OFFICIAL REPORT
AITHISG OIFIGEIL

Rural Economy and Connectivity Committee

Wednesday 15 November 2017

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Pàrlamaid na h-Alba

Session 5

Wednesday 15 November 2017

CONTENTS

Col.
DRAFT BUDGET SCRUTINY 2018-19 1

RURAL ECONOMY AND CONNECTIVITY COMMITTEE
32nd Meeting 2017, Session 5

CONVENER

*Edward Mountain (Highlands and Islands) (Con)

DEPUTY CONVENER

*Gail Ross (Caithness, Sutherland and Ross) (SNP)

COMMITTEE MEMBERS

*Peter Chapman (North East Scotland) (Con)
*John Finnie (Highlands and Islands) (Green)
*Rhoda Grant (Highlands and Islands) (Lab)
*Jamie Greene (West Scotland) (Con)
*Richard Lyle (Uddingston and Bellshill) (SNP)
*Fulton MacGregor (Coatbridge and Chryston) (SNP)
*John Mason (Glasgow Shettleston) (SNP)
*Mike Rumbles (North East Scotland) (LD)
*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Dr Stuart Fancey (Scottish Further and Higher Education Funding Council)
Chris Brodie (Skills Development Scotland)
Danny Cusick (Scottish Enterprise)
Patrick Hughes (Seafood Scotland)
Scott Landsburgh (Scottish Salmon Producers Organisation)
Professor Peter Morgan (University of Aberdeen)
David Oxley (Highlands and Islands Enterprise)
Andrew Richardson (Society of Independent Brewers)
Professor Carl Schaschke (Abertay University)
David Thomson (Food and Drink Federation Scotland)
James Withers (Scotland Food & Drink)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Rural Economy and Connectivity Committee

Wednesday 15 November 2017

[The Convener opened the meeting at 10:00]

Draft Budget Scrutiny 2018-19

The Convener (Edward Mountain): Good morning, and welcome to the 32nd meeting of the Rural Economy and Connectivity Committee in 2017. I remind everyone to ensure that their mobile phones are on silent.

Today's business concerns our scrutiny of the draft budget for this year. This is our first evidence session on the budget support from the Scottish Government and public bodies for the food and drink industry, and forms part of the committee's pre-budget scrutiny. Once the Scottish Government's draft budget for 2018-19 is published, the committee will have an opportunity to question the cabinet secretary on spending across the whole range of policy areas within the committee's remit, including food and drink.

I welcome the members of our first panel. James Withers is the chief executive of Scotland Food and Drink; David Thomson is the chief executive of the Food and Drink Federation Scotland, Patrick Hughes is the head of Seafood Scotland, Scott Landsburgh is the chief executive of the Scottish Salmon Producers Organisation, and Andrew Richardson is the director of the Society of Independent Brewers.

Before we get into our evidence session, I will declare an interest and invite others to do likewise. I am part of a farming partnership and, therefore, produce food in Scotland.

Peter Chapman (North East Scotland) (Con): I have a similar declaration: I am part of a farming business in Aberdeenshire.

Stewart Stevenson (Banffshire and Buchan Coast) (SNP): I have a registered agricultural holding of 3 acres.

The Convener: Thank you.

For those who have not given evidence before, if you want me to bring you into the discussion, catch my eye and I will do so, if I can. I will also try to curtail answers to questions if I feel that they are getting too long. This is quite a big panel, and I want everyone to have a chance to speak. You do not need to touch any of the buttons in front of you; the microphones will come on automatically.

Peter Chapman will ask the first question.

Peter Chapman: Over the past 10 years, Scotland's food and drink has been a success story: there is no doubt about it. Over the period, the sector's value to the economy has risen to £14 billion, turnover has increased by 44 per cent and exports have increased by 56 per cent. However, we are not content to rest on our laurels, so the aim is to grow that value to £30 billion by 2030, which is an ambitious target. What support does the Scottish food and drink industry need to achieve that?

The Convener: James Withers looked up first.

James Withers (Scotland Food & Drink): That was my first mistake.

I thank the committee for giving me an opportunity to speak this morning. I know that we had a meeting earlier this year about the strategy that we published in March, entitled "Ambition 2030". It articulated our view that there is, as Peter Chapman said, an opportunity to grow the industry to twice its current size. Within that strategy, there are some clear strands for us around market development in our domestic and overseas markets, and there are three major capability-building areas: skills, innovation and the supply chain.

Over the past 10 years, we have operated quite a deep partnership between the industry and the public sector, which has worked well. It is fair to say that there is a good level of contentment in the industry about the funding that is going into the sector.

The situation is more complex in Scotland than it is in other countries. In Ireland and New Zealand, for example, there is one figurehead public sector body, through which all the funding that goes into the farming, fishing and food and drink sectors is spearheaded. In Scotland, we have a more complex landscape with a number of public sector actors and industry bodies, but we have developed a close way of working.

Our view is that prioritisation of funding for the sector will be absolutely critical, going forward. However, it is difficult to put a number on that funding: the industry has found that to be a challenge. The Scottish Parliament information centre has made a good attempt at understanding the funding that exists in different places, but it would be helpful to have greater clarity about the areas of funding and the scale of investment. However, for us, it is essential that investment be prioritised across four areas: market development, skills, innovation and supply chain.

I will mention one area that is worth looking at, which I think I spoke about when the committee had a meeting on the strategy earlier this year. A few years ago, in the rural economy budget, as it is now called, there was no food and drink industry development budget line at all. It did not exist. It is welcome that we now have one, but it is modest and currently sits at about £6 million. Given that we have an ambition for growth of about £14 billion or £15 billion over the next 10 to 15 years, it is worth thinking about that development budget.

The fund has been used well in recent years, and it has a level of flexibility. As part of the strategy, a new funding agreement has been reached between industry and the Government that involves £10 million of industry and Government money. I would like that budget line to move northwards, because over the next year the action planning that we will carry out on the key priority areas will identify flagship initiatives and gaps in delivery. It might be a bit frustrating for the committee to hear that I do not yet have a top five things that we would like to invest money in, but the work is being done now: if we can move that budget line northwards as we identify opportunities and priorities, we will not lose a year trying to make a funding case—we will have funding earmarked to allow us to move quickly in a fast-changing environment.

I have more detail on particular market opportunities, but I will leave it there for the moment.

The Convener: I will bring in Stewart Stevenson before I give somebody else on the panel a chance to speak. Witnesses have all been studiously looking away. I do not know whether you do not want to answer the question—maybe Stewart will entice you to speak with his.

Stewart Stevenson: We have read in the press that the cost of food is going up faster than almost anything else at the moment because of the proportion of our food that is imported. Clearly, the devaluation of the pound should be an opportunity to export food, but that does not appear to be happening. Given that we are looking to double the size of the industry, is devaluation of the pound an opportunity or a threat? So far, it does not seem to be playing out as the former.

Scott Landsburgh (Scottish Salmon Producers Organisation): I do not know whether you noticed our export figures in the media the other day, but we have undoubtedly benefited from a lower-value pound in export markets, and our exports are at record highs. However, our production is not; it is static at the moment, although as you are aware, we have aspirations to grow it.

The reduction in the value of the pound is a double-edged sword, however. Our feed costs, which are a large part of our production costs, have gone up because feed is priced in US dollars, so that has had an impact. However, on balance, it is beneficial to us to have a lower-value pound to export round the world, because we are becoming more attractive compared with our competitor countries. It is as straightforward as that.

I agree with everything that James Withers said. The good news about Scottish food and drink is that it is high-value produce and is regarded as premium quality, but we have to recognise that, to get to a number like £30 billion, we will need to produce a lot more. That is a capacity challenge: we need to think about how we will create that capacity and how we can deliver the additional production.

I will make two additional points that are not really mainstream ones, but are worth bearing in mind. We transport a large tonnage of food from the Western Isles, the northern isles and the west coast of Scotland, so we need to ensure that our road infrastructure is up to that challenge. Upgrading of the A85 is, undoubtedly, a high priority, as are upgrades to the A82 and the A830. I know that that falls in a different part of the budget to the area that the committee is looking at, but it is something to bear in mind.

Additionally, digital and mobile connectivity remain challenging. Our nearest and keenest competitors are Norway and the Faroe Islands, whose connectivity is miles ahead of ours. We must bear that in mind, too.

The Convener: Do you want to come in, Patrick? Has the lower value of the pound been beneficial to your industry?

Patrick Hughes (Seafood Scotland): Scott Landsburgh alluded to the fact that we are seeing significant growth in the salmon sector. We are seeing growth in the white-fish and pelagic sectors, too. We are noticing that there are increasing opportunities in the export market. That works in tandem with the in-market specialists whom we have around the world and it echoes the interest in going to, for example, the Boston seafood show and to Brussels, at which we are seeing first-time attendees who are interested in seeking and enhancing export market opportunities.

To answer the question about support, we are going out on a series of engagement sessions with the industry to understand its challenges and aspirations. How to support innovation needs to be looked at: an example of that innovation is processors moving towards automation.

The initiatives that help need long-term strategic funding. For example, we know that the European maritime and fisheries fund programme has a limited life. We need to have a system to replace it in place in good time, so that we are not left with a funding gap and so that initiatives can be progressed.

On the in-market specialists and support for export markets, we should not rest on our laurels; we should make sure that others know that Scotland is open for business and that we seek markets elsewhere.

Last week, we were up in Shetland. Freight and how to get the products off the islands is a key issue for the seafood industry there. That chimes with Scott Landsburgh's point about the need to link up transport and distribution.

Peter Chapman: James Withers said that we have a fairly complex system, with many funding streams to support the industry. Does that make the job more difficult? What if we could streamline the support systems? Would that help?

Patrick Hughes: That would give the industry more clarity. The EMFF is worth while, but it is a short-term measure. We need to have a longer-term strategy and the flexibility to adapt in the medium term. The fund is very prescriptive—it may not permit any deviation.

Andrew Richardson (Society of Independent Brewers): As well as representing SIBA, I am the manager of a brewery. SIBA does not have any full-time staff in Scotland. I can talk from personal experience and pass on the experience of our members.

Overall, we get excellent support from the Scottish Government. There are seminars on various topics, and we have had support on capital expenditure, innovation and exporting. The support is there if you want it. My company is account managed by Scottish Enterprise, and one person there advises us on what support is available. The situation is a bit more difficult for people who are not account managed, and there is a bewildering range of opportunities.

This morning, when I was waiting downstairs in the reception to come to this meeting room, I was chatting to someone from the Scottish Further and Higher Education Funding Council who told me that they have money available for small businesses to work with universities, which I was not aware of. We will get that person along to the next SIBA and he can tell us what that is all about. I would not have known about that funding if I had not met that person. Our average member has a two to three-man business: their noses are to the grindstone. They do not have time to spend looking around, because they are running their businesses.

As I said, my business is lucky to be account managed, and the chap whom we deal with is excellent and informs us about what is going on. However, it is more difficult for companies that do not have that support.

Peter Chapman: How effective has the support been, to date? I kind of answered that question when I spoke earlier. Your sector has been a huge success story over the past 10 years, so we might assume that the support mechanisms have been a success, although I am sure that they could have been better in some ways.

10:15

Scott Landsburgh: I will speak for the salmon sector alone. We have unfulfilled demand. I know that we cannot do so, but if we could double our production overnight, that salmon would all be in the market tomorrow at the same price: there is undersupply. That is one of our challenges. There is a huge opportunity for the salmon sector in world markets, which we have to approach in a sensitive way, particularly for the environment and the biology that are related to our sector. All the Scottish food brands are pretty high quality, and the message about premium-quality produce will grow demand.

Peter Chapman: Is it realistic to think that you could double production in the salmon industry in the next 10 or 15 years?

Scott Landsburgh: That would be very challenging. I would like to say that we will try to grow by around 4 per cent per annum, but I do not think that it is a good idea to put a big tonnage number out there. We need to play it by ear; managing food production in the natural environment has so many variables that I cannot commit us to a particular tonnage. That would be silly.

The Convener: I am keen to bring David Thomson in, because I have not done so yet. Will you comment on whether the funding has been effective so far?

