Covid-19 Food and Drink Sector Specialist Advisory Group for Scotland's Rural Economy & Expert Advisors

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COVID-19 Food and Drink Sector Specialist Advisory Group for Scotland's Rural Economy & Expert Advisors

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Authors:

Sarah Jones, formerly Scotland's Rural College

Abigail Williams, formerly Scotland's Rural College

Andrew Kelloe and Charles Bestwick, SEFARI Gateway

Inga Burton and Elaine Jamieson, Highlands and Islands Enterprise

Dominic Duckett, Glasgow Caledonian University

Deb Roberts, James Hutton Institute

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EXECUTIVE SUMMARY

In the face of COVID-19 and the immediate impact on the food and drink sector across rural Scotland, the Scottish Environment Food Agriculture Research Institutes and Highlands and Islands Enterprise established the SEFARI supported knowledge exchange 'COVID-19 Food and Drink Sector Specialist Advisory Group for Scotland's Rural Economy'.

The purpose of the Group was to provide Highlands and Islands Enterprise, South of Scotland Enterprise, Scottish Enterprise, and partners advice to support the recovery of the food and drink sector nationally with specific consideration to rural Scotland, and with a focus on the "restart" and "recovery" post-lockdown phases.

Whilst discussions during and after the COVID-19 pandemic focused on "bouncing back", there must be a consideration as to what exactly the sector is trying to "bounce back" to. There is an opportunity to support the sector and its position in the rural economy, through the responses to the disruptions because of the COVID-19 pandemic.

During the pandemic, business models had to adapt rapidly so it is perhaps opportune and timely to encourage strategic reviews of businesses in the food and drink sector in rural Scotland and support a comprehensive review of markets, risks and opportunities. A key question is, are the pre-COVID-19 growth plans or business plans for companies rendered obsolete by the crisis or are there some elements that can be utilised? Businesses diversifying their plans and improving the ability to adapt to external pressures, will surely be better placed should a similar event occur again.

Challenges

Small to medium enterprises make up a large proportion of the economic structure of Scotland, particularly in rural areas, and how these smaller business firms survive, adjust and adapt to the impacts of COVID-19 will have enormous bearing on future economic and societal welfare in Scotland for years to come.

Rural, island and remote areas often suffer from infrastructure deficiencies. In terms of travel and access to services, more people in rural areas are out with a reasonable drive time to key services (i.e., health services and retail) compared to the rest of Scotland, and fewer people are satisfied with the quality of public transport services delivered.

This holds true for the transportation of goods and can mean it is difficult for food and drink producers to get products moved along the value chain (especially for the primary sector) and to market on time and cost effectively. Logistics are problematic for many rural food and drink companies, as they are farther from the main markets, and see increased travel times, which will not favour perishable produce.

Small and medium enterprises are also distant from many of the research institutes and universities. This inhibits the ability to collaborate due to awareness of opportunity, travel time, personal resource and capacity in a small team and ability for small and medium enterprises to match fund projects. In addition, the costs of travel and accommodation restrict the ability to establish and maintain successful long-term relationships. The ability to operate triple helix collaborations between industry, academia and the public sector to drive innovation is challenging without investment and buy in from a strong business base, relevant academic expertise and public sector resource.

The food and drink sector is dependent on its workforce as it is relatively labour-intensive compared to other sectors. This large workforce is encompassed by and benefits from a vast range of skilled employees, from food preparation and processing, through to managerial positions and logistics. However, due to the nature of work, many employees within the sector could not home/hybrid work during the lockdowns and income generation ground to a halt for many businesses.

The lockdown travel restrictions, including the restrictions on public transport, meant that access to food and particularly lower cost food was more difficult for people in rural areas. In some areas, community initiatives and neighbourliness were lifelines to members of society who did not have access to private transport or had other underlying health conditions. Despite these initiatives, impacts increased food insecurity for the most vulnerable groups the inequalities in relation to food security and food poverty across rural Scotland, and some qualitative evidence suggests these inequalities are more profound in some locations.

The restrictions on movement during COVID-19 effectively closed the tourism industry during 2020 and it is widely expected that this sector will take the longest to recover. Linked to this sector, the hospitality sector is facing staff shortages, with estimates of almost 1 in 5 workers having left the sector since the beginning of the pandemic.

The hardest hit group in relation to education and employment from the pandemic will be young people. Over the next few years, mid-teens to young adults who are due to leave education and look to embark on new careers may well be at risk of losing the jobs they have only just obtained. The food and drink sector has struggled to promote itself as a career destination of choice and to both attract and retain workers. There are challenges around the image of the sector, and this is exacerbated by a lack of information on career progression opportunities and skills development. As the sector negotiates unprecedent changes, more focused consideration needs to be given to skills and career pathways, with adult transition training considered to be a priority to ensure established and new workforces that can adapt alongside agile business models.

One of the key negative impacts experienced during lockdown were demand shocks caused by the restrictions and a sudden responsive change in consumer behaviours. Increased demand for some basic products at the beginning of the pandemic impacted the routine operation of the food supply chain, resulting in empty supermarket shelves as the delivery to retail for restocking fell behind the purchasing numbers, leading to some retailers imposing limits on quantities sold. Parts of the UK were let down by centralised wholesale systems that failed to supply the most basic goods and essentials to small independent retailers. Supermarkets maintained and/or recovered supply most quickly, further illustrating that the supply chain system favours those with most scale and purchasing power. Repairing and reinventing supply chains to improve resilience to future shocks is important. Co-operatives and clusters, which are both competitive and collaborative, have a role to play in strengthening and building sector and business resilience.

Opportunities

The COVID-19 pandemic created unpreceded disruption to society and the economy. Creative thinking and pragmatic solutions will be critical to charting a route towards sustainable and profitable future for the food and drink sector in rural Scotland. Innovation incorporating new technologies will be needed in agile business models to stimulate the development of new products aligned to changing consumer trends and demands, and to embed sustainable approaches to day-to-day tasks.

It is likely we will see an increase in the use of novel products including new green proteins, data technology driven supply chains and a greater emphasis on the social value of food and drink. Vertical farming, Artificial Intelligence agriculture and robots will become common features of the sector as we maximise the potential of our natural environment (blue and green economy) and novel technologies.

Net-zero is a great commercial opportunity as shifts in global investments schemes see climate change as a high priority for businesses. Investors have noted that Scotland as a nation lacks a profile of scalable projects. Tackling climate change is a complex challenge, and businesses and industries across Scotland must work in collaboration with renewed vigour to reduce carbon emissions and develop new environmentally sustainable models, if they are to make meaningful progress within the next decade.

Place based identity could be promoted more to add provenance, authenticity value and attract investment. Understanding the value of placed regional characteristics is critical to informing a unique narrative that could develop a longstanding relationship with customers and consumers.

Business support must be targeted towards the needs of the largest number of small and medium enterprises and microbusinesses in the food and drink sector, if they are to have an inclusive and tangible impact in rural Scotland. Programmes need to be cognisant of and proportionate to the scale, the capacity and capability of smaller businesses to ensure they can engage and deliver the desired outcomes for their business, the sector, rural Scotland, and the whole nation.

A progressive and outcome-orientated COVID-19 recovery will rely on collaboration across the food and drink sector, across businesses, with industry stakeholders, universities, researchers, Scottish Government, and its agencies. In the short term, there is greater acknowledgement that support is focussed on immediate business survival, particularly for the small medium enterprises who are limited in their ability to access capital investment, human resources, and market opportunities. In the medium term there is need to focus on sustainable business model innovation, including products and processes. The adoption of new technologies will rely on digital connectivity, which is a longstanding challenge for rural areas. Novel approaches are required for the hard-to-reach locations to ensure they can competitively participate in economic activity.

Whilst net zero is a longer-term ambition, actionable strategies must be developed now to transition towards lower carbon products and enterprises. Whatever businesses do over the next decade, their product proposition, attractiveness to new employees and taxation will most likely all be influenced by their ability to mitigate against the climate emergency.

Scenario Planning

Scenario planning provided a unique opportunity for the Group to consider different plausible future opportunities and challenges for Scotland's food and drink sector as it responds to COVID-19. Taking a prospective approach initiated a strategic conversation about interdependencies and cascading effects arising from informed assumptions about critical uncertainties. No one can know what the future will bring but considering plausible 'what if' questions is a form of contingency planning that enables us to manage uncertainty with greater foresight, ensuring that strategic thinking is incorporated in the recommendations made in this report.

Scenario planning helped set out recommendations and interventions for the future of the food and drink sector. The recommendations were sense checked against the feedback from the 'Expert Advisors' from Scotland's research institutes, universities, colleges and other stakeholders within the food and drink sector. This feedback was also used to inform the development of more specific recommendations to support the Enterprise Agencies and partners to stimulate and accelerate the recovery of the food and drink sector with specific consideration of rural Scotland.

Building back Scotland's rural economy better requires a partnership approach. Our nine recommendations are addressed to policy makers, agencies, organisations, and the business sector, who must jointly ensure that the necessary actions are urgently taken.

Recommendations

1: Identify and learn from existing cooperative models in comparable rural sectors, using their experiences to develop new collaborative or cluster models that enable sustainable and profitable growth.

2: Commit longer term support to Regional Food and Drink Groups focusing on coordinated activities and campaigns that emphasise provenance, sense of place, environment, and product.

3: Target support towards micro businesses and SMEs to enable them to play a more significant role in the economy, thus retaining value in local communities.

4: Increase commitment to environmental and social value of goods and services in public procurement, particularly greater SME involvement and delivery of local produce.

5: Urgent joint action to ensure long-term profitability of food and drink, tourism and hospitality sectors, underpinned by a strong value proposition showcasing the regions, attracting visitors and boosting customer experiences.

6: Develop seamless support systems, with a focus on primary producers and their supply chains, to drive diversification, sustainable, profitable growth.

7: Substantially scale-up long-term, mission based strategic research and development.

8: Target support for the sector at business development opportunities that will create inspiring and innovative workplaces with clear and integrated career pathways, continued professional development, lifelong learning, and fair wages.

9: Prioritise the long-term sustainability of rural community and social enterprises, recognising their important role in community resilience, health, and wellbeing.

1. INTRODUCTION

In the face of COVID-19 and the immediate (and anticipated) impact on the food and drink sector across rural Scotland, the Scottish Environment Food Agriculture Research Institutes (SEFARI)[1] and Highlands and Islands Enterprise (HIE)[2] established the SEFARI supported knowledge exchange 'COVID-19 Food and Drink Sector Specialist Advisory Group for Scotland's Rural Economy'. The Specialist Advisory Group was set up with a core membership and also with the intention of accessing 'expert advisors' and wider stakeholders.

This report has been developed with the aim of:

- Capturing the approach taken and outcomes from the Specialist Advisory Group up to October 2021.
- Highlighting elements from discussions within the Specialist Advisory Group relating to the challenges faced by the food and drink sector across rural Scotland pre-COVID-19 as well as examples of the impact of COVID-19 across the sector.
- Indicating opportunities and emerging priority areas believed to be important moving forward.
- Presenting nine key recommendations with calls to action.

2. PURPOSE

The purpose of the Specialist Advisory Group was to provide HIE, South of Scotland Enterprise (SoSE), Scottish Enterprise (SE) and partners with advice to support the recovery of the food and drink sector nationally with specific consideration to rural Scotland, and with a focus on the "restart" and "recovery" post-lockdown phases.

The Specialist Advisory Group aims to provide insights and recommendations on how the recovery of the food and drink sector and its supply chains (upstream and downstream) can most effectively be supported across the diversity of rural Scotland, and how the impacts of enacting these recommendations can act as a catalyst for wider rural economic recovery both from the perspective of COVID-19 but also the impacts of exiting the European Union (EU).

It was and is anticipated that this work will align with and contribute to the Scottish food and drink sector recovery planning and to the recovery planning for the wider rural economy.

[1] SEFARI, the Scottish Environment, Food and Agriculture Research Institutes, are responsible, with Higher Education Institute partners, for delivering the Scottish Government (Rural and Environment Science and Analytical Services, RESAS) funded Strategic Research Portfolio on environment, food, agriculture, land and communities. The Portfolio includes the Strategic Research Programme 2016-2021 (SRP), the Centres of Expertise, Innovation partnerships and underpinning capacity funding for national resources within SEFARI. The SEFARI Gateway is the knowledge exchange and impact hub for SEFARI.

[2] Highlands and Islands Enterprise (HIE) is an executive non-departmental public body of the Scottish Government. HIE acts as a public agency with a statutory duty to undertake economic and social development within the Highlands and Islands of Scotland. HIE's vision is for the Highlands and Islands to be a highly successful, inclusive and prosperous region in which increasing numbers of people choose to live, work, study and invest.

A copy of the Specialist Advisory Group brief and a full list of members is included in Annex 1.

3. APPROACH

Since its' first meeting on the 26 May 2020 the Specialist Advisory Group members have met virtually to listen to expert views, discuss challenges and solutions and the types of actions required to ensure a sustainable future for the sector in rural Scotland. A two-phased approach was agreed for this piece of work, with the first phase focussed on exploring the following:

1. Overview and challenges of the food and drink sector in rural Scotland;
2. Impact of COVID-19 on the food and drink sector;
3. Opportunities for the food and drink sector and the rural economy;
4. Emerging priorities going forward in the second phase of work.

The second phase expanded upon this through a process of scenario planning helping set out recommendations and interventions for the future of the food and drink sector.

The format of these sessions up until July 2020 varied with some sessions led by members of the Specialist Advisory Group and other sessions involving guest speakers. The topics covered included:

1. Inequalities and challenges relating to rural Scotland
2. Primary production
3. Climate change
4. Supply chains and consumer demand
5. Education, training, skills,
6. Research, knowledge exchange and innovation

One of the outcomes of these meetings, and critical to inform the second phase, was the development of a set of questions to be issued to 'Expert Advisors'. 'Expert Advisors' are defined by the Specialist Advisory Group as Scottish Research Institutes, Universities, Colleges and other agreed stakeholders. This was an integral component to ensure that the Specialist Advisory Group maximised the expertise and knowledge across all of Scotland's Research Institutes, Universities, Colleges and other stakeholders within the food and drink sector. The final draft of questions is included in Annex 2.

As part of the first phase the Specialist Advisory Group set out indicative emerging priorities from the discussions. These were sense checked against the feedback from the 'Expert Advisors' and used to inform the development of more specific recommendations to support the Enterprise Agencies and partners to stimulate and accelerate the recovery of the food and drink sector with specific consideration of rural Scotland.

A small governance group with representatives from HIE and SEFARI was established, providing wider support relating to the production of this report.

