

Rural Development Sub Committee

Inquiry into the Production and Promotion of Welsh Food

Response from the School of Business and Management, Aberystwyth University.

The Production and Processing of Welsh Food

Evidence to the Rural Development Sub-Committee of the National Assembly for Wales[†]

The food supply chain in Wales as a whole contributes an important proportion of overall employment, and any significant diminution would have a serious impact on the Assembly Government's ambition to raise incomes and living standards to a level closer to the average in the UK as a whole. However, it is far from being an integrated chain. A substantial fraction of food manufacturing does not utilise any inputs from Welsh primary production, and the majority of employment in the Welsh retail food sector is by multiple retailers, whose diverse food sources are often global in origin. There has been modest success in persuading multiple retailers to source and promote Welsh Food in Wales, but more synergies could be exploited. Also, although food manufacturing has significant potential to add to much needed labour demand in rural areas of Wales, concentration to achieve scale economies has led to increasing urbanisation of Wales' food industry. One extremely important further consideration in current economic circumstances is that, whereas general manufacturing is withering in Wales in the face of recession, food manufacturing does have some relative competitive advantage due to the proximity of major markets and the perishability of much of its output. However, as will be argued, a considerable change in both policy emphasis and industry orientation will be required if such advantage is to be sustained.

The call for evidence raises very many questions, some up which would best be answered from detailed, sectorally-based views. It is also important, though, to offer an overview of the issues from an aggregate perspective, and that will be the focus of this response. Three key issues will be addressed: the branding and overall market positioning of Welsh food, which is financed from public resources; the degree to which food supply chains operate efficiently and effectively to meet consumer requirements; and suggestions for the development of policy which might better achieve the overall aims of the Assembly Government.

Welsh food branding and market positioning

One feature of the previous decade (of non-inflationary consistent expansion) has been increasing sophistication in the purchasing and consumption of food products. Cosmopolitisation of food has arisen from greater foreign travel, and desires for enhanced food diversity and quality from increasing disposable incomes. Media emphasis on food and

[†] This evidence to the Committee's Inquiry has been prepared by Peter Midmore, Professor of Economics at Aberystwyth University. It provides a personal, rather than an institutional perspective on the questions arising from the call for evidence.

health issues has improved awareness of preventive dietary habits, with further transformative effects on what people eat. For Welsh food, certain characteristics stand out as potentially providing key underpinning values for branding and market positioning. These would include high environmental quality, linked to visually appealing landscapes, and the strength and vibrancy of community frameworks. In some markets, particularly in the UK, these can contribute to final consumer appreciation of a wholesome and natural image (especially drawing on the strengths of a long-established organic sector) which derives from the context of Welsh food production. But there is a clear danger of linking the generic Welsh food brand to nostalgic images such as these, since Although the demography of the consumer market as a whole is aging, purchasing power is shifting to the younger, more modern-focused segment.

The True Taste promotional campaign has attempted to achieve a satisfactory trade-off with regard to these issues. However, with rapidly changing economic circumstances the whole promotional strategy of this campaign probably needs urgent reassessment. The rationale of the True Taste approach seems to be as follows. Resources for food promotion by the public sector are strictly limited, and so to have any effect at all, they need to be concentrated. To avoid any suggestion of favouritism, the competitive awards at the core of the approach allow for the showcasing of examples of high quality foods, and through this, a kind of halo effect is cast over other Welsh food products, associating them with the kind of quality exemplified by the True Taste winners. Whether intentional or not (and of course there are some exceptions) this has skewed public promotional effort towards high quality products serving niche markets, while the overwhelming majority of food produced in Wales, by value as well as volume, is not marketed in this way. Since the niche part of the market will also be the most recession-prone, a better tailored promotional strategy is required.

In sharp contrast, another arm of food policy (the Processing and Marketing Grant) has helped to improve the safety and consistent quality of high volume, undifferentiated food products. There is another policy dissonance here, since the needs of the market (now with even greater emphasis on value for money) require a greater concentration of processing in order to achieve economies of scale and improved quality assurance, often in peri-urban locations because in consequence they need large labour force. However, low overall rural labour demand, which results in low wages and a range of other associated problems, could benefit significantly from a dispersion of food processing activity. The former imperative seems to have been dominant, and has given food processors some scope to countervail against the ability of multiple retailers to squeeze the purchase price of their inputs. However, from the farming point of view, increased concentration at the higher end of the food supply chain underscores continuing fragmentation at primary producer level. This will be dealt with in more detail the following section, but in sum, and because the current sectoral and overall strategies do not really address these issues satisfactorily, the policy objective of “placing the family farm at the heart of our strategy for sustainable food production and rural development”¹ looks difficult to achieve, especially as past experience indicates that the impact of economic recession is more severe, and more prolonged, in the countryside than in urban areas.