David Thomson (Food and Drink Federation Scotland): The funding has been effective, although there are areas that we have already discussed where there is hunger for more. There is always high demand for capital expenditure support for companies, and the food processing and marketing grants that are available have limited budgets and they have eligibility criteria. In my experience, there is always oversupply of eager applicants for those grants. That is a key area in which support has been available and has delivered growth.

We have talked about the clutter of funding and about good examples of how partnership has helped to declutter some of that funding. Last year's launch of make innovation happen—the innovation support service, which is backed by more than £1 million from Scottish Enterprise and Highlands and Islands Enterprise—was a way to declutter the innovation landscape and to make it easier and simpler for firms to access support. There is now just a phone line for people to talk to specialists. On the back of that, projects arise and money is available to support them.

If I may, I want to pick up on Stewart Stevenson's question about imports and exports. My members in Scotland include larger manufacturing companies that face pressures I respect of materials that they add to the manufacturing process but which they import because they cannot get them in the United Kingdom. Their prices have gone up with devaluation of the currency, which has created cost pressures for a number of my members.

Mike Rumbles (North East Scotland) (LD): I have a devil's advocate question. We are examining the budget, and the food and drink industry really is a success story. The Government has done a good job of support, but maybe it has other priorities now; it can spend public money only once.

If I was the finance minister, I would ask, "In the budget for financial support for the food and drink industry, where do you think I might be able to claw a little bit back to support other areas?"

The Convener: James Withers is—

James Withers: Does your question refer to clawing back food and drink industry spending to put elsewhere?

Mike Rumbles: Yes.

James Withers: That really is a devil's advocate question.

Mike Rumbles: It is.

The Convener: That is why I wondered why you volunteered so quickly to answer it.

James Withers: I was volunteering to get clarification of the question. [*Laughter*.]

That question is a real challenge for something like the food processing, marketing and co-operation grant scheme, which is absolutely crucial. Do we give 10,000 businesses some money to buy an oven or do we look at a couple of transformational processing capacity areas in which we need to invest? As we go forward, we might need to look at how we prioritise some of the investment. Government sometimes has an instinctive desire to spread money thinly so that everyone is a little bit happy, as opposed to prioritising the key investments. The challenge for us in the industry is to help the Government with that and to make some of those difficult decisions ourselves.

I do not approach the discussion by thinking about how much I would like to see the food and drink investment budget go down, however, so I cannot help you with that question.

Mike Rumbles: What a surprise.

The Convener: All the other witnesses looked away when you asked your question, Mike.

Mike Rumbles: I know, but I wanted the question to be asked.

The Convener: Fulton MacGregor will ask the next question.

Fulton MacGregor (Coatbridge and Chryston) (SNP): I should probably declare that, just before the witnesses came in, I ate a roll with black pudding and a potato scone, so I have definitely done my bit for the food industry today, whatever anybody thinks about that particular combination. I was told earlier today that it is definitely a Coatbridge thing.

My question follows on from what Mike Rumbles asked. You know that we are talking about the budget just now and there is a national discussion being held about taxes, particularly income tax. Can we do anything to encourage changes that would support the industry? If so, what would be the key focus?

The Convener: Would Patrick Hughes like to take that? What changes would you like to see?

Patrick Hughes: In the engagement sessions, we are asking the industry what it is looking for support in. It varies. The processing sector is looking for help in innovation and automation. We are looking at a reduced workforce. On average, 70 per cent of our workforce in north-east Scotland is a migrant workforce. If businesses in that sector are to make a sustainable future, they will have to look at automation, and that is challenging for businesses that work to tight margins. There is a factor of de minimis, which means that public sector support is limited to a certain extent.

If we are looking at what needs to change, we need to look at what de minimis support we can give to the sector and at ways in which we can help with infrastructure investment for automation and moving those businesses forward.

The Convener: I will bring in Stewart Stevenson and then widen out the question, if I may.

Stewart Stevenson: I have a very small and specific point to make to Patrick Hughes. At the moment, European rules limit investments to €30,000. Once the UK leaves the European Union, will there be an opportunity for the state to be a bigger player in investment?

Patrick Hughes: We would certainly like to see that. If we could get some parity with the agricultural sector, that would be great. Not limiting investment is an opportunity to look at things in a different way and we would encourage that.

James Withers: The de minimis rules are complex and there are differences between agriculture, agriculture and fishing, and agriculture, fishing and manufacturing. The rules place an artificial limit on the amount of support that can be plugged into companies whose case for that investment is quite strong. As I understand it, there are also World Trade Organization limits on state investment, so we will not be free of de minimis limits. I have never quite been convinced of the economic rationale for the de minimis limits, particularly when they are so low in the primary sector.

That goes back to the prioritisation of funding. Although I agree entirely with Peter Chapman's comment about the success of the food and drink sector, there are areas in which we have been patently less successful with investment and the connection between what is happening at the primary end of our supply chain, particularly in farming, and the rest of the manufacturing sector. The more that we can remove what I would argue are artificial barriers to investment, the better. It would mean that we could achieve our ambitions.

The Convener: Does David Thomson want to come in here?

David Thomson: My point is not so much about de minimis, although I agree with the points that James Withers and Patrick Hughes have made.

The workforce will be a massive challenge for the food and drink industry in both manufacturing and primary production. The change in currency value has resulted in enormous pressures on the workforce as a whole in food manufacturing, agriculture and fishing, whether Brexit happens or not. I would ask whether there is anything in the income tax proposals that would support bringing into the country more people, whom we need to engage in our critical primary processing and food manufacturing industries.

A number of our members are large companies; some are international companies that move people around as part of management training and so on. We would not want there to be such a differential in income tax between Scotland and the rest of the UK that that would make it tricky for individuals who are on a management track or who are developing their skills and potential.

The Convener: Fulton MacGregor mentioned income tax. I am sure that it would be appropriate if anyone wanted to expand the discussion to business rates or other forms of taxation. Do you want to follow that up?

Fulton MacGregor: No, that was the only point that I wanted to make. People are free to expand on taxation issues, as you said.

The Convener: Would Scott Landsburgh like to comment?

Scott Landsburgh: I endorse what Mr Thomson said. There are two pressures, the first of which relates to primary processing and the lower-skilled workforce. I hear, although not necessarily from my sector, that in the past the attractiveness of working in Scotland for relatively low wages was down to the value of the currency compared with the worker's home country. As the currency has devalued, working here has not been as attractive, which is putting pressure on a number of parts of the primary processing sector.

The other pressure is a strong demand in our sector for people with high engineering skills. That is strategically significant for us, because we are about to invest in large-scale recirculating aquaculture systems for the production of juvenile salmon, which is part and parcel of managing the environment in a better and more effective way. We will eventually need hundreds of highly skilled people and there is pressure to attract and retain them and to provide them with a good career. They are in an international marketplace.

That is a question mark; I am not giving an opinion. We have to be careful about that when differential income tax rates are considered.

The Convener: That leads on neatly to the next question, which is from the deputy convener.

Gail Ross (Caithness, Sutherland and Ross) (SNP): James Withers talked about the three pillars in the ambition 2030 strategy. I would like to concentrate on pillar 1, which is people and skills. When the witnesses appeared before the committee previously, we discussed the possibility of a foundation apprenticeship in the industry and then the minister, Jamie Hepburn, announced such an apprenticeship at a Food and Drink Federation Scotland event in the Scottish Parliament, which was great news.

Mr Landsburgh highlighted the need for more people with engineering skills. The funding council has £37 million to invest in the sector. Is the money being spent in the right areas? How do we know that the right training is being provided? Are we getting good value for money?

David Thomson: I will begin with some of the skills work that is being done. The federation gets support from the Scottish Government to do work on promoting the food and drink industry as a career. We work with a wide range of schools and we have created partnerships between schools and businesses for many years. Many of those partnerships are well developed. We also work with education providers such as Skills Development Scotland, the College Development Network and the Scottish Qualifications Authority to ensure that the right types of degrees and other courses are available for those who want to pursue a career in food and drink, in particular on the technology side.

10:30

We have developed school-level courses and we have supported universities and others to target their courses. We have also worked with a range of colleges to ensure that they have the right courses in place. We are helping the SQA and others to develop a new higher national diploma in food science and technology. A range of activity is going on to align the courses and the types of experiences that are available to young people so that they can see a clear career path into the industry. We are helping around the science and technical subjects in particular.

I mention all that to show that there is support from the Scottish Government and from industry to try to make the career path clear.

Andrew Richardson: At a more senior level, Heriot-Watt University runs the only brewing and distilling course in the UK, so the Heriot-Watt mafia are everywhere. We have had three graduates from Heriot-Watt: they tend to be very theoretical rather than practical, so it takes four or five months before we can let them alone, but they are very good.

At an apprenticeship level, there is a lot of desire in the industry for skills training, and we would welcome that. In the lift on the way up to the meeting, I spoke to someone from Skills Development Scotland who told me that SDS has developed an apprenticeship scheme for brewing, which is great news. I hope that he will come along to the Society of Independent Brewers and tell us what that scheme looks like. That is the sort of thing that people will genuinely get behind. It makes business sense, especially in small companies, to have people who can be relied on and left alone without constant supervision to do what the company wants them to do, so there is a desire to have people trained up.

The Convener: Scott Landsburgh mentioned skills; he may want to comment on the money that is available through the funding council.

Scott Landsburgh: I will make a specific request. We have an ageing workforce in the salmon industry, which has been going for 40 years. We have a lot of people over the age of 25 whom we would like to enter into a modern apprenticeship programme, because a lot of them now require skills that are different from the skills with which they originally entered the industry. It would benefit us enormously to upskill the over-25s in this country.

Gail Ross: That is an interesting point. Looking at the industry as a whole, are we getting the right people in the right places, or can you identify any gaps where the money could perhaps be better allocated?

David Thomson: It is clear to us, from the feedback that we get from our members, that there is a gap on the science, technical and engineering side of things. The affected areas range from new product development to machinery engineering and people who hit things with hammers and know precisely where to hit them. That is absolutely the area in which the industry tells us that there is a great need, which is why we are focusing our attention on those types of qualifications.

The Convener: I will bring in Stewart Stevenson, and then I will see whether Patrick Hughes has anything to add on skills in his industry.

Stewart Stevenson: My question is for David Thomson and Scott Landsburgh. Our biggest competitors in the salmon industry by a long way are the Norwegians. The tax rates in Norway are about 50 per cent higher than they are here, and yet that country is not experiencing the difficulties that we are experiencing in getting engineering staff. Why?

The Convener: Scott, if there is a simple answer to that—

Scott Landsburgh: There is no simple answer to that, I am afraid. There is a societal factor, and there are all sorts of other things. Norway has a different style of living. There is undoubtedly better infrastructure spend in Norway that benefits a disparate industry such as salmon, and people enjoy the benefits of that. A lot of the issues are cultural, so it is a difficult question to answer. Norwegians tend to holiday in Norway, whereas Scots tend to travel the world, as we can see from the millions of people who go in and out of Edinburgh airport every year.

There are a number of pros and cons. I am not advocating anything in particular; I do not know what Stewart Stevenson advocates. I am just saying—

Stewart Stevenson: Just to be clear, it was an open question.

Scott Landsburgh: It was a very big question. I know that the Parliament and the Government are testing the water. That is the appropriate approach at the moment. However, it is a difficult question.

Patrick Hughes: Because of its labour shortages, my industry is not dissimilar to other industries. It is not an attractive place to work in, so trying to seek new entrants across the supply chain—from the catching sector right through to the processing sector—proves challenging. David Thomson alluded to the fact that the foundations are in place. Once people are in the industry, there are systems to help them. We just need to do a bit more work to sell the industry as a whole as an attractive place to work in and careers in it as effective career choices.

The Convener: That is an interesting point, which Peter Chapman wants to pick up on.

Peter Chapman: I want to ask specifically about the catching sector. All the fishing boats in that sector used to be crewed by local folks, but nowadays it seems to be increasingly difficult to attract local people, including local youngsters, to crew them. There are Filipino crews and all sorts of issues with that. Do you think that that is beginning to turn around and that local young guys can be trained up to see a future in the fishing industry?