4. OVERVIEW AND CHALLENGES OF THE FOOD AND DRINK SECTOR IN RURAL SCOTLAND

4.1 General

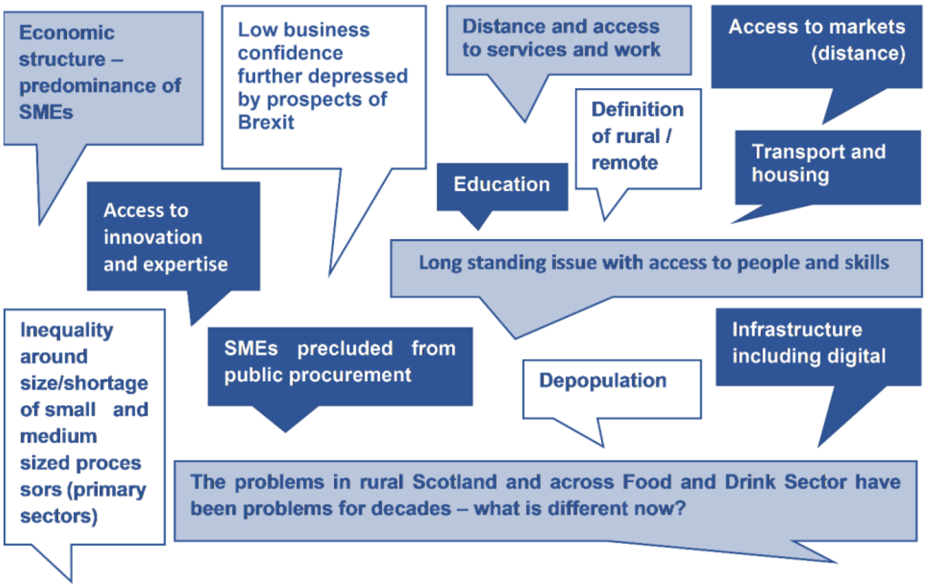
The food and drink sector has often been recognised as Scotland's most valuable industry. Progress since 2007 shows the industry's ability to innovate and grow with industry turnover up 44% and exports up 56% since 2007[3]; the sector is now a £15 billion industry employing 120,000 people in farming, fishing and food and drink manufacturing across the whole of the country. Despite this progress, the food and drink sector is faced with some fundamental challenges. Even before COVID-19 the food and drink sector in rural Scotland needed to address low levels of product innovation, improve productivity by embracing new technologies and build more efficient and resilient chains. These challenges were usually more acute in Small to Medium enterprises (SMEs), in the primary sectors in rural Scotland (agriculture, forestry and fishing industries) where distance to markets, quality and availability of infrastructure such as transport and digital connectivity is poorer.[4] It is important to recognise these challenges as a sector when considering how to respond to the COVID-19 pandemic. Whilst discussions of "bouncing back" continue, there must be a consideration as to what exactly the sector is trying to "bounce back" to. There is an opportunity now to support the sector and its position in the rural economy, through the responses to the disruptions of the COVID-19 pandemic.

This section will highlight some of the challenges relating to, and within, the food and drink sector pre-COVID-19. It should be noted this list is not exhaustive and is derived chiefly from discussions within the Specialist Advisory Group, which is summarised in Figure 1. It should also be noted that when we say "businesses" we are referring to all those functioning within the food and drink sector, including for example: restaurants, bars, pubs, cafes, hotels, retailers, farms, processors, haulage companies and social enterprises.

[3] Ambition 2030: A growth strategy for farming, fishing, food and drink, Scotland Food & Drink Partnership https://scotlandfoodanddrink.blob.core.windows.net//media/1465/ambition-2030.pdf

[4] Rural Scotland Key Facts 2021, Scottish Government https://www.gov.scot/publications/rural-scotland-key-facts-2021/

Figure 1: Challenges influencing the food & drink sector in rural Scotland pre-COVID (as considered by the Specialist Advisory Group)



4.2 Demographics

Demographic data on geographical area, population, education, employment and economics helped the Specialist Advisory Group to understand 'rural Scotland' and determine the challenges and opportunities faced by the sector in that area. Whilst the circa 900,000 people who live in rural Scotland account for only 17% of Scotland's total population, the geography accounts for 98% of Scotland's land mass[5]. Rural areas have a lower proportion of the population in the age range 16 to 34, and a higher proportion of people aged 45 and over. This is particularly evident for the age range of 65 and over in remote rural areas[5]. Evidence suggests that factors influencing migration decisions of young people moving out of rural areas could be higher education and employment opportunities, housing and public transport availability. This has resulted in a high dependency of migrant workers for the primary production and processing, particularly where there is a predominance of seasonal, lower paid and piece-meal work. The sector has long benefitted from an influx of migrant labour including significant numbers from the European Union. In some businesses (seafood processing for example) they make up a significant proportion of the workforce. When that availability of workers is restricted, then businesses have the challenge of finding labour (that historically has been hard to come by) or will have to consider further capital investment to reduce their labour requirement (or enable expansion without the need for additional labour).

[5] Rural Scotland Key Facts 2021, Scottish Government https://www.gov.scot/publications/rural-scotland-key-facts-2021/

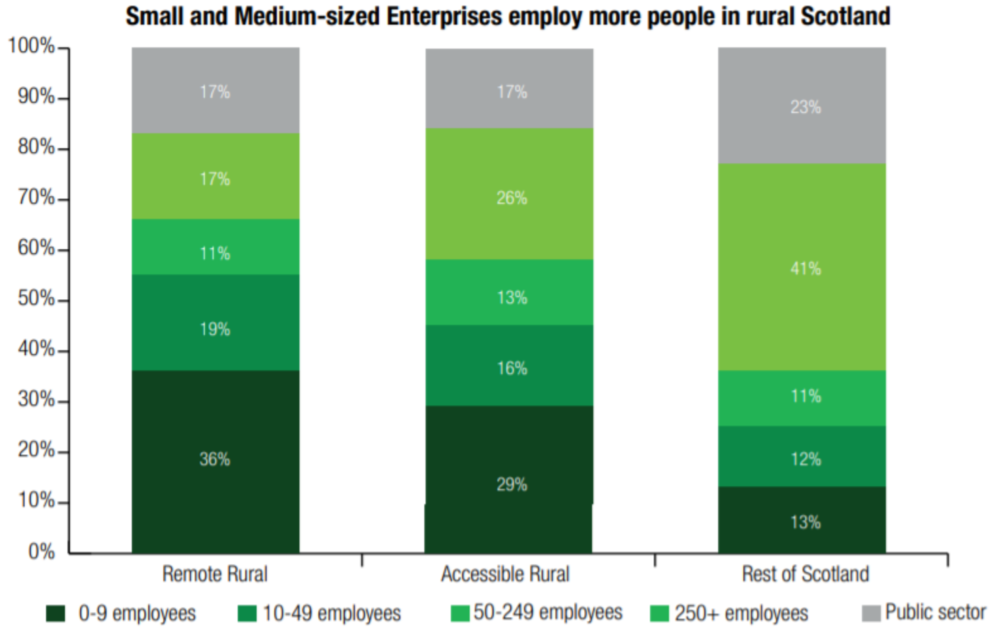
4.3 Economic Structure of Rural areas

The structure of the business base within the sector was referred to with rural areas having a large predominance of SMEs, comprising of 0-249 employees, accounting for two thirds of businesses in remote rural areas compared to 58% in accessible rural areas, and just over a third in the rest of Scotland. Micro businesses (0-9 employees) are particularly prevalent in remote rural and accessible rural areas (36% and 29% respectively), compared to only 13% in the rest of Scotland[5]. The public sector accounts for 16% of employment in remote rural areas, and 15% in accessible rural areas[5].

Businesses situated in rural areas have long standing issues with limited access to people and skills, which was anticipated by the Specialist Advisory Group to become even more challenging after Brexit. Food and drink manufacturing at SME scale tend to rely on larger numbers of employees, often with a trade-off in productivity compared to larger sized companies. A reduced labour pool increases costs and could drive businesses towards increased automation. The introduction of new automation technologies do require investment from recovering businesses, which could be financially challenging and could limit expansion capacity of smaller enterprises. The wider economic frameworks that are there to support and incentivise growth and development are often urban centric in nature[6] making it more challenging for rural SMEs to engage. From a market perspective, exporting businesses faced a higher administrative burden if they continued exporting during the Brexit transition period, which is likely to have had a disproportionate effect on SMEs, many of whom may struggle to comply with new, complex and time-consuming export paperwork.

[6] The Missing £4 Billion: Making R&D work for the whole of the UK
https://media.nesta.org.uk/documents/The_Missing_4_Billion_Making_RD_work_for_the_whole_UK_v4.pdf

Figure 2: Employment by size of firm and 4-fold urban category 2020: Taken from [“Rural Scotland: Key Facts” 2021]



Source: Inter Departmental Business Register, as at March 2020
(Using Scottish Government Urban Rural Classification 2016)

4.4 Infrastructure

Discussions within the Specialist Advisory Group highlighted that rural, island and remote areas often suffer from infrastructure deficiencies. In terms of travel and access to services, more people in rural areas are out with a reasonable drive time to key services (i.e., health services and retail) compared to the rest of Scotland, and fewer people are satisfied with the quality of public transport services delivered[5].

This holds true for the transportation of goods and can mean it is difficult for food and drink producers to get products moved along the value chain (especially for the primary sector) and to market on time and cost effectively. Logistics are problematic for many rural food and drink companies, as they are farther from the main markets, and see increased travel times, which will not favour perishable produce. The nature of the Fast-Moving Consumer Goods (FMCG) market makes it harder to respond, if further from the market. As a result, logistics can be challenging and expensive, which can be exacerbated further by reliance on ferries, for example. Businesses are also concerned about the carbon footprint of an inefficient supply chain. All in all, transportation is not always available when needed, at a price which maintains product competitiveness, and which contributes to individual and collective climate change goals.

The same principle applies to education and employment in rural areas, with opportunities often not being locally available, and large distances having to be travelled to reach employment locations, secondary schools or future and higher education settings. Childcare for younger children is often less available in rural areas. Property prices are rising above the average rate in rural Scotland, and there is a higher prevalence of second home ownership in many areas, which affects local residents' abilities to access affordable housing.

Online shopping and home delivery became a norm for many during lockdown, and this relies on good public infrastructure that is not available uniformly across Scotland. Digital connectivity enhances productivity, drives innovation, and connects businesses with each other and to consumers. Good quality digital infrastructure is lacking in many rural areas, and this can negatively impact on communities' and businesses' ability to boost economic development, increase competitiveness, retain young people and attract new employees. There still seems to be a problem with the "remoteness premium" whereby product delivery is more expensive for those in remote rural and island communities or not available at all.

4.5 Research, Development and Innovation

Accessing support for research, development and innovation across rural Scotland that is appropriate and relevant to the needs of the sector was highlighted as a challenge both from a business and university perspective. A 2020 report by NESTA highlighted that a high regional imbalance exists in UK spending on R&D[6]. The impact and uncertainty created in the research community due to Brexit has affected funding for research and innovation, for example the Royal Society found in 2019 there had been almost a 40% drop in UK applications to Horizon 2020 and that since 2015 the UK's annual share of EU research funding had fallen by half a billion Euros[7]. Uncertainty also remains around the replacement of the LEADER programme which will significantly impact rural Scotland.

For the food and drink sector the innovation landscape is increasingly complicated, particularly for SMEs distant from many of the research institutes and universities. This inhibits the ability to collaborate due to awareness of opportunity, travel time, personal resource and capacity in a small team and ability for SMEs to match fund projects. In addition, the costs of travel and accommodation restrict the ability to establish and maintain successful long-term relationships. The ability to operate triple helix collaborations between industry, academia and the public sector to drive innovation is challenging without investment and buy in from a strong SME business base, relevant academic expertise and public sector resource - although some of the region deal funding committed to rural Scotland will partially address this.

[7] Royal Society 2019 "Brexit uncertainty harming UK science" https://royalsociety.org/news/2019/10/brexit-uncertainty-harming-UK-science/

4.6 Brexit

Before the COVID-19 pandemic, businesses in the food and drink sector were contending with the challenges posed by the UK's exit from the EU. The challenges for the food and drink sector relating to Brexit have not diminished during the pandemic and global crisis[8].

The Scottish Government identified that many of the areas most vulnerable to Brexit were in rural Scotland. Around half of communities in Shetland Islands, Outer Hebrides, Argyll & Bute and Dumfries and Galloway were identified as amongst the most vulnerable communities in Scotland (20% most vulnerable data zones)[9]. This is particularly true for the primary sectors of food and drink as these received significant EU funds and employ many EU Nationals. HIE's Business Panel survey[10] found that confidence in economic prospects remained low throughout the Brexit negotiation process and businesses saw departure from the EU as a risk to their business, a view held more widely by food and drink businesses. In general, it was anticipated by the Specialist Advisory Group that food and drink businesses which export to the EU will continue to see an increase in friction around trade, increasing costs and resources required to export. Recent evidence suggests that this is indeed the case, with the ONS Business Insights and Conditions Survey (BICS) showing in May 2020 that 13% of Scottish businesses faced increased costs due to red tape and 14% due to additional transportation costs.[11]

The 'Farmer responses to Brexit' briefing note outlines the results of a survey of 2,494 farmers, crofters and smallholders, run during the summer of 2018, on their approaches towards farming and how this may affect Brexit planning[12]. Around 25% of the sample were positive to the post-withdrawal landscape, though the remaining 75% were less positive, with 37% of respondents stating negative views towards the outcome for a post-withdrawal Scottish agriculture and the remaining 37% stating neutral views. The results coincide with previous analysis, focusing on aspects such as risk management where it was found only a small number of Scottish farmers were actively preparing for Brexit[13].

[8] Food Standards Scotland – Brexit Home page https://www.foodstandards.gov.scot/about-us/Brexit

[9] Local level Brexit vulnerabilities in Scotland: Brexit Vulnerabilities Index (BVI) https://www.gov.scot/publications/local-level-Brexit-vulnerabilities-scotland-Brexit-vulnerabilities-index-bvi/

[10] February 2020 Business panel https://www.hie.co.uk/media/8569/hie-business-panel-brexit-and-the-changing-business-environment-report.pdf

[11] Business insights and Conditions Survey (BICS) Weighted Scotland Estimated – Data to Wave 31 https://www.gov.scot/publications/bics-weighted-scotland-estimates-data-to-wave-31/

[12] Farmer Responses to Brexit An examination of different outlooks to Brexit – Briefing Note 4 https://www.ruralBrexit.scot/future-policy/farmer-responses-to-Brexit-an-examination-of-different-outlooks-to-Brexit-briefing-note/

[13] Farmer Responses to Brexit: Adoption of Risk Management Behaviours – Briefing Note 1 https://www.ruralbrexit.scot/future-policy/farmer-responses-to-brexit-adoption-of-risk-management-behaviours-briefing-note-1/

5. IMPACT OF COVID-19 AND BREXIT ON THE FOOD AND DRINK SECTOR

5.1 General

The impact of COVID-19 upon the food and drink sector has been grave, with up to £3 billion forecast to be lost in revenue.[14] The pandemic has disrupted consumer demand, altered or lost markets (national and international), led to a diversification or downscaling of commercial activities and change or reduction in employment opportunities[15]. Some previous challenges in the sector have been exacerbated by COVID-19, as well as there being new and unexpected challenges emerging. The disruption on the economy and communities has been and will continue to be very significant for rural Scotland, and differs depending on the regional context, economic structure of areas and wider population structures. For example, a report by SEFARI researchers at the James Hutton Institute and Scotland's Rural College has shown that rural vulnerabilities were exacerbated during COVID-19. However, resilience varied between rural communities. Communities that exhibited a strong sense of community, community organisations and local businesses that were responsive to local needs, the existence of strategic partnerships between community organisation and the public/private sector and good digital connectivity were found to be more resilient than other rural communities[16].