¹ *One Wales: A Progressive Agenda for the Government of Wales*, <http://wales.gov.uk/strategy/strategies/one-wales/one-wales.pdf?lang=en>, 2007, p. 30.

A bipolar strategy (True Taste to develop the niche part of the food market, PMG for the volume part) might have been the way to address this, prior to the current recession. Now, though, it is clear that the new imperative should be to combine value for money in food products with whatever quality cues Welsh origin can supply; this would apply to all market segments. Also, alongside the current 'refreshment' review of the True Taste brand, which requires a critical rather than a cosy evaluation, greater awareness of the spatial implications of support measures for food processing industries is required.

Efficiency and effectiveness of Welsh food supply chains

Food chains and their governance can be seen as a means to progressively refine primary inputs into goods and services which meet various, geographically dispersed, end-consumer needs. In general, the sequence includes suppliers of farm inputs, farms, marketing logistics, manufacturing, food logistics in terms of wholesaling and distribution, and retail and catering outlets which supply food direct to consumers, and also exporters. Conversely, they can be seen as information chains in which consumer needs are transmitted back to primary producers, especially in the form of private regulation (of various kinds, but the best known relate to the quality standards imposed by multiple retailers on their suppliers). This private regulation also has implications for the formation and distribution of value between the various nodes involved.

The weakness of Welsh-based food supply chains is, of course, at farm level; there are some problems elsewhere in the food chain, but this is by far the most significant. Long memories about the failure of the Welsh Quality Lamb cooperative, which failed in 1987, have inhibited collaboration between farm businesses. While there have been some important counterexamples to this general trend, an overall lack of success in promoting cooperation between farms has had two consequences. The first, especially important for producers whose output is affected by the weather and other natural environment factors, has been to impair supply consistency, seasonal continuity and consequent ability to match products precisely to final demand. This has reduced returns to farmers. The second has been a failure to develop critical bargaining mass in supply (especially in the livestock sector), with further consequences for the share of value added which has accrued to primary producers.

Of course, farm incomes depend not only on market returns, but are also cushioned by the Single Payment Scheme support. The outcome has been few incentives for investment in more market-oriented systems of production, and the information function of the food supply chain has been blunted. Alongside decoupling of payments from output levels, the gradual shift of farm support from Pillar One to Pillar Two of the CAP could eventually stimulate the entire farm sector into abandoning its innate conservatism. But the process is so gradual that Welsh farming might well lose competitiveness, especially as elsewhere in Europe cooperation between farms is long-established and effective.

Although better supply chain organisation at primary producer level could secure and help to develop much needed manufacturing employment in Wales, other important functions of the countryside should not be neglected. Unrestrained commercial development of farming could lead to industrialisation of the countryside, undermining important public goods. Tourism in rural Wales is at least as valuable to the economy as agriculture, and, of course,

quality locally-produced food which catered for tourists' needs could help to cement the synergistic relationship between the two sectors.

Development of policy

Policies to promote more, and more valuable, food production and processing in Wales cannot, by themselves, address all of the rural problems which exist, though they can play an important part. Likewise, as noted earlier, they can contribute significantly to safeguarding employment in manufacturing at a time when labour demand is weakening significantly. Several major policy initiatives within area of policy responsibility of rural affairs could improve the performance of the food sector in this respect.

- The strategy of the True Taste promotional campaign should be adapted to changing economic circumstances, as in its historic form it has become inappropriate and ineffective. Whilst more promotional effort should be devoted to higher volume, value for money Welsh food products, it would be sensible to postpone longer term decisions until the length and severity of the present recession become clearer.
- The grant aid to food processors should be made conditional on recipients fostering collaborative arrangements from their farm suppliers. Also, greater efforts should be made to disperse investments receiving a contribution from the Rural Development Plan, and make clear that support is provided to offset the cost implications of small scale and adverse location, which is the ostensible purpose of the legislation.
- Similarly, much more energetic and appropriate methods of encouraging cooperation between farms need to be made. This, after all, was one of the primary messages of the recent independent review of scanning future policy horizons for farming and the environment.²

At least four areas of ministerial responsibility overlap with regard coordination between industrial, environmental, cultural and farming interests to ensure that the best use made of resources in achieving policy objectives. Such complexities indicate that design of an appropriate set of policies for food production and processing in Wales will not be an easy matter. The present rural-proofing arrangements, which evaluate selected policies for their rural impact, is an important process but nowhere near appropriate as a means of promoting effective working across divided responsibilities in Government. Given the heightened importance of protecting manufacturing employment in current economic circumstances, much wider conclusions ought to emerge from this review than those which can be dealt with by the Minister of Rural Affairs alone.

² *Sustainable Farming and Environment: Action Towards 2020*, <http://new.wales.gov.uk/topics/environmentcountryside/farmingandcountryside/farming/sustainablefarming2020/?lang=en>, 2007.