Patrick Hughes: I spoke to a catching sector organisation yesterday. It is starting to see that, but it laid the foundations in place. It gives new entrants an opportunity to go out into the sector and catch. There are limitations because of boat licensing, for example, but there are opportunities. However, we are not there yet. We are not seeing an influx of local people, but we need to try to get the rural infrastructure in place to get people into the sector.

Rhoda Grant (Highlands and Islands) (Lab): In the past, we have had a problem in Scotland with the length of supply chains and distances from consumers. How can we address that? Is the funding that is going into the supply chains being used to ensure that producers understand their customers' needs at home and abroad?

David Thomson: James Withers alluded to the fact that one of the key areas of the ambition 2030 strategy that we have really focused on is ensuring that the work on supply chains results in farmers and fishermen feeling that they are part of the great success of the food and drink industry, as there has been a lack of that over the past few years. The work by the Scottish Agricultural Organisation Society and a range of others on co-operation and working with the supply chain is fundamental to the success of the ambition 2030 strategy.

Philosophically, there is a difference between logistical efficiency and supply chains—even short supply chains. There is a whole range of quite tricky issues for the industry. If consumers want high-quality goods with a low price, it should be ensured that the logistics work. That tends to mean longer supply chains and larger distribution centres. That is how some of the types of businesses that I work with have success. There is no one-size-fits-all solution, but there is still a massive opportunity to support supply chains and to do more to shorten them where it is appropriate to do so, and that has an advantage for Scotland's fishermen and farmers.

James Withers: I agree entirely with David Thomson. There are two parts to supply chain investment. One is capital investment, particularly in processing facilities, but the first part is the work that the likes of SAOS does in acting as the honest broker between manufacturers and primary producers to consider having much more collaborative supply chains. Historically, there has been, at worst, a fairly adversarial relationship between farmers and processors with the view that only one of those partners can make money at any given time, but there are good models of much more collaborative supply chains.

The project on market-driven supply chains is really important. It is co-ordinated by Scottish Enterprise and funded by a number of public sector partners—about £1 million is going into the project, I think. That is the kind of investment that we need to see much more of. There are very clear returns on investment for that. Multiples of that investment will be generated through sales impact and growth impact.

The capital investment is important. FPMC—the food processing, marketing and co-operation grant scheme—has been talked about as a Brexit-related issue a couple of times. That is an absolutely critical funding stream, which comes from Europe just now. As we leave the European Union, we will have to find a mechanism to continue those capital injections to the right projects at the right time. That scheme has really helped to drive on growth over the past few years.

Like David Thomson, I think that there is a delicate balance between having local processing facilities and Scotland-wide processing facilities. I think that the priority is to add as much value as we can to our raw material in Scotland—not to have products leave Scotland to be processed and then come back in. There are opportunities to do that in a number of ways. That has been talked about for some time in the red meat sector. That said, having smaller processing facilities at a very localised level can be viable in some circumstances, as it really enhances the provenance story behind the product if it is produced, processed and sold in an area.

The Convener: I will bring in Scott Landsburgh, John Mason and Patrick Hughes; I would like to get you all in on this question, because it is really important. I know that the question of supply chains and ensuring that some of the produce stays local will be of interest, especially in Patrick's industry. Would you like to talk about supply chains, Scott?

Scott Landsburgh: I reiterate what others have said. Our supply chain works pretty well, but we are perhaps underperforming in secondary processing. Much of the product still goes to Poland to be processed and smoked. We are missing an opportunity there. The challenge will involve getting the labour market right. We do not seek any funding for developing processing plants. We have recently built a large plant in Rosyth, as you know, and more are coming on the west coast. We are comfortable about that.

Our product is perishable, so the whole supply chain has to work very efficiently; that is the key for us. We want to get the product to the destination so that it can be distributed to the consumer within a maximum of 48 hours. We achieve that in 60 countries around the world from some of the remotest parts of this country. The system is working reasonably efficiently.

I return to my earlier point about transport infrastructure, on which the supply chain is dependent—and it is dependent on the infrastructure being upgraded as regularly as it can be. The support for the ferry system is welcome, and long may that continue, because it is very important for us.

John Mason (Glasgow Shettleston) (SNP): I take the point that the system is working efficiently; I just wonder whether the rewards are shared out evenly. I was checking one of my local restaurants, and I could get haddock and chips tonight for £12 or a fillet of beef for £25. At the same time, we are told that 36 per cent of farm businesses made a loss and that more than half of farm businesses generated income roughly equivalent to less than the minimum agricultural wage. If we lost 36 per cent of our farms, how could we possibly grow our food and drink industry?

Although the supply chain may be working, is the way that things are done fair? Can the Government do anything about it, or is that just something that we have to leave to the market?

The Convener: I will bring in Patrick Hughes on the supply chain and on making food available locally. Perhaps we can then pick up on John Mason's point. I invite Patrick to start on the previous question, and I will then pick up the others.

Patrick Hughes: Shorter supply chains are vitally important, especially in the seafood sector. At the moment we have an issue in the processing sector with reduced capacity. There is ever-reducing capacity, and we need to reverse that trend. That goes back to some of the points that I was making earlier.

We need to retain the added value in Scotland. In Peterhead and Lerwick in particular, our markets are reinvesting in the fish auctions. If we are not careful about our processing ability and capacity, the product will flow through Scotland and go somewhere where it can be processed. We need to make sure that we capture that supply chain in Scotland, and that links back to transportation and the need for investment in the industry.

When it comes to making seafood more available, we need to work more closely with public procurement to make sure that we are getting local fish on menus. An example of that is Highland Council putting Scottish salmon on its menus, which is great. There are small examples of success in increasing the local seafood offering, but it is absolutely right to say that more could be done.

10:45

The Convener: Who would like to pick up on John Mason's point about farm-gate prices? There must be an equivalent phrase in the fishing industry, but I do not know what it is.

James Withers: That question cuts to the heart of the fact that although we have a booming food and drink industry, not enough farmers are feeling the effect of that. Scotland has among the highest beef prices in the world, yet many producers—hill producers, in particular—will struggle to achieve profitability this year.

It is a complex pattern. In my view, the answer has a number of parts to it, the first of which is to do with markets. In agriculture, Scotland cannot and should not be a commodity producer. We need to forget about playing the commodity market and think about premiumisation. Our most successful industry is whisky and our second-most successful industry is salmon. Both those industries have premiumised their product.

We also need to have a balance of markets. Ninety per cent of the Scotch beef that we sell is sold in the UK; with whisky, the situation is completely the reverse. We must keep internationalising our sector. That is a particular challenge with red meat, because Scotch beef is still banned in mainland China and Japan, and it is in effect still banned in the likes of the US. In the new global trading scenario post-Brexit, the UK must prioritise the issue of certification in third countries, which it has not done, historically. Having a mix of markets and premiumisation will be critical.

Averages are sometimes particularly irrelevant in farming, because the gap between the top third performing farmers and the bottom third performing farmers is huge. Few other sectors would tolerate such a gap but, in some ways, the support system has cushioned farmers from the market. As we move forward, the support structure will be critical. We need livestock production in the 85 per cent of Scotland that does not lend itself to any other kind of agricultural production. As the SPICe briefing paper shows, the biggest element of the funding that we invest in farming, fishing and food and drink is agricultural support, which amounts to between £400 million and £500 million. We need to think urgently about the future generation of that support and the outcomes that we want. We want support to be provided that encourages farmers to drive efficiency and to get closer to the market. That will be critical, and there is no doubt that a system of continuing support will be central to keeping the supply of product coming through. We must premiumise that product, access markets that we are currently still locked out of and think about how we can drive greater on-farm efficiency.

We cannot encourage co-operation between farm businesses enough. SAOS does a huge amount of work in fostering co-operation and collaboration. Even though some sectors are co-operating very effectively, the UK is probably 10 or 20 years behind other countries when it comes to agricultural co-operation.

The Convener: I want to push you on that. As I made clear, I have a farm business, and I know that the same barley prices are being paid as my father received 30 years ago. The same will be true for most farmers. Most barley goes to our whisky industry, which you have said is one of the most successful industries in Scotland. Do you think that farm-gate prices are a fair reflection of the work that our farmers are putting in, or are the profits not being shared enough?

James Withers: I do not think that an equitable share of the success that is being felt at the market end of food and drink is being fed back down through the supply chain. Why would a whisky company pay £150 a tonne for malting barley? Because it can. A large part of that is about co-operation—in other words, the industry working collectively.

To an increasing extent, Scotland is selling its product on a provenance story. Scotch whisky does not have to use Scottish barley, but although that is not a requirement of its protected geographical indication status, more than 90 per cent of the barley that is used will be Scottish. The whole supply chain needs to think about that provenance story. If it is to mean something in the future, that will involve going right back to source—to the farm gate. In the future, a greater value will be attached to the raw material coming from the farm gate, and there will need to be much more collaborative supply chains. Having open-book supply chains will be critical.

To answer an earlier question, we may need to prioritise future support more. For example, if we are going to give capital grants to companies, we should ask what the requirements of those companies are. Are they working collaboratively with producers, tackling international markets and helping to build the Scottish brand? We need to target future support at companies that are embracing those principles.

David Thomson: I would agree with everything that James Withers said. With Brexit, and the change in support for farming and fishing, there is a fantastic opportunity to rethink the support that is available to farmers and fishermen and find ways to help them that are different from our previous support. Obviously, that is part of this budget process. The critical thing is that we have a set amount of money, part of which is part of the European rebate, that we must secure for our farmers and fishermen.

I would want to note here that food processing is a high-volume, low-margin business. I represent companies that are making 0.5 cent or 1 per cent on everything that they make. It is not necessarily the case that all food processors and manufacturers are sitting on piles of cash. As part of that, the whole supply chain needs to benefit.

Rhoda Grant: It seems to me from the evidence that we have heard that in industries where the supply chain is more or less owned by the producer—for example, in the salmon and whisky industries—it adds to the profitability of the industry. Where things seem to fall down is when producers are simply producing to sell on the open market, at auction or wherever, and are therefore subject to the vagaries of the market. We have seen in dairy, to an extent, producers getting together. Although there could be an argument about whether the outcome was good, bad or indifferent, that could have helped them to get through the really difficult times. Is there a need for more co-ops, and those co-ops owning the supply chain to the end producer? Is that a direction of travel that we should invest in?

The Convener: Scott Landsburgh, do you want to go with that? Should we have more co-ops in the salmon industry?

Scott Landsburgh: What Rhoda Grant is advocating is vertical integration, which has worked for us to a certain extent. It is not wholesale across the salmon sector and we still supply a large part of the processing industry—that is a market exchange, if you like. I get complaints from various people about the farm-gate prices, so there is obviously a pressure there, but then that is the market dealing with it.

Stewart Stevenson talked about Norway. The Norwegian industry is more vertically integrated than we are at the moment, and I think that that will be the direction of travel. There is always a risk reward. The other side is that if we do not vertically integrate, we risk more processing going to a country that can process salmon cheaper. In recent years, we have noticed an awful lot of salmon processing going to Poland, which we want to avoid. We want to keep it here. As James Withers says, salmon is a Scottish premium product. Our whole pitch is that it is about the heritage of Scotland and the premium food that comes from Scotland, which we want to be fully traceable back through the whole Scottish food production chain.

The Convener: After James Withers, I am going to bring in Andrew Richardson, because it will be interesting to hear from his sector.

James Withers: Vertical integration has some real attributes. In Scott Landsburgh's sector, there is not really a debate about farmers versus processors because they are the same thing—they are the same business. Co-ops have a huge role to play, but what will be critical is co-operation with a small c rather than co-operatives. Some of that is about the mentality on both sides. In my old days, when I worked for NFU Scotland, when prices were low we had farmers desperate to get us to encourage the big whisky companies to offer fixed-price contracts. When prices went high, we had farmers desperately urging us to advise them on how they could get out of their contracts.

There is something about a farm business being able to lock in production at a price at which it knows that it can make money versus potentially still having some product so that it can play about in the stock market and the auction market. We need clearer, more transparent contracts and greater commitment on all sides—from retailers and food service downwards, not just from manufacturing farmers—to contracts in which everyone can make a buck out of the job. That does not necessarily mean that we need to own the processing, although I support that in some cases, because greater co-operation and collaboration in the supply chain should be able to make that happen. There are some examples of that working in the past.