This section will outline some of the impacts and challenges resulting from the COVID-19 pandemic, focusing on key themes within the food and drink sector resulting from the Specialist Advisory Group discussions. The Specialist Advisory Group meetings took place during the lockdown period resulting from the COVID-19 outbreak (2020/21), and the following impacts identified reflect the position of the food and drink sector during that time. However, we live in a world where COVID-19 remains prevalent. The impacts from COVID-19 continue to evolve and can be felt across the food and drink sector at regional, national, and international levels.

5.2 Primary production

The natural economy underpins the food and drink sector in rural Scotland, with the primary sector (fisheries agriculture and forestry) having an important role in the rural economy and society, as well as renewable energy and tourism. The Scottish agricultural sector is highly

[14] Scotland Food and Drink Partnership's Recovering from Coronavirus and Fuelling Brexit Preparation https://foodanddrink.scot/recovery-plan/

[15] Plunkett's Vision for a Covid-19 Rural Recovery https://plunkett.co.uk/wp-content/uploads/Plunketts-Rural-Vision.pdf

[16] Resilience in the face of Covid-19 in Scotland's rural and island areas https://www.hutton.ac.uk/news/resilience-face-covid-19-scotland%E2%80%99s-rural-and-island-areas

varied, including high value-added fruit and vegetable sectors, and high hill sheep production systems. One of the focal negative impacts experienced during lockdown were demand shocks caused by COVID-19 restrictions and a sudden responsive change in consumer behaviours[17]. There was a major issue with carcase balancing in beef, and the split between the cheap and more expensive cuts; whilst there was an upsurge in retail demand for cheaper cuts, there was a lack of demand for expensive cuts such as steak and joints which would normally go into the hospitality sector. This depressed the price from premium primary products and farmers were earning less or losing money on every animal.

Food services and hospitality are also major consumers of milk and cheese, and the sudden lockdown closure significantly reduced demand from the dairy sector. Suppliers in Scotland were asked to restrict capacity by 3% and as a result faced immediate reductions in cashflow. Creamery closures and loss of contracts had severe impacts on business in the dairy sector. These examples reiterate that primary production is vulnerable to market volatility, and sub-sectors can be affected in different ways, across different timescales.

Restrictions of movement of people meant that farms in Scotland lost significant proportions of their seasonal workforce[17]. Chartered planes brought in workers to some farms, but the 14-day quarantine imposed for a large period during the pandemic added significant extra costs. Previous research on migrant labour indicates the demand for the soft fruits sector in Scotland is around 10,000 workers a year.[18] NFU Scotland launched a service to aid recruitment of seasonal workers to farms, to overcome the deficits[19], to mixed success.

Aquaculture contributes £1.8 billion annually to Scotland's economy, supporting around 8,800 jobs in rural and remote areas, and sustains the economic and social fabric of the Highlands and Islands in particular[20]. Research in 2017 suggested the sector could generate £3.6billion by 2030, with the number of jobs supported reaching 18,000[20]. The impact of COVID-19 on aquaculture was most noticeable in relation to international exports, through both a closure of markets and challenging logistics (as international travel was restricted and flights were grounded). Whilst salmon is sold into a range of international markets and channels, other types of aquaculture are reliant on a narrow range of opportunities (e.g. live shellfish exported to China), meaning that for some products and businesses recovery will be slow. Scottish aquaculture exports to China are also vulnerable to any deterioration in Sino-British relations, of which the UK Government's decision to remove Huawei from 5G networks[21] may be an

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[17] Information from Fraser of Allander: COVID-19 and the Rural Economy podcast: https://fraserofallander.org/covid/covid-19-and-the-rural-economy/

[18] The Fruits of Their Labour: Seasonal Farm Workers in Scottish Agriculture https://sefari.scot/research/the-fruits-of-their-labour-seasonal-farm-workers-in-scottish-agriculture

[19] Employment opportunities on farms – NFUS https://www.nfus.org.uk/coronavirus/employment-opportunities-on-farms.aspx

[20] Value of Aquaculture to Scotland https://www.hie.co.uk/media/3035/valueplusofplusscottishplusaquacultureplus2017plus-plusreport.pdf

[21] https://www.gov.uk/government/news/huawei-to-be-removed-from-uk-5g-networks-by-2027; accessed 4/8/20.

early indication. The rural nature of aquaculture has posed some challenges, as has the need to ensure that the livestock in the aquaculture pens are cared for.

In all aspects of primary production, whether that be livestock, horticulture, potatoes, cereals or aquaculture, it is difficult to reduce the core cost base. Most husbandry activities had to continue during the pandemic or crops would be lost and animal welfare would be at risk. In the current climate businesses must be agile and adapt their business models, negotiate new safe working practices with their employees and contractors, and collaborate with their supply chain and stakeholders.

The climate emergency requires urgent action to reduce or halt climate change that will have an irreversible impact on the environment. Primary sectors rely on using natural resources to produce high quality food for human consumption. A transition to new 'greener' business models and processes requires enabling support from a wide variety of organisations including trade bodies, which create vision and route maps for change, research and academia for technical solutions and skills, agencies and Government to support innovation, communities through their relationship with locally produced food and value associated to the environmental benefits this brings.

BREXIT BOX- COVID-19

When considering the challenges and recovery plans associated with primary production and COVID-19, the implications of Brexit and the impacts of a post-EU support landscape should be factored in. There are also considerations around new import and export tariffs, and there are questions related to long term export market opportunities. Many actors in primary production in rural Scotland suggest that Brexit and its consequences have been more challenging to primary production than COVID-19.

5.3 Supply Chains & Consumer Demand

Throughout the COVID-19 pandemic, food and drink supply chains in urban and rural areas had to modify and adapt to changes resulting from the outbreak and lockdown to put food on plates across the country. Despite widespread and unprecedented disruption, animals were farmed, crops were grown, and consumer products were manufactured. The pandemic brought to the fore some of the fragilities in the supply chains across rural Scotland. The national food and drink strategy 'Ambition 2030' [22] states that one of the key pillars underpinning growth is supply chains and that there is a need for more mutually beneficial and profitable supply chains upstream and downstream, from farmer and fishermen to fork. Recovery from COVID-19 presents an opportunity to support supply chains to be more equitable and resilient to future shocks including pandemics.

The COVID-19 outbreak kicked off a sudden change in consumer habits, and food and drink demand profile has continued to alter throughout the COVID-19 crisis. At the beginning of the pandemic there was above-normal retail demand, with consumers purchasing a few extra key items. Increased demand for some basic products impacted the routine operation of the food supply chain, resulting in empty supermarket shelves as the delivery to retail for restocking fell behind the purchasing numbers, leading to some retailers imposing limits on quantities sold. Social distancing measures and shopper reactions to the media coverage were cited as some of the reasons for this increase in purchasing of what were perceived to be key items. As the general population went into lockdown, and vulnerable individuals were shielding, online grocery shopping increased to an all-time high and there was unprecedented demand for home delivery, far exceeding capacity. These impacts have increased food insecurity for the most vulnerable groups.

Demand increases can also be attributed to meals being reallocated from food services (e.g., restaurants or canteens) to household consumption. In Scotland, it was evident that during lockdown there were considerably more meals a week being prepared at home. Although the hospitality sector has re-opened, it remains unclear how long these markets will take to fully recover from the impacts of the numerous lockdown restrictions. Currently the hospitality sectors are facing staff shortages, with estimates of almost 1 in 5 workers having left the sector since the beginning of the pandemic. A recruitment drive for tourism and hospitality sectors was launched in summer 2021 by the Scottish Tourism Alliance, supported by £100,000 Scottish Government funding[23]. However, staff shortages appear to remain acute for both hospitality and food service sectors.

Information reviewed by the Specialist Advisory Group showed that demand for regional food appeared to accelerate during the COVID-19 lockdown and this this has a positive economic and social impact on communities. To embed this change in consumer behaviour it is

[22] Ambition 2030: A Growth Strategy for Farming, Fishing, Food and Drink https://www.foodanddrink.scot/media/1465/ambition-2030.pdf

[23] Finding the future of tourism and hospitality https://www.gov.scot/news/finding-the-future-of-tourism-and-hospitality-1/

imperative enterprises adopt an agile approach to business planning based on understanding new market drivers and are informed on current insights about consumer and societal trends.

Whilst local food offers opportunities to rural Scotland there are common challenges that could limit business and sector growth. One problem is integrating into a mutually profitable supply chain. Small producers often lack the experience and knowledge required to collaborate across complex chains, within different market channels. There may be opportunities to learn from international experiences and consider how these could be replicated in rural Scotland (see case study box – Local2Local[24]) and from businesses in other sectors.

CASE STUDY: LOCAL2LOCAL

Local2Local began in the Netherlands in 2014 as a collaboration between twenty or so farmers from the Krommerijn region to form a short food supply chain initiative. In 2017, the transition model GAIN was developed to work on structural impact. Local2Local's short food chain plays a role in increasing the involvement of citizens and customers in the challenges in the food system. Local2Local's ultimate tool is a 100% transparent and demand-driven food chain that creates more opportunities for nature-inclusive agriculture, closing cycles and competitiveness.

Repairing and reinventing supply chains to improve resilience to future shocks is important. Evidence suggests that co-operatives and clusters, which are both competitive and collaborative, have a role to play in strengthening and building sector and business resilience. These structures are globally recognised as being most able to tackle complex problems and are more likely to drive improvement in areas including sustainability; climate change; circular economy; ethical standards and transparency. The supply chain analysis conducted by SAOS[25] locates where challenges exist within a particular sub-sector by mapping and highlighting where more value could be created. It is imperative that food and drink sector and businesses within its supply chain are supported to mitigate challenges and create new profitable and sustainable business opportunities, at pace.

[24] Local2Local https://local2local.nl/hoe-het-werkt/

[25] SAOS Supply Chain Collaboration https://saos.coop/what-we-do/supply-chain-collaboration/

5.4 Tourism

Tourism and the food and drink sectors are often inter-dependent, and this is particularly true in rural Scotland where many food and drink businesses rely on visitors for large portions of their income. The restrictions on movement during COVID-19 effectively closed the tourism industry during 2020 (with references to 'three winters') and it is widely expected that this sector will take the longest to recover. A slow tourism recovery in Scotland will directly impact on the overall recovery of the food and drink sector.

The BBC[26] reported that the cost of COVID-19 to Highland Council could run up to £96 million, the fourth highest in the UK. The authority's main sources of commercial income (car parks, docking fees and the sale of fuel at its harbours) were reduced to "zero overnight" as a result of the pandemic. For example, a single car park in Inverness earned just £75 in April 2020, compared to previous figures of £200,000 a month. Within the private sector, this region saw the highest proportion of furloughed staff in Scotland and has a tourism-dominated economy.

5.5 Businesses and Economy

The COVID-19 pandemic and consequent national and international lockdowns have had both positive and negative impacts on businesses in the food and drink sector. Some businesses in retail have never been busier, as demand for food for home consumption has increased, others have had to furlough large proportions of their workforce as they reduced or stopped activity. Others were caught in the middle, partly running operations and struggling to be efficient or profitable. SMEs make up a large proportion of the economic structure of Scotland, particularly in rural areas, and how these smaller business firms survive, adjust and adapt to the impacts of COVID-19 will have enormous bearing on future economic and societal welfare in Scotland for years to come[27].

Lockdown restrictions and prohibitions on "non-essential" activity forced the closure of some drinks production, food service and all hospitality business. This put an immediate stop to income generation. Research from the Fraser of Allander Institute estimates that in June 2020 approximately 8,000-10,000 Scottish SMEs were at threat of closure due to a lack of cash reserves, with a further 30,000-40,000 facing financial distress. Commentary suggests businesses facing the most immediate threat are the smallest and least resilient micro-firms employing between 1-9 employees. With limited reserves SMEs are most likely to encounter liquidity and cashflow problems and are less able or likely to seek or extend debt borrowing. This often results in cost-minimisation strategies rather than new revenue activities. This means SMEs are least likely to be able to reinvest in new business models/initiatives, new

[26] Highland Council finances 'hit hardest' by Covid crisis – BBC News https://www.bbc.co.uk/news/uk-scotland-highlands-islands-53149054

[27] The Impact of Covid-19 on Scottish Small and Medium-Sized Enterprises (SMEs): Prognosis and Policy Prescription – Fraser of Allander https://fraserofallander.org/fai-publications/the-impact-of-covid-19-on-scottish-small-and-medium-sized-enterprises-smes-prognosis-and-policy-prescription/

technologies or other activities that capitalise on new openings. One example is in the home delivery of goods, which emerged as a viable market during lockdown and is creating new opportunities for some businesses in the food and drink sector.

Globally there has been an increase in online grocery shopping, with significant increases in France, Spain, Italy, and the UK. Large supermarkets saw tremendous increases in home delivery demand, with Sainsbury's noting online food sales doubled for them during lockdown and they had to hire 25,000 more staff to meet the rising demand[28].

At the time of the first Specialist Advisory Group meeting in 2020 the impacts on revenue and the overall economic forecast appeared bleak and the recession was expected to be much deep and long drawn. In August 2020, after two successive quarters of decline in GDP, the UK entered its deepest recession on record, the COVID-19 lockdown saw the economy contract by more than a fifth between April and June 2020[29]. Business models have had to adapt rapidly during the COVID-19 pandemic, so it is perhaps opportune and timely to encourage strategic reviews of businesses in the food and drink sector in rural Scotland and support a comprehensive review of markets, risks and opportunities. A key question is, are the pre-COVID-19 growth plans or business plans for companies rendered obsolete by the crisis or are there some elements that can be utilised? Businesses diversifying their plans and improving the ability to adapt to external pressures, will surely be better placed should a similar event occur again.

[28] Sainsbury's hires 25,000 staff as online food sales double - https://inews.co.uk/news/sainsburys-hires-25000-staff-online-sales-double-460507

[29] UK plunges into deepest Recession on record – News Article https://www.independent.co.uk/news/business/news/uk-recession-economy-gdp-coronavirus-lockdown-a9666186.html

5.6 Employment, Education & Skills

The food and drink sector is dependent on its workforce as it is relatively labour-intensive compared to other sectors. This large workforce is encompassed by and benefits from a vast range of skilled employees, from food preparation and processing, through to managerial positions and logistics. However, due to the nature of work, many employees within the sector could not home/hybrid work during the lockdowns and income generation ground to a halt for many businesses. A representative survey of the economically active population in Scotland found there were higher levels of furloughed and unemployed staff in the hospitality and tourism sector, as well as wholesale and retail. It also found there was a higher proportion of workers in these sectors residing in accessible rural and remote small-town locations, which also has implications for the rural economy in Scotland[30] .

It is believed the hardest hit group in relation to education and employment from the pandemic will be young people. Over the next few years, mid-teens to young adults who are due to leave education and look to embark on new careers may well be at risk of losing the jobs they have only just obtained. As well as this, 79% of jobs in Scotland exist in the private sector, so solutions to unemployment will depend heavily on how the private sector can create employment and how public intervention could expedite better outcomes. It should be noted that there are possible differences in this percentage across rural Scotland, and as a result there might be differences in policy approaches needed.

