nation every day growing the crops, fruit and vegetables or raising the livestock that underpin the food system in Scotland, and will continue in this quest whilst working within evolving environmental rules to ensure good stewardship of the land.
8. For Scotland’s rural economy, open access to both the British and European market is a priority. A common regulatory standard underpins cross-border movements, eases trade and minimises costs. However, it can be observed that more levers should be employed to ensure Scottish interests are recognised in future and current trade agreements. A more co-ordinated approach to export promotion would be desirable, particularly in strengthening the Scottish food and drink brand in foreign and emerging markets. NFUS would also welcome any drive to develop export portfolios for key Scottish products, which would mitigate risk whilst also driving an increase in production for a diversity of products.

The effectiveness of SDI and UKTI, as well as Scottish Enterprise and Highlands and Islands Enterprise, in helping Scottish firms enter and grow in international markets

9. Whilst the work of SDI, Scottish Enterprise and Highlands and Islands Enterprise has been instrumental in Scotland’s food and drink success story to date, it is suggestible that on a global scale more can be done to promote a broader portfolio of Scottish produce to many more markets.

10. NFUS is supportive of a stronger presence of UK Trade and Investment (UKTI) in Scotland, by way of regular discussions with Scottish industry and bodies such as Scotland Food and Drink. An effective, neat and transparent system is best managed through good democratic governance and a ‘culture of communication’ between the devolved administrations and non-departmental public bodies.

11. The development of a more transparent funding model to encourage such a scheme could perhaps be created from the restructuring of current arrangements for the collection of agricultural levies. Red meat promotion and development in Scotland is devolved under Quality Meat Scotland (QMS). With red meat levies being collected at prime markets or point of kill, some levies become dislocated at point of kill from the country of origin. This feature impacts to some degree on all the home nations depending on the slaughter profile. The 2005 Radcliffe Report advocated the repatriation of all levies back to the country of origin, however, this process of repatriation has however never been resolved and it is now the revised view of NFUS that repatriation is not a viable solution.

12. NFUS therefore advocates that the dislocated levies of all countries should be pooled and through a committee made up of representatives of the national levy boards in order to allocate the budget to agreed priorities to the benefit all producers within the UK. We consider that this approach would encourage co-operation and consideration of the key export competencies of each constituent part of the UK.

13. This model could perhaps be a stepping stone to a future model, advocated by the Scottish Government, which would emulate the Irish Board Bia (a state agency which promotes sales of Irish food and horticulture at home and abroad and with responsibility for quality assurance and research and development). NFUS does however remain sceptical on how such a body would function at the current time, and with limited finances.
Whether the Scottish Government is likely to meet the Government's Economic Strategy target of increasing the value of exports by 50% by 2017 (and the usefulness of this target)

14. Commenting only from the perspective of the Scottish food and drink industry, a goal to double the amount of exports in this sector by 2017 is not an impossibility. Since the Scottish Government set this target in 2011, targets for exports and turnover within the food and drink industry have consistently been broken, with exports growing from £3.7 billion in 2007 to £5.3 billion in 2012.

15. There is value in the setting of targets to allow producers, both small and large-scale, to have long-term vision for growing their businesses and working with non-departmental agencies to increase their export potential.

16. However it should be borne in mind that fluctuations in the market – for example, the Russian export ban and the ongoing recovery from the global financial crisis – can create instabilities that are difficult to predict. Whilst the Russian Export ban is not thought to have a direct impact on Scottish exports, the indirect effect will be that EU products typically exported to Russia are required to find new markets, which can lead to bumps in supply and demand as well as reduced prices.

17. A further example might be the current situation in the dairy market, which is in turmoil following a series of market-led price cuts. Volatility affects the entire supply chain and cyclical swings in costs and prices must be managed through mutual efforts for mutual benefit. Whilst there is universal acceptance that dairy demand will outstrip supply in the next decade, creating real opportunity for the UK dairy supply chain, volatile markets and competition must also be overcome.

18. Growth in the dairy sector is achievable, but must be market led, with investment in processing and production in line with increased demand. A medium-term mitigation might be the promotion of Scottish dairy products such as cheeses and spreads abroad, so that the Scottish dairy industry’s export credits can be underpinned. In order to achieve this in the current climate, immediate support is required from the Scottish and UK Governments.

Scotland’s most successful exporting sectors and what can be learned from them

19. As far as food and drink is concerned, the success of the Scotch whisky industry is self-evident, making up 80 per cent of Scotland’s food and drink exports.

---

2 The Scotland Food and Drink Export Partnership (2014) “An Export Plan for Scotland’s Food and Drink Industry”
The Scotland Food and Drink Export Partnership’s document setting out an export plan for the industry in 2014 suggested that matching this stellar performance could only be done by pooling resources to provide specialist support throughout the food and drink industry, and capitalising on already mature relations with key export markets in the likes of France, Germany and North America as well as tapping into potential new markets in mainland Europe, Russia, South Korea and the Nordics.

Whilst NFUS would always herald the strengthening of trade links with current and emerging markets, a point of caution may be that trade deals cannot result in the possibility of setting defacto global standards in agri-food trade.

Such concerns have been raised in relation to the current TTIP negotiations that remain ongoing at a European level. The UK Government has suggested that the agreement could add up to £10 billion annually to the UK economy, with exports valuing £1,200 million valued for Scotland in the food and drink, whisky, energy and finance sectors. This could provide a valuable opportunity for exports of beef, lamb and dairy products. However, the huge differences in the food production systems of the EU and US mean that downward harmonisation and a lowering of the EU’s standards must be avoided.

NFUS would exercise caution that there can be absolutely no reduction in the level of quality that foreign consumers expect when purchasing the Scottish brand as a result of large-scale trade negotiations made at a European level. In addition, it is paramount that an assessment is carried out to ensure appropriate labelling of geographical indicators on produce should any trade deal go ahead, so that premium Scottish produce receives due recognition.

Where growth is likely to be seen over the next few decades and how these businesses/sectors can best be supported.

As highlighted above, food and non-whisky drinks currently account for only 20 per cent of Scotland’s export activity, so it is evident that much more can be done to increase the diversity of the portfolio of goods that Scotland presents to global markets.

Now is therefore the right time for Scottish farmers and food producers to promote the respectable reputation already earned for premium Scotch beef, lamb, cereals and whisky, but also to diversify from traditional produce into emerging and niche markets – producers of potato vodka and craft beers, and wasabi growers are examples.

January 2015