Andrew Richardson: I do not have much to say on the issue but, in a way, we are similar to farmers in that we are a fragmented market. There are so many small brewers now. In any market with fragmented suppliers and concentrated buyers, such as supermarkets, there is an unequal relationship, which is what we face. There is no doubt that the boot is on the foot of the buyer in our industry and it is up to every company to manage that as best they can. From the consumer's point of view, they are delighted because they get good quality beer cheap. Who would not want that? If we tell them that we have to pay the brewer, the farmer and everyone else more, that will mean that their beer will cost more.

That is the market that we live in and we all knew that when we got into it. Unless you are a giant, you have to make do as best you can in the market with prices that are not set by you. You can set your prices to some extent, but there is a market rate for what you can sell beer at and that is that. As I have said, without putting up prices for consumers, I do not see an easy way of guaranteeing small suppliers that they will always have a good income. I do not think that that will happen. A lot of our members are not making a lot of money, but that is life, I am afraid. We are not looking for Government support on that. What can we do?

Richard Lyle (Uddingston and Bellshill) (SNP): I have a few questions but first I want to respond to what Andrew Richardson said. If you set fair prices, you might sell more—that is simple economics.

There is a fish processing plant in Uddingston in my constituency and I also visited one in Aberdeen a few years ago when I was on the Health and Sport Committee. I say to Scott Landsburgh and Patrick Hughes that, if we want to sell more, we need to produce more.

I watched a television programme a few weeks ago about all the fish that is caught in Scottish waters under flags of convenience—it may be a British flag, but the fish is landed in Holland or other foreign ports. What do we do about that? Norway has a lot of fjords. Scott Landsburgh is getting hassle from people about where salmon farms are. If we want to produce and sell more, how do we do it?

The Convener: I will go to Patrick Hughes first, because he might want to comment on the question about where fish should be landed.

Patrick Hughes: The processing sector needs Scottish fish. If we can get Scottish boats to land in Scottish ports, that is an advantage for the processing sector in Scotland and it helps to retain the value in Scotland. That said, it is a global market so we cannot necessarily dictate where boats land. They are free to land wherever and to create the prices that they can get in the market place. I will make a point that is similar to something that James Withers alluded to: some businesses in the processing sector buy on contract so that the boats land at an agreed price. The boats benefit from that, too. That is all that I can say about the market situation.

Richard Lyle: How are we going to raise the rate of production? We want to double it—you are saying that you want to double your processing. The processing plant that I went to was magic; it was fantastic from end to end. It is a superb company—I will not name it as that would be unfair, but it is located in Uddingston. [*Laughter*.] That is a plug.

The Convener: That is as far as you are going to go with that plug, Richard.

Richard Lyle: How will we double our production if we do not have the fish?

11:00

Patrick Hughes: It partly goes back to what James Withers and Scott Landsburgh said, which is that salmon is a premium Scottish product, so it is about looking to double not necessarily production but value. We need to put more value on the product that we produce in order potentially to command a greater price for it. However, Mr Lyle is right that we also need to look at the throughput of some of the factories, because increasing throughput will retain not only the factories but the jobs. It is simply about looking at how we can ensure that we get more product through to the market, which is about having more sustainable supply chains, looking at the catching sector and working closely with the processing sector.

The Convener: I will bring in Scott Landsburgh, but I hope that he will not mention any fish processing plants in Richard Lyle's constituency.

Scott Landsburgh: I will not mention the plant, although I believe that salmon goes through it.

The question was about how we produce more. The issue is probably one for another day, but we have an aspiration to grow and the Food and Agriculture Organization of the United Nations tells us that, even if we do no selling, the demand for salmon protein will grow by 8 per cent per annum. That is just the way that demand for high-quality protein is going.

We are farming the sea, which is not easy. You will all know from what is laid at our door by the media these days that things have been tough, with the past few years being particularly tough. The implication is that that is all because of farming practice, but it is really because of climate change, which has had an enormous impact on the marine environment in Scottish waters in the past few years. In certain parts off the west coast, average sea temperatures have risen by 15 per cent. If we lived in an ambient temperature of 60 degrees that went up 15 per cent, we would have to change how we behaved, and that is what our fish are having to do.

Things have been tough, and our outturn will reduce next year by around 12,000 tonnes. We have been static since the turn of the century. We have not been growing, because we have taken the considered decision—how can I put this?—to minimise control and reduce our production in order to control all the things that you read about in the media that are affecting salmon at sea: sea lice, algal blooms and plankton that is foreign to our waters. All those things cause the gill irritations that challenge the health of our fish.

For us, the health of our fish is paramount. There has been a lot of talk in the media about mortality in our industry, but mortality is the last thing that we want. Why would we want mortality? We want to grow, and we will do that through innovation. A lot of that will come from what I spoke about earlier regarding recirculating aquaculture systems in the freshwater environment, which will mean a shorter time at sea. I believe that we will grow significantly in the next 10 to 15 years by adopting highly skilled and highly capital-intensive and innovative programmes.

The Convener: I will bring in John Finnie and then James Withers. If we have time before we move on to the next question, I will also bring in a couple of others.

John Finnie (Highlands and Islands) (Green): Good morning, panel. The briefing that I have been looking at talks about food and drink being one of Scotland's growth sectors. I have a fundamental question that is partly linked to the comment that Mike Rumbles made earlier, perhaps in jest.

Mike Rumbles: I was not joking.

John Finnie: No—it was a pertinent question. Why should public money go to fund increased profits? Surely public money should go to fund the provision of food and jobs for our nation. There has been a lot of talk about growth. Should you not be aspiring to reduce the level of public investment? We are scrutinising the Scottish Government's budget, and the issue that we are looking at is just one of a range of issues. Should you not aspire to having no public money if you operate in a capitalist system?

The Convener: I ask James Withers to answer that first, then I will come to Scott Landsburgh. I will also bring in others, if they want to comment.

James Withers: That is a perfectly valid question. One might argue that the most successful and fastest-growing sector in Scotland at the moment is the one that least needs to be targeted for public sector investment. However, my view is that it is about the size of the opportunity and of the prize. The food and drink sector is Scotland's biggest employer—it employs about 115,000 people—and we have identified a growth opportunity. The Parliament and the

Government would welcome the oil and gas, textiles, tourism and financial sectors coming and telling you the size of their opportunity. Even if we put together everything that is set out in the SPICe briefing, the level of investment is very small compared with the return activity that comes from it—

John Finnie: The return for whom?

James Withers: For Scotland plc. We think that there will be 27,000 new job opportunities just in the next five years.

John Finnie: Who will fill those jobs?

James Withers: That is a skills issue. Investment in skills will be critical, and the industry absolutely has to make that investment. In relation to filling the labour gap, the onus is on the industry to talk about opportunities and raise awareness of the sector.

However, we have jobs growth. In addition, start-up business rates have increased by 81 per cent and levels of research and development investment are up by 71 per cent. The industry is putting in significant investment. There is a perfectly valid challenge. The partnership on food and drink between the industry and Government is, I think, unique. The way that it should work is that the industry should challenge Government on where we need investment and Government should challenge industry on what we will deliver in return and how much we will invest.

The £10 million funding that was announced when the strategy was launched includes £2.25 million that the industry is putting in. We are putting our investment on the table in return for Government funding. To me, that should be the model going forward. If we do not deliver and we do not grow, create jobs and drive sales, I, as a taxpayer, will tell the Scottish Government to put its money elsewhere. However, I do not think that the Government should do that, because I think that we can deliver on the growth agenda.

The Convener: I will let Scott Landsburgh come in and then I am afraid that we will have to move on to the next question.

Scott Landsburgh: I will be very brief. We do not believe that we take much public money, although we take money for innovation. The Scottish Government has been tremendously supportive of innovation in our sector, through the Scottish Aquaculture Innovation Centre, and we hope that that will continue. To an extent, we also take money for skills.

We operate in a global market in which we market in and sell to 60 countries around the world. I can assure you that our competitor countries are upskilling with significant Government support. Stewart Stevenson mentioned how highly taxed the Norwegians are, and a lot of that money goes back into investing in the strategic industries in Norway. The Norwegians consider salmon to be a strategic industry, so they invest directly in it. The budget for marketing Norwegian salmon in the UK is £28 million this year, which is why more Norwegian salmon is sold in the UK than Scottish salmon. That is the sort of support that we are up against. In addition, the road infrastructure and connectivity in Norway are second to none. It is a hard call, but that is what we are looking for. There is a return to everybody from that.

Jamie Greene (West Scotland) (Con): That segues nicely into my question, which I have been considering over the course of the discussion and which is about public procurement. That is another issue that relates to public spend on Scotland's food and drink, although that spend perhaps benefits local businesses across Scotland. Procurement is not mentioned in our briefing, but it is worth talking about while we have the opportunity to do so.

We know that around £150 million is spent on public procurement of food and drink. I am reliably told that about half of that is spent on local produce, but there is anecdotal evidence of huge amounts of public money being spent on importing food and drink from overseas, so perhaps more could be done to encourage all aspects of the public sector to buy locally. For example, more than £1 million is spent on chicken from Thailand, and we buy potatoes from France, carrots from Belgium and raspberries from Serbia, which seems a bit bonkers. What can the Government do to improve the situation?

David Thomson: It is important to recognise that there has been significant growth in those statistics over the past 10 years or so and that a lot of Government action has been taken already, but of course more could be done. It is important that farmers and primary producers are supported as much as possible so that they can access public sector contracts. That might mean making sure that contracts are small enough to allow for local opportunity.

If we want to give public support to processing and other elements, it is particularly important to look at such opportunities, including opportunities to substitute for imports such as those that you just outlined. Sometimes the processing capacity is not available to meet the public sector market opportunity. Some of the available funding should be given to projects that might meet that opportunity. There are a range of things to do. The easy stuff has been done; the next stage is probably going to be more difficult. That is where Government support can help; in particular, it can help primary producers to access the public sector market.

The Convener: Does Patrick Hughes want to say anything about local procurement of his seafood? Then I will bring in James Withers. I will exclude Andrew Richardson, because I do not think that the Government is buying quantities of beer—although I may have got that wrong.

Andrew Richardson: It should be; it is not buying enough.

Patrick Hughes: I have mentioned that we are seeing some success, with Highland Council being a great example. However, I agree with what David Thomson said about how we have done the low-hanging fruit. It is more challenging now, as we move to the next level. Breaking those contracts down into more bite-sized pieces and looking at more collaborative opportunities is probably the way to go.

James Withers: I do not have much to add. There are other opportunities, and some innovation in how we approach public procurement might help. There may be national contracts in some parts of the public sector, such as the national health service. Might there be an opportunity to regionalise those contracts? Could the requirements of Dumfries and Galloway's schools, hospitals and council be pooled into a larger regional contract that suppliers might be able to get into?

The amount of public procurement spend that goes to Scottish suppliers is roughly 49 per cent, but that masks a slightly better story. There is a whole heap of products in the mix that we cannot grow here, such as oranges and other fruits, so the percentage that we supply from Scotland of what we can supply from Scotland is higher. However, there is room for more innovation in that area.

I will be a bit provocative. The real question is whether we want to replace Thai chicken. There is a huge price difference between what Thai producers can charge for chicken and what we can charge. That gap has to be closed by local authorities being able to ring fence more spending for that area, rather than Scottish producers necessarily racing to supply what is a cheap commodity product. My aspiration is for chicken to come from Scotland at the right price—but it would need to be at the right price.

The Convener: Does Jamie Greene want to follow that up?

Jamie Greene: I will move on to my next question.

We have touched on investment and innovation, which I want to push further. I had the great pleasure and privilege of being on board one of Iceland's new trawlers earlier in the year. Iceland is investing quite heavily in fishing vessel infrastructure—more than 200 million euros is being invested in 12 new trawlers. The vessel that I was on was quite unique, in that it was a processing and freezing trawler; it pretty much did end-to-end production on board.

In my view, Iceland has taken investment, innovation and the use of technology in food production to the next level. In Scotland, we talk about investment in the odd vessel here or there—that pops up periodically in the press—but we do not see the same scale of investment. I do not know whether that money comes from Government, industry or a mixture of both. What could Scotland do more of to raise the bar in relation to innovation and technology in food production?