The food and drink sector in Scotland has struggled to promote itself as a career destination of choice and to both attract and retain workers. Although some parts of the sector are introducing automation and other technologies, there is a general perception that the majority of opportunities are manual. Consequently, there are challenges around the image of the sector, and this is exacerbated by a lack of information on career progression opportunities and skills development. As the sector negotiates unprecedent changes, more focused consideration needs to be given to skills and career pathways, with adult transition training considered to be a priority by the Specialist Advisory Group to ensure established and new workforces that can adapt alongside agile business models. Research suggests young people are more likely to have worked in sectors that have had higher rates of furlough or lost employment during the pandemic and this could create an opportunity to encourage new young entrants into the sector. The UK Government Kickstart scheme[31] is one tool that can support businesses to employ young people in high quality jobs that provide skills training and encourage worker retention in the sector. There are also opportunities for "upskilling" current employees and developing management skills to retain employees within the sector, who wish to progress in their career.

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[30] Towards a Robust, resilient wellbeing economy for Scotland https://www.gov.scot/publications/towards-robust-resilient-wellbeing-economy-scotland-report-advisory-group-economic-recovery/

[31] UK Government launches kickstart scheme for youth in Scotland https://www.gov.uk/government/news/uk-government-launches-kickstart-scheme-for-youth-in-scotland

Skills Development Scotland (SDS) is the national skills body supporting the people and businesses of Scotland to develop and apply their skills[32]. SDS take an evidence-based approach to skills planning, which means they have a responsive education and training provision model, taking into account the needs of sectors, utilising employer insights and direct contact with employers and federations. There is a strong focus on developing the evidence and articulating what the skills gaps and issues might be, to better an education and skills system to meet the needs of businesses and individuals focused on both young people and adult transitions training. SDS have several relevant published plans for the Food and drink sector, including:

5.6.1 Food & Drink Skills Investment Plan[33]

First published in 2012, the Food & Skills Investment plan (SIP) focuses on four main categories of activity: Agriculture; Fishing and Aquaculture; Food Manufacturing; Drinks Manufacturing. The Food and drink SIP provides a framework for the achievement of sustainable and inclusive economic growth while focusing on four priority areas:

- "Investing in our people and our infrastructure in a sustainable way."
- "Fostering a culture of innovation and research and development."
- "Promoting inclusive growth and creating opportunity through a fair and inclusive jobs market and regional cohesion."
- Promoting Scotland on the international stage to boost our trade and investment, influence and networks."

5.6.2 Skills Action Plan for Rural Scotland[34]

The Skills Actions Plan for Rural Scotland has five overarching priority areas:

- "Better understand the skills rural employers need and align provision to support this".
- "Provide individuals with accessible education and skills provision to secure, sustain and progress in their careers in rural areas."
- Develop the current workforce in rural areas through upskilling and reskilling."
- Build a secure pipeline for the future."
- Take a co-ordinated, strategic approach to tackling skills in rural areas."

[32] Skills Development Scotland – about https://www.skillsdevelopmentscotland.co.uk/about/

[33] Skills Investment Plan Skills Development Scotland : Skills Investment Plan

[34] Skills Action Plan for Rural Scotland Skills Development Scotland Skills : Skills Action Plan for Rural Scotland 2019-2021

5.6.3 Rural Regional Skills Assessment[35]

The regional skills assessments were first launched in 2014 with the aim of providing a “robust evidence base to support partners in strategic skills investment planning”. The most recent reports (July 2021) publish data on strategic drivers, the economy, the impact of COVID-19, labour market requirement and supply of people for Rural Scotland. The Rural Scotland report covers Aberdeenshire, Angus, Argyll and Bute, Clackmannanshire, Dumfries and Galloway, East Ayrshire, East Lothian, Highland, Moray, Na h-Eileanen Siar, Orkney, Perth & Kinross, Borders, Shetland Islands and South Ayrshire local authorities.

The immediate response from SDS to COVID-19 focused largely on understanding the changing economic and labour market impacts, gathering insights as to what is happening on the ground and building scenarios around the potential impact on the labour market. Understanding real time changes and utilising robust, timely and reliable evidence base is critical to designing successful interventions in a fast-moving environment. SDS have been working with partners to understand what their priorities will be moving forward and will be looking to past recessions and what interventions were successful at the time.

The Specialist Advisory Group received evidence on the significant role universities play in food and drink education, research and innovation. Whilst the university sector was significantly impacted by the pandemic, it will have a crucially important role to play in the food and drink sector’s recovery from the pandemic and in responding to other crisis’s, such as climate change.

The University of the Highlands and Islands (UHI) provided evidence to the Specialist Advisory Group as an exemplar of offering food and drink sector related courses that cover a range of subjects, regions and levels of qualifications that span a breadth of opportunities for learners and engagement with industry. These range from Foundation Apprenticeships (FA), National Progression Award (NPA), Skills for Work (SfW), National Certificates and Qualifications (NC and NQ), Bachelors (BA) and Masters (MSc) degrees, as well as offering workplace awards. This further emphasises the variety of qualifications available to individuals within the food and drink sector.

The research and knowledge exchange activities and responsibilities of UHI include knowledge transfer partnerships, innovation vouchers, commercialisation of research outputs, impact case studies and the impact on SMEs and the regional economy. Post-COVID-19 this final focus is important, and the university has a responsibility to work with sectors to have maximum impact here.

Universities need to interface with industry in multi-faceted ways. The Knowledge Exchange team at UHI work to increase the collaborative research with other universities/organisations,

[35] Skills Development Scotland: Regional Skills Assessments Rural Scotland July 2021

businesses, government and third sector parties[36]. Out of the seven knowledge exchange and innovation groups at the University of the Highlands and Islands, currently funded through the Scottish Funding Council, 5 are related to the food and drink sector. These sector-focused specialist groups are ready to aid in commercial contracts, and give expert help in collaborative projects, providing practical solutions to real problems.

Universities with a larger reliance on international students may potentially suffer in the longer term due to the travel implications of COVID-19 and perhaps reluctance of travel for prospective students. A thriving university is important to support research, development, and innovation and to respond the skills needs of industries.

BREXIT BOX: STUDENTS AND RESEARCH GRANTS

For the Education and Universities sector, it is believed (from members of the Think Tank) that the detrimental impacts of Brexit are likely to be more damaging in terms of the economy to the sector than COVID-19. It is certainly the case that European research funding (e.g., from Horizon 2020 and the European Research Council) is significant and that UK Universities may not be able to participate in the same way as formerly.

From a student perspective, undergraduate students from the EU were treated the same as Scottish students, so the Scottish Funding Council paid their fees. From academic year 2021-22 onwards, this is no longer the case. Thus, the number of students from the EU might decline, but the per capita income from them might increase.

How the Scottish Government will allocate the monies saved is unknown, there is real concern that redirected, and replacement funds (for both research grants and education) may not find the way to the perceived peripheral areas, such as the Highland and Islands region.

[36] UHI – Knowledge exchange https://www.uhi.ac.uk/en/research-enterprise/resource/knowledge-exchange-team/

5.7 Food Insecurity and Food Poverty

The Specialist Advisory Group noted that COVID-19 had highlighted the inequalities in relation to food security and food poverty across rural Scotland and some qualitative evidence suggests these inequalities are more profound in some locations. On 4th May 2020 The Food Foundation published poll data suggesting that more than five million people in households with children in the UK have experienced food insecurity since lockdown began[37].

Parts of the UK were let down by centralised wholesale systems that failed to supply the most basic goods and essentials to small independent retailers. Supermarkets maintained and/or recovered supply most quickly, further illustrating that the supply chain system favours those with most scale and purchasing power. The lockdown travel restrictions, including the restrictions on public transport, meant that access to food and particularly lower cost food was more difficult for people in rural areas. In some areas, community initiatives and neighbourliness, which thankfully was seen in abundance, were lifelines to members of society who did not have access to private transport or had other underlying health conditions[15]. As we look towards an inclusive and equitable Scotland with wellbeing at its core, consideration should be given to how local communities and vulnerable members of our societies access affordable and healthy food in a crisis.

[37] The Food Foundation News 4th May 2020 https://foodfoundation.org.uk/news/five-million-people-households-children-have-experienced-food-insecurity-lockdown-started

6. OPPORTUNITIES FOR THE FOOD AND DRINK SECTOR AND THE RURAL ECONOMY

6.1 General

The impacts and challenges arising from the COVID-19 pandemic present an interesting opportunity for the food and drink sector to incorporate positive transformations into its recovery. This section outlines some of the opportunities there are for the food and drink sector, and what recovery might encompass. Whilst there will be opportunities focused on new market and net-zero opportunities, it is important to learn from past factors that have led to the economic and social vulnerability of rural regions.

6.2 Innovation

COVID-19 created unpreceded disruption to society and the economy. Creative thinking and pragmatic solutions will be critical to charting a route towards sustainable and profitable future for the food and drink sector in rural Scotland. Innovation incorporating new technologies will be needed in agile business models to stimulate the development of new products aligned to changing consumer trends and demands, and to embed sustainable approaches to day-to-day tasks.

It is likely we will see an increase in the use of novel products including new green proteins, data technology driven supply chains and a greater emphasis on the social value of food and drink. Vertical farming, AI agriculture and robots will become common features of the sector as we maximise the potential of our natural environment[38] (blue and green economy) and novel technologies.

The Scottish Government (Rural & Environment Science & Analytical Services Directorate) funded Strategic Research Portfolio (SRP) 2022-27 on environment, food, agriculture, land and communities, responds to the need for cross-cutting evidence to inform policy. The Programme is designed to deliver increased partnership, co-ordination and networking across Environment, Agriculture, Food, Land Use and Rural Economy and Society research disciplines, between SEFARI and Scotland's HEIs, working closely with stakeholders and is set within wider Scottish Government's partnership working to support research across these sectors (e.g., Rural innovation Support Service) with other UK funders of research.

[38] Maximising the Marine Environment for the Highlands and Islands https://www.hie.co.uk/research-and-reports/our-reports/2019/march/06/maximar-science-and-innovation-audit/

The Strategic Research component of the current Portfolio comprised three research Themes that directly and indirectly support rural economy and food and drink sector innovation including:

- Natural Assets
- ‘Productive and Sustainable Land Management and Rural Economies, and
- Food, Health and Wellbeing’,

In 2018-19 the direct investment through SRP research was:

- £3.0m for improved food & drink production research;
- £3.9m for Healthy Diets & Dietary choice;
- £0.6m for Food Security;
- £5.0m for crop and grassland production & disease control;
- £4.4m to Livestock production, health, welfare & disease control;
- £4.1m for Agricultural systems and land management;
- From the wider Portfolio: £2m to the Centre of Expertise on Animal Disease and £0.6m to the Centre of Expertise Plant Health provides additional critical underpinning to primary production sectors.

From the 2019-20 Portfolio, more than £25m on food and drink related research (including primary production and healthy safe diets) was invested across these translational research fields. There have also been opportunities for support and investment from the Scottish Government’s Rural Payments and Services, in particular through Knowledge Transfer and Innovation Funds (KTIF) and Food Processing, Marketing and Co-operation (FPMC) funds[39]. It is likely there will be investment in some larger food and drink projects as a result from the Tay City Deal, the Aberdeen Food Innovation Centre, Stirling Aqua Centre and Borderlands Dairy Nexus.

The Innovation Voucher Scheme is an example of support for SMEs to collaborate with Scotland’s universities and colleges helping develop or enhance a commercial product or service or improve productivity through an innovative business process. Administered by Interface and funded through the Scottish Funding Council a total of £6M was made available in 2019 across Scotland supported by SE and HIE.

As mentioned previously, universities have an important role to play in innovative thinking in the food and drink sector, particularly with regards to research and knowledge exchange opportunities. Some of the current structures can limit as opposed to enable engagement and collaboration between SMEs and academia. Pre-existing partnerships and new collaborations could potentially access national innovation funds, that enable businesses and academia to

[39] Rural Payments and Services https://www.ruralpayments.org/topics/all-schemes/

take forwards commercially focused innovation. Opportunities exist to consider the current structure and accessibility of innovation funds (nationally and internationally) for business and universities related to rural Scotland improving alignment of funding to support creative thinking for the food and drink sector going forward. Currently, the Scottish Funding Council (SFC) are conducting a review of the provision and delivery of teaching and research activity across the college and university sector.

6.3 Climate Change/ Net Zero

Climate change and net-zero targets are high priorities for the UK and Scottish Government. At COP26, Scotland was centre stage and had the opportunity to share their commitments and encourage collaboration across countries and industries for just transition to global net zero. The vision for a 'Fairer, Greener Scotland' is reflected in the 2021-22 Programme for Government commitments including: Supporting a world-changing agreement at COP26; Implementing the first Just Transition Plan for the energy sector; Publishing a new biodiversity strategy; and restoring 250,000 hectares of degraded peatland by 2030. The Government continues to commit to a net zero emissions target by 2045 with additional focus on ensuring a just transition to net zero leaves no person, industry or community behind [40].

Net-zero has been deemed the greatest commercial opportunity of our time (Mark Carney, Special advisor on climate finance[41]), as shifts in global investments schemes see climate change as a high priority for businesses. Investors have noted that Scotland as a nation lacks a profile of scalable projects. Tackling climate change is a complex challenge, and businesses and industries across Scotland must work in collaboration with renewed vigour to reduce carbon emissions and develop new environmentally sustainable models if they are to make meaningful progress within the next decade.

The report on *Decarbonisation of heat across the food and drink manufacturing sector*[42] from the Food and Dink Federation sets out to understand how food and drink manufacturing can decarbonise heat generation towards net zero, and identify what actions are needed by all stakeholders to enable that transition. Recommendations from the report include facilitating knowledge exchange through sharing technology innovations and implementation across the sector, and local enterprise partnerships to bring together key stakeholders.

There are also calls from the report to the UK Government to implement a third phase of Climate agreements post-2025 which build on previous successes, as well as shifting focus

[40] Scotland Programme for Government 2021-22 https://www.gov.scot/publications/fairer-greener-scotland-programme-government-2021-22/

[41] Climate Home News https://www.climatechangenews.com/2020/02/27/net-zero-goal-greatest-commercial-opportunity-time-says-mark-carney/

[42] Decarbonisation of heat across the food and drink manufacturing sector https://www.fdf.org.uk/publicgeneral/fdf-slr-report-decarbonising-heat-to-net-zero.pdf

to carbon reductions. The report also concludes that the UK Government should establish a new collaborative approach to industry to design and create a financial scheme or support for industrial decarbonisation. For decarbonisation to succeed in the food and drink sector, businesses need guides to attain low carbon practices. Electrification of processes in manufacturing, opting for hydrogen instead of fossil fuels have growing interest from the UK Government with the UK Hydrogen Strategy[43] published in August 2021 setting out an approach to develop a thriving low carbon hydrogen sector with an ambition for 5GW of low carbon hydrogen production capacity by 2030. However, this technology remains expensive, and businesses, particularly SMEs will need support to successfully adopt this energy source into their operations. There is interest from the whisky sector in utilising hydrogen, however there is a need for a clear hydrogen policy and financial support from both the UK and Scottish Government to make this a reality.

6.4 Place Based Value

Scotland has attributes that are often locally and regionally unique, which could be used to create new market opportunities. Place based identity could be promoted more to add provenance, authenticity value and attract investment. Understanding the value of placed regional characteristics is critical to informing a unique narrative that could develop a longstanding relationship with customers and consumers.

6.5 Business support

Business support must be targeted towards the needs of the largest number of SMEs and microbusinesses in the food and drink sector, if they are to have an inclusive and tangible impact in rural Scotland. Programmes need to be cognisant of and proportionate to the scale, the capacity and capability of smaller businesses to ensure they can engage and deliver the desired outcomes for their business, the sector, rural Scotland and the nation as a whole.

[43] UK hydrogen strategy https://www.gov.uk/government/publications/uk-hydrogen-strategy

7.EMERGING PRIORITIES

A progressive and outcome-orientated COVID-19 recovery will rely on collaboration across the food and drink sector, across businesses, with industry stakeholders, universities, researchers, Scottish Government, and its agencies.

In the short term, there is greater acknowledgement that support is focussed on immediate business survival, particularly for the SMEs who are limited in their ability to access capital investment, human resources and market opportunities

In the medium term there is need to focus on sustainable business model innovation, including products and processes. The adoption of new technologies will rely on digital connectivity, which is a longstanding challenge for rural areas. Novel approaches are required for the hard-to-reach locations to ensure they can competitively participate in economic activity.

Whilst net zero is a longer-term ambition, actionable strategies must be developed now to transition towards lower carbon products and enterprises. Whatever businesses do over the next decade, their product proposition, attractiveness to new employees and taxation will most likely all be influenced by their ability to mitigate against the climate emergency.

8.SCENARIO SETTING

Scenario planning is a tool designed to support strategic planning. The technique has been applied widely at the science-policy interface and by businesses, to develop strategic visions in the face of future uncertainty. The Specialist Advisory Group conducted an exploratory online scenario planning workshop on the 22 September 2020 to think strategically about Scotland's Food and Drink sector as it faces an uncertain future.

Exploratory scenario planning utilises a focal question and a time horizon. The question is contrived to be open, acknowledging that the future rarely turns out as we expect, giving planners freedom to think outside the box. They are directed to consider plausible rather than probable futures so that current expectations do not exclude very real, but more radical visions. The time horizon chosen reflects the objective to take a strategic view. One to five-year horizons are considered more operational and responsive. More distant horizons, beyond ten years, are detached from policy cycles. The ten-year horizon chosen is a compromise arrived at to make the exercise policy relevant yet strategic and about planned recovery and anticipation rather than current coping.

The focal question that was posed was:

"What will rural Scotland's food and drink sector look like in 2030?"

8.1 Developing plausible scenarios

A key concept underpinning scenario planning is that of Drivers of Change (DOC). Our scenarios are characterized by two different types of driving force:

- **External driving forces -** drivers that cannot be controlled by the actors in the Scottish Food and Drink Sector but are nevertheless influential in the sector and,
- **Internal driving forces -** parameters that can be shaped by those working within the sector through their choices and behaviour.

Furthermore, the internal and external driving forces of most interest are those potentially having a high impact on Scotland's food and drink sector and those with a high degree of uncertainty associated with them. These high impact high uncertainty drivers are typically referred to as critical uncertainties. Our process utilised the outcomes from the early engagement with the Specialist Advisory Group to identify the critical uncertainties.

A key strength of exploratory scenario planning is in investigating critical uncertainties by asking some 'what if' type questions. The future may unfold in different ways and a range of scenarios can usefully reflect multiple possible outcomes through 'what if' hypotheses. We asked our scenario planners these 'what if questions' by formulating a set of assumptions for each DOC. Put simply, we assumed three plausible conditions for each DOC. We then constructed a Morphological Box or matrix (see figure 3) containing all ten DOC (column 1) and three plausible assumptions for each driver (columns 2,3 and 4).

Figure 3: Morphological Box indicating each of the three scenarios used in the workshop with the ten drivers of change (column 1) and three plausible assumptions for each driver (columns 2,3 and 4). All scenarios assume the level pandemic as of September 2020 persists until a vaccine was developed in 2021.

DRIVERS	ASSUMPTIONS		
EXTERNAL DRIVERS			
SCENARIO	***Thrive/Adapt to survive* (Scenario 1)**	***Digital Nomads* (Scenario 2)**	***Silver lining: supporting change* (Scenario 3)**
INTERNATIONAL TRADE	Significant restrictions on trade (tariff and non-tariff) with EU and/or UK **(Scenario 1)**	Some restrictions e.g., minimum standards; some tariffs **(Scenario 2)**	Free trade deal with EU; similar agreements with other countries to what we have now **(Scenario 3)**
RURAL COMMUNITIES	Rural depopulation; lack of affordable housing; lack of affordable childcare **(Scenario 1)**	Covid-shaped counter urbanisation; some new investment in affordable childcare **(Scenario 2)**	Thriving rural communities; affordable housing; affordable childcare **(Scenario 3)**
CLIMATE CHANGE	Increasing extreme weather events; slow progress on mitigation targets **(Scenario 3)**	Some efforts to maintain 'natural capital'; gradual movement towards 'net zero' **(Scenario 2)**	Stabilising climate through concerted global action; circular economy; strong focus on 'net zero' **(Scenario 1)**
ECONOMY	Worsening conditions; lack of investment capital; net disinvestment (not keeping pace with wear and tear) in infrastructure **(Scenario 1)**	'Green shoots' of recovery'; some new investment in infrastructure (e.g., high-speed broadband) **(Scenario 2)**	Full 'green recovery; availability of investment capital; full and reliable high-speed broadband coverage; reliable and accessible public transport **(Scenario 3)**

INTERNAL DRIVERS			
RURAL WORKFORCE	Shortages of permanent and seasonable labour; low skill levels; lack of tertiary education and training **(Scenario 1 & 2)**	Sufficient for now but few new entrants; net out-migration of young people; limited training provision **(Scenario 3)**	Highly skilled, productive, and prosperous labour force; good tertiary education and training provision and uptake
RETAIL DEMAND	Growing demand for ultra-processed, low-quality food **(Scenario 1)**	Steady demand for food and drink products produced in Scotland **(Scenario 2 & 3)**	Growing demand for high quality food and drink products produced locally; improved diets and health outcomes **(Scenario 3)**
INNOVATION IN FOOD AND DRINK	Little innovation **(Scenario 1)**	Moderate innovation (e.g., new routes to market; some use of new technologies) **(Scenario 2)**	Socially embedded and high-tech innovation; development of food and drink cluster(s) **(Scenario 3)**
LAND MANAGEMENT	Large scale carbon sequestration (e.g., afforestation; peatland restoration) **(Scenario 3)**	Multifunctional: low-input farming; high uptake of agri-environment schemes **(Scenario 3)**	High-input intensive farming **(Scenario 2 & 3)**
MARINE MANAGEMENT	Declining catches; net disinvestment in aquaculture **(Scenario 1)**	Continuation of annual quotas by international negotiation **(Scenario 2 & 3)**	Sustainable catches; ‘green’ innovation in aquaculture **(Scenario 2)**

Within the morphological box created, there are 100s of possible permutations, and it is not practical to consider every combination in a participatory workshop. Therefore, the three scenario outlines were devised by selecting contrasting assumptions for each DOC. All assumptions were not necessarily mutually exclusive and scenario outlines shared the same assumption in some cases. The guiding principle for creating the three outlines was to devise a simple, plausible range of contrasting assumptions to encourage strategic thinking. Three scenario outlines are depicted in separate colours in Fig 3.

- The first scenario outline was designed to be worse than 'business as usual' (BAU) but not the worst-case scenario.
- The second was BAU or the scenario with least sensitivity.
- The third scenario outline was a better than BAU but not the best-case scenario.

The logic behind this approach is that, judging from the past, all futures are likely to contain a mix of threats and opportunities, the future won't be bad for everyone, neither will it be good for everyone, therefore dystopian and utopian scenarios are usually unrealistic and of less use to strategists.

The task set at the workshop was for the Specialist Advisory Group scenario planners to develop the three outlines into more detailed scenarios. They were asked to consider winners and losers in the three different scenarios, to think about the interactions between the various Drivers of Change given the various assumptions, and to think about how risks present in the scenarios they were building might be mitigated and conversely how opportunities might be seized. They were further tasked with naming their scenarios.

All three scenarios assumed that the current level pandemic[44] as of September 2020 persisted until a vaccine was developed in 2021. Halfway through the session a "shock" was introduced – that there would be no vaccine until 2025. Since the workshop took place, there have been advances in the development and rollout of vaccines. Nevertheless, uncertainties remain around how successful vaccination will be, given COVID variants, waning immunity, global vaccine supplies and vaccine hesitancy, therefore the outcomes of the scenarios still offer useful material.

[44] The session took place before the closing of hospitality (pubs / restaurants) on 9th October for 16 days. There were some local lockdowns enforced in some regions of the country.

A fuller account of our scenario exercise is contained in a separate report, A summary of each scenario follows:

8.1 Scenario 1 - Thrive to Survive / Adapt to Survive

Worsening economic conditions face businesses in Scotland. There is a lack of investment capital, net disinvestment in infrastructure and low levels of innovation in the sector. Rural depopulation continues to be problematic exacerbated by both a lack of affordable housing and affordable childcare.

Land management has seen increased high-input, intensive farming. The marine sector suffers a decline in catches and a net disinvestment in aquaculture. Whisky will become a relatively more dominant commodity, and farmers working at a scale able to produce commercial barley will thrive. Distillers will benefit from diversification into other products (e.g., gin). A growing domestic demand for ultra-processed, low-quality food sees imports out-compete Scotland’s small producers. To mitigate adverse effects of competition there is a drive to empower consumers to buy local and equip industry to respond.

Continuing job retention / furlough support is necessary for food and drink businesses as restrictions to business operation persist. Creating easier access to money to aid innovation will benefit the sector greatly. The strategy for food and drink businesses in this scenario will be focused on home markets, trying to retain production, processing and manufacturing, and innovate new processes. There will be a shift towards a more circular economy following push to attract inward investment including regional R&D.

This scenario is likely to lead to increased inequality generally, and a strong geographic pattern of winners and losers, with coastal rural areas particularly badly affected. Smaller producers, artisan food producers and those operating on marginal land will generally be worse off.

8.1.1 Potential Outcomes

Trade

- Significant EU trade barriers impact Scottish F&D.
- Smaller export dependent businesses hit hardest. Trade changes likely to be product dependent as demand changes.

Climate Change

- Progress on climate through concerted global action, with an increase in circular economy activities and a strong policy focus on ‘net zero’.

- Limited COVID dividend through lower consumption, working from home, and decreased travel.

Rural Workforce

- Shortages of permanent and seasonable labour persist.
- A lack of tertiary education and training across the sector underpins a low skill workforce.

Figure 4: Challenges and opportunities for 'Thrive to Survive/ Adapt to survive' scenario

Opportunities

Sectors that can be readily automated set to succeed through diversification.

Demand for inward investment

Demand for brand Scotland

Challenges

Availability of Workforce

Strong dependency on public sector support

Risk Aversion around financial product market, discouraging innovation.

8.2 Scenario 2 – Digital Nomads

Green shoots of recovery are evident in rural Scotland, with some new investment in infrastructure. COVID-19 shaped counter urbanisation, as those in more urban areas relocate to those rural areas adequately supported by ICT infrastructure. Counter-urbanisation leads to further increases in house prices, so affordable rural housing is declining. There is improved digital tertiary education, which helps in retaining young more people in rural areas. There is modest new investment in affordable childcare. There are more affluent retirees moving into rural Scotland. Local services struggle to recruit key workers.

Modest innovation throughout the supply chain supports steady consumer demand for Scottish food & drink products. Somewhat higher levels of home-grown food develop alongside more goods traffic as demand for imports increases. Increased local demand for high quality Scottish food accompanies rising demand.

Land management is dominated by high-input intensive farming, in order to maintain volumes. For the marine environment there is a continuation of annual quotas by international negotiation, as well as involving more sustainable catches with greater 'green' innovation in aquaculture.

8.2.1 Potential outcomes

Trade

- Some restrictions on trade between the EU and/or rest of the UK e.g., minimum standards retained & tariffs.
- World Trade Organisation Most favoured-nation (MFN) status is most likely, with no 'middle way';
- trade with non-EU countries (especially the USA) likely to drive down standards and F&D prices for both consumers and producers.
- Free Trade Agreement with EU. Trading arrangements with UK critical amidst Scottish independence pressures.

Climate Change

- Climate change KEY policy driver.
- There are some efforts to maintain 'natural capital' with gradual movement towards 'net zero'.
- Significant reduction in livestock farming.
- Increases in use of land for carbon sequestration.
- Increased incidence of livestock disease and crop pests.

Rural Workforce

- Shortages of permanent and seasonable labour persist.
- Some increase of 'local' or online tertiary education and training to mitigate a lack of younger workers.
- Lack of opportunities for career development in rural areas. Delivery of in-person training will remain difficult. Supply of new skilled workers continues to be challenging.

Figure 5: Challenges and opportunities for 'Digital Nomads' scenario

Opportunities	**Challenges**
Demand for improved digital infrastructure from movement to rural areas. Circumstances favourable for land use to support progress towards net-zero.	Food and drink standards likely to decrease due to trade restrictions Delivery of in-person training problematic with low skill levels across the workforce

8.3 Scenario 3 – Silver lining: Supporting Change

Full 'green' recovery for the rural economy has taken place benefitting from the easy availability of investment capital, reliable high-speed broadband coverage across rural and island areas, as well as reliable and accessible public transport. As a result of these positive outcomes, rural communities are thriving with abundant affordable housing and childcare. Against this, mental health and wellbeing consequences of COVID are grave. Many of Scotland's young people face reduced opportunities with lack of investment in education and training provision and warnings of a lost generation have proven prescient.

A high-tech Food and Drink sector has reduced bureaucracy and developed vibrant food and drink clusters. Against this, Scottish technological breakthroughs, in many cases, fail to gain first mover advantage in Scotland and are adopted by competitors first in what our experts referred to as the "New Zealand syndrome", whereby UK agricultural innovation has been implemented in NZ first and only recognised by UK farmers once they see proof of concept.

There is a steady demand for food & drink products produced in Scotland, and a growing demand for high quality food & drink products produced locally leading to improved diets and health outcomes. There are opportunities for hospitality to meet growing demand, fuelled by the staycation phenomenon, a pattern likened to the boom around the NC500 route already benefitting local retail.

Land management has made progress towards net zero, with large scale carbon sequestration through afforestation, peatland restoration, and farming innovation. Fisheries will see a continuation of annual quotas by international negotiation.

8.3.1 Potential outcomes

Trade

- Free trade deal with EU in place, with similar agreements with other countries to pre COVID.
- A need to focus on high value export markets for Scottish brands.

Climate Change

- Increasing extreme weather events; slow progress on global mitigation targets.
- A modest carbon dividend is achieved via staycation trends, working from home and decreases in international travel.

Rural Workforce

Sufficient for now but few new entrants. There will likely be a net out-migration of young people from rural areas. There is limited training provision for new entrants and those looking to retrain.

Figure 6: Challenges and opportunities for 'Silver lining: supporting change' scenario

Opportunities

Good prospects for 'aggressive marketing' of brand Scotland's Food & Drink – of transition support, and of rapid response innovation.

Demand for provenance to assist trade targets.

Challenges

'Lost Generation' of Scotland's young people.

Loss of output due to trade-offs between climate change mitigation/ rewilding and food production.

8.4 Working with scenarios

Scenario planning provided a unique opportunity for the Specialist Advisory Group to consider different plausible future opportunities and challenges for Scotland's food and drink sector as it responds to COVID-19. Taking a prospective approach initiated a strategic conversation about interdependencies and cascading effects arising from informed assumptions about critical uncertainties. No one can know what the future will bring but considering plausible 'what if' questions is a form of contingency planning that enables us to manage uncertainty with greater foresight, ensuring that strategic thinking is incorporated in the recommendations made in this report.