Patrick Hughes: We are probably seeing unprecedented investment in the catching sector just now. It is no secret to say that the order books in a lot of the boat-building yards across Europe are full, because the catching sector is achieving high market prices—or good ones, at least. That is a result of sustainability. People are reassured, they are confident in the industry and stocks are healthy, so people are reinvesting in the sector.

However, the process falls down in relation to reinvestment in the processing sector. With regard to innovation in the processing sector, we need to look at how we add value to the product, which might involve machine filleting or more of some other sort of automation. We need not only to increase throughput in the factories but to upskill the workforce.

11:15

Jamie Greene: James Withers said that the Government's current approach involves spending a little on many people, and that, instead, it could spend more money in a more targeted way. If businesses with two or three people are given £10,000, that might encourage more growth in those businesses—more manual growth, I suppose—but large-scale investment surely lends itself more to automating industry and the development of more industrialised production with less employment. Does that address one of the issues around the lack of skills and resource at the lower end of the small and medium-sized enterprise sector? I am struggling to see which is the better option. Should you be investing in SMEs in order to encourage more employment, or is it better to spend more on large-scale automation in industry, which reduces the cost of production and means that you do not need as many people to work on the process, but which would facilitate the aim of doubling growth?

The Convener: I will ask James Withers to answer that, and then we will move to the final question, which I know that all the witnesses will want to comment on.

James Withers: If it is any consolation, we wrestle with that quandary, too. One of the issues that we have in the food and drink industry is that we are not as productive as other countries are. Our food and drink industry has been less productive than that in other parts of the UK, but the situation is improving, with productivity having risen more sharply.

The blunt view of productivity would be that you should employ fewer people and make more money but, actually, an increase in productivity can lead to an increase in employment, too.

It feels like there is a need for revolution rather than evolution in the innovation landscape. The issues around big data, artificial intelligence and robotics mean that there is a need to think hard about investment. The idea of there being a new advanced manufacturing centre in Scotland is quite exciting with regard to how that might serve the food and drink industry. The work that the Scottish manufacturing advisory service does and how it relates to the food and drink industry will be more important than ever, but that will also come with a skills requirement. Robots are only as good as the people who programme them and work with them. In reality, there is a balance between investing in the workforce and investing in the new phase of innovation.

I want to make a quick related point about city deals. One of the strengths of Scotland's approach to the development of the food and drink, farming and fishing sectors is that there is a sense of unity and common purpose—there is a Scotland plan, a Scotland policy and a Scotland strategy. City deals are potentially an amazing mechanism for driving investment into our sector. My nervousness is that all the city deals in Scotland, with, I think, the exception of Glasgow, have talked about creating a food and drink innovation centre. In a sense, having a lot of such innovation centres popping up would be a lovely problem to have, but there is a real question in my mind about how they will dovetail and work collectively. If the Scottish Government invests in the city deals and the associated food and drink innovation centres, how can we ensure that that creates national provision rather than regional competition? On your next panel you have representatives of the Rowett institute and Abertay University, and that is perhaps a question for them. I believe that people are having the relevant discussions, but there is a need to ensure that we have a national rather than a regional view of how we are investing in those things.

The Convener: John Mason will ask the last question. It is an important question, and I know that you will each have some points to make in response, but I ask for short and succinct answers.

John Mason: On the procurement question, I think that we should have Scottish craft beer in this Parliament instead of foreign wine and orange juice. However, my question is about Brexit. What are you concerned about in relation to Brexit? Is it that we might have no deal? Is it that we might switch to WTO tariffs? Is it that exports might have tariffs on them or might be held up at the border? Is it that there might be a lot of extra paperwork? Is it to do with capital injections, which were mentioned? Is it that we might lose migrant workers? In that regard, we have had evidence from Angus Soft Fruits that it would just move production overseas. Is it that we will lose the common agricultural policy money?

The Convener: John Mason has posed a lot of questions and it could take hours for each of you to answer them. I ask you to focus on the most important, otherwise we could go off on a tangent.

James Withers: All of the above, but trade, labour and agriculture policy are the top three. I will focus on trade and my colleagues will deal with the others. David Thomson will talk about labour, in particular.

A total of 70 per cent of the food that we sell out of Scotland and which leaves the UK goes to the EU. That is the ball game at the moment, as far as exports are concerned.

I have heard the phrase, "No deal is better than a bad deal." No deal would be a disaster—it would be a bad deal for us. It is difficult to contemplate. The impact on different sectors would vary. There would be no tariffs on whisky, so that sector would be fine. The concern would be around everything operating smoothly. The tariffs on salmon are important but relatively modest. However, if you exported a beef carcase to France, the tariff would be 93 per cent under the WTO agreement, so our product would suddenly double in price. We witnessed what happened to our livestock industry when European export markets closed during the foot-and-mouth disease and BSE crises. No deal would be a disaster for food exports. We are building exports beyond Europe, but we need tariff-free access to the European market.

David Thomson: Our four are people, customs and tariffs, regulation and prioritisation. People are the biggest issue. The Angus Soft Fruits example has been mentioned. I have visited the farm where 1,000 people, mostly from the EU, work. People at all levels in our manufacturing industry are our number 1 priority and concern in the context of Brexit.

Food is the second-most heavily regulated industry. There is huge potential for regulatory divergence with the EU, and within the UK with different authorities. That is all a major concern for us going forward.

Patrick Hughes: It literally is all of the above. The main issue is securing the raw material and making sure that we get a good deal for fish that comes into Scotland. That is followed by trade and access to markets—and not only European markets, as we must also collectively and productively work for other export opportunities as well.

John Mason: Do you mean fish swimming into Scotland?

Patrick Hughes: I mean the quotas being secured in Scotland. With regard to non-tariff barriers and open access to borders, if certain live shellfish products do not get to the French market by 2 pm, for example, the price drops by 50 per cent. We need to make sure that those barriers are not in place. A great deal of support is provided through the European maritime and fisheries fund, and that will have to be replaced without any delays and barriers to make sure that there is a seamless transition.

Scott Landsburgh: It would be a disaster for us if exports were held up at the border. That cannot happen, so some form of agreement needs to be reached. The idea that we can just computerise everything to make it more efficient will not happen. We have to maintain what we have at the border, otherwise we will end up with 40-mile queues north of Dover as opposed to the 17-mile queues that we currently have.

Migrant workers for the processing plants are another issue.

Andrew Richardson: There are many unknown unknowns. We are concerned about the impact on our input costs. I am not clear about what tariffs the UK will impose on goods coming into the country as a result of Brexit and whether the cost of our raw materials will increase. Open access to other markets is important for us. Finally, it is unclear what the various grants and support the EU offers to industry will look like after we leave.

The Convener: That brings us to the end of our questions. I thank all of you for your answers. Please let the clerks know if you have missed out anything that you want to feed in. I had hoped to give each of you an opportunity to make a brief closing statement, but we have run out of time. If there is something you would like us to ponder, please let the clerks know.

11:24

Meeting suspended.

11:30

On resuming—

The Convener: In the second part of the meeting, we will take more evidence on the food and drink industry, as part of the committee's pre-budget scrutiny.

I welcome Danny Cusick, who is the director of food and drink, tourism and textiles at Scottish Enterprise; David Oxley, who is the director of business and sector development at Highlands and Islands Enterprise; Dr Stuart Fancey, who is the director of research and innovation at the Scottish Further and Higher Education Funding Council; Chris Brodie, who is lead head of skills planning and sector development at Skills Development Scotland; Professor Peter Morgan, who is the director of the Rowett institute; and Professor Carl J Schaschke, who is the head of the school of science, engineering and technology at Abertay University.

Try to catch my eye if you want to answer a question and I will try to bring you in. You do not need to worry about pushing any buttons on the screen in front of you, because the gentleman on your left will activate your microphones.

The first question is from Peter Chapman.

Peter Chapman: Good morning, gentlemen. The Scottish food and drink industry has been a success over the past 10 years, but the ambition is to grow it—to double it to £30 billion by 2030. What does the industry need by way of support to achieve that step change in output? I asked the same question of the previous panel.

The Convener: Somebody needs to catch my eye, but if you look up, I might catch you anyway. Carl Schaschke looked up first, so I ask him to lead on that.

Professor Carl Schaschke (Abertay University): First, the primary requirement is that the industry will need people with the right skills. We would take the range of products that are available, but we will need to be able to process them in Scotland with the right people doing the right things, and with the right technologies.

The Convener: Would David Oxley like to come in on that question?

David Oxley (Highlands and Islands Enterprise): Carl Schaschke is absolutely right; people are a key component. If we are going to grow the sector and double it over the next 12 years or so, that will not be done purely by price. Growth also needs to be about capacity. Productivity improvements through becoming more innovative will also be absolutely essential. The people component will be a challenge; we have talked about potential staff issues. If we can get investment in innovation so that we become more process driven and productive, we could grow the sector and grow the value of the jobs within the sector, which will be important in attracting more people.

Dr Stuart Fancey (Scottish Further and Higher Education Funding Council): Over the past few years, a feature of the industry for us has been the collaboration between the industry and those who support it, including people on this panel. We will need to continue to work together very closely to make sure that we answer all the questions that David Oxley has outlined.

The Convener: I am sure that Chris Brodie will have a view on whether the key issue is people or the skills that they bring.

Chris Brodie (Skills Development Scotland): We have heard this morning that it is important to recognise that there is no single magic bullet; it is not simply about people. The industry requires a broad range of support around innovation and market development. I agree—as you would expect—that people and skills are really important. SDS is an agency that works with colleagues in Scottish Enterprise and the Scottish funding council, with which we developed in 2014 a strategic skills investment plan for the sector. That work was heavily informed by Scotland Food & Drink and by a number of the sectors that the committee has met today. That plan sets out a shared vision for industry and the Government on where investment priorities should be in respect of people and skills. I am happy to talk about that further in the meeting.

Danny Cusick (Scottish Enterprise): I would echo previous comments. We must ensure that we create the right business environment and the right conditions to allow the sector to grow in the key areas that were identified earlier—market development, innovation support, supply-chain development and workforce development—and we must consider how, in partnership, agencies and the industry can work together to achieve that.

The Convener: I will bring in Peter Morgan, because it would be unfair not to do so before I go back to Peter Chapman for another question.

Professor Peter Morgan (University of Aberdeen): It is obvious that we cannot do more of the same. We have been very successful over the past few years, but there has to be a shift. Innovation is an undeniable requirement, and not only because of the target in the "Ambition 2030" strategy document. Brexit going on in the background will be another driver for change and innovation.

A third component is that a good food nation bill, through which we want to change people's diets, is coming along. If we change diets, the food industry will have to respond to that. That will create a great deal of innovation requirements and needs, and people will be needed to deliver them.

Peter Chapman: I am interested in those answers. People, innovation and marketing are all very important, but none of the witnesses has mentioned the fact that we need more raw materials if we are going to double the business. That goes back to the primary producer. We have seen, in farming in particular, that the profit margins are very slim and are becoming slimmer. How can we double the food and drink industry without increasing the raw materials?

Professor Schaschke: Another dimension that we have touched on is how we utilise our waste. Half the food is consumed, but what do we do with the other half? How can we use it better? Production of biofuels and better use of food in the first place, for example, are other dimensions that we can look at. It is not just about needing more raw materials.

Professor Morgan: Peter Chapman's point is valid, but a lot of the research that is going on is about trying to make the agriculture system more efficient through better breeding and selection, and through reducing disease and waste. Innovation will occur in many such drivers to enable us to get more out of the system.

Danny Cusick: The complexity of the science is part of the consideration. As we see from the information, almost 17,000 companies in Scotland are classified as food and drink companies. The vast majority of those companies are in the agriculture sector, followed by the fishing sector, then food and drink manufacturing and processing, which accounts for only about 6 per cent of the company base, but generates 75 per cent of the gross value added and is responsible for almost 100 per cent of exports.