9. Recommendations

Building back Scotland's rural economy better requires a partnership approach. Our nine recommendations are addressed to policy makers, agencies, organisations, and the business sector, who must jointly ensure that the necessary actions are urgently taken.

Recommendation 1: Identify and learn from existing cooperative models in comparable rural sectors, using their experiences to develop new collaborative or cluster models that enable sustainable and profitable growth.

9.1.1 Why is this important for the recovery of Scotland's rural Food and Drink Sector?

The COVID-19 pandemic and subsequent lockdown periods had a negative impact on micro and smaller businesses, with those located in rural locations being disproportionately affected. The evidence suggests that lockdown restrictions and prohibitions on "non-essential" activity forced the closure of some drinks production, all food service and all hospitality business. This put an immediate stop to income generation. Research from the Fraser of Allander Institute estimated that approximately 8,000-10,000 Scottish SMEs were at threat of closure due to a lack of cash reserves, with a further 30,000-40,000 facing financial distress. Rural business owners with limited digital connectivity and skills have struggled most as commerce increasingly moved online and cashflow has been even more limited as lending reduces. This has resulted in cost-minimisation strategies rather than new revenue activities and less investment in new business models, technologies, or other activities to capitalise on the new post COVID-19 markets. Given that SMEs make up a large proportion of the economic structure of Scotland, even more so in rural areas, how these smaller businesses survive, adjust and adapt to COVID-19 will have enormous bearing on future economic and societal welfare in Scotland for years to come.

Micro businesses and SMEs in rural locations were also hampered by long term vulnerabilities prior to the pandemic and afterwards. Vulnerabilities identified by the Specialist Advisory Group members include: a lack of digital skills and connectivity, reduced stock assessment beyond the step before and after in the supply chain, limited innovation in relation to product diversity from local sources, over reliance on imports, and a lack of facilities to develop new products with the latest ideas. The structure of industry – with a concentration of SMEs and microbusinesses in primary production and processing and concentration of large businesses in retail - has implications for primary producers and processors in their negotiations over pricing and terms and conditions of trade and for many a weak negotiating position.

Interviews with local stakeholders as part of SEFARI research have shown that agriculture had a mixed response compared to other sectors, with losses of primary produce and skilled labour being key challenges for producers in remote areas – the latter due to closed borders and travel restrictions. The increased number of disruptions combined with the just-in-time principle adopted by large retailers can result in shortages: long-term planning and better stocks relying on local and regional supply chains are needed. This is an opportunity for small rural producers and shops to compete with large-scale actors by building on their connections embedded in the community, but also a challenge, because inability to adapt rapidly can result in serious financial problems for them. In the short term, and if these actors do not grab this opportunity, the loss of rural income can result in market-oriented retail companies abandoning remote towns or reducing their services and thus food security.

The challenges faced by rural food and drink sector are increased by Brexit, which is considered by many farmers a worse threat than COVID-19. Trade flows between the UK and EU have been volatile and reduced as companies have restructured their supply chains, especially in relation to animal-source foods[45].

Scotland also does not have strong local farm co-operatives or local share farming arrangements as their European counterparts often have. This places more threat on individual farms because they potentially do not have the same access to shared equipment and labour resources. There are farm co-operatives in the UK, but they tend to be larger and less prevalent in the hill and upland sector.

Regional clusters of local businesses could offer opportunities for like-minded local businesses to share best practices and work with partners to enable greater supply chain resilience. Clusters are groups of related businesses that are located near each other and/or have reached a sufficient scale to develop specialised expertise, services, and resources. Clusters can develop organically through market processes and enhance performance at the business and/or regional level. The geographical characteristics of clusters are often critical in their establishment and longevity: economic development leads to agglomeration economies which give rise to clustering, which in turn creates further agglomeration economies that drive further clustering. In rural areas, the effects due to the presence of many interdependent firms are weaker but clusters in rural areas can be important drivers of development and emerge from:

- Influential businesses and their wider network suppliers and partners,
- A pre-existing developed set of skills/traditions
- The result of a natural resource

[45] CAP Reform http://capreform.eu/trade-impacts-of-brexit/

9.1.2 How can this recommendation act as a catalyst for economic recovery?

The unprecedented events caused by COVID-19 have led to a rapid reassessment of both the working environment, and the need for data and expertise for the recovery of the sector. It has brought into sharper focus the need for organisations to collaborate more for mutual benefit and efficiency. Supporting collaboration through finding reasons to "do together what cannot be done alone" can help add collective value to the collection of businesses, through shared capacity and capability. Larger companies in rural areas supplying the multiples have contingency plans in place to mitigate against unforeseen incidents to ensure continuous supply where possible, and there could be opportunities to share best practice with others or indeed support a cluster of local companies to work together to enable greater supply chain resilience. The market driven supply chain schemes have a key role to support rural businesses – more needs to be undertaken to ensure promotion to all relevant businesses.

Regional clusters can provide an efficient platform for rural micro-businesses and SMEs to share and access the latest market intelligence, funding, and skills. Across Europe and beyond, clusters have been exploiting their ability to mobilise collective action and intelligence to inform effective policy support. Lessons can be learnt on how clusters can serve as a sharing platform for how regions respond to future crisis, but also for channeling calls for products and services. Clusters generally make a disproportionate contribution to economic growth. Across the UK, clusters account for 8% of UK businesses but 20% of the gross value-added. Clusters are important sources of higher-paying jobs and encourage innovation, investment and talent.

There will be many rural businesses undertaking detailed scenario planning to prepare for different eventualities post-COVID-19 but they will need support. Supporting collaboration across the sector and learning from others in successful sectors will be key. For example, one of the Export Collaboration Charters plan's goals is learning from the whisky sector. Its annual exports are worth £4bn and represent around 80% of Scottish food and drink exports. Additionally, the industry has been highly successful at building high quality and aspirational brands. Business model innovation must go hand in hand with product, process and service innovation. It is encouraging that many technology companies are paving the way in adapting new business models – there is much to be learnt from the food and drink sector.

Recommendation 2: Commit longer term support to Regional Food and Drink Groups focusing on coordinated activities and campaigns that emphasise provenance, sense of place, environment, and product.

9.2.1 Why is this important for the recovery of Scotland's rural Food and Drink Sector?

Scotland is known globally for its high-quality food and drink; visitors to Scotland seek out local produce whilst whisky and seafood from Scotland are globally recognised for their superior quality and provenance. The sector has adapted to respond to the challenges brought about by COVID 19 and Brexit and will retain some of these changes into the future.

Whilst the pandemic has exposed some of the fragilities of rural Scotland's supply chains, the recovery from COVID-19 also presents opportunities to design more equitable and resilient supply chains and explore and expand new markets. Changes in consumer purchasing habits during the pandemic have offered significant opportunities for rural food and drinks businesses to expand sector growth in local food supply and an opportunity for rural Scotland to reach new revenues– Scotland Food and Drink report that 50% of Scottish consumers plan to buy more local food and drinks[46].

Rural areas have unique identities that can often create economic value (e.g., provenance and quality) and can be a social draw (experiential). Creating a narrative around unique characteristics of Scottish food and drink could aid reopening (and expansion of domestic markets) and increase export markets.

However, despite these opportunities challenges currently exist for rural food and drink businesses in getting local products to market timeously and cost effectively. It can be difficult for small producers to connect directly with wholesalers or to collaborate across more complex supply chains. Regional food groups can help overcome some of these problems by pooling resources to facilitate access larger export markets, by creating strong regional narratives via digital and e-commerce projects and delivering food tourism projects and events.

Regional Food groups can be formed of a variety of businesses and stakeholders across the food and drink supply chain including producers, hospitality and tourism businesses, independent retailers and markets and others interested in growing the local food economy. There are currently 18 regional food groups operating across Scotland. Whilst each group is unique in that it serves the needs of its geographic membership, they all share a common goal of creating more visibility and awareness of the sector and businesses in their area to drive sustainable and profitable growth. These groups are funded by a mixture of membership income and public support from local authorities, enterprise agencies and Scotland Food and Drink.

[46] Scotland Regional Food Groups https://www.foodanddrink.scot/regional-food-growth/regional-food-groups/

9.2.2 How can this recommendation act as a catalyst for economic recovery?

Regional food groups have the potential to connect SMEs with a wider 'food ecosystem' including tourism, agriculture, manufacturing, logistics and supermarkets, supporting a wider economic recovery for rural Scotland. Regional food groups will play a vital role in linking businesses and sectors to deliver mutually beneficial outcomes and also have the potential to complement the work of regional food and drink business clusters. Recent initiatives that have focused on the growth of regional food have been successful in demonstrating how such projects generate income for the Scottish economy. For example, "Connect Local" – a partnership between SAC Consulting, SAOS, Seafood Scotland and Scottish Government – supported more than 1200 businesses, awarded 79 Regional Food Fund grants to the value of £359K and generated an overall project impact of £53.5m. Every £1 of Connect Local spend generated £18.70 to the economy. This initiative ended on 31st March 2020 but continues, under the umbrella of Scotland Food & Drink's UK Market Development (UKMD) team. There is also an opportunity for regional food groups to work with local authorities to encourage cooperation between cities and regions to ensure the rural food and drink sector does not exist in isolation from urban centres.

Recommendation 3: Target support towards micro businesses and SMEs to enable them to play a more significant role in the economy, thus retaining value in local communities.

9.3.1 Why is this important for the recovery of Scotland's rural Food and Drink Sector?

The pandemic and Brexit have both demonstrated that a globalised world can create shocks that effect all parts of society. Resilient and robust food businesses and supply chains are critical to long term food security and economic prosperity. Businesses and stakeholders need to take a holistic view and collaborative approach to developing shorter and more equitable supply chains that promote sustainable and profitable long-term growth. This is a complex challenge which requires improvements to business models, in local infrastructure and changes in culture. Society also needs to reconsider how it values its natural capital and food.

SMEs need to access the right support at the right time from the right providers as they grow; whether to understand market trends, develop workforce, to invest in expansion or to diversify.

Finance is clearly important for a COVID 19 recovery and for transitioning towards a green recovery. To accelerate this, there is the potential for enterprise agencies to develop a portfolio of strategic priorities for rural Scotland's Food and Drink sector and to present this to the Scottish National Investment Bank and other inward investors. Securing appropriate finance to fund novel and sometimes more risky approaches is key to the rapid adoption of novel technologies. While initial investment may be riskier, the rewards will be greater for initiatives that are successful. Such an approach could be useful at promoting a sustainable recovery in the food and drink sector at pace.

Small business grants have provided seed funding for business to migrate towards new digitised business models, innovative coalitions and partnerships. Continued investment in IT infrastructure is essential over the short and medium term. This should be complemented with advice from Business Gateway in programmes. Expert advice and seed funding could set SMEs on a journey towards embedding new technologies into their business, by developing their understanding of how this will add value to their business.

Digital marketing and e-commerce present new opportunities and are also key areas for upskilling micro and small businesses, who often lack knowledge, time, understanding of target audiences and differing social media platforms. It is important to enable rural businesses to get online and learn how to maximise sales to sustain their competitiveness and opportunities for growth.

The Flexible Workforce Development Fund (FWDF) aims to encourage rural based employers in the food and drink sector to invest in work-based learning to increase productivity and to improve access for small businesses. Colleges have been instrumental in delivering workforce upskilling, reskilling and soft skills through full utilization of the allocated £10 million fund and have actively delivered against the requirements of the FWDF since its inception in 2017. Universities and colleges will be fundamental to the long-term recovery of the food and drink sector. This view has been echoed by other reports, such as the Enterprise and Skills Strategic Board, The Advisory Group on Economic recovery and Scottish technology ecosystem: review (Logan report).

9.3.2 How can this recommendation act as a catalyst for economic recovery?

The food and drink sector has a significant impact in terms of the multiplier effect it has in local (rural and urban) communities and the wider Scottish economy. The sector does not operate in isolation and there are considerable interdependencies and benefits in tourism, transport, logistics, technology and software, finance, and health and wellbeing.

There is a need to review in detail the relationship between sectors to understand how they can more positively impact upon the food and drink sector in terms of supporting longer-term recovery and development.

Like other sectors in the rural economy, access to a local workforce is paramount to sustaining and growing SMEs. The labour market is constrained and there is competition between sectors for employees. Business and the public agencies should take a co-ordinated and solution focused approach towards:

- Incentivising relocation and inward population migration to rural and remote areas
- Ensure there is adequate provision of affordable housing in remote and rural areas
- Continue investment in public transport, infrastructure and digital connectivity

The points above are not only important to the prosperity of rural food drink sector but are critical in revitalising rural Scotland.

Recommendation 4: Increase commitment to environmental and social value of goods and services in public procurement, particularly greater SME involvement and delivery of local produce.

9.4.1 Why is this important for the recovery of Scotland's rural Food and Drink Sector?

Scotland's public bodies spend an estimated £12.6 billion on goods and services annually (2018-2019) and contribute around 4.4% to the Scottish economy – public procurement is, therefore, a key economic driver[47]. The Scottish Government regulates larger contracts based on specialist or geographic requirements to create opportunities for SMEs and provide funding through the Supplier Development Programme by helping SMEs to develop procurement bids. In 2019/20, just under £120,562,000 was spent on 1,177 SMEs supplying goods and services for the Scottish Government[48]. This is good progress but there is potential to help retain value in local areas and shorten supply chains by promoting local produce.

Government and local authorities must take a leadership role in supporting the long-term recovery of the rural food and drink sector by creating more opportunities for SMEs in public procurement. As well as continuing access to procurement to food and drink SMEs, local and national governments should procure more local food even if it may be more expensive than non-local alternatives.

Food for Life Scotland (FFLS), run by the Soil Association and funded by the Scottish Government, is a well-established programme, which encourages the local sourcing of food in the public sector. Specifically, FFLS helps local authorities to serve nutritious and environmentally sourced school meals through the Food for Life Served Here award scheme: the bronze award focuses on prepared and seasonal food while the silver and gold reward those serving locally sourced and environmentally friendly food.

Argyll and Bute Council allocated 67% of their 2019-2020 procurement spend to SMEs identifying the provision of school meals outside of peak hospitality season. The Council have

[47] Procurement activity: annual report 2018 to 2019 https://www.gov.scot/publications/annual-report-procurement-activity-scotland-2018-19/pages/4/

[48] Scottish Government Procurement annual report: 2020 https://www.gov.scot/publications/scottish-government-procurement-annual-report-2020/pages/10/

collaborated with local suppliers to provide smaller tenders – such as tenders for very specific geographical areas, holding supplier engagement events to talk directly with suppliers, and helping suppliers navigate the tendering process[49].

The Specialist Advisory Group recognised this as good practice, and one which many SMEs are likely engaged in, and would encourage further support for this approach from the local and national government. However, the group also acknowledge the challenges in doing so given shrinking public budgets. This could stimulate new markets and increase demand for goods and services from local microbusinesses and SMEs. This links to recommendation 3 enabling microbusinesses and SMEs to be better prepared and ready to respond to greater opportunities. There could be enabling of a role for clusters and cooperatives to act as an interface between SMEs and these opportunities.