Across that wide spectrum of activity across the sector—from primary producers to manufacturing—there is a great productivity issue. At one end, there is a highly efficient drinks sector, which represents £200,000 per employee per annum and, at the other, is the primary agriculture sector, which represents £14,000 per employee per annum. One of the key issues in growing the sector will be in tackling the productivity challenge across the entire spectrum of the supply chain. Scotland has a productivity challenge across all sectors. We would have to increase our productivity by 27 per cent to get up to the Organisation for Economic Co-operation and Development's upper quartiles. In food and drink terms, that means increasing GVA by almost £1.5 billion.

Perhaps we have to focus on those key productivity issues. We know what the productivity barriers are: they are to do with investment, internationalisation, levels of innovation, levels of workforce development, and ensuring that we have the right people with the right skills in the right jobs.

Stewart Stevenson: My question is different from the one that I asked the previous panel. We want to double the size of the industry—I dare say that all the world's major food producers want to do something similar. What can we do distinctively in Scotland that will mean that we will succeed where others will not?

The Convener: Does Stuart Fancey want to lead off on that?

Dr Fancey: I will certainly try.

In the earlier evidence, we heard about the distinctive feature of provenance, and the fact that Scotland has a story to tell about a food and drink industry that is based on the purity of its raw materials and the quality of the work that is done with them. Clearly, universities and colleges in Scotland want to contribute to that. We want to help our colleagues to contribute to that because telling that story effectively, and contributing to the supply chain being not only efficient but distinctive in its quality, will allow the industry to thrive and to compete in international markets.

Stewart Stevenson: Forgive me, but I will say briefly that people who buy from us already know that they are buying quality, not price.

Dr Fancey: Yes.

Stewart Stevenson: So how will the industry change: How will Scotland's being uniquely different double the market? Is it simply that there is a market in which we need to tell more people the story, or is there something more fundamental about how we will do our business?

The Convener: David—do you want to come in on that point about the uniqueness of Scotland?

David Oxley: The food and drink sector is dominated by two products—whisky and salmon, which are key to us. However, there is a huge range of other companies in other subsectors, from brewing to biscuits to bakers and all sorts of other things. We can help to grow the industry by increasing growth in many of those other businesses. That is not to disparage the whisky and salmon sectors, which are fantastic success stories. We need to reflect that success in other sectors.

I live in Moray, and Walkers Shortbread is virtually on my doorstep. You cannot go to an airport in the world without seeing Walkers shortbread: encouraging more businesses to be likewise would be a good way to do grow.

The Convener: I am going to resist the temptation to say that a Walker is my next-door neighbour and that Walkers is an excellent product.

Having not being able to resist saying that, I will move on to Fulton MacGregor, with his next question.

Fulton MacGregor: Mr Lyle is definitely rubbing off on you, convener. [*Laughter*.]

Before I go on to my main question, I want to pick up on points about innovation and productivity. We know from other sectors where there is gender balance that productivity and innovation can be increased. Can you comment on the gender balance in the food and drink industry, and perhaps reflect on the fact that the committee has today been presented with 10 panel members who are all male? I do not know whether that reflects the higher end of the industry overall. I am hoping that it does not, so I am putting the question out there.

Chris Brodie: I was just looking through my extensive briefing for details on gender imbalance in apprenticeship frameworks: that is one the many things that I am sure I will find I have not been provided with. We can write to the committee and provide details of how that plays out in the apprenticeship frameworks. I do not have the figures to hand.

We absolutely accept that the gender balance is a challenge across apprenticeship frameworks. I am sure that there are similar challenges in college and university provision. We are absolutely committed to addressing that issue. We work with a number of organisations, including Equate, to address some of the root causes. The challenges very often happen in the school system or happen at a very early age, so addressing the gender imbalance is a key priority, but will not be simple.

Professor Schaschke: In the university sector, we are looking at the gender balance through Athena SWAN—the scientific women's academic network—for example, and Equate. Aurora programmes have been mentioned. It is true that food-science programmes attract larger numbers of women than men, but engineering, which is also associated with food innovation, attracts more men than women. There has historically been an imbalance: we are endeavouring to address it in order to make the various options more attractive to both genders.

Dr Fancey: The funding council is working with our colleagues in the SDS: the two sectors are very aware of gender imbalance at the education end. Although it starts early, we are doing what we can with our colleagues in the sectors and with SDS, through our gender action plan, to rectify both imbalances; that is, the excess in men applying to engineering courses and the excess in women applying to other courses. Neither imbalance is helpful.

David Oxley: On Fulton MacGregor's question about the balance of witnesses today, I think that that is a fluke rather than a reflection of the overall balance. I sit on a number of aquaculture committees and boards: the gender balance has improved and I see it improving further in the future. A number of females got into the industry 10, 15 or 20 years ago and have been progressing through it. If you had looked 20 years ago, there would have been a lot of male faces, but I think that that is changing.

11:45

The Convener: Does that also reflect your experience, Danny?

Danny Cusick: The figures will, I think, show a relatively reasonable gender balance in employment across the sector. However, the key issue across all businesses is to reflect gender balance in leadership. I think that the businesses that are successful are those that are able to harness all their workforce. There is a lot of work to be done in that respect—not just in food and drink, but across Scottish industry as a whole.

Fulton MacGregor: I appreciate the panel's honesty and frank responses to the question. It is important to discuss the issue, given the areas where there could be more productivity and—as I said—innovation, if there were gender balance. I am glad that the issue is being taken on board.

My other question, which I asked of the previous panel, relates to taxation. As you will know, we are having a national discussion about taxes—in particular, income tax, although I ask that you do not restrict yourselves to income tax, in your responses. Can we do anything overall to encourage tax changes in support of industry? If so, what should industry's key focus be in that discussion?

The Convener: Our witnesses are now looking down very studiously, but I saw Danny Cusick holding his head up a moment ago. I will come to him first, and then to David Oxley from HIE.

Danny Cusick: In a general sense, we want Scotland to be as competitive as possible in a number of ways. For a start, we need to provide the right environment to allow the companies that are already here to grow and develop successfully and to invest. We also need to be able to attract the type of foreign direct investment that we want and which supports the industry. Given that our industry has a large foreign direct investment component, we want to ensure that we are as competitive as possible internationally in support of that. Not only that, but Scotland must be a country that enables new start-up opportunities and research and development investment in order to allow risks to be taken. Across the piece, the key consideration is to create the best environment to allow Scottish companies and companies that want to come and invest here to be as successful as possible.

David Oxley: I will put things into a broader context. Prior to working with Highlands and Islands Enterprise, I spent 15 years in the brewing industry. For a considerable time now, the brewing sector has seen phenomenal growth. On the craft beer side, that was largely due to changes in beer duty, which allowed many more small breweries to start up and grow. It is an example that perhaps highlights an innovative way of using tax to stimulate growth in a sector.

Professor Schaschke: To pick up on Danny Cusick's valid point, I say that there are many very small and very new food-producing companies that would like to raise the level of their business but are probably unable to do so, so help and support for them would be very welcome. Universities could also be used to support innovation and to help with business confidence to allow those businesses to upgrade.

Richard Lyle: Professor Schaschke has touched on the question that I was going to ask. Are we looking at this the wrong way? Should we be considering and encouraging the firms that are not exporting at the moment? Do you have any opinion on regional allocation of resources? Should the budget lines be spread over all parts of Scotland to help more new firms to export? A lot of firms are exporting, but there are still not enough of them doing so.

Professor Schaschke: That is an interesting question. With regard to helping and supporting companies, particularly new start-ups that might be based in rural communities, I think that it is important to keep them in their communities so that they can support them, instead of simply bringing the companies into the major cities, although they might have better opportunities for distribution, manufacturing, access to skills and so on there. If we could encourage new start-ups to remain in rural communities, that would be welcome. I cannot answer the question about exports, but it is an important aspect that we should not forget about.

The Convener: I will bring in Danny Cusick on that before going to Mike Rumbles.

Danny Cusick: That is a hugely important question for the food and drink sector and for Scottish companies in general. Only 7 per cent of Scottish companies export so, if we are to get into the upper quartile, we need to increase that figure by at least 40 per cent.

Scottish Development International looks at the food and drink sector as a key sector. We mentioned earlier that we have in-market specialists, and the food and drink industry has the foundations on which it can capitalise and increase our export penetration. The scotexport initiative that we launched predominantly tries to ensure that we focus on touching as many companies as possible. Through the partnership, the foundations are in place. It will be a great challenge for the partnership if there is such a demand for the services of our in-market specialists in the EU and outside that we have to look at how we increase them, but we have the infrastructure in place to do that. The in-market specialists are predicted to increase export sales by more than £100 million over the period of the partnership programme.

Mike Rumbles: With the food and drink industry having increased during the past 10 years by 44 per cent, and exports having increased by 56 per cent, it is doing a really great job. The witnesses' organisations should be congratulated on their input into that success.

I have a similar question to the one that I asked the earlier witnesses. Public money is in short supply. This is a successful industry that has received Government support. If, in reviewing his budget, the finance minister decides that he wants to redirect some of that Government support to other areas, where in your organisation would it be best to see a little bit of a reduction? Can you advise us of any particular area where it would hurt less if there was a reduction in Government support?

The Convener: Who wants to go first? Everyone looked the other way when Mike Rumbles asked that question of the first panel, and you have all done the same.

Professor Morgan: We are already taking budget reductions, so we have been feeling the pain for a few years. As with a number of the other institutes in the rural sector that are funded by Government, the Rowett institute has been taking a 5 per cent cut each year, and we had flat funding before that. We have been experiencing that pain.

The trouble with that continuing is that we will lose the necessary critical mass of the variety of researchers that we need to input into the innovation agenda that the industry requires. We then come back to the question of whether the industry should be pumped up with public money anyway.

The issue is that the industry is not like the pharmaceuticals sector, which makes great big profits and can put money back in to reinvent itself. It requires a certain element of public priming. We see that in other countries. The USA and France have public sector funding of the agri-food sectors. If we pull too much money away, we will live with the consequences down the line and, in a few years, we will lose the success that we are seeing now.

Chris Brodie: I echo Peter Morgan's points. We operate in an environment in which budgets are static, at best, and most often reducing year on year. That presents two challenges for us as an agency.

There is some complexity around the first. If we listen to the range of specific skills issues that have been highlighted from the witnesses from the brewing industry, the salmon industry and the seafood industry, our challenge is to respond to them as well as ensuring that our investment in the apprenticeship programme reflects the needs of the industry. Our focus is very much on that alignment.

The second challenge is that the backdrop of reducing budgets means that it can be difficult to find money to capture particular opportunities when they emerge. As funding reduces, what it is spent on gets tighter, and that is a challenge that, I am sure, my colleagues will echo.

The Convener: I am going to bring in John Finnie for a brief question because it does not look as though anyone else is volunteering to see their funding reduced.

John Finnie: That was an excellent question from my colleague Mike Rumbles. I know that some of the answers appear to have related to internal structures, but at least two of the organisations represented here pay money out.

I appreciate that this will not be your area, Mr Cusick. I am representing the Highlands and Islands at a time when crofters and farmers are struggling with payments. People might be surprised to hear, for instance, that Scottish Enterprise gave £2 million to a company that made $3.14 billion of profit, Lockheed Martin, two years ago. Is that the sort of area where there could be more of a focus on a direct return, rather than on bankrolling obscene multinational corporations that are involved in the commissioning of death?

Richard Lyle: What does that have to do with food and drink?

John Finnie: Exactly.

The Convener: I think you have made your point. I will let Danny Cusick answer that briefly, after which I want to move on to a question from Gail Ross. You have made your point, John.

Danny Cusick: I am not familiar with the actual project, but I would be convinced that there was an absolute rationale for that investment. We invest and give priority where we can see what the return on the investment will generate, either by way of increased investment from the company in Scotland from an R and D perspective or in safeguarding or creating jobs. There would have been an absolute, very strong rationale for that investment, I can assure you.

The Convener: I am happy for you to leave your answer there.

I will move on to the next question, from Gail Ross, who is the deputy convener.

Gail Ross: Good morning, panel. I will ask about the first pillar of the 2030 strategy, which is people and skills. Chris Brodie, you said that apprenticeships need to reflect the needs of the industry. Is that happening well at the moment? How do we know that we are providing the right training and getting good value for money from the £37 million that the Scottish funding council currently provides?