9.4.2 How can this recommendation act as a catalyst for economic recovery?

This will act as a catalyst for economic recovery as it will:

- Provide new and stable opportunities at scale for local businesses
- Increase the value retained by local areas
- Greater use of microbusinesses and SMEs
- Improve consumer choice aligned with the wider public's shifting preferences for local food
- Encourage change aligned to wider national ambitions through the private sector by applying selection criterion on contracts (e.g., those paying a living wage, offering training and creating skilled jobs)

Recommendation 5: Urgent joint action to ensure long-term profitability of food and drink, tourism and hospitality sectors, underpinned by a strong value proposition showcasing the regions, attracting visitors and boosting customer experiences.

9.5.1 Why is this important for the recovery of Scotland's rural Food and Drink Sector?

The restriction on movement during COVID-19 has severely impacted upon the Scottish tourism industry. A Highlands and Islands Enterprise business panel survey in March 2021

[49] Soil Association: Local routes to market in the public sector https://www.soilassociation.org/our-work-in-scotland/food-for-life-scotland/how-food-for-life-scotland-can-work-with-your-business/local-routes-to-market-in-the-public-sector/

found that within the tourism sector economic confidence was below average[50]. Tourism within rural Scotland is inextricably linked with the food and drink sector and the tourism recovery will directly impact food and drinks business. Joint strategies should therefore be developed to create opportunities in both sectors. For example, the UK has seen a surge in domestic tourists, and that is especially true for rural Scotland. Visitors are looking for an authentic experience, and the provision of local food and drink in all types of hospitality settings is an opportunity for both tourism businesses and food and drink producers. Joint strategies should coalesce around a shared vision and ambition for the profitable recovery of the rural food and drink sector with tourism and hospitality based on a strong value proposition that showcases regions and boosts customer experiences.

Both sectors must recognise their co-dependencies moving forward and as such should ensure peer learning opportunities are present within local business communities. There may be a role for regional food and tourism groups in developing cross-sector opportunities, and in sharing experiences and lessons learned between the sectors both locally and nationally.

9.5.2 How can this recommendation act as a catalyst for economic recovery?

Tourism, food and drink and hospitality are all integral parts of the Natural Economy. In 2018, the natural economy contributed to the Scottish economy £29.1 billion Gross Value Added (GVA), equivalent to more than a fifth of Scotland's total GVA. In 2018 the sector employed 290,100 people, supporting 11% of employment across Scotland. If the energy sector is excluded from the definition, the natural economy generated £8.2 billion GVA and supported 223,100 jobs in Scotland[51]. Whereas most of the GVA generated by the natural economy is due to energy, employment is more distributed across industries as four sub-sectors – tourism, agriculture, energy and food and drink. Nature-related tourism makes the largest contribution with over 87,000 jobs[52].

The natural economy has the potential for a range of non-urban areas to collectively drive economic recovery and increase employment opportunities. The power of the non-urban regions in this domain is critical and there will be a continuing need for skills, both upskilling and reskilling across the Food and Drink, Tourism and Hospitality sectors. A strategic approach will be required from both sectors alongside the Education sector to ensure there is access to a skilled workforce that will support the long term and profitable recovery of the rural food and drink sector with tourism and hospitality.

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[50] HIE Business Panel wave 18 hie-business-panel-wave-18-responding-to-economic-challenges-report-march-2021.pdf

[51] The growth potential of Scotland's Natural Economy - BiGGAR Economics

[52] (Biggar Economics report to SRUC, 2020).

Recommendation 6: Develop seamless support systems, with a focus on primary producers and their supply chains, to drive diversification, sustainable, profitable growth.

9.6.1. Why is this important for the recovery of Scotland's rural Food and Drink Sector?

For the rural food and drink sector, the innovation landscape is complicated and difficult to navigate. This is especially true for rural SMEs who often have limited awareness of opportunities (usually outside their region), a lack of time, capacity of small teams, and the requirement to match-fund projects. In addition, many innovation projects require rural businesses to travel outside of their local area, and the associated costs of travel and accommodation further restrict the ability to establish and maintain successful long-term relationships and operate triple helix collaborations with academia and the public sector to drive innovation within the business base.

The rural economy would benefit from a streamlined innovation support system that takes innovation expertise and funding into the regions where businesses are located. This would enable businesses to respond to macro drivers quickly so they could capitalise on opportunities to produce innovative new products, processes and approaches. This will require cultural and structural change from across academia, industry and Government.

Building a workforce in rural areas is a longstanding challenge, exacerbated by post-Brexit labour shortages. For example, the long-term decline of the agricultural skills market is evident, with arable and mixed farms often unable to source skilled and experienced workers. Investment in innovation and training should cover precision tools and digital skills to improve efficiency and profit margins and help transition towards net zero. Community Led Local Development (CLLD) can be used to introduce local public/private/community partnerships with clearly defined aims to encourage the sector (a follow on from LEADER funding) to find genuinely local, sustainable solutions. More emphasis should be placed on awarding funding of grants and loans to support businesses that have a clear strategy for sustainable growth and who plan to improve the quality of employment in their local area.

For many years Scotland's regional rural development measures have included the Scottish Rural Development Programme (SRDP), which originates from the EU's CAP Pillar II European Agricultural Fund for Rural Development (EAFRD). SRDP was a suite of programmes to support rural development. Specific contributions to food and drink (outside primary production) from the SRDP schemes were through the Food Processing, Marketing and Cooperation fund and the Knowledge Transfer and Innovation Fund (KTIF).

The Scottish Government is developing its first ever local food strategy which aims to make high quality food accessible to all and promote the benefits of locally produced food and drink. The three pillars of the strategy are connecting people with food, connecting producers with buyers and harnessing the buying power of public sector procurement. Vertical farming, a new agricultural technology that could help support local food production, is also included in the consultation. It would seem likely that future public support to the food and sector, including the next iteration of programmes such as Food Marketing Processing Grant, will be aligned to achieving the ambitions of the strategy.

9.6.2 How can this recommendation act as a catalyst for wider economic recovery?

The long-term recovery and Brexit will require a fully co-ordinated approach with funding from Government and industry to promote the growth of regionally produced, high quality, more sustainable food. EU structural funds which have contributed significantly to rural economic developed, will be replaced by the UK Shared Prosperity Fund (UKSPF) in 2022[53],. However, it is not entirely clear what form this new fund or other 'levelling up' initiatives will take and how much the UK Government will apportion to Scotland. Reflecting on The Enterprise & Skills Strategic Board, we would advocate that the support landscape bases their priorities on simplifying support delivery through:

- Streamlining the complicated landscape and helping businesses navigate and access appropriate funding.
- Quicker release of funding.
- Reducing bureaucratic hurdles for businesses, particularly rural microbusinesses and SMEs.
- Targeted support through tax credits/business rates.

EXAMPLES

A novel collaborative initiative formulated in a similar way to Innovate UK's Strength in Places Fund could act as a catalyst to development of opportunities of scale suitable for both home and international markets.

It is encouraging that testbeds such as 5G RuralFirst3 led by Cisco and lead partner University of Strathclyde are already underway exploiting 5G benefits for rural communities and industries like agriculture, broadcasting, and utilities, to address the challenges of and build the business case for 5G rural deployment.

[53] What is happening with the new Shared Prosperity Fund? https://spice-spotlight.scot/2021/06/02/what-is-happening-with-the-new-shared-prosperity-fund/

Recommendation 7: Substantially scale-up long-term, mission based strategic research and development.

9.7.1 Why is this important for the recovery of Scotland's rural Food and Drink Sector?

The Scottish Government's Ambition 2030 report makes clear reference to the Food and Drink sector's responsibility to "… recognise the need to do more with less, reducing our environmental impact and being ready for challenges around food waste, climate change and biodiversity".

The industry's recovery from the COVID-19 pandemic provides an opportunity for the sector to incorporate low-carbon, environmentally friendly innovations, particularly in relation to how the sector generates economic benefit without compromising natural capital. Identifying the next generation of "game-changing" opportunities will help accelerate this ambition towards Net Zero and a circular bioeconomy. However, the key to unlocking real change within the sector will require significant system change, particularly in the economics that play into climate change. It will be important to ensure all food and drinks businesses are taken on this system change journey and collaborative working across the sector overcomes previous barriers of siloed approaches. Beyond access to new technologies, ensuring uptake of existing good-practices and across the food chain will have significant impacts micro businesses and SMEs' ability to respond to emerging market drivers. It will also be particularly important to ensure farmers and land managers are brought on this journey by optimizing resource use, natural capital and carbon storage to build climate and economic resilience for the food and drink sector.

Diversification of rural businesses to maximise potential can be more readily established or maintained in rural locations if broadband and access to digital infrastructure and support are adequate. Enhancing the digital infrastructure and improving accessibility of disruptive technologies and innovative approaches are to be fast tracked across rural settings. SMEs also need the right advice to transform innovation into profit-generating business activities.

Before and beyond the farm gate, digital infrastructure is an enabler to adopt future farming practices; including but not limited to:

- Sensors in food production, manufacturing and distribution.
- Stock and inventory management.
- Tracking using technologies such as blockchain.
- Data collation, analysis to inform continuous decision making.

However, smaller businesses have often struggled to 'access' research institutions and adopt the most up to date technologies. A recent report by NESTA highlighted a high regional imbalance in UK spending on research and development. Accessing appropriate and relevant support for research and development and innovation across rural Scotland is a challenge both from a business and university perspective and is likely to be made even more so by Brexit due to changes in research funding. In most cases it will take considerable incremental steps where first stages may be seed investment opportunities.

Additional challenges and (lack of) opportunities for collaboration between universities and rural F&D SMEs are often due to the unique geographies of the sector, time, personal resource and capacity of small teams and the ability of SMEs to achieve match-funding for projects. The cost of travel and accommodation can act as an additional barrier to establishing long-term business-research relationships. Enabling universities and colleges to keep pace with business needs and provide relevant, flexible and varied education and training opportunities for all levels will also contribute to ensuring the COVID generations do not become lost generations.

9.7.2 How can this recommendation act as a catalyst for wider economic recovery?

Achieving net-zero has been deemed the greatest commercial opportunity of our time (Mark Carney, former Governor of Bank of England and United Nations special envoy for climate action and finance), as shifts in global investment schemes see climate change as a high priority for businesses. Increased interest from investors in carbon finance and the agricultural transition of subsidies are likely to reward farmers and land managers for activities that actively reduce the sector's carbon footprint, increases biodiversity and reduces inputs such as fertilisers and pesticides. Achieving the systematic changes required to introduce a circular economy could not only exert significant advances towards a Net-Zero economy, but also required improvements in efficiency and productivity. It should be a central plank of revised rural strategy to introduce a green recovery post pandemic. The future growth of UK agriculture and food processing industries will be determined by their success in improving productivity and the adoption of innovative technology. Some examples of new technologies include greater use of novel products e.g., seaweed extracts for preservatives, green proteins, AI and other data technologies efficiently moving produce throughout the supply chain and increasing social value of food and drink. There are also advances being made in vertical farming, robotics and automation.

As well as new technologies, existing technologies could be more widely adopted, at a scale that could make significant contribution to reducing environmental impact and increase food security. These range from genomics in animal and crop production to soil management and environmental auditing tools. There remains a need for applied scientific research and technical knowledge exchange and training to support the adoption of science and innovation in businesses.

Food and drink feature strongly in City and Region Deals, funded by UK and Scottish Governments, with every area in Scotland having a least one food related project. It will be imperative to ensure that these transformational deals create opportunities for SMEs, as business input and participation is vital for the long-term prosperity of the sector.

Recommendation 8: Target support for the sector at business development opportunities that will create inspiring and innovative workplaces with clear and integrated career pathways, continued professional development, lifelong learning and fair wages.

9.8.1 Why is this important for the recovery of Scotland's rural Food and Drink Sector?

The food and drink sector depends on people, engaged in a wide range of technical, skilled, semi-skilled and unskilled roles. COVID-19 led to increased numbers vulnerable to unemployment and this included some parts of the food and drink sector. A representative sample survey of the economically active population in Scotland found there are higher levels of furloughed and unemployed staff in wholesale and retail, mostly likely linked to the closure of tourism and hospitality. It was also found there is a higher proportion of workers in these sectors residing in accessible rural and remote small-town locations, which also has implications for the rural economy in Scotland.

The food and drink sector in Scotland has often struggled to "sell" careers in the sector. There are challenges around the image of the sector, what the careers might involve and support the skills needs of businesses operating in the sector. As the sector adapts to changes in customer trends (including a growing desire for sustainably produced products), sectoral and regional skills investment planning will need to reflect the requirement of the business and support the upskilling and transition training necessary to respond to new sustainable and technology-driven business models and processes.

9.8.2 How can this recommendation act as a catalyst for economic recovery?

The urgency of the current situation brings us to the topic of 'fair work'. Evidence shows that fair work plays an important role in supporting positive behaviours and attitudes in employees, leads to improved business performance and to a better quality of jobs for individuals at all levels. The food and drink sector in rural Scotland has an opportunity to be world leading in work life balance, where fair work drives success and prosperity. Scottish Government and its agencies must provide support for businesses to understand why and how fair work is relevant to their organisation and employees, and to embed new practices that are right for their circumstances.

Attracting new talent to rural areas and thus creating vibrant rural communities will help retain and bring in new money to the local economy. However, infrastructure in rural Scotland, such as housing, transport and broadband, inhibits population growth and often prevents young people from staying in an area or is a barrier to newcomers. Local authorities need to provide leadership by identifying innovative solutions to overcome these long-standing challenges which stifle business growth.

Recommendation 9: Prioritise the long-term sustainability of rural community and social enterprises, recognising their important role in community resilience, health, and wellbeing.

9.9.1 Why is this important for the recovery of Scotland's rural Food and Drink Sector?

The impacts of COVID-19 not only highlighted inequalities in relation to food security and food poverty across rural Scotland but have demonstrated that during a global crisis geographical location can make these inequalities more profound. The Food Foundation suggests that more than five million people in households with children in the UK experienced food insecurity during the lockdowns, and this figure is growing as inflation soars. Community organisations and social enterprises, with local presence and a unique understanding of local issues, are well placed to respond quickly and efficiently to community needs in times of crisis, and during COVID-19 demonstrated their integral role in delivering vital services.

A number of qualitative reports have suggested that these organisations provide lifeline services in local communities including food distribution to vulnerable residents and financial and moral support to those experiencing hardship (e.g., sudden unemployment). Third sector funding during the pandemic has been impactful, and this would suggest these organisations play an important role in societal wellbeing. As the food and drink sector looks forward to an economic and environmentally sustainable future, prosperity across society should be included in planning, perhaps through multi-sector partnerships such as Sustainable Food Places.

9.9.2 How can this recommendation act as a catalyst for wider economic recovery?

Ensuring the long-term financial sustainability of rural community and social enterprises will allow them to continue work in supporting the recovery of the food and drink sector. Community organisations have already demonstrated their vital role in support for communities during the COVID-19 pandemic and for future recovery of the food and drink sector. Some examples include providing fresh healthy food to those within communities without transport, increasing food bank provisions as well as bringing together people in emotional support settings. Many organisations have also supported local growers by creating market routes through community food larders and social supermarkets. Future types of support from the third sector could encourage small business grants, community-based food businesses and retailers to support local growers and producers. Small producers often cannot compete with mass producers on price, so subsidising small producers to ensure they could compete on price with the large retailers would enable more food to be sold in the local community rather than being exported. It would also reduce dependency on the large retailers by making local food more available.