Chris Brodie: I can say a number of things in response. We funded about 1,100 modern apprenticeship starts last year, and there were about 3,000 modern apprentices in training across the sector. A significant effort has been made by my sector's team on developing frameworks that meet the specific needs of the industry. We have developed a new modern apprenticeship in craft brewing, as was referred to earlier. We have also worked on building flexibility into the food and drink manufacturing framework, so that it reflects dairy, meat and fish processing.

There is a body of work under way in the development of new foundation apprenticeships. As you have mentioned, there is a foundation apprenticeship in food manufacturing, which—to come back to a point that was made earlier—we think may play an interesting role in addressing gender imbalance. The experience from the engineering FAs is that there have been much more mixed cohorts going through the FA than have been going through the MA. Just this week, we agreed that we are going to progress with the development of a graduate-level apprenticeship framework for food technology and food science.

On the apprenticeship family more generally, there have been a number of questions around productivity today, and I think it was Mr Stevenson who asked what we might do differently in Scotland. I would observe that high-performing, highly productive economies—countries that we aspire to be like, such as Austria, Switzerland and Norway—have much higher levels of work-based learning built into the post-16 educational system than we have. The work that we are doing with the funding council and with the college and university systems on work-based learning approaches is critical to addressing productivity.

David Oxley: This is not just about entry-level skills. We—and, I am sure, Scottish Enterprise—invest a lot of time in leadership skills, for emerging leaders to senior leaders, and in entrepreneurship skills. Some of the best returns on investment have come through that. I can think of an example of a Shetland-based mussel company whose managers we put through an executive education programme, and its growth has been exponential as a result of the ambition on growing their business that they picked up from that.

12:00

Dr Fancey: Gail Ross referred to the investment that we make in supporting undergraduates, postgraduates and college students across the sector. In the areas that we are talking about, there are about 700 students in the university sector and 7,000 in the college sector. Those are significant numbers.

The question about the link to employers' needs—which is a good question—is one that we have been increasingly engaged in considering. Chris Brodie has already referred to the skills investment plan. We have been involved with SDS in building the food and drink skills academy. We want to bring employers close to the educational establishments to establish a link between what is needed and what is provided. At the higher-skills end, we have been working through the innovation centres programme—in this context, I am talking, in particular, about the Scottish Aquaculture Innovation Centre, which was mentioned in the discussion with the first panel—to ensure that, where we need masters-level provision or PhD training, that is provided in partnership with the industry. The link between what the industry needs and what the educational establishments can provide is extremely strong, but we must keep a strong focus on it, for all the reasons that we have mentioned.

Jamie Greene: Further to what Mr Brodie said about improving productivity in Scotland, I note from our briefing paper that only £10,000 of the more than £2 million that SDS spent on supporting food and drink was spent on productivity improvement. Could the agency address that internally?

Chris Brodie: I am happy to address that. The £2 million figure reflects the range of activity that SDS is involved in. The majority of our programme delivery is in the apprenticeship family, so the vast majority of that £2 million is focused on our apprenticeship spend.

As far as the food and drink productivity work that is mentioned in the briefing is concerned, that £10,000 is a contribution towards partnership work that we delivered with Scottish Enterprise. Where we have discretionary funding, we look to partner up with other organisations to ensure that we can increase the impact of that funding.

Gail Ross: For a while, we have been trying to persuade young people that the sector is a good one for them to have a career in. Danny Cusick mentioned the need to get the right people in the right jobs. Is that happening? I am thinking of the developing the young workforce scheme, in which schools, colleges, universities and the industry work together. Is there anything that we could do better with regard to where the funds are allocated?

Danny Cusick: There is undoubtedly a recognition that we must get more young people interested in the sector, from primary production through to advanced manufacturing. There is recognition within the sector that it presents a myriad of career opportunities, and perhaps that is not always fully recognised.

There is a great deal of work to be done, as the industry would acknowledge. That is a key part of the overall ambition of having a responsible sector that is the employer of choice. We must look at that at the grass-roots level, from schools through to the college system and the universities. That is a key element of what we need to do. I suspect that Chris Brodie might have a better appreciation of some of the conditional elements that we need to put in place, but that is certainly a hugely important consideration.

The Convener: I think that we should hear from Chris Brodie, because Danny Cusick has introduced him, but I would also like to hear from Carl Schaschke and Peter Morgan on that subject.

Chris Brodie: I have a few observations to offer. I think that the most effective proponent of the industry is the industry itself. As a result, a lot of our work is focused on ensuring that the industry puts its best leg forward in representing itself.

We run the national careers advice information and guidance service for Scotland, and the food and drink industry is quite heavily reflected on My World of Work. We also provide localised information to our careers advisers that reflects the reality of careers in different parts of the country, and it will come as no surprise to the committee that a significant part of our work is focused on places such as Aberdeen and Aberdeenshire. We are working with the DYW group in Aberdeen to look at promoting careers in the processing and fishing industries. The issue of reach is crucial—it is about targeting the activity in the places where there are jobs.

Professor Schaschke: We must work hard to ensure that food and drink is the industry of choice for youngsters from schools and colleges when it comes to attracting them into the universities.

I have no doubt that there is a demand for our graduates, but it is a challenge to attract undergraduates to our programmes when they could otherwise go into disciplines that seem to offer more lucrative careers. The industry is very broad: it covers not just food science and technology, but process engineering, physics and many other fields. We have been working on that challenge, and we recognise that we may need to look at non-traditional routes into university.

Professor Morgan: How we entice individuals into the industry is a very important question, and we have been giving it a lot more thought. The Rowett institute, in which I work, is part of the University of Aberdeen. We are an ancient university, and we are now looking much more at how we can engage with the food and drink industry in order to understand its problems. We are talking to the industry about developing courses that will help people who already work in the industry and who want to retrain and improve their skills through continuing professional development courses. There is an active dialogue going on that recognises the point that has been made. We have not got there yet, but we are definitely very much alive to the issue.

The Convener: We will move on to the next section with some questions from Rhoda Grant.

Rhoda Grant: My question is about the supply chain. In Scotland, there has traditionally been a long supply chain, with primary producers some distance away from their customers. What can we do to address that issue and ensure that our producers know what their customers want? How can we shorten the supply chain and ensure that some of the profitability remains with the primary producer?

Danny Cusick: As I previously mentioned, that is a fundamental component of what we are trying to do with our strategy for ensuring that there is a very effective supply chain from primary to retail. The market-driven supply chain is one initiative that we put in place to address that. That initiative, which is now in its second phase, has primarily looked at how we get primary producers much more connected with processors and retailers in order to ensure that there is a much cleaner and stronger link between the primary producer and the end user. We are looking at doing more of that work, along with investing on the research side in academia and with companies, as a key priority as we move forward. We can do more on that, but we also need to think about how we engage with the right companies and partners.

David Oxley: Danny Cusick is absolutely right. Some of the best examples of where we can help the supply chain in total include meet-the-buyer events, where producers can get in front of the customer and find out exactly what they want and where the opportunities are. That could involve new product development or accreditation in various ways. It is very important that the producer understands what is critical for the customer.

Dr Fancey: The future of the industry will be supported considerably by innovation in business practices and products and in various other forms of activity. As part of our support for that, we are extremely interested in ensuring that, along with the universities and colleges in Scotland, we help businesses to think about innovation at all levels of the supply chain where it exists in Scotland. For example, the companies that supply the big salmon farms are themselves being helped to be more innovative. The Scottish Aquaculture Innovation Centre—to use that example again—is interested in addressing supply chain problems and providing support so that companies at various levels of the chain in Scotland, not just those at the top, can be competitive.

Chris Brodie: I want to pick up specifically on our engagement with the agriculture sector. I mentioned that we have twice worked with the industry to develop a skills investment plan. When we came to the second iteration of the plan, in reflecting with the industry on the first iteration, we found that it did not necessarily talk about the challenges for the primary sector. We tried to put that right in the most recent piece of work that we did with the industry, which was about 18 months ago. We were particularly interested in some of the challenges that farms have in attracting people to work in their business. The obvious reasons for that are about the rurality of farms and the fact that family members are often the main succession source. That means that farms have not necessarily been used to engaging with an agency such as ours on, for example, modern apprenticeships.

We have done some work to try to put that right. We now have NFU Scotland and Lantra on the skills partnership, which drives the skills investment plan. We are looking at the development of pre-apprenticeship models and shared apprenticeship models, in recognition that the mainstream funding has perhaps not been attractive. From a skills perspective, we are looking to be as responsive as we can be.

Rhoda Grant: I will try to squeeze two questions into one. First, how can we encourage primary producers to set up co-operatives for marketing purposes and perhaps to cut out part of the supply chain? Secondly, given that 50 per cent of the funding for the food and drink industry goes into the supply chain, could that money be used differently so that it benefits the primary producers more and so that the money goes to those who we need to work to keep our food and drink industry where we want it to be?

Chris Brodie: I will return the favour to Danny Cusick by directing that question to him. From a skills perspective, that is exactly the principle behind the shared apprenticeship model because, if an apprentice works in two or three businesses, that lowers the cost and eases entry. That is absolutely where we are at. However, colleagues from HIE and Scottish Enterprise are better placed to address that question.

The Convener: There seems to be ping-pong between Danny Cusick and Chris Brodie. I will widen out the discussion, but I will let Danny Cusick in and then perhaps bring in David Oxley and anyone else who wants to comment.

Danny Cusick: Co-operatives have an important role across the supply chain, and there are good examples of that. For example, the Scottish Craft Distillers Association got together about 40 small craft gin makers to collaborate more closely with one another and to consider how to access markets not independently but collectively. Scottish Craft Brewers has done the same thing. We have also worked with the raspberry producers association in the UK to look at various strains on the market-driven supply chain. There is a role for that approach, and we can look at more ways to involve co-operatives, whether they are local, regional or sectoral, in supporting ambitions for growth and increasing the potential to access markets that individual companies might not be able to access.

David Oxley: It is worth pointing out that there are more than 5,000 food and drink companies in the Highlands and Islands but only 80 of them are bigger than small or micro. There are vast numbers of small businesses, and it is challenging for some of them to get to market. We have seen great examples of small producers getting together. The one that springs to mind is the Argyll food producers association, which effectively markets a variety of products using “A taste of Argyll”-type branding and which goes to events and shows to try to promote that. That association provides a lot of benefits. Producers can share skills, experience and knowledge and they can cross-sell.

The Convener: Rhoda Grant wants to come back in and then I will probably bring in Stuart Fancey.

Rhoda Grant: I am conscious that this is budget scrutiny, but everyone is avoiding my question about whether the money is being spent in the right place.

The Convener: That puts Stuart Fancey in the spotlight.

Dr Fancey: Before I address that, I want to follow up on the earlier point.

We established Interface to help small companies to meet and reach into the academic base to draw value from it. One thing that we have learned is that the smallest companies benefit from doing that together in clusters. Interface now takes a sectoral approach and has established common interest groups in the food and drink sector that allow groups of very small producers—cheesemakers, distillers, rape seed oil producers and so on—to come together to work with universities and colleges to address common problems. About 200 companies have taken advantage of that clustering approach. Although the groups stop short of being co-operatives or tight structures like that, clustering appears to be a very effective way for very small producers to use money—to address that point obliquely—and time, given that they tend to lack both.

12:15

The Convener: And the spotlight question? Is the money being used effectively?

Dr Fancey: I think that we are using public money very effectively. I want to highlight how we are using public money with private money, which is an interesting combination. The big salmon producers, who have been a focus for discussion in the meeting, invest a very high fraction of their resources in their innovation future through the innovation centre that we have set up. We are not subsidising that work to a very large degree, and they are investing in their own future. That seems to me to be a good relationship to have with an industry that is doing well.

The Convener: John Mason has a follow-up point.

John Mason: It is about how we are using the money. I think that it was Mr Cusick who said that 75 per cent of the GVA is at the later stages of the chain. However, at the same time, we are putting in £438 million of CAP pillar 1 payments at the beginning of the chain to the farmers and so on. However, we hear that a third of farmers are making losses and are on the verge of going out of business. At the moment, we do not have control over that CAP money, but we might have in future. I suppose that I am torn about what to do. If the later section of the supply chain is doing well, it does not need support, but if it is doing well, maybe we should support it to do better.

Danny Cusick: The key thing is to support opportunities. Scottish Enterprise does not start a year with a food and drink budget per se. We will have commitments for projects that we are supporting through some of our programmes or some of our company activity. However, our funding is based on prioritisation that is demand led and evidence based. If we can demonstrate that contributing to a particular project gets a significant return on our investment, that will be the deciding factor in considering where to put our resources.

It is strong demand and evidence-based input that help us to decide where our funding will get the best outcome from a Scotland plc perspective. That is about opportunities, and I suspect that we need a healthy supply chain for those from primary production right through to final production and retail. We have to ensure that we get the right balance of resources into that for the right interventions.

The Convener: I will bring in Chris Brodie, and then move on to the next question. I am conscious that I have not been bringing in those around the table to my left. You are not catching my eye, but please let me know if you want to come in.

Chris Brodie: I will make three quick observations about our funding. First, I agree completely with what Danny Cusick said. The principle of co-investment in the apprenticeship frameworks is critical, so we make a financial contribution to employers for training and for paying wages and recruitment. Secondly, I would argue that our apprenticeship work is also clearly demand led. We have gone through a process with not only the food and drink industry but a range of industry sectors of looking at evidence to see where the demand is. We look for the industry to validate that evidence before contracting. That is an innovation in our contracting methodology, because we did not do that as explicitly previously.

Thirdly, with regard to some of the earlier conversation with James Withers and others, our engagement with Scotland Food & Drink and the range of industry bodies that are represented here today is critical because it gives us a mechanism for asking whether we are investing in the right places. The skills investment plan is not an SDS document and we have not determined what we will do in that regard; the plan was a very clear ask from industry with regard to where it thinks that the priorities should be in respect of skills, and in terms of industry's commitment and responsibility.

Professor Schaschke: It is important that industry, no matter its size, fully understands what support can be gained from the university sector. At the moment, that information is not utilised to its full potential by a long way.

The Convener: That is an interesting point, and it is also probably the best place to leave that topic.

Jamie Greene: The ambition is to double the Scottish food and drink industry's turnover to £30 billion by 2030. Let us assume that the budgets of the support agencies do not double. How will your agencies contribute towards helping Scotland plc to meet that target?

Professor Morgan: I represent the Rowett institute, which is one of six institutes funded by the Scottish Government to do research that underpins the agri-food sector. We have been carrying out research for years, but this year we have brought together all those bodies under a single umbrella called the Scottish environment, food and agriculture research institutes, or SEFARI. We want to help the food and drink industry to understand what we do more effectively, so we have a single gateway through which we can talk directly to Scotland Food & Drink. We have already spoken to the organisation about how we can help it to deliver ambition 2030. We need to have a common discussion and language, so that we know what its problems are and it knows what we can help it to deliver. We are taking an active approach to that and changing how we operate.

David Oxley: On behalf of my finance director, I am happy to take a 50 per cent rise in the budget instead of a 100 per cent rise, if that is what is being offered, although I am not quite sure that it is.

There are two or three areas that we would prioritise. Innovation needs to be a priority. We need to get the best return on investment from our business. We know that some of the challenges that this and other sectors face relate to the tight labour market. Someone mentioned a revolution in how we do things in the sector. We are seeing evidence of that happening through the use of drones and sensors by lots of industries in the sector. We will see a lot more of that.

We can work collaboratively with some of the innovation centres, not just with the Scottish Aquaculture Innovation Centre, which is directly about food, but with the Centre for Sensor and Imaging Systems and the Data Lab, which also have a role to play.

There is a big market. As has been mentioned, some of our products cannot get into some export markets because of restrictions. If things could be done to change that, that could be a good way of growing the sector. We regularly survey businesses. The food and drink sector is probably the sector that is most concerned about losing people and about the potential tariffs following Brexit. Brexit is a big challenge for the sector. We need to get more people exporting now while the situation is relatively straightforward, because it will be a lot harder in 18 months or two years' time, whatever the outcome of Brexit.

The Convener: We have a question on Brexit coming up.

Jamie Greene: Mr Oxley raises a valid point about innovation. Innovation is one of the three pillars of ambition 2030, but it receives less than 10 per cent of public finance spend on food and drink. That seems to be quite a disproportionate amount for such an important part of ambition 2030. Do you have any views on that?

Danny Cusick: It is recognised across the piece that the levels of innovation are incredibly low in the food and drink sector—indeed, the levels of innovation across Scotland are low. In some respects, that is because of how we capture the information. Business enterprise research and development is a blunt instrument, although it at least provides a proxy.

One reason for the establishment of the make innovation happen initiative was the desire to increase the levels of BERD and innovation business R and D in the sector. We are less than a year into that programme but we can see its impact. The SPICe briefing shows that last year's figures for the funding on large R and D grants for the food and drink sector from Scottish Enterprise were very low—they were just under £250,000. I now know that the pipeline of confirmed R and D projects is worth more than £2.5 million. On the basis of our commitments to those projects, our budget for next year will be very different. That change is all about how we are trying to stimulate innovation activity in the sector and across Scotland as a whole.

Jamie Greene: The budget for the making innovation happen project is only around £1 million over three years, is it not? Again, is that not just scratching the surface?

Danny Cusick: That budget is really to be used to act as a catalyst, a stimulus and a feeder. The key funding for projects will come from our existing large grants and R and D mechanisms including our SMART Scotland funding. The making innovation happen budget is not the only one that we will use to support innovation; it is really there to stimulate demand, and I hope that we will see much larger R and D grants coming into the main part of the system.

As I said, we are sitting with a couple of projects that we are about to conclude. If they go forward—I am confidant that they will—those two projects will increase the BERD by almost half the current entire BERD for the sector.

Dr Fancey: We must continue to invest in research as the underpinning knowledge generator from which the innovations that the industry can benefit from can be drawn. That is extremely important.

Similarly, we should continue to invest in demand-led innovation support of the kind that my colleagues have been talking about, and we should work with the industry to ensure that the academic sector is responsive to it through mechanisms such as those that we have talked about: interface, innovation centres and others.

In the coming period, it will be important to work with the opportunities provided by the large amount of funding that the UK Government's industrial strategy challenge fund offers to Scotland. Scotland's Rural College is already a beneficiary in a large partnership that is looking at the future of agritech. There are large amounts of resource available for us to work with in that area as well as in the area of city deals, which were mentioned earlier in the discussion.

Professor Morgan: Part of the issue of the uptake, or of the investment going into research that could be picked up by industry in the food sector, is that a lot of the companies are very small and getting some of the innovation and large-scale projects in is quite difficult. The common interest groups are an important development, as they bring together a number of parties so that the research can make a greater impact. That vehicle will make a big impact and could be transformational for the future with regard to the 2030 goals.

The Convener: I think that the question that I said was coming is about to come up.

John Mason: Yes. It is a question about Brexit, which has been mentioned by this panel and the previous one. Mr Oxley said that his two primary concerns about Brexit are about losing people and about tariffs. Are those the main concerns? What about not getting students or postgraduates to come here? What about losing research funding and the CAP payments being reduced? If there is no deal at all, is there a concern about tariffs and moving goods across borders?

Professor Schaschke: John Mason is right that there is a high degree of uncertainty in the higher education sector. That is about issues that are associated with collaboration in Europe, the ability to lead projects with our European colleagues and the ability to attract European students into our universities, which is a major part of our business.

Two other important areas are our ability to attract European staff—about a quarter of my staff are from overseas, including from the European Union—and the retention of staff, as there is a high degree of uncertainty for the staff who are currently here. Other issues are associated with opportunities for internationalisation in our universities, such as university exchanges with Europe, which enrich our universities. All those issues are being addressed—at least we would like them to be—but where we go from here is a bit unknown. There is a high degree of uncertainty, and that is not a good position to be in, particularly for some of my European colleagues.

Professor Morgan: I echo many of those comments. In my institute, between 25 and 30 per cent of people are European. They feel very destabilised right now, and it is an open question whether they wish to stay in the future. That is part of the challenge for the scientific leadership that we have. The percentage of Europeans is even higher when it comes to PhD students, as many of them are from Europe. Getting the most talented people doing what we want to do is a difficulty.

12:30

There is then the issue of money and grant income, which we were successful in securing. If that was no longer available to us, it would mean the loss of significant funding. We would then also lose the collaborations, which are not solely academic, that we have built up over many years. The ramifications are huge. That is leaving aside the other aspect that would pose a major intake issue for Scotland and the University of Aberdeen, in particular, which is EU students. We cannot underestimate the ramifications.

Chris Brodie: I will reflect specifically on the potential labour market implications. Some sectors of the food and drink industry are heavily reliant on migrant labour in parts of the country, and the question of uncertainty is critical. In the absence of clarity on whether people will have the right to remain or of a clear immigration policy that is differentiated for Scotland and that reflects the make-up of our industry, I can understand why businesses are concerned. We heard clear concerns about that expressed by James Withers and others earlier.

We also need to look in other directions. We are wrestling with the question of whether Brexit has the potential to lead businesses to look at other ways of meeting their production needs. Will it be a driver for automation? Potentially, it might pick up the pace of businesses' response, and there will be an opportunity to think more clearly about the question of labour market participation and economic activity. If the labour supply is turned off, re-engaging people who are not in work will become a business imperative as much as a social imperative. We need to look at the medium and longer terms and what policy responses we might need to think about when everything becomes clearer.

The Convener: Chris Brodie has probably posed three questions in reply. I hope that he has not taken one of Stuart Fancey's.

Dr Fancey: I echo the earlier comments of Carl Schaschke and Peter Morgan on the risks. They outlined well the issues of research staff, research funding and students. If we accept that there is a risk that a large number of research staff may not come here from the EU in the future because they may not feel welcome, we must accept that that will impact on our overall research standing as a country that is highly thought of academically. That could become a vicious cycle whereby more people might not regard us as highly as they did in the past, which would further reduce foreign direct investment and the flow of international people.

One of our fears about Brexit's reputational effect on the UK is that it could make the entire country feel less welcoming generally. Scotland needs to work hard, and the academic sector is working hard to retain the sense that it is welcoming to staff and students from all over the world, including those from countries that are not directly affected by Brexit but who need to feel welcome here. There is a concern that the environment might not be quite as welcoming for them; therefore, the Scottish academic sector is working hard with them in that regard. That is an important wider implication of Brexit in respect of countries that are outside the EU.

David Oxley: The availability of migrant labour has been a hugely important aspect of not only the food and drink sector but the wider Highlands and Islands economy. According to the latest census survey, the population has increased in almost every part of the Highlands and Islands, which is good to see. Much of that has been on the back of people coming to the Highlands and Islands to work.

Chris Brodie referred to Brexit being a driver for automation, and we will see more of that. In a worst-case scenario in which lots of people disappear in a short period, there will need to be huge investment in automation to maintain production levels, and there could be a sectoral attraction or benefit to that. If automation means that higher-quality staff who are paid more and have better skills are needed, it will become a more attractive industry for our young people.

Danny Cusick: I concur. The considerations around the constraints on the industry relate to workforce and the availability of labour. With regard to tariffs, our focus will be on how we can support companies to navigate through whatever Brexit emerges from the point of view of regulatory requirements. Also important is the diversification of markets, including non-EU markets in which we have a presence, either from an SDI perspective or through market specialists. We must consider how we can do more in markets in north America, the middle east and the far east as well as in the rest of the UK—we should not forget that the UK is a hugely important market for food and drink products. In the longer term, issues such as automation and advanced manufacturing will be critical from a labour perspective, which will accelerate the need for companies to look at those issues critically.

There are high levels of innovation and productivity, but there is a danger that that will lead to fewer people being employed in the sector. We would then have to look at migrating people to jobs and roles with added value. That will be the key consideration in how we support companies.

The Convener: I thank all the members of the panel for the answers that they have given. If there is something we that have missed that they feel it is important for the committee to consider, I urge them, as I urged the members of the previous panel, to write to the clerks so that we get their views. It has been an interesting session. I am not sure whether David Oxley will have got his plug in for a 50 per cent increase in his budget, but it was a nice try. I thank everyone for their input.

At our meeting next week, we will consider a transport update from the Minister for Transport and the Islands and a number of statutory instruments.

Meeting closed at 12:36.

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