Community organisations and social enterprises are also a vital partner with research and development projects in the food and drink sector. One tenth of collaborative projects supported by Interface in the past year have been with third sector organisations or social enterprises. Projects include supporting business model innovation and community asset and wealth building.

10. Summary and next steps

Rural areas constitute 98% of the land mass of Scotland[54]. This productive natural capital is essential to the long-term economic, environment and social prosperity of the nation, for generations to come.

The impact of COVID-19 has highlighted the importance and vulnerability of the food and drink sector in rural Scotland, with some inequalities exacerbated by Brexit.

These inequalities and challenges appear to be embedded in the current structure of support systems for business, communities, and academia. This Specialist Advisory Group calls to action key public sector leads to take forward these nine recommendations to create a sustainable, resilient and prosperous rural food and drink sector for Scotland.

[54] Rural Scotland Key Facts 2018, Scottish Government https://www.gov.scot/publications/rural-scotland-key-facts-2018/

10.1 Call to Action

Recommendation	Key organisation(s)	Role(s)
1. **Identify and learn from existing cooperative models in comparable rural sectors, using their experiences to develop new collaborative or cluster models that enable sustainable and profitable growth.**	Highlands and Islands Enterprise Scottish Enterprise Scotland Food and Drink South of Scotland Enterprise	Provide support and facilitation for the development of regional food and drink clusters.
2. **Commit longer term support to Regional Food and Drink Groups focusing on coordinated activities and campaigns that emphasise provenance, sense of place, environment, and product.**	Highlands and Islands Enterprise Local Authorities Scottish Enterprise Scotland Food and Drink South of Scotland Enterprise	Continue support for businesses in developing regional food (and drink) groups, promoting regional food and problem-solving between regions.
3. **Target business support towards micro businesses and SMEs to enable them to play a more significant role in the economy, thus retaining value in local communities.**	Business Gateway Colleges & Universities Highlands and Islands Enterprise Local Authorities Scottish Enterprise South of Scotland Enterprise	Focus on upskilling digital marketing and e-commerce skills. Invest in digital infrastructure and provide start-up and small business loans for new supply chain technologies.
4. **Increase commitment to environmental and social value of goods and services in public**	Local Authorities NHS	Develop accessible and fit for purpose public contracts accessible for local

procurement, particularly greater SME involvement and delivery of local produce.	Scottish Government Scottish Procurement Alliance	producers. Provide training and guidance in public procurement and the Tender process.
5. **Urgent joint action to ensure long-term profitability of food and drink, tourism and hospitality sectors, underpinned by a strong value proposition showcasing the regions, attracting visitors and boosting customer experiences.**	Scotland Food and Drink Scottish Government Scottish Tourism Alliance	Encourage alignment in policy recommendations, joint marketing campaigns, improving market insights and planning through information sharing.
6. **Develop seamless innovation support systems, with a focus on primary producers and their supply chains, to drive diversification, sustainable** and **profitable growth.**	Local Authorities & other Public, Private and Civil organisations who are members of the Local Action Group	Utilising Local Action Groups to tackle important local priorities using delegated powers of strategy and delivery.
7. Substantially scale-up long-term, mission based strategic research and development	Colleges & Universities RESAS Scottish Funding Council	Engage with innovation centres and communities to ensure rural business access to new research outputs and technologies for quick roll-out on the ground
8. **Target support for the sector at business development opportunities that will create inspiring and innovative workplaces with clear and integrated career pathways, continued professional development, lifelong learning and fair wages.**	Colleges and Universities Rural Businesses Scottish Government Skills Development Scotland Trade bodies	Commit to a Scottish business pledge as living wage employers. Ensure training opportunities align with the rural skills assessment and are accessible to all ages.

9. **Prioritise the long-term sustainability of third sector and social enterprises, recognising their important role in community resilience, health and wellbeing.**	Scottish Council for Voluntary Organisations Social Enterprise Scotland Scottish Government	Value the strategic input and delivery role of local social enterprises and the third sector. Explore long-term funding mechanisms that allow them to expand their role.

HIE

SEFARI

Scottish Enterprise

SOUTH of SCOTLAND ENTERPRISE

SCOTLAND FOOD & DRINK

University of the Highlands and Islands
Oilthigh na Gàidhealtachd agus nan Eilean

SRUC

The James Hutton Institute

fdf Scotland
food & drink federation
passionate about food & drink

1495
UNIVERSITY OF ABERDEEN
The Rowett Institute

Annex 1 – Specialist Advisory Group Brief

SEFARI & Highlands and Islands Enterprise
COVID-19 Response – Food and Drink Sector

COVID-19 Food and Drink Sector Think Tank for Scotland's Rural Economy & Expert Advisors

In the face of COVID-19 and the immediate impact on the Food and Drink Sector across all of rural Scotland, the Scottish Environment Food Agriculture Research Institutes (SEFARI) and Highlands and Islands Enterprise (HIE) propose the establishment of a SEFARI supported knowledge exchange Think Tank[1] with Expert Advisors to provide insights and recommendations on how recovery of the food and drink sector and its supply chains (upstream and downstream) can most effectively be supported across the diversity of rural Scotland and how this can be a catalyst for wider rural economic recovery both from the perspective of COVID-19 but also the anticipated impact of Brexit.

This work will align with and contribute to the Scottish food and drink sector recovery planning and to recovery planning for the wider rural economy.

The purpose of the Think Tank is to provide HIE, South of Scotland Enterprise (SoSE), Scottish Enterprise (SE) and partners with evidence for supporting the recovery of the food and drink sector nationally and with specific consideration of geographic and regional sector need with a specific focus on the "restart" and "recovery" post lockdown phases.

It is proposed that the activity is taken forward rapidly, is aligned to the nature and severity of the situation, is inclusive in its approach and application, and considers the principles of 'sustainable development' in its fullest sense (i.e. environment, society and economy).

The Think Tank will be supported by Expert Advisors, a secretariat and fellowship (remits are provided in Annex 1). Indicative timelines are proposed as:

Friday 31 July	Initial report
Friday 2 October	Draft/Final report and recommendations published
Friday 30 October	Consideration given to future role of Think Tank and Advisory Group (decision made to disband or refocus to respond to outcomes and further support that may be necessary)

For more information on this opportunity please contact Charles Bestwick c.bestwick@abdn.ac.uk from SEFARI Gateway or Inga Burton inga.burton@hient.co.uk from HIE.

[1] SEFARI, the Scottish Environment, Food and Agriculture Research Institutes, are responsible, with Higher Education Institute partners, for delivering the Scottish Government (Rural and Environment Science and Analytical Services, RESAS) funded Strategic Research Portfolio on environment, food, agriculture, land and communities. The Portfolio includes the Strategic Research Programme 2016-2021 (SRP), the Centres of Expertise, Innovation partnerships and underpinning capacity funding for national resources within SEFARI. The SEFARI Gateway is the knowledge exchange and impact hub for SEFARI.

SEFARI & Highlands and Islands Enterprise
COVID-19 Response – Food and Drink Sector

ANNEX 1 Remit: COVID-19 Food and Drink Sector Think Tank for Scotland's Rural Economy & Expert Advisors

Introduction

The ***COVID-19 Food and Drink Sector Think Tank for Scotland's Rural Economy & Expert Advisors*** was set up in May 2020.

The group is interdisciplinary and brings together representatives from the Highlands and Islands, SEFARI and key stakeholders in the food and drink industry and rural sector to recognise and understand the immediate coronavirus (COVID-19) impacts and opportunities in rural Scotland.

Purpose and remit

The purpose of the Think Tank will be to provide the HIE, South of Scotland Enterprise (SoSE), Scottish Enterprise (SE) and partners with advice to support the recovery of the Food and Drink Sector nationally but with specific consideration of geographic and regional sector needs with a specific focus on the "restart" and "recovery" post lockdown phases. This will include identifying the scale and nature of challenges and opportunities in the sector and supply chains, policy responses to support opportunities and mitigate risks, and articulating how these can have an early and positive impact on recovery of the rural economy. The work should ensure that the knowledge and expertise that exists at a national level is applied within regional and local "place based" contexts to ensure maximum benefit. It will:

1. Identify and articulate the impacts and opportunities for the food and drink sector in rural Scotland, including how these differ across Scotland's rural geographies
2. Consider specifically the impact of COVID-19 on the pre-existing challenges and opportunities of EU Exit. Identify the cumulative impact on, for example, supply chains and re-establishing international markets
3. Explore how food and drink supply chain linkages have been impacted upon and how this in turn has impacted upon the rural economy. Assess what is required to repair, reinstate, enhance and capitalise on these linkages, for food and drink businesses and upstream / downstream supply chains such as primary sectors and tourism.
4. Define the principles and values that should guide the recovery of rural Scotland's food and drink sector and identify the socio-economic benefits that can be realised locally, regionally and nationally
5. Propose priority areas and interventions to support the "restart" and "recovery" of the food and drink sector in post COVID-19 rural Scotland acknowledging the local and regional context.
6. Document outcomes with recommendations for policy development and interventions to support the recovery and long-term sustainability of the food and drink sector post quarantine across rural Scotland, identifying the differences at regional (e.g. Highlands and Islands) and sub regional (e.g. HIE Area Office / Local Authority) level.

Specialist Advisory Group Members

Highlands and Islands Enterprise
Scottish Environment Food and Agriculture Research Institutes
Scottish Rural College
James Hutton Institute
Rowett Institute, University of Aberdeen
University of the Highlands and Islands
Scottish Government (Observer)
Scottish Enterprise
South of Scotland Enterprise
Scotland Food and Drink
Food Federation Scotland
National Farmers Union Scotland

Governance and secretariat

Elaine Jamieson	Highlands and Islands Enterprise (Chair)
Inga Burton	Highlands and Islands Enterprise
Charles Bestwick	SEFARI Gateway
Steven Thomson	Scotland’s Rural College
David Watts	Rowett Institute, University of Aberdeen
Julia Mitchell	Rowett Institute, University of Aberdeen
Deb Roberts	James Hutton Institute
Dominic Duckett	James Hutton Institute
Sarah Jones	Scotland’s Rural College
Andrew Kelloe	SEFARI Gateway
Abigail Williams	Scotland’s Rural College

Expert Advisors and contributors

Skills Development Scotland
Kelvin Valley and Falkirk LEADER Programme
University of Highlands and Islands
Borders College
SRUC
Quality Meat Scotland
QMU's Scottish Centre for Food Development and Innovation.
Colleges Scotland
James Hutton Institute
Innovation School, Glasgow School of Art
Interface
Angus Council
Robert Gordon University

Annex 2 – Questions and Stakeholder engagement approach

SEFARI & Highlands and Islands Enterprise
COVID19 Response – Food and Drink Sector 19/08/2020

Request for Expert Advice
Covid-19 Food and Drink Sector Think Tank for Scotland's Rural Economy

This Think Tank[1] is analysing the inequalities and challenges in relation to the Food and Drink Sector pre-COVID19, the impact of COVID19 and some of the key principles, values and priorities for the future of the sector and of rural Scotland.

To inform the next phase of our work we would welcome your views on any or all of the questions below (Annex 1). Responses should be brief with reference to any key documents, papers or weblinks also welcome. A single organisational response is preferred. We've identified 15 key questions, however if you wish to provide additional information that may be helpful to support the recovery and longer-term sustainability of the sector in rural Scotland for example of best practice or evidence of data gaps that may not be captured by these, please do include these in your response.

We would appreciate responses no later than **Wednesday 16th September** to Sarah Jones (sarah.jones@sruc.ac.uk), SEFARI fellow for the COVID-19 Think Tank

When collecting data of any kind, SEFARI Gateway and its institutions must adhere to GDPR and privacy guidelines. Please ensure you complete the table below, to ensure we can include your response and acknowledge your contribution in the final report. There is also a detailed privacy notice issued with this request.

Informed consent Initial here

I confirm that I have read, or had read to me, and understand the information sheet and Think Tank brief dated _19_/_08_/_20___ for the above study.	
I understand that my participation is voluntary, and I am free to withdraw at any time, without providing any reason and without my legal rights being affected.	
I understand the study is being conducted by researchers from the SEFARI consortium as part of the COVID-19 Food and Drink Sector Think Tank for Scotland's Rural Economy	
I understand that confidentiality will be maintained at all times and I understand that any content, or direct quotations from this study, that are made available through reports, academic publications or other academic outlets will be anonymized so that I cannot be identified, and care will be taken to ensure that other information in this study that could identify myself is not revealed.	
I agree to take part in the above study, and to be being contacted again at a later date in relation to this study.	
I agree for my name, or organisation/affiliation I am submitting on behalf of, to be listed on a list of contributors as part of the report resulting from this study.	
I acknowledge that I have read and understood the privacy notice.	

Signature of Respondent: Date:
(Can be typed)

1

SEFARI & Highlands and Islands Enterprise
COVID19 Response – Food and Drink Sector 19/08/2020

The Think Tank may wish to discuss some responses in more detail, if you are happy for us to contact you, please enter your contact details below:

Name:
Organisation/Grouping responding on behalf of:
Preferred contact (e.g. e-mail address, telephone number):

For further information please refer to the Think Tank Brief circulated with this request or contact Inga Burton University Engagement Manager, Highlands and Islands Enterprise inga.burton@hient.co.uk or Charles Bestwick, SEFARI c.bestwick@abdn.ac.uk

Enc. Annex 1

SEFARI & Highlands and Islands Enterprise
COVID19 Response – Food and Drink Sector 19/08/2020

ANNEX 1 Questions

Please type your answers directly beneath the question to which they refer.

Answers should be provided within the context of rural Scotland (the term 'rural' to include 'remote', 'lowlands' , 'highlands' and 'island')

If you prefer not to answer a question, please leave blank.

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1. What can we learn from our history in rural Scotland and similar geographies that could inform our future?
Your response:

2. What are the key vulnerabilities and opportunities that exist in relation to supply chains?
Your response:

3. What is the potential of our natural capital to support the growth of the food and drink sector?
Your response:

4. What are the principles and values that should guide the recovery of rural Scotland's food and drink sector in the medium to long term?
Your response:

5. What examples of actions (up to three) can you give that could be implemented rapidly to respond to the nature and severity of the current situation and need for recovery?
Your response:

6. What needs to happen in rural Scotland to transition the food and drink sector, at pace, to a net zero and circular economy?
Your response:

7. What are the disruptive technologies, innovations and approaches that could transform the food and drink sector for rural Scotland; how could these be fast-tracked?
Your response:

8. How do we ensure that we have a resilient food system that provides for everyone particularly during a crisis?
Your response:

9. How do we stimulate demand for locally produced food and drink?
Your response:

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10. How do we increase opportunities for home-markets and international export and inward investment linked to rural Scotland?
    Your response:

11. Should recovery of the food and drink sector be aligned with the recovery of tourism for rural Scotland; if so, how should this be taken forward?
    Your response:

12. What could other sectors (i.e. transport, finance, software development) do to support either the short term or longer-term recovery of the food and drink sector?
    Your response:

13. What should the education sector (primary, secondary, colleges, universities and research institutes) do to support either the immediate recovery or long-term sustainability of the food and drink sector?
    Your response:

14. What role can community organisations and social enterprise play in supporting the recovery of rural Scotland's food & drink sector?
    Your response:

15. What support would stimulate and accelerate growth of the food and drink sector in the rural economy?
    Your response: