



OFFICIAL REPORT
AITHISG OIFIGEIL

Rural Affairs, Islands and Natural Environment Committee

Wednesday 1 September 2021

Session 6



The Scottish Parliament
Pàrlamaid na h-Alba

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - www.parliament.scot or by contacting Public Information on 0131 348 5000

Wednesday 1 September 2021

CONTENTS

	Col.
INTERESTS	1
DEPUTY CONVENER	1
DECISION ON TAKING BUSINESS IN PRIVATE	2
FOOD AND DRINK SUPPLY CHAIN	3

RURAL AFFAIRS, ISLANDS AND NATURAL ENVIRONMENT COMMITTEE
2nd Meeting 2021, Session 6

CONVENER

*Finlay Carson (Galloway and West Dumfries) (Con)

DEPUTY CONVENER

*Beatrice Wishart (Shetland Islands) (LD)

COMMITTEE MEMBERS

*Karen Adam (Banffshire and Buchan Coast) (SNP)

*Dr Alasdair Allan (Na h-Eileanan an Iar) (SNP)

*Ariane Burgess (Highlands and Islands) (Green)

*Jim Fairlie (Perthshire South and Kinross-shire) (SNP)

*Rachael Hamilton (Ettrick, Roxburgh and Berwickshire) (Con)

*Jenni Minto (Argyll and Bute) (SNP)

*Mercedes Villalba (North East Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Pete Cheema (Scottish Grocers Federation)

Fraser Grieve (Scotch Whisky Association)

John Lee (Scottish Grocers Federation)

Geoff Ogle (Food Standards Scotland)

Martin Reid (Road Haulage Association)

Colin Smith (Scottish Wholesale Association)

David Thomson (Food and Drink Federation Scotland)

James Withers (Scotland Food & Drink)

LOCATION

The Fairfax Somerville Room (CR2)

Scottish Parliament
**Rural Affairs, Islands and Natural
Environment Committee**

Wednesday 1 September 2021

[The Convener opened the meeting at 09:00]

Interests

The Convener (Finlay Carson): Good morning, and welcome to the second meeting in session 6 of the Rural Affairs, Islands and Natural Environment Committee. I ask everyone who is using electronic devices to switch them to silent, please.

I formally welcome Beatrice Wishart, who replaces Liam McArthur on the committee. I thank Liam for his very brief but important contribution to the committee's work. I invite Beatrice to declare any interests or say that she has no relevant interests to declare.

Beatrice Wishart (Shetland Islands) (LD): I have no relevant interests to declare.

Deputy Convener

09:00

The Convener: The next item of business is the selection of our new deputy convener. The Parliament has agreed that only members of the Scottish Liberal Democrats are eligible for nomination as deputy convener of the committee, so no seconder is required. Do we agree to choose Beatrice Wishart as our deputy convener?

Members indicated agreement.

Beatrice Wishart was chosen as deputy convener.

The Convener: I congratulate Beatrice on her appointment.

**Decision on Taking Business in
Private**

09:01

The Convener: The next item is a decision on taking business in private. The committee is asked to agree to take in private discussions about the evidence from today's meeting and future meetings. Returning members will remember that such discussions follow each evidence session and allow members to freely discuss issues that are raised during the evidence sessions. The discussions greatly help officials when we take evidence as part of an inquiry and when a report is to be drafted.

Do we agree to take those items in private?

Members indicated agreement.

Food and Drink Supply Chain

09:02

The Convener: Our main item of business is an introductory session on Scotland's food and drink supply chain with key stakeholders. Today's session is the first of a series of introductory sessions that the committee will hold before the October recess. The sessions provide an opportunity for members to explore all the key issues that span the policy areas that the committee will cover over session 6.

I welcome our first witnesses, who join us remotely. Geoff Ogle is the chief executive of Food Standards Scotland; Fraser Grieve is the deputy director of strategy and communications for the Scotch Whisky Association; James Withers is the chief executive of Scotland Food & Drink; and Professor Mary Brennan is the chair of the Scottish Food Coalition.

I invite Geoff Ogle to make a brief opening statement.

Geoff Ogle (Food Standards Scotland): Good morning. Food Standards Scotland's remit covers all aspects of food and the food chain that impact on public health. Our aim is to protect consumers from food and feed safety risks and to promote healthy eating. We are independent of the Scottish ministers and are directly accountable to the Scottish Parliament.

We recently set out our new strategy for 2021 to 2026, "Healthy, Safe, Sustainable: Driving Scotland's Food Future", which describes our approach to changes in the food landscape, consumer interests and our responsibilities as a regulator. Today, I will talk briefly about some of the key challenges.

The first is European Union exit. FSS has seen a significant period of change following the United Kingdom's decision to leave the European Union. The first challenge relates to recruitment of those with veterinary and meat hygiene expertise. All our veterinary colleagues are EU nationals and, without ready access to a supply of qualified vets from the EU or elsewhere, we are struggling to recruit for our business needs. We have similar problems in recruiting meat hygiene inspectors. Changes to civil service nationality rules now prevent the recruitment of EU nationals as meat hygiene inspectors. The supply of vets in the Government is nearing critical levels, and there need to be changes to our current approach so that we are able to recruit.

We have a range of significant new responsibilities, including a detailed risk analysis process for new food products. Working with the

Food Standards Agency, which covers England, Wales and Northern Ireland, we have established a robust, science-led process for the risk assessment and approval of novel regulated food products. More than 400 applications are already under consideration. That work was previously undertaken by the European Food Safety Authority.

In order to deliver an effective system of regulation for food exports, we have stepped up to provide support for Scotland's fish exporters. Our three centralised hubs signed more than 8,000 certificates this year. That is another completely new requirement: there were previously no non-tariff barriers for exports to the EU. A significant increase in the demand for vets to complete certificates has fuelled salary inflation, because the number of vets is decreasing while the demand for their services is increasing.

We also have a limited role in preparations for imports. We have lost access to the rapid alert system for food and feed and have worked with international partners to deliver new mechanisms for monitoring food crime and food safety incidents.

As I am sure others will say, on-going labour shortages in the food supply chain mean that businesses are becoming stretched. There is a risk that shortcuts will be taken to meet customer demands and deadlines, which would increase the possibility of mistakes in the system and risks to consumers.

It would be possible to conclude that we have simply done what is necessary as a consequence of leaving the EU, but we, as the regulator, have a more nuanced core message. The EU remains Scotland's biggest export market. As a third country, not only for the EU but for the rest of the world, we must be able to show that we have a properly supported and effective regulatory system that can identify and eliminate risks from food-borne illnesses, undeclared allergens or mislabelled food products. If the countries that we want to export to are not assured by our regulatory oversight, exports will not happen.

The Covid pandemic has highlighted the need to tackle high levels of overweight and obesity in Scotland. As our board has said, if the causes of obesity are not tackled now, after what we have learned from Covid, when will they be? The costs to the health service of treating the long-term effects of poor diet are eye watering at between £363 million and £600 million. The total annual estimated cost to the Scottish economy ranges between £0.9 billion and £4.6 billion. That is the estimated total economic cost in Scotland, and it includes treatment and indirect costs such as lost productivity and sickness absence. We are

heading towards being an obese nation, which will not be a productive one.

Regulators are often seen as inhibitors of innovation or as enforcement bodies that are against the industries that they regulate. I hope that that is not how FSS is viewed. We know that consumers have a high degree of trust in our food system because we are an effective regulator. Since we have left the EU, our role as the national regulator has become far more significant.

The Convener: We have an hour for this session. It would be helpful if witnesses could keep their opening remarks brief, as I am sure that members have plenty of questions to ask.

Fraser Grieve (Scotch Whisky Association): I am delighted to appear on behalf of the Scotch Whisky Association. We are the trade body for the Scotch whisky industry. We have about 80 members covering 95 per cent of Scotch whisky production.

Committee members will be aware of the strategic importance of the Scotch whisky industry to the Scottish and wider UK economies. Scotch whisky accounts for about 75 per cent of all Scottish food and drink exports and 21 per cent of all UK food and drink exports. We directly employ 11,000 people in Scotland, 7,000 of whom are in rural communities, and we support around 42,000 jobs throughout the UK. The industry adds just over £5 billion of value to the economy.

As they have been for other sectors, the past two years have been very challenging for the industry. From October 2019 until March this year, the industry faced a 25 per cent tariff on single malt Scotch whisky exported to the United States. Exports fell by £600 million in that 16-month period, which was a 65 per cent drop. We were also impacted by the pandemic: global hospitality was shut, tourism and business travel were curtailed and exports declined to their lowest point for a decade. Thirdly, as the UK transitioned from the EU, businesses had to find their feet with new customs procedures. Supply chain costs, particularly the costs paid by smaller producers for materials, have also been rising.

However, there are some positive signs. Since April, trade with the EU has grown at its fastest rate since before the pandemic—it was up 31 per cent in the first half of this year in comparison with last year. However, exports remain 10 per cent lower than before Covid and before tariffs. Growth has been lost, and the industry needs to work hard with Governments across the UK and globally to regain that ground.

Finally, on the 26th United Nations climate change conference of the parties—COP26—we would welcome the opportunity to spend some time exploring with the committee how industry

and Government can work in partnership to drive ambitious sustainability plans while ensuring that businesses remain competitive and unburdened from complex and costly bureaucracy. As some of you learned during our “100 days to go” open day earlier in the summer, the Scotch whisky industry has committed to being net zero by 2040. That will take a degree of partnership working between industry and Government, and the development of new innovations. We hope that the committee will look further into that as part of its work in session 6. We would be happy to host further fact-finding visits for committee members as the new parliamentary session gets under way.

The Convener: Thank you, Fraser. I am sure that we are all interested in a fact-finding mission to some of your businesses across Scotland. I move on to James Withers.

James Withers (Scotland Food & Drink): Good morning, convener and members. I am delighted to be with you this morning. I will be as brief as possible.

Scotland Food & Drink is an industry body and is a membership organisation of about 430 companies and organisations. The vast majority of those are food and drink manufacturers, which range from small artisan new-start businesses to long-established multinationals. The engine room of our organisation is the co-ordination of a public and private partnership that we call the Scotland food and drink partnership, which has 17 organisations around the table, from across all the main sectors of our industry alongside Government and its agencies, and we co-ordinate strategy for growing the sector in Scotland, across the UK and around the world. Most recently, we have been working on a recovery plan to manage the impact of Covid and to adapt to Brexit.

I have given evidence many times to the committee’s predecessor committee. That evidence has probably been marked by ambition, buoyancy and momentum. However, as Fraser Grieve and Geoff Ogle have alluded, the past 18 months have probably been the toughest in 20 years for the farming, the fishing and, in particular, the food and drink sectors.

We have been very much on a crisis footing, certainly as a result of Covid. Those who were heavily reliant on exports found that many of their markets closed overnight. The out-of-home hospitality market, which is worth about £90 billion a year in the UK, closed overnight, causing huge issues. Folding in on top of that was the impact of Brexit at the start of this year—the end of the transition period—which brought in significant new trade barriers with our single biggest market. It has been something of a perfect storm. Alongside that, we have cost pressures in the supply chain, an incredibly competitive retail market, in particular,

and a country that, I suppose, is fairly allergic to food price inflation, so it is very difficult to pass those costs down the chain.

The single biggest issue right now for food and drink businesses is the impact of labour shortages. Geoff Ogle has alluded to the impact of those on Food Standards Scotland's recruitment of vets. I have spoken to many managing directors of food and drink companies during the past couple of weeks, and I have never known them to be so concerned about the potential impact on food supply of staffing shortages, which are being felt from farm to fork and from fishing boat to retail shelf. There is a very real risk that the situation could get worse, because we are in something of a lull in food and drink supply but grocery sales will continue to peak as we head towards Christmas time.

The glass-half-full view and upside is that a recovery plan is in place. As I have said, 17 organisations are working in partnership to deliver a whole heap of projects. Those involve many of the organisations from which the committee is taking evidence on this panel and the next. However, there are also big challenges in what is proving to be quite a fragile food and drink supply chain in Scotland and the UK just now.

On the question that the committee clerk put on future areas of focus for the committee over this parliamentary session, trade issues, policy and promotion post-Brexit, and how we help to shape UK policy around those, are massively important. The journey to net zero is absolutely critical. As a partnership, we are going to be working on the next long-term food and drink industry strategy and would welcome the committee's views, to help to shape that.

The lessons of the past 18 months have been about how we can put more resilience into the food and drink supply chain, which is certainly starting to creak a little bit just now.

The Convener: Thank you. We move on to Professor Mary Brennan.

09:15

Professor Mary Brennan (Scottish Food Coalition): Thank you, convener—I really appreciate the opportunity to represent the wider civil society organisations and communities.

The Scottish Food Coalition, which was formed in 2015, is a coalition of approximately 45 civil society organisations that are all working collectively towards a just transition to a fairer, healthier and sustainable food system that works for all. Although a vision of Scotland being a good food nation is neither difficult to articulate nor, in fact, all that politically contested, what is difficult is

just how messy, protracted and, at times, interrupted progress has been towards that attainable vision. As has been highlighted by the other witnesses, there is some mitigation to be acknowledged relating to Brexit and the on-going Covid-19 crisis, which have taught us all just how precious, fragile and precarious our food system is and how urgently food systems transformation is required.

As a coalition, we bring together a diversity of interests, goals and priorities across our member organisations, which deal with public health and nutrition; environmental and nature protection; social justice; poverty; animal welfare; community action; workers' rights; farming; community growing; health and social care; and education. We also bring a broad base of interdisciplinary, internationally informed and practically grounded expertise. Importantly, we have a network of geographically diverse stakeholders in all communities across Scotland and a community of practice who have lived experiences of how the current food system works against their thriving as individuals, communities, enterprises, institutions and places.

As a coalition, we actively embrace the messiness, and we demonstrate how barriers to systemic change can be knocked down by opening up, reaching out and listening to one another through honest and respectful partnership working. We ask difficult questions about our place within and responsibilities to our food system. We interrogate how public investment in food systems transformation can and will create and drive more resilient, prosperous and sustainable local economies and communities, including and especially those in our rural and island regions, through improvements in educational attainment; enhancements in the health, wellbeing and productivity of our people, animals, fish and land; reductions in greenhouse gas emissions in our pursuit of net zero; and a thriving natural environment.

We work to expose different interests, power dynamics and the resources that are available to different stakeholders, and to show how those influence who is heard, what sectors and markets are supported and, importantly, the balance that is struck between domestic and export food and drink priorities. We work really hard to amplify the voices and lived experiences of those who are so often unheard. We reach across the political divide and the multiple governmental portfolios, civil service departments and public agencies that are impacted by and responsible to our food system. Through that, we are aiming and working to develop evidence-based solutions to the wicked systemic problems that are preventing Scotland from committing to the good food nation bill and

engaging in ground-breaking food systems transformation.

The Convener: Thank you all for your informative opening statements. We will now move to questions, for which we have approximately 40 minutes.

We will touch on a number of themes, including the good food nation bill and “Ambition 2030—A growth strategy for farming, fishing, food and drink”, but first I want to ask the panel how you work together. You all represent different sectors in the food industry with different ambitions, but how can you work together to solve some of the issues and to put together a coherent position that will then feed into the Scottish Government policies relating to some of the issues that you have touched on, such as healthy diets, social security, food poverty and so on? How can you come together to provide a coherent message for the Scottish Government to take on board?

James Withers: We have a good track record of collaboration in Scotland, but there have been some limits to that, which I will briefly explain.

As I have mentioned, we have a public-private partnership with industry bodies such as the Scotch Whisky Association and the Food & Drink Federation Scotland, which the committee will take evidence from in the next panel, as well as with 10 other industry bodies alongside the Government. They come together to develop the economic growth strategy for the industry, and that has been hugely successful. We have gone from being a static industry to being one of Scotland’s best-performing industries over a period of 10 years.

That sense of coalition working now needs to broaden. We have just heard Professor Brennan and Geoff Ogle talk about broader issues around dietary health and, particularly, net zero. The economic growth strategy has been successful; it has worked. To be fair to the Government, it has worked as a good partner in that. It has given the industry the space to put forward the strategy and has aligned its support behind that. However, if we are going to tackle net zero, dietary issues and some of the fragility in the supply chain, we now need to broaden the coalition as we work towards developing the next strategy. That will be critical.

However, we have a good foundation to build on. It is interesting that the Northern Irish are about to model that partnership-working foundation. The Welsh have already started to do that and, down south, the English are planning to do that through the Food and Drink Sector Council. It is a proven model, but it needs to move to the next stage.

Professor Brennan: I am really heartened to hear James Withers’s position on looking to

broaden the stakeholder base. Hearing a range of voices is essential.

Lots of people—workers, producers and people in households and businesses—have a real stake economically and socially in our food system. That is at the heart of all that we have been talking about. There is a need to broaden and not take our eye off the economic side of things, and also to broaden the value that systemic change can bring to our social and environmental goals. That is absolutely essential.

The other aspect that I want to note is the importance of thinking about and reframing our thoughts about what we are spending on the food system, thinking of that more as an investment and of how that investment can act as a local, regional and national multiplier for local economies, sustainable communities and environmental gains.

Dr Alasdair Allan (Na h-Eileanan an Iar) (SNP): We have heard about some of the difficulties that exist. There is a difficulty that we have heard about post-Brexit. In the past, we have looked at difficulties in exporting. Concerns about certification changes coming up in importing food and what they mean for us have arisen lately. Will any of the witnesses—I do not know whether that will be James Withers, Geoff Ogle or somebody else—comment on the issues that have been raised about that, please?

James Withers: I am happy to start on that subject; Geoff Ogle will then want to add to what I say. Geoff and his team have been very much at the coalface in managing some of the certification requirements, particularly for getting products out of the country.

As Alasdair Allan rightly said, the real controls on products coming into the country have not started yet, which has been a source of frustration for a lot of businesses that heard about taking back control of borders in the Brexit debate. In reality, it is the European Union that has taken control of its borders, and that has resulted in a huge amount of bureaucracy and paperwork in getting products from Scotland and the UK into the European Union. Our competitors in the European Union have a completely free ride in bringing products into the country, but that will change from 1 October, when the first documentary checks will start. The first physical checks on products coming into the country will start on 1 January. There is an alarm bell in relation to that because, obviously, we already have real challenges in the delivery supply chain as a result of labour shortages before we even start some of those checks on products coming in. If even half of the pain is felt in relation to the import checks that exporters have felt in relation to products moving in the opposite direction, there will be real challenges.

It will be interesting to see whether those checks on imports are delayed yet again. I have questions in my mind about whether our Border Force is fit and ready to deal with the level of bureaucracy that will be required for products coming into the country. However, we have not yet felt any of that pain.

Geoff Ogle: To add to that, we already have importing experience from the rest of the world; the issue is one of volume. Another issue is around capacity on the EU side. If the EU has problems with vets, for example, certification is a problem for it in relation to its exports to the UK.

The issue is therefore primarily one of volume, but it is also one of our readiness in having in place the required volume of border control posts and the necessary staff systems and so on. It is fair to say that it is challenging. For us specifically, we also have to bring in the issues around Cairnryan and Northern Ireland, which are more complicated. There are issues and risks—if there are bureaucratic delays, that will stop food coming in, which poses some risk.

Dr Allan: My other question is about the labour shortages that Brexit and other issues have caused, which witnesses have mentioned a number of times already.

James Withers recently wrote to the Home Secretary and others, saying:

“Both Brexit and the pandemic have accelerated existing pressures on labour availability. We have now reached crisis point putting the growth, viability and security of many Scottish businesses in jeopardy, with knock on impacts for consumers. We need action now to save Christmas.”

Without being unduly alarmist, will you explain what you mean about the risks that your industry faces when it comes to Christmas and some of the issues that you face as a result of labour shortages more generally?

James Withers: I think that nine of the food and drink organisations wrote collectively last week to the Home Secretary, the Department for Environment, Food and Rural Affairs and the Cabinet Secretary for Rural Affairs and Islands, Mairi Gougeon. The letter was co-ordinated by FDF—the committee will have David Thomson on its next panel of witnesses.

In short, our sector—like many other sectors of the economy—has been facing underlying labour issues such as a dwindling working-age population for a sector that is in rural areas and in areas that are facing depopulation. As the committee well knows, there are massive challenges there, and Covid and Brexit have come together to push us to breaking point in a number of supply chains.

At one point, 3 million overseas people left the UK during the course of the pandemic, and post-

Brexit immigration rules make it extremely difficult for many of them to come back in. At the moment, the immigration policy for the kind of jobs for which we need cover is, at best, ineffective and, at worst, deemed hostile by the very people we need to bring in.

The shortage occupation list does not cover many of the roles that we require. It will allow ballet dancers to come into the UK but it will not allow butchers to come into the UK. If the committee speaks to any red-meat business in Scotland at the moment, it will tell you that it has a massive problem with the availability of people for that particular job, despite the fact that a trainee butcher in the Scottish red-meat business will earn more than a trainee accountant at one of the world’s biggest accounting firms. It is therefore not a wages and pay issue.

I will give the committee one brief example of what this means on the ground practically. In recent days and weeks, East of Scotland Growers, which is a brilliant farmer co-operative, has had to destroy 2.5 million heads of broccoli and 1.5 million heads of cauliflower—healthy and nutritious food—not because there is no demand for them or because shops do not want them, but because they simply cannot get the product to market due to staff shortages. Storage is backed up and food banks are not an option, because they cannot deal with perishable product or with those volumes. We are therefore already losing product—that will have cost that business £1 million.

As I said, this is a lull in the food supply chain calendar. As things peak towards Christmas, a shortage on farm, a shortage in the seafood or red-meat processing industry, a shortage of drivers, a shortage in retail, and a shortage in hospitality of chefs and front-of-house staff could all combine to give us some very real problems.

Although the solutions are elusive, the single most important step that could be taken is a Home Office move to provide short-term, emergency Covid recovery visas, at least for the next 12 months, so that we can extend our recruitment stretch out into the EU.

The Convener: James Withers has touched on the particular example of the issues with broccoli and cauliflower, which I think have been exacerbated by the crops all ripening at the same time. The nature of the seasonal facts this year means that those crops are becoming ripe at the same time as the pea industry is trying to freeze peas and so on. He was right earlier when he mentioned it being a perfect storm.

I am interested in the workforce argument. Brexit will certainly have played its part. However, Covid will probably have played an even greater part, with threats of lockdown meaning that some

overseas workers are leaving to go home and not return until it is clear exactly where we are with Covid. In addition, we have an ageing workforce. One of the main issues is that we do not have the proper people to do the jobs—I know of examples of that. With the shortage of workers, people earn their pot of money far more quickly because of the availability of overtime and they leave the job mid-season, which adds more pressure.

That is not a new problem; there have been issues with workers for quite some time. As we move forward, what plans should we look at to ensure that we have the workforce in the long term? Putting aside the various serious issues with the workforce right now, how can we ensure that we have a workforce that is trained to meet the industry's future requirements?

09:30

James Withers: A lot of that rests on industry's shoulders. It should continue to invest in fair work, the right conditions and innovative work practices. In addition, we find that processors are moving to a four-day week. The industry has its own job to do in order to improve the attractiveness of the sector and debunk some of the myths around that.

However, what will be crucial is an immigration policy that can reflect where there are particular shortages in particular roles and where we have structural unemployment. People will be coming back from furlough, and clearly there are people who are unemployed, but they are not necessarily where the job opportunities are, especially in rural Scotland.

A whole suite of things needs to be done. I would add to that list Scottish Government support for automation, and investment through grant funding. We need a whole mix of solutions.

It is an incredibly complex problem. You are right, convener—it is not a new problem, but Covid and Brexit have pressed the accelerator pedal on the scale of the challenge that we face just now.

Ariane Burgess (Highlands and Islands) (Green): I will address my questions to James Withers—he is getting a good workout this morning—and to Mary Brennan. I want to explore the local food economy. As we have all acknowledged, we are facing a climate and biodiversity emergency. I believe that we need to move away from mitigation and start adapting, so I am interested in the whole local food economy piece. How do we start to shorten supply chains and look for opportunities for food to be grown locally and publicly procured?

We heard from James Withers about the challenges of labour shortages and that kind of thing, but what else should we be looking at? If we

are moving in the local food direction, as has clearly been signposted, what do we need to put in place to remove blocks and make something that is very complex more straightforward?

James Withers: Over the past 18 months, one of the silver linings to the very dark cloud of Covid has been the huge amount of support from the Scottish public and consumers for businesses in their areas. The local food movement has taken a step forward, but that has emphasised some of the challenges in local supply chains. It can be a challenge to actually get product that might be produced very close to people on to their restaurant menu or dinner plate. There are long-running issues around local abattoir facilities, for example. With the cost of regulation, it is extremely difficult to make such facilities sustainable.

Under the recovery plan that has been developed, there are now 18 regional food groups around Scotland, and each employs a regional food co-ordinator who is tasked with a whole range of things, including building links with the local hospitality supply chain.

One of the challenges that we face is that, although the retailers—the big supermarkets—are a hugely important market, it is a massively competitive market and the margins are very small. Part of the reason that exports have been so attractive is the ability to find a premium and additional margins. A lot of businesses say that they trade in the UK for volume and trade overseas for profit. If we can bring those added-value opportunities to local areas, that will be another way of de-risking the industry and building greater resilience in the supply chain.

Although the food supply chain did a remarkable job in a pandemic—our world had turned upside down and yet still shelves were stocked and the supply chain kept moving—we have a very centralised system of food distribution, and the most resilient supply chains are often the shorter ones within communities.

It is critical that we continue to invest in regional food groups, which can define their own priorities and own the supply chain development in their areas. The more parliamentarians can do around encouraging people to buy local and support local, the more we can keep that momentum going. There are a lot of positive opportunities in the local food strategy, but there is a lot of work to be done.

Professor Brennan: That is excellent, and I am glad that you mentioned abattoirs, James, as I was going to mention abattoirs. At the heart of this, Ariane, is thinking about how we can leverage public food and public procurement as a sort of core baseline market, while ensuring that it has agility and flexibility. Jenni Minto represents Argyll

and Bute, which has shown huge innovation in how it has responded to Covid, supporting and working creatively with local suppliers in what is a geographically complicated area. That shows agility in contracts, in bringing in, encouraging, mentoring and supporting new suppliers, and in reducing bureaucracy.

At the heart of that are boundary-spanning organisations—in particular, wholesalers: I think you will be hearing from Colin Smith on your next panel. They play a really important role in connecting, moving and making it logistically possible for local and regional supply chains to flourish. We have been doing work with firms in the north-east of England. JR Holland Food Services is an example of a company there that has worked incredibly creatively with the local authority in county Durham to be that boundary spanner that brings the egg producers, the bread producers and the organic milk producers into their wholesale—JR Holland was originally a fruit and veg wholesaler—and to deliver for the local authorities.

Local authorities are central to this. My experience with them is that they are really interested, active and creative about what they want to do and how they can use the money that they spend, investing that money better in their communities.

I will make one last point. This is an unusual thing for me to say, but it is not all about food. It is as much about the people who are employed and the money that is spent on those people—the investment that is made in their skills and their careers and in facilities. That money stays in the local communities. Actually, it stays very local. This is as much about the people as it is about the food. It is about the magic that comes together.

The Convener: There is a flurry of hands among members, but I will go first to Jim Fairlie, who has a quick supplementary question.

Jim Fairlie (Perthshire South and Kinross-shire) (SNP): James and Mary, I am really interested in the stuff you have been talking about regarding the local food supply chain. I would really like to know how we build resilience into that. There seems to be a bit of a dichotomy here. One of the biggest export markets that we have is food and drink. How is the international trade policy of the UK Government going to affect our ability to shorten the supply chains and keep the local touch to our food industry at the same time as we try to do deals around the world?

James Withers: There are a lot of moving parts to that question. You are absolutely right. As an industry, we are rapidly trying to get our heads around that, with food and drink having been devolved to the Scottish Parliament for 22 years

now, yet suddenly decisions around trade policy are having a massive influence on the direction that the industry is going in.

Fraser Grieve's organisation is among the vanguard of trade policy, and it has been since long before that was fashionable for the rest of us. The critical area that I would encourage the committee and the Parliament to consider over the next parliamentary session is how we develop UK trade policy in a way that reflects particular priorities in Scotland—and, indeed, in Wales and Northern Ireland—where the industry is of disproportionate importance to our economy compared with south of the border and where decisions that will be taken on trade policy, including on agricultural imports and standards of production, will have a massive impact on the viability of the sector.

We need a new type of working between the devolved nations and the UK Government in order to inform a trade policy that is smart and that involves understanding that the decisions that we take and how we deal with Australia, New Zealand, the Pacific nations and the US will have an enormous impact on the viability of businesses and, therefore, their ability to meet demand locally and their ability to build local food and drink supply chains. Although the Trade and Agriculture Commission produced a really good and important report, I honestly do not know what has happened with that as yet.

I think that the trade and agriculture commissioners are being recruited, but we need the scrutiny of those deals, under the kind of mechanism that can also wrap in devolved nations, to happen pretty quickly, because the decisions around trade policy that are taken at the Department for International Trade, the Foreign Office, and the Department for Business, Energy and Industrial Strategy will all play into that and that will have a massive implication for the viability of businesses here. A smart trade policy that can identify opportunities can be done, but if it is not done there could be unintended consequences. If we have learned anything from Brexit, it is about the impact of having not enough scrutiny of deals and not understanding their real-world impact before they take effect.

The Convener: Mercedes Villalba has a question on this subject, then we will go to Jenni Minto.

Mercedes Villalba (North East Scotland) (Lab): Mary Brennan talked about the role of public procurement and local authorities in the local food economy. What role do you see for public canteens in places such as schools and workplaces in promoting the consumption of local food?

Professor Brennan: I see them as playing a key role, because they can drive some of the priorities and demonstrate what is possible. They are also incredibly demanding food service environments. If someone can manage to deliver under the financial constraints as well as under spatial and timing constraints, and if they can make seven-year-olds happy, they have a fighting chance of demonstrating what can be done. They can showcase what is possible under a range of constraints, so I think that they are absolutely key. Again, it is about seeing that as an investment. It is not a cost; it is an investment in doing things differently.

Argyll and Bute Council and other local authorities have already shown how important public food is as a core business, and they contract with many local food businesses. It might not be the biggest part, but it is an important and relevant part, and it is often the better or quicker payer for those businesses. It is therefore really important that public food should become the showcase for what can be done without necessarily losing track of the economic value that we need to deliver.

From the Scottish perspective—whether it is regional, local, or national—it is important to remember that Scotland as a unit is very different from the UK. We have to be strong and clear about why food and drink are different in Scotland and why we might have to adopt different approaches. Part of the challenge around that is data. What do we know, what do we not know and what do we need to know to make the best decisions, whether they are for the domestic market or for export and trade activities?

The Convener: We will move on to questions from Jenni Minto.

Jenni Minto (Argyll and Bute) (SNP): I thank Professor Brennan for her comments. I am very aware of the work that happened in Argyll and Bute, which was done across the local authorities and with some really strong local groups. It also included a lot of work with local distilleries, which Fraser Grieve mentioned. He highlighted the level of employment in distilleries across Scotland, but I ask him to go into more detail on their plans with regard to sustainability and emissions, in relation not just to electricity, but to the heat that is provided. I think that it represents about 88 per cent of distilleries' usage.

Fraser Grieve: Sustainability is really important across all food and drink businesses, as it is across the wider economy. Many distilleries have been in their communities for decades and some have been there for hundreds of years, and being part of sustainable environments and communities is really important for the industry and its long-term ability to be around for generations to come.

We have a really tight, ambitious sustainability plan for our operations to be net zero by 2040, to make sure that we are using water responsibly and to do a lot around peatland. We use less than 1 per cent of UK peat, but we recognise the importance of putting back and having an action plan for peatland restoration. We are also making sure that all our packaging is recyclable, reusable or compostable by 2025.

You mentioned heat as one challenge. We are looking at where innovations can come about and where we can work in partnership. We have the green distilleries competition, which provides funding to find innovative solutions, and I think that some of those will be community based, depending on different distilleries. We need to find the right innovations to help to address the challenges.

09:45

Ariane Burgess: It is great to hear about that innovation. I am from Moray, which is a whisky area. We have a good train line and I am excited about the idea of getting whisky on to rail. Have you been looking into that?

Fraser Grieve: A number of years ago, in partnership with the Highlands and Islands Transport Partnership, Highlands and Islands Enterprise and others, there was a pilot project that looked at moving whisky by rail. We could look at that again. There are challenges in picking whisky up from distilleries, getting it to rail halts and then getting it on to the main ports. There are distances involved in that, and the quantities must be managed. However, we have looked at that in the past and we will certainly continue to consider its viability. The train line does not go right to the centre of the distillery area in Moray, but we are keen to look at all possible innovations.

Ariane Burgess: I am keen to support you in doing that. If we can get whisky on to rail, it could be part of a push to make the railway better. I hear what you are saying: we cannot do it all, but we could do a lot.

Another way that the whisky industry could drive innovation in sustainability and the climate emergency is in the way that crops are grown. A lot of farmland in Moray is used to grow barley for whisky. Have you been considering innovation in how the barley is grown?

Fraser Grieve: We are working in partnership with the Scotch Whisky Research Institute and an international barley hub is being developed as part of the Tay cities deal. We are looking at where new barleys and cereals can be grown and how to manage that. We recognise the importance of that—96 per cent of our barley comes from

Scotland and we are keen to ensure that that happens as sustainably as possible.

Beatrice Wishart: I would like to go back to workforce issues. Geoff Ogle mentioned the shortage of vets and hygiene inspectors, and butchers have been mentioned. Mary Brennan said that there is a need to invest in people as well as in everything else that has been discussed. We have the ambition 2030 plans and we recognise the need to get more people into food and drink, farming, fishing and aquaculture. We want young people to make it their career of choice, but how can we do that? How can we use research and intelligence to ensure that young people see good careers ahead of them in the food and drink industry?

Professor Brennan: Given that my day job is at the University of Edinburgh Business School, I can contribute on that. It is a really important issue. We have often focused on our rural colleges and our agricultural colleges as places to develop skills and graduates. Further and higher education, including business schools, have a huge role to play. We have 400 to 500 students a year going through our undergraduate programmes and they are looking for exciting and interesting careers. I know that the food and drink industry offers those, but students are not captured early in their university or further education journey. There are definitely interesting innovations involving internships that bring young workers, graduates and students into the places where we need them. That gives them a taste and real passion for the food and drink industry, and it gets them outside the cities.

I love Geoff Ogle's point that people could earn more as a butcher than as an accountant, and a lot of people go into accountancy. It is about framing and setting what the lifestyle and livelihood would look like and how those can feed into people's values. We should remember that young graduates are now very value driven. They are less driven by just the salary and more by the overall value and package that is offered to them.

I believe passionately that the food and drink industry can and should do more with further and higher education, not just with those who are learning specific agriculture and food skills, but with the broader business and social science graduate base and more widely.

The Convener: We will move on to questions on automation, health and food from Rachael Hamilton.

Rachael Hamilton (Ettrick, Roxburgh and Berwickshire) (Con): I have lots of questions, but I will try to narrow them down. Last week, I visited the James Hutton Institute to look at the vertical farming and hydroponics there. I presume that that

is under discussion by Scotland's food and drink organisations in looking at producing food with low-carbon output to meet the net zero challenge. My question is a wide one. How does that issue fit in with the skills challenge, the labour challenges and shortages, and the future of food production?

I will roll in my second point, which is specifically for George Ogle and is on Natasha's law, which will be rolled out on 1 October. Is the industry ready for that? There has been some scaremongering that businesses might be prosecuted if they do not get the labelling right. Do you have any comment on that? Does the committee have a role in ensuring that the law is rolled out properly and that we bring businesses along with us?

Geoff Ogle: We have worked hard with the industry in preparing for the implementation of Natasha's law, which is on prepacked food. I can assure businesses that the default position is not to go straight to prosecution. In any enforcement of food laws, there is a hierarchy, the first point of which is advice. When it comes to the application of the law if there are infringements, that obviously depends on the nature of the infringement, but the real issue is about the pace at which we move to that. As it happens, we will not initially have the legal powers—they still need to be developed—but the approach is always to first provide advice and support, and only if there are continuing issues do we escalate to enforcement. The important thing is to get compliance. Enforcement is one of the means by which we get compliance, but it is not the first means.

James Withers: I want to come in on Rachael Hamilton's question about the role of science and research in the sector's future. She is absolutely right—that is a critical point. In Scotland, we are blessed with world-class research institutes. Rachael Hamilton referenced the vertical farm and the work at the Hutton, but there is other work in the institutes across Scotland that are part of the partnership work at the moment. The six institutes that are part of SEFARI—Scottish Environment, Food and Agriculture Research Institutes—sit around the partnership board table.

A lot more can be done on that, particularly to try to bridge the gap between science and business. Too many businesses in our sector go to the scientific community once they have a really bad problem, rather than doing that at the start of the business development journey.

Interface has done really good work in bridging the gap between business and the higher education institutes, and that needs to stretch into research institutes as well. Small things could be done that could make a big difference. For example, there could be scientist-in-residence support, whereby scientists go into manufacturing

businesses to look for opportunities to improve efficiency and productivity and reduce the use of resources. There has even been talk about potentially funding some mobile kit that could be put in vans. Given that businesses find it difficult to find the time to get out and into research institutes, could the research institutes go to them?

A huge amount could be done. Scotland's general draw on UK research funding pots has been poor, to be honest, and we need to get better at that. Part of it comes down to the fact that our economy is dominated by small and medium-sized enterprises. By default, many of the academic bodies go to the really big, multinational food businesses. Aside from the whisky industry and, to some extent, the aquaculture industry, we have fewer of those in Scotland. We need to get better at pooling businesses that have common problems to look at bidding for, for example, Innovate UK funds. Industry needs to do a bit of work on that front.

Karen Adam (Banffshire and Buchan Coast) (SNP): I am interested in a few of the things that have been said about future proofing and practical measures for the future. However, as regards the here and now and what we can do until we can implement those practical changes, if we look back over the past 18 months, we can see that there has been a huge amount of diversification in certain areas and sectors. For example, the whisky industry produced hand sanitiser, and the fishing industry has had more of a boat-to-plate model that misses out the shelf—there have been more fish vans, for example. The diversification that we have seen during the pandemic and the export issues due to Brexit have really had that localised dimension. Has any of that been a springboard for ideas that will be taken forward by industry and certain sectors? I think that it was Geoff Ogle who mentioned that public confidence is really strong. Is that because of the local aspect of the diversification?

Geoff Ogle: As James Withers said, confidence in the food system—given what we have seen with Covid, in particular—has not diminished. When we did consumer analysis prior to EU exit, consumers had a high degree of confidence in the food system and a desire to retain that.

The issue for me, as a regulator, is not about diversification and development of the market, although there are many reasons why that is a good thing. What is needed to underpin it, to go back to some of the points that Mary Brennan made about the Scottish Food Coalition, is understanding and education, because food safety is critical to that success. We know from the variety of food scandals that we have had that consumer confidence can diminish really quickly. In the case of the horsemeat scandal, for example,

confidence in ready-to-eat products dropped by 46 per cent overnight. Consumer confidence and trust are there, but they can be quite fickle and it does not take a lot for things to change.

With regard to diversification, we also need to think about education and food system support and training for businesses to ensure that food is safe. Otherwise, that confidence will go very quickly.

James Withers: I agree with Geoff Ogle about consumer confidence. One of the challenges is that, the smaller a manufacturing unit is, the more challenging it can be to manage the costs of regulation. Notwithstanding that, the regulation is critical, because our brand and confidence in it are everything. It is not often that industries want to embrace the regulator, but in this case that work is critical because it underpins everything that we are trying to do to operate at a world-class level, and we need a race to the top on that front.

The point about diversification is absolutely valid. It is notable that, as a result of Covid, hundreds of businesses became e-commerce businesses overnight. They suddenly had to find a way to get products from their doors straight to consumers, bypassing the normal routes of selling through hotels, bars or restaurants. That happened awfully quickly and it accelerated the existing longer-term trend. Support for companies, particularly SMEs, to invest in e-commerce capability and web development can be critical. Part of a good e-commerce function is having a good behind-the-scenes chain—a good back office that can consolidate products and get them moving around the country in the right way.

There has been a massive leap forward with that diversification, which has also helped businesses by de-risking them, as they are less reliant on a few big customer accounts to keep the money coming in. Continued support for e-commerce and direct routes to market will be critical, but they could be a positive legacy of some of the trauma of the past year and a half.

10:00

The Convener: I have a couple of questions before we close. Although I recognise that, as James Withers has said, the food industry is dominated by SMEs—we have some fantastic examples of artisan producers selling online and adding value to products—a vast amount of product still needs to be processed and to land on our supermarket shelves. Is lack of choice an issue? There is only a handful of meat processors, there is a limited number of abattoirs, and we know that there is a limited number of supermarkets. I believe that 85 per cent of all the food that is consumed in the United States comes

through about five major supermarkets. Do we face the same issue here? There have been issues with abattoirs and the pig industry, we have a very limited number of meat processors in Scotland, we have a very limited number of milk processors and we have seen the demise of local creameries. Do we need to look at addressing that in the future?

James Withers: In short, absolutely. The fragility of the supply chain, which I mentioned, is a product of the fact that there has been a massive centralisation of the food supply. About 24 food and drink companies account for about 70 per cent of food and drink turnover in Scotland, and a very few buying desks account for the vast majority of food sales. Part of that involves some fundamental questions about the system of cheap food across the UK. The UK sits behind only the US and Singapore in our spending the smallest proportion of our income on food. That cheap food culture has led to increased centralisation. In a sense, that has been staggeringly successful. Aside from the current labour shortages, we have never had more choice at an affordable price. However, there are massive issues about the potential fragility that has been created through that centralisation, because more and more power goes into fewer and fewer hands.

The local food market helps to de-risk that. However, it would be very worthwhile for the committee to look at the topic, because there are some cautionary signs at the moment that it does not take much to rapidly destabilise a just-in-time food supply chain. That said, I completely accept that we still have massive issues of food poverty and people who cannot afford good, nutritious food.

The Convener: Geoff Ogle, do you have any comments on processing capacity?

Geoff Ogle: To some extent, that is determined by the approach that Governments want to take on the sourcing of food supply. I think that, at the moment, we still import most of our food. Ultimately, it comes down to the economic and political question about self-sustainability. Moving in that direction drives the policy on internal food production.

The Convener: There is a very small supplementary question from Jim Fairlie before we go to our final area of questioning.

Jim Fairlie: I wanted to make sure I got a question in. It is not a supplementary question; it is about the good food nation bill.

The Convener: The good food nation bill is one of the last areas of questioning, so go for it.

Jim Fairlie: Thank you for that, convener. Apologies for the confusion.

I have thoroughly enjoyed the conversation. As some of you know, I have been involved in food production and the hospitality sector for many years. I am hugely excited by what we can potentially do. There are undoubtedly some major challenges ahead of us—in Brexit, Covid and supply shortages—which we must face. However, ultimately, the Scottish food and drink industry is a massive bonus to Scotland's economy, people and culture.

What role do panel members see for the good food nation bill, and what expectations do they have for what it can deliver?

The Convener: Fraser, do you want to start?

Fraser Grieve: That question is probably better answered by some of the other panel members. However, clearly, we all want to make sure that we have access to high-quality food and drink and that people have trust in where it comes from and the provenance around it.

Professor Brennan: I absolutely agree with Fraser Grieve. To build on that, it is also about people having access to and being able to afford the food that we want them to eat.

At the heart of it, however, it is about holding ourselves—whether that is Government, local authorities, businesses or institutions—to account, setting ourselves targets and ensuring that we progress.

To build on what Geoff Ogle said earlier, we cannot continue with the obesity levels that we have. We absolutely have to address the health of the nation, and food is a fundamental part of that. The good food nation bill, and the calls that are being made from a framework perspective for accountability within that, are essential if we are to deliver nutritional, environmental and social outcomes. That is the magic of what this framework bill can deliver. It is complicated and messy, but its collective and systemic focus has the power to make us a healthier, weller, more sustainable country and people.

Geoff Ogle: I do not think that there is much to add to what has already been said.

The issue for us, as a nation, is really diet—that is our challenge. If we do not turn that tanker, we will suffer the economic and health consequences. We therefore need to seriously consider any vehicle that enables us to shift the current trajectory.

The Convener: I will bring in James Withers on that. However, I also want to go round the panel again.

One thing that it always comes down to is budget. We know what the Scottish Government's policy objectives are. However, do we have

adequate funding in place for the food-and-drink-related policies within its objectives?

I invite James to touch on the other question and to make some comments on the budget. We will then go round the panel again to close the session.

James Withers: On budget, back in 2005, 2006 and 2007 there was no food and drink industry development budget at all—there was no budget lying in the rural affairs portfolio. It is now in the region of, I think, £10.5 million. However, is that enough in the context of a £15 billion industry? It has been making a transformational difference, and, of course, a much broader set of support goes into farm policy and grant schemes and so on. However, given the scale of the opportunity that we have for growth, the scale of the recovery that we need to drive and the opportunity to make some hugely beneficial impacts on local communities, it is worth thinking about whether that budget line should move north.

Do you want me to comment on the good food nation bill, or would you rather move on?

The Convener: Yes. Please give your comments, then we will move on.

James Withers: I have questioned a number of times whether we need a change in the law or a new law to strengthen the good things that have happened in the food and drink sector in Scotland. Although I have struggled to come up with a legal change that is required, I have warmed to the concept. In particular, the idea of putting an onus on local authorities to report against food policy—which Mary Brennan referred to—is a good thing. It will focus minds on issues such as public procurement and how they are supporting local food groups in their areas.

The concept of a right to nutritious food, which is enshrined in a lot of United Nations work, is also difficult to argue against.

Although I do not think that the bill is a game changer, if it focuses minds on food policy, it can only be a good thing.

Professor Brennan: Although budget is not my specialist area, on the basis of what we have been saying, I think that further investment in skills and careers, along with building the attractiveness of the industry, is central to addressing the challenges that we face.

As is referenced in the papers for this meeting, coherency across portfolios and across governmental departments is also central, recognising the interconnectedness of how we use and spend money, whether that is investing in social security through free school meals and the child payment or investing in SMEs, core infrastructure, transport, green energy and so on.

As Geoff Ogle said, it is also about treating the outcomes of poor dietary health. We have to see it much more holistically while fighting to maintain and increase the food and drink industry's share of the budget to drive the sector forward.

Fraser Grieve: For us, one solution would be ensuring that food and drink are embedded in the promotion of Scotland around the world, recognising the reputation of Scotch whisky and the role it plays in Scottish tourism. For example, two in three visitors to distilleries are usually from overseas. Another solution would be support for innovation to find solutions around sustainability, heat issues and so on.

In relation to infrastructure, addressing issues such as the Rest and Be Thankful and, of course, ferries would also be helpful.

Geoff Ogle: I will make two quick points. First, from an FSS perspective, our budget at the moment is okay. However, we will have to see how that goes going forward.

Secondly, there are particular issues from a local authority perspective—particularly around environmental health—some of which are around resources. However, the challenge for us a regulator is also around innovation and how we use, for example, digital and other means to ensure that we have an effective regulatory system.

It is therefore not just about resource; how we regulate will also be key.

The Convener: I thank you all for your comments. We will certainly take them on board when we put our work programme together. That was a very helpful evidence session.

I will briefly suspend the meeting to allow the witnesses to change over.

10:11

Meeting suspended.

10:16

On resuming—

The Convener: Welcome back. On our second panel, we have David Thomson, who is the chief executive of the Food and Drink Federation Scotland; Martin Reid, who is the director for Scotland and Northern Ireland of the Road Haulage Association; Colin Smith, who is the chief executive of the Scottish Wholesale Association; and Pete Cheema, who is the chief executive, and Dr John Lee, who is the head of public affairs, from the Scottish Grocers Federation.

I invite brief—I stress “brief”, because we are limited to an hour for this item—opening statements from each of the organisations.

David Thomson (Food and Drink Federation Scotland): I will be brief. The Food and Drink Federation is a trade association of food and drink manufacturers that represents Scotland’s largest manufacturing sector. It employs 47,000 people and has a turnover of around £11 billion. We have more than 900 members across the whole United Kingdom. In Scotland, we represent many famous Scottish names, as well as UK and international businesses that manufacture in Scotland.

I was asked to talk about key issues that the committee could consider in its work. The key issues that we see at the moment concern the fragile state of the industry. It has been rocked by the continuing explosions around Brexit—we are not through that process yet—and has been significantly affected and changed by Covid. It is facing an unprecedented labour shortage.

However, we have a strong background in Scotland and a baseline of growth, and we have a robust industry that managed to get through Covid with changes and adaptations over the past year. There are lots of things to be positive about.

I will highlight four or five issues. The federation works on behalf of the wider food and drink industry in Scotland to do two things. First, it supports careers and provides careers advice through our future in food programme. Secondly, it supports small and medium-sized enterprises to reformulate through our reformulation programme. Both those programmes are supported in different ways by the Scottish Government. They will be key elements as we move forward, particularly with regard to the key issues that I will now address.

The first key issue is health—specifically obesity and potential health regulation. The Scottish Government had proposed health regulation but, sensibly, it dropped that in the face of the pandemic. Obviously, we wait to see what will be in the programme for government. New health regulations are being put in place in England, and it will be important to understand how they impact on each other and on businesses in Scotland.

The second key issue is the environment. The deposit return scheme is due to be introduced, and the race to net zero emissions is another element to consider. The food and drink industry is an important part of the discussion around the race to net zero, so that must be one of the key things that the committee considers.

Another important issue is trade deals. I know that you talked a lot about that earlier, so I will not go into that in detail.

It is important to consider the UK’s new status outside Europe, so the committee must understand and monitor the issues around the Internal Market Act 2020 and differences in regulation in different parts of the UK. Of particular importance is legislation relating to issues that would previously have been dealt with at EU level. There is a significant amount of technical and health regulation associated with the food and drink sector so, again, the committee will need to consider the wide-ranging but extremely technical changes to regulation that will come forward.

Martin Reid (Road Haulage Association): Good morning. I will give the committee a bit of context. The UK logistics sector employs 2.54 million people and is worth about £124 billion to the UK purse. Some 98 per cent of the UK’s goods spend some time on the back of a truck, and 85 per cent of the UK operators are SMEs.

The RHA has about 9,000 members in the UK, including 900 in Scotland and Northern Ireland. Although our membership includes 90 per cent of the motor transport top 100, 80 per cent of our members have between one and 20 vehicles.

In terms of scale, there are 76,000 licensed operators in the UK, of which Scotland has about 5,500. Of those, 2,400 are standard national licences, only 555 are standard international licences and the rest are own-account licences. The vast majority of the movement of goods in the UK haulage sector is done within the UK.

The biggest-ticket issue that we face just now is the shortage of drivers. That has been well publicised, and it affects all the other supply chains. Before Brexit, we estimated that we were between 50,000 and 60,000 drivers short. At that time, there were about 15,000 eastern European drivers operating in the UK. As James Withers pointed out earlier this morning, a lot of those people have gone back to eastern Europe, and it is difficult for them to come back, under the current regime.

We also have an ageing workforce; the average age of an HGV driver is 55. Only 2 per cent of UK drivers are under 25 and only 1 per cent are female. So, we have a lack of diversity and an ageing workforce, and we are reliant on new entrants every year to cover those who are leaving.

Normally, the Driver and Vehicle Standards Agency would do roughly 75,000 HGV tests in a year, with a pass rate of just above 50 per cent. However, last year, because of the restrictions that were put in place to deal with the pandemic, the DVSA was able to do only about 35,000 tests, which means that we were 40,000 tests short last year.

People often use the phrase “perfect storm”. What has happened because of Brexit and the pandemic has exacerbated an existing problem, which has a knock-on effect. Our members and HGV companies across the UK move goods for the construction sector, the food and drink sector and so on—you name it; we are part of the supply chain—so when there is a deficit in the number of drivers, there is a deficit in the number of deliveries. Very few supply chains are unaffected by the shortage that we are experiencing in our industry.

Pete Cheema (Scottish Grocers Federation): Good morning. Thank you very much for the opportunity to provide evidence. The Scottish Grocers Federation was formed in 1918 to ensure the supply of essential products in the aftermath of the first world war. We are the national trade body for the convenience store industry.

My short opening statement will touch on three areas: the convenience sector in Scotland; the SGF’s and Scottish Government’s go local programme, which connects with local retailers and suppliers; and the challenges of supplying island communities.

There are 5,000 convenience stores in Scotland, which directly employ 42,000 people. The value of annual sales is about £4 billion, and the sector contributes £530 million to Scotland’s economy each year in gross value added. Over the pandemic, the number of stores in Scotland has remained stable, but 5,000 jobs have been lost. Our working assumption is that stores have had to cut jobs in order to stay open for business.

Convenience stores are at the end of a complex supply chain. Most convenience stores in Scotland have a close relationship with a large wholesaler, which allows them to stock a wide variety of products from a wide range of categories. The connection with the wholesaler as part of the supply chain has enabled convenience stores to remain relatively well stocked through the pandemic. However, to remain competitive, convenience stores have had to maximise selling space in stores. Generally, stock is controlled through a just-in-time system, which is increasingly facilitated by tablet and app technology.

Another aspect of ensuring competitiveness is the significant growth in the number of food-to-go offerings in convenience stores. That has made it vital for convenience stores to build a strong business relationship with local suppliers, including bakeries, butchers and dairies, and with food service companies that provide catering ingredients. That means that more and more parts of the supply chain have become embedded within the convenience store. The overall effect is that, in general, convenience stores have diversified their

range of suppliers. In addition, as owner-occupied businesses, convenience stores have become very flexible. They make decisions quickly and respond to changing customer demands. Those things taken together have enabled convenience stores to fare relatively well during the pandemic.

The connection with local suppliers will grow in importance over the next few years. That is why, in partnership with the Scottish Government, we developed the go local programme, which was designed to aid the economic recovery and regrowth of Scotland’s food and drink sector by increasing sales of Scotland’s local products in the convenience sector, in order to mitigate losses in other channels that have resulted from Covid-19. The programme aims to support convenience stores throughout Scotland to provide dedicated long-term display space for locally sourced products, with a bias towards those that are fresh and healthy. Coupled with that, the programme aims to provide enhanced consumer engagement, and retailers will be supported to achieve that through a Scottish Government match-funded scheme.

The pilot was launched on 1 December 2020. Following a robust selection process, we chose 10 geographically and demographically diverse stores across a range of fascia groups and we developed a proof of concept. Each store received grant funding to enable it to maximise the range of Scottish products that it offers to customers. In turn, that enabled stores to support local Scottish producers and give those businesses a vital route to market. Although there are many common product ranges across stores, the programme is deliberately flexible to ensure that the areas that are developed and the ranges that are introduced are right for each store. That approach has allowed us to deliver a diverse range of products, including those from in-store butchers and those from our food-to-go operations.

The trial has been hugely successful and has resulted in a 34 per cent increase in the number of local products that are stocked, thanks to a system in which much more space is dedicated. In the shops that took part, there has been a 40 per cent rise in the sale of local produce. Across all stores, Scottish products outperform those in the rest of the store.

The data that we have gathered has been significant, and the participating stores clearly demonstrated the value of initial investments, particularly in creating a multiplier effect—which colleagues talked about in the earlier session—which has really benefited the entire value chain. The average annual local multiplier effect per store was roughly £694,000, based on retail scaling data that was provided for all Scottish products. There was an average local multiplier increase of

just over £220,000 per store, just under £160,000 of which was for go local compliant products. The remaining £64,000 increase came from non-compliant products, which was an unintended benefit of the focus on Scottish products. There was an annual local multiplier increase of just under £1.6 million on compliant products, based on applying the average to 10 stores. Extending that over the lifecycle of the six-year programme, the local multiplier benefit is just under £9.5 million. We have seen a further benefit of just under £4 million from non-compliant products.

What are the key learnings from all this?

The Convener: I am sorry, Pete—I am going to have to stop you there. We are tight for time, but I am sure that some of the topics that you were going to cover will be brought up in questions. I will move to Colin Smith for a brief opening statement, then we will get on to questions.

10:30

Colin Smith (Scottish Wholesale Association): The Scottish Wholesale Association is the official trade body of Scotland's food and drink wholesale distributors. Prior to the pandemic, our sector was worth £2.9 billion and employed more than 6,500 people directly.

Wholesalers are the wheels of Scotland's food and drink industry, supplying the 5,000 convenience stores that Pete Cheema has just talked about as well as 30,000 hospitality, tourism and leisure businesses, and all of Scotland's public sector hospitals, schools, prisons and care homes.

Ninety per cent of our sector is made up of Scottish family-run SMEs. When the pandemic hit, it had a devastating impact on them. Some were operating only 5 per cent of pre-Covid sales right up until April this year, when restrictions began to ease. That was especially evident in the more rural and remote parts of Scotland, which are more heavily reliant on tourism, and it was particularly noted among the on-trade wholesalers that service only licensed hospitality venues.

Even with the economy starting to fully reopen, our fifth wholesale market report, which was published in July, showed that 37 per cent of members are still trading at a loss. The Scottish Government's wholesale resilience fund, which made awards to many wholesalers in December, was genuinely a lifeline for their survival. However, just when members were expecting customers to reopen in January, the economy remained closed and no further financial assistance has been forthcoming for our sector. That is despite there being real need in some of our wholesale businesses.

To compound matters, wholesalers are now being hugely disrupted by the wider supply chain issues that previous speakers have talked about. Members are facing their own staff recruitment challenges, particularly for drivers and warehouse staff. There is an even greater impact on food availability in our warehouses, and that is even larger for the customers whom we supply who are being disrupted as a result of workforce challenges elsewhere in the supply chain.

Despite the challenges, the SWA has embarked on a rebuilt strategy for our sector. It includes the creation of the local supply chain education and training programme for the producers and suppliers selling into the convenience stores that Pete Cheema talked about, and into hospitality, and we have set up a decarbonisation of the wholesale industry project. I would be happy to share more information on those projects with the committee. I invite committee members to visit a wholesale depot near you to see for yourselves what we do.

The Convener: I thank you all for your introductions. We move to questions from members, starting with Mercedes Villalba, who has a question on access to labour in the food and drink supply chain.

Mercedes Villalba: It is a question about rural areas and islands. Is that okay?

The Convener: Yes, go ahead.

Mercedes Villalba: Are you aware of any ways in which island and rural infrastructure can be improved to ensure compliance with animal welfare, environment and biodiversity standards, and of how that can best be supported by the Scottish Government?

The Convener: Would Martin Reid like to kick off on that?

Martin Reid: I will be honest: I do not have an answer for Mercedes Villalba. I do not have any level of knowledge about that. I apologise.

The Convener: That is quite all right. Anybody who would like to address that question should raise their hand.

As nobody has raised their hand, we will move on to another question on the labour supply. Maybe that will stimulate some conversation.

We have heard about haulage issues, and we know that those issues are not unique to the United Kingdom. For example, Poland is short of around 150,000 drivers, and Germany has issues. The UK is certainly not unique in facing problems with haulage.

My question is for Martin Reid. What interventions could the Scottish Government or the UK Government make to address the short-term

problem? What short-term initiatives could result in a reduction in the haulage issues that we are currently seeing? You touched on tests. I know that that is a reserved matter, but social distancing at test centres, for example, is down to the Scottish Government. There are the issues of speed limits and tachograph hours. Where could quick improvements be made to address some of the issues?

Martin Reid: We have put a number of suggestions to the Government. Looking at drivers' hours is not necessarily the way ahead. That would simply increase the workload for those who are already under stress and underrepresented.

As the previous panel mentioned, we need the Government to look at the shortage occupation list. In accordance with what James Withers mentioned, we also think that short-term visas would allow intervention or allow some of those who have left to go back to Europe to come back and work here while we are effectively trying to grow our own wood, as it were. That process will take time.

We have also asked the Government to look at the existing youth mobility scheme, which allows non-EU youths to come and work here for two years. We think that, if that could be extended to EU workers, we could potentially get a small influx of drivers who could help for a short term.

Those are the short-term measures that we are asking for.

The industry pays a lot of money as a training levy, but only about 10 per cent of that is drawn down. We need a review of the training levy to see how it can best be used. A lot of training is going on, and a lot of companies throughout the UK—Scotland is no different—are looking to train, but that takes time. As we have mentioned before—this was also mentioned in the previous evidence session—there is a problem of immediacy just now, with existing orders needing to be filled.

The Convener: Rachael Hamilton has a supplementary question.

Rachael Hamilton: My question is for Martin Reid. In your introductory statement, you said that there would normally be 75,000 HGV tests in a year but there are now 35,000 because of Covid. Have you fed into the UK Government's consultation through the DVSA on rolling together the rigid and articulated lorry testing? If that consultation is successful in rolling those two tests together, how quickly will that feed new lorry drivers into the system?

Martin Reid: We are feeding back on that. The consultation is still live. Our opinion is that amalgamating the C+E or being allowed to go to

C+E without the need to do the C class first would certainly speed things up in the first instance.

Nobody wants to compromise on the safety side, and no trainer worth his salt would ever put somebody through for C+E if he had concerns about them driving a rigid, but, on the training side, amalgamation would definitely speed things up. With regard to other parts of the consultation, again on the safety side, we are keen that people do not bypass B+E, which is for towing caravans, plant and so on. We cannot compromise on the safety side for that.

There are ways of speeding up training. We are also looking at delegated testing—the reverse part of the training could perhaps be done at the trainer's site rather than at a DVSA site. There are a number of things in our consultation response, and that is a key point. We also feel that we should prioritise HGV tests over car tests just now, because there is a real shortage that is affecting all supply chains and we need as many hands to the pump as we can get in order to get people through their tests and get the available slots in place.

Beatrice Wishart: I would like to ask Colin Smith about supplies to wholesalers—in particular, in rural and island areas. At the beginning of the pandemic, there were situations in which supplies were not getting through, especially to those at the end of the supply chain. What is the current experience? I have heard of supply issues locally. Can you expand on what is happening in terms of getting supplies to the smaller wholesalers? People sometimes express frustration that they can see the goods that a wholesaler is trying to bring into the community but they cannot see those goods on a supermarket shelf. Do you have any comments on that?

Colin Smith: It is good to see you, Beatrice—I know that you are engaged with those in your local community who are supplying the public sector as well as the local community stores. You are right—Scotland as a country is at the far end of the supply chain, and we rely on goods coming up from England or even further afield, from Europe, coming through the port of Dover. That has always been a bit of a challenge, but Brexit and Covid have certainly compounded it further. It applies even more to those who are based at the furthest end of Scotland, in the Highlands and up into the islands.

To give you a sense of our sector, as I said previously, 90 per cent of our businesses are Scottish family-owned SMEs. We operate from 115 depots located across Scotland, but 50 per cent of those are located in the central belt, from the east through to the west, and 14 per cent are based in the Highlands and Islands.

For suppliers, where to send their goods becomes a commercial decision. Do they go for the 50 or 60 per cent, in areas where they can be guaranteed the volume and capacity to fill vehicles, or for the 14 per cent, in areas that do not require as much because there are not as many mouths to feed and that rely heavily on tourism that is no longer there? The unfortunate result is that the 14 per cent of depots are not getting the supplies.

Pre-Covid, availability into our sector as a whole was running at about 98 per cent. If we were ordering 100 cases, we would expect to receive 98 of them. Since Covid, and especially since EU exit, the average has now dropped to around 85 to 90 per cent in the central belt, while up in the Highlands and Islands it has dropped to between 70 and 80 per cent. Compounding that is the fact that the costs of serving those local rural communities are a lot higher, and suppliers are increasing their minimum order values and quantities for the islands in order to maximise space in vehicles, as well as reducing delivery times. Where there was once a delivery every fortnight, it is now once every month.

The depots in the Highlands and Islands have the problem that availability is only 70 per cent of what they are asking for. They are not able to replenish their stocks and fill that gap for another four weeks, so they have double the amount of problems. That is a concern, and it will probably get worse before it gets better, especially because of the reliance on goods coming up from England and the pressure of schools opening in England and people returning to offices. It is a real worry for us.

10:45

The Convener: Rachael Hamilton has a small supplementary question on that topic.

Rachael Hamilton: In relation to logistics in warehouses, particularly in Bellshill and central Scotland, has there been a problem with pickers?

Colin Smith: Very much so. We are not immune to the problems that Martin Reid spoke about. We have shortages of drivers and warehouse staff. Since March, we have had a leaky bucket: we have had a shortfall of drivers of about 13 per cent across the sector and we are now also struggling to find warehouse staff. That is not because our sector has been reliant on EU nationals who have now gone home. The problem is that the wider economy is looking for employees, and people are moving to other sectors and industries.

Current availability in Bellshill and the Glasgow area is around 20 per cent, and in Edinburgh the number of warehouse staff required is running at

around 30 per cent. It is interesting that we are not so affected in the more remote areas of Scotland by shortages of drivers or warehouse staff because there is not the same opportunity for people to move around, so they are tending to stick where they are. In the islands, as businesses reopen and tourists start to come back, they will be looking for staff and there is only a finite number of home-grown employees available.

Jenni Minto: You paint quite a dark picture, Colin. Living on an island, I know how important our local shops are: they are absolutely central to rural communities across Scotland. Throughout the pandemic, they showed fleetness of foot by changing where they got deliveries from, getting more local produce and working with different people and suppliers. Given what you have just said, I am interested to know how you will continue to ensure that that happens.

In the previous evidence session, we had stark warnings about Christmas. I am interested to know what improvements you are making to help if we are still in this situation by then.

Colin Smith: Wholesalers have always been fleet of foot, especially the smaller ones that are more nimble and able to adapt and get supplies from other sources. It is difficult, because the same suppliers supply local SME wholesalers as supply multinational wholesalers and supermarkets. It goes back to the issue of where the preference of sale will go: will it go to the larger multiples, the larger national wholesalers, or the smaller SME wholesalers?

At the start of Covid, many of our members pivoted to selling directly to consumers to help local communities survive and to help to sell the stock that they were lumbered with due to the closure of hospitality. I do not necessarily have the answer to how we will ensure that we have enough turkeys or other Christmas delicacies—that is in the hands of the producers that we are reliant on, and they are having difficulties in producing those.

In relation to local supply chains, I spoke about our local food supply chain project, which is about ensuring that we are more engaged with local producers and getting local food and drink into our vehicles and distributed to community stores and hospitality instead of being reliant on the long supply chains that we currently rely on. That is probably a longer-term solution rather than something that can be done in the short term. It will not necessarily be fixed for Christmas—all that I can promise is that we will do our best.

The Convener: I wonder whether Pete Cheema and John Lee have any comments on the matter.

John Lee (Scottish Grocers Federation): I am happy to say something, convener.

As Pete Cheema alluded in his opening statement, one of the strengths of the convenience store sector over the past few years has been the diversification of its supply chain, to some extent. There has been a big move towards engaging and developing business relationships with local suppliers, and the go local project, which Pete mentioned, has been set up specifically to move things forward and increase the space that convenience stores can offer local suppliers. That diversification of the supply chain has been a big plus for the sector over the pandemic, and that will continue to be the case. Indeed, one of the key take-home messages from today should be that we very much think that diversifying that supply chain and creating relationships with local suppliers is how the food supply chain in Scotland should develop.

We are trying to address the fact that a lot of manufacturers in Scotland are still not convenience ready. Historically, they have been able to scale up to supply the larger retailers, but the knock-on impact of that has been the closing of the convenience channel to them. We are very keen to open the convenience channel to a much greater range of manufacturers in Scotland. Indeed, we are doing some interesting work on that with Scotland Food & Drink, and I am sure that we could do more work on it with David Thomson and his colleagues. Developing local supply chains and local connections with Scottish manufacturers and ensuring that those manufacturers are, if you like, convenience ready is a key factor in how we move forward from the current situation.

The Convener: Thank you. I call Karen Adam, who has some questions on the impact of our exit from the European Union.

Karen Adam: I am finding this discussion really interesting with regard to the importance of the local aspect over the past 18 months, the people who have been involved and the parts that they have played.

With regard to Brexit's impact on the food supply chain, have any particular sectors—seafood, for example—been highlighted as having on-going issues?

David Thomson: Yes. Some sectors have been affected more, but the fact is that, no matter the sector, every small and medium-sized exporter that previously exported to the European Union and relied on groupage—in other words, the consolidation of their orders with others—has found the situation really difficult. Indeed, many of our smaller members have said that they have given up trying to export to the EU because the situation with groupage, paperwork and logistics is just too difficult.

Others have profited. For example, those who are able to send a whole lorry load of something can manage the paperwork and the risk to themselves, but for those who have to send their products with products from a range of other companies, there is just too much risk. As a result, many have exited from exporting to the EU until things calm down.

In short, it is not necessarily a specific sector that is being affected but small and medium-sized exporters in general.

The Convener: As a supplementary to that, I believe that, when small consignments were sent as part of groupage, individual costs were a real barrier. Do you see that situation being addressed and the cost barrier being removed any time soon?

David Thomson: Unfortunately, I would have to say, “Not really.” I am sure that there are ways of doing it through, say, paperwork digitisation, but the real issue is the risk associated with putting your products on a lorry with lots of other people's products and relying on them to get their paperwork right. That is what hauliers, logistics companies and individual business find too risky at the moment.

The Convener: I would like to hear Martin Reid's thoughts about groupage. We know that that was a key issue at the start. Is that likely to continue to cause problems for your members?

Martin Reid: Absolutely. David Thomson hit the nail on the head. Anyone who was involved in groupage felt incredible pain at the start of the year. Small amounts of goods are getting through, but not the volumes that we were used to before Brexit. There is a lack of qualified customs agents throughout the UK supply chain and in Europe, which has meant, in effect, that those who want to continue moving goods in that way have to become their own customs agents. That adds an awful lot of cost, bureaucracy and paperwork to what was previously a simple task.

The Convener: We will move on to the topic of local food economies.

Ariane Burgess: It has been challenging to hear about what you and the businesses that you represent have faced. However, I am heartened to hear from Pete Cheema and John Lee about convenience stores becoming neighbourhood stores. They seem to be taking the initiative on local procurement. The Parliament will be doing some work on 20-minute neighbourhoods. You are leading the way on that, which is great.

My questions relate to climate change and net zero. Colin Smith mentioned the difficulties of Brexit and Covid, which meant that food was not reaching islands and rural areas. Climate change

is having an impact on food-producing countries in the south and in Europe. What impact will climate change have? What proportion of our emissions comes from haulage and transportation?

Colin Smith: The Scottish Wholesale Association sits on the retail steering group and the tourism task force, and we are integral to the success of ambition 2030 and the food tourism strategy. Everything that you have said about climate change and food distribution is pertinent to the strategies that will come from those groups.

Regarding local supply chains, it is important that we get goods into the vehicles of the wholesalers that service convenience stores and hospitality, and that we do so in a way that is both efficient and carbon neutral. The projects that I alluded to on local sourcing and delivering growth through wholesale do what John Lee talked about.

There is an educational training programme that is run in conjunction with the Scottish Agricultural Organisation Society and with some funding from the Scottish Government recovery fund, which is being delivered in conjunction with Scotland Food & Drink. The programme educates local producers to understand the wholesale routes to market and the advantages of using the 1,400 trucks that we put on the road, the 70 wholesale distributors and 115 depots that we distribute through, and the 6,500 employees who can help to get their goods on to shelves and plates. We can act as their sales force and accountancy team.

We launched a decarbonisation project in January. The first phase is almost complete and we will share our findings with the committee. That project is looking at how to decarbonise our wheels. We have 1,400 trucks—we know what the figures are, because we have just done the analysis. What is the solution for those trucks? It will not be diesel, petrol or electric; it is most likely to be hydrogen.

We are partnered with Arcola Energy on a project to get a hydrogen vehicle on to Scotland's roads—that is through the Scottish hydrogen fuel cell freight trial, or SHyFT, which is funded by the Department for Transport. We are working with the hydrogen accelerator, Scottish Power and others to look at how we can have the carbon neutral and sustainable local supply chains that are creating those 20-minute neighbourhoods that we are trying to establish. It really ticks all the boxes of the Scottish Government's ambition and the race to net zero in 2045.

I do not know whether that fully answers the question, but I hope that I have given more of a flavour of what we are doing to help to decarbonise and create a greener and more sustainable food and drink supply chain.

11:00

Ariane Burgess: Perhaps Martin Reid would like to say a little bit about his thoughts on the haulage world.

Martin Reid: Sure. Since 2013, the haulage industry has reduced emissions by 65 to 70 per cent. By 2025, the reduction should be about 80 per cent. The Euro 6 engine is categorised as ultra-low emission, but we realise that that is not good enough and we need to move forward.

As Colin Smith said, we realise that the future is not necessarily diesel, petrol or electric. Tests are being carried out all over the UK, and trials are going on with various products and different methodologies. I was given the example of a type of shunter that is used—a Terberg. A diesel Terberg costs £92,000 and an electric Terberg costs £380,000. If you consider that someone could be running 20 of those, that would be a massive outlay.

We are 100 per cent behind the net zero plans and aspirations. Our concerns are around barriers to entry and stranded assets. It is not that long ago that the Government was pushing everybody to have Euro 5 trucks. Now, someone who goes into a low-emission zone or a CAZ—a clean air zone—must have Euro 6. As a result, the value of Euro 5 has dropped through the floor and the price of Euro 6 has gone up, which means that the barriers to entry are greater. Our concern—particularly in relation to SMEs, which want to engage in this agenda—is that the barriers to entry need to remain surmountable. Rather than constantly beating it with a stick, it would be far better to bring the industry along with us.

We warn against stranded assets and the value of existing materials. Consideration needs to be given to existing cycles. The average use that a company would get out of a truck is about 12 years. Roughly, a tractor unit costs £100,000. If, halfway through the payment cycle, that is rendered useless because of legislation, the company must take the hit on that, plus the cost of the new unit. That is a lot for businesses. We are 100 per cent behind the aspirations, but we need to be sensible in recognising the fiscal effect that achieving them will have on businesses that want to engage.

Not so long ago, we had a situation in which a big company in the west of Scotland was looking at gas trials. It built a unit in Newhouse, which it allowed others who were trialling gas-powered vans and so on to use as a fill-up point. However, out of nowhere, BOC said that it would no longer deliver to Scotland because it did not have the economies of scale. That rendered the trial completely useless not just for the company that

was storing the gas, but for those that were using the unit.

There are difficulties in engaging with the aspirations, but the will of the industry is 100 per cent behind them. We all want to run greener vehicles and we all want cleaner air for everybody.

The Convener: Before I come back to Ariane Burgess, I will bring in Mercedes Villalba for a supplementary.

Mercedes Villalba: It is really exciting to hear about all the changes that industry has planned. However, as Martin Reid pointed out, there are financial barriers and the targets need to be achievable. What policy changes could the Scottish Government make, or what resources could it provide, to support the food and drink supply chain to meet the targets and continue to make the changes that we need to tackle the climate emergency?

Colin Smith: I agree with everything that Martin Reid said. Obviously, our members who own trucks face the same issues that Martin has just alluded to.

One reason why we got involved in the decarbonisation project was to help our industry to lead in the private sector. A lot of investment is going into new technologies in the public sector, such as the hydrogen projects in Aberdeen and Dundee, but the private sector is actually the biggest polluter. The Government needs to look at how it invests in the private sector. If we are to be carbon neutral by 2045—I will be honest and say that, in transport and logistics, that is a big ask—we need to be on a comparative playing field so that the pricing involved in converting to greener fleets is not as onerous as it could be. That could involve subsidies when vehicles are purchased, in a similar way as happened when electric cars came to market. There could also be subsidy of fuel, if there is a difference in price between diesel and hydrogen, liquefied petroleum gas or biofuels, or whatever we use. In logistics, one of our highest costs is that of vehicles and fuel, and another is our staffing costs, and both of those are on the rise.

As has often been said, wholesale is the squeezed middle. We distribute on behalf of the producers, who are sending price rises our way. We cannot raise the cost prices of goods any more at our end, partly because we are dictated to by the multiples and the discounters. We sell to the convenience stores, and they cannot raise their prices much higher than prices in supermarkets, because otherwise they become uncompetitive. Therefore, we are squeezed and limited in how much we can raise our prices.

With 1.3 per cent net margins, we are very much a high-volume, low-turnover business. The

recent survey that I alluded to found that 90 per cent of our members are seeing cost price rises from their suppliers, but only 62 per cent of them have managed to increase their cost prices going out, so margins are becoming tighter. The Government will have to invest in the supply chain and in wholesalers to enable us to meet the ambitions for 2045.

David Thomson: To build on that, I have a couple of points about food manufacturing. The Food and Drink Federation has an ambition of reaching net zero by 2040. Our UK members have reduced on-site carbon emissions by 55 per cent and have done so five years earlier than our 2025 target. We are on a good trajectory, but there are a couple of big questions. The first is about energy production, although that is easier in Scotland than it is in the rest of the UK. The second question is about heat, as we use a lot of ovens to bake biscuits and so on. That is a bigger and more difficult question for the industry to address in the short term, particularly as there are questions over a move to either electricity or hydrogen, if that is feasible.

Businesses will need to make a number of significant investment decisions on the road to net zero. As others have said, in the policy world and in those policy decisions, it is important that plenty of time is allowed to make the change and that support is provided where new technology is several magnitudes more expensive than conventional technology.

The Convener: I have a question for Pete Cheema or John Lee from the Scottish Grocers Federation. What impact do the environmental challenges have on your businesses? That might be about reducing packaging or sell-by or use-by dates. Do you see issues that you will have to tackle as a result of strengthening environmental policies?

John Lee: I am happy to say something about that. Your point about packaging is a good one, but those issues do not impact on us too much. However, I would like to mention something that goes back to the question about Government policy. I am sorry if this sounds like a plea for money, but that is because it is.

A few years ago, we developed a programme with Zero Waste Scotland that provided funding for convenience retailers to carry out eco-friendly and energy-efficient refits of their stores. Typically, that would involve smart lighting, energy-efficient chillers, smart metering and so on. It was very successful. It shifted the dialogue on the way in which our members looked at how energy efficient and eco-friendly their stores were, and it helped to move the sector towards a greater understanding of the need for a move to net zero.

The go local programme, which Pete Cheema mentioned, is helping people to make connections with local suppliers, and it is based on Government funding. My key message is that a small amount of investment in a small business can have a very big impact not just on the business, but on the wider policy issues that we are trying to address: the supply chain, food supply and a move to net zero.

Another key thing is that those programmes were developed in partnership with us in the industry. The Government did not just develop a programme in the hope that it would be successful. We worked together with Zero Waste Scotland and the Government to develop the programmes, and they have been very successful. Such targeted funding—with clear outcomes—that is developed in partnership with industry can have a very big impact. Small amounts of investment in a small business can have a really big impact.

Dr Allan: My question relates to some issues about the supply chain that came up in the session with the previous panel. Are you noticing some of the same or analogous problems with changes to the certification of imports that you have experienced with exports since Brexit? The question is about the impact on your businesses when it comes to the changes that are expected some time between October and January in the certification of imports.

David Thomson: Yes, and that comes in three different ways. The first involves the changes in paperwork and the implementation of new rules for imports. An element of that—the actual checking of documentation—has been delayed until January. We are still waiting to see how that will work. It impacts on our members when they import raw materials and packaging, particularly from Europe.

Secondly, as I think James Withers mentioned, until there is a quid pro quo in export and import controls, it is difficult for folk to negotiate with Europe to make it easier and simpler for things to move back and forward across the border. There is an element of political negotiation to that.

Lastly, there is the general issue for importing, which is the massive cost increases in international shipping. One of our members told us that it used to cost £2,000 for a container to come from China, and it now costs £20,000. However, it is not just about costs; it is also about delays. All those things are causing significant issues. We think that there is more pain still to come on imports as the UK begins to put in place a proper long-term regime.

Colin Smith: Most of our members do not import directly but rely on the likes of David Thomson's members to do the importing.

However, there is concern that the issue is another potential burden, or a problem that is waiting in the wings to hit the food supply chain when we are already creaking at the sides and so stretched. I do not know what might happen.

The only thing that we have noticed when it comes to imports from Europe is longer lead times. Some of the goods that we import are taking four weeks instead of two weeks, and there has been a reduction in some frozen goods coming in, particularly meats and fresh produce. That is potentially partly because of the limited frozen capacity that is available in the UK—we are not able to bring in as much because we do not have the capacity to store it. However, I cannot really answer much more on that point, I am afraid.

11:15

Martin Reid: Our industry comprises the guys who are moving the goods for David's industry and Colin's industry. Any further delay in the process adds to costs. We can also link it directly to the skills shortage, as one of the issues that we have as an industry is its image as a place to come and work. If the public are seeing queues at ports and hearing about downtime and additional costs from people sitting waiting on goods being loaded and unloaded at ports, railheads and so on, that does not do anything for the industry's image. We want to attract people to come into the industry. Any additional costs or delays have to be factored into the 1.3 per cent profit that Colin Smith mentioned earlier.

Dr Allan: My other question relates to Europe and the supply chain. The labour shortages that you and the previous panel have described are occurring at the very time when we are trying to rebuild the economy post Covid. One of the witnesses on the previous panel made a case for what he called Covid recovery visas. Do you think that there is a need for the UK Government to intervene with some kind of emergency measure of that kind to release some of the current strain on the labour supply?

David Thomson: I was a co-signatory to the letter that was mentioned earlier, in which there was a very clear ask for a 12-month Covid recovery visa so as to find a way to unleash businesses and allow them to attract more people from other parts of Europe and, potentially, the world. We have asked for that to happen for a short time as we try to get over this perfect storm. That would be one thing. Lots of other things are required, but, as a way to mitigate the short-term issue, that tool might help.

Martin Reid: I completely agree with what has been said. A recovery visa would be very useful. It

is not a silver bullet, however—it would not cure everything. We should also consider those people who have left the industry, whether through retirement or through being disenchanted with it.

I will mention two of the barriers. The first is the costs that are attached to the medical that is required for those coming back into the industry. Perhaps there could be financial help with that. Secondly, we should review the requirement for a certificate of professional competence, which could be a block for those who want to return. Even if someone only wants to do a couple of shifts a week, that will be one or two deliveries covered that ordinarily would not be. I would also mention inclusion on the shortage occupation list.

Colin Smith: We are also co-signatories to the letter. As Martin Reid said, the proposal is not a silver bullet; it is about the long term and how we can get people into the food and drink sector and the wholesale sector, which we are here to represent.

In our most recent market survey, we asked members whether they thought that a wholesale task force should be set up, and there was an overwhelming response for that. The task force would work with the Scottish Government on recovery of the food supply chain and wholesale while navigating back to recovery through greener and more sustainable jobs, looking at skills in the wholesale distribution channel and making it attractive for everyone, especially a younger workforce.

As I said, we need people in our warehouses, but we are not just pickers, packers and box movers; we are educators of the food and drink supply chain. Around 80 per cent of a retailer's knowledge comes from the wholesaler. The chefs in restaurants use our members' development kitchens for their next culinary concoctions. When we look at the sector, we see that there are digital skills professionals, data analysts, drivers, decarbonisation experts, sales and marketing professionals and debt and finance advisers. We have all those skills in our businesses, yet that is not widely known.

How do we use the developing the young workforce agenda and Skills Development Scotland to go out and promote the sector in schools, colleges and universities so that people know that those skills can be used in this vital part of the economy to keep people fed and the wheels moving?

Jim Fairlie: I have a specific question for David Thomson on something that he mentioned right at the start of the session. David, you talked about the health connections with food and the potential clash between English and Scottish regulations

through the United Kingdom Internal Market Act 2020. Will you expand on that, please?

I also want to talk about the food processing, marketing and co-operation grant scheme, which has just opened for applications. We need to ask the Scottish Government why there is such a short timeframe for businesses to get an application from conception through to completion before they can ask for the money. Pete Cheema and Colin Smith talked about the go local fund, which is a great initiative. I will leave it at that just now, because I know that we are running out of time.

David Thomson: On the health regulations under the United Kingdom Internal Market Act 2020, there are two different issues. The clash of the health regulations is based on which foods are deemed to be not healthy and therefore which type of regulation they fall under, and on the types of restrictions that are placed on those foods. The Scottish Government previously brought forward a set of proposals that categorised food in certain ways, and we had some problems with that. There were categories for food that we were and were not allowed to display. In particular, we had issues around where that created a disbenefit for small and medium-sized enterprises.

The UK Government proposals for England are much more wide-ranging in terms of the foods that are covered, and they mention different sets of bans, including online and in other areas, but only for businesses that have more than 250 staff—however they manage to do that. We can already see that there will be differences in approach. Supermarkets will have different regulations to work to, and food manufacturers will need to understand where and how their products can be promoted in order not to run afoul of whatever laws are eventually introduced. As you can see, there is quite a large opportunity for confusion there.

The 2020 act is more about how food is produced and where it can be sold. In particular, it has an impact in that, even if there are higher production standards in Scotland, or even in Wales, than in other parts of the UK, foods from across the whole of the UK can still be sold in Scotland, England and Wales. Northern Ireland is a unique case because of the Northern Ireland protocol.

Again, there is a likelihood of confusion around how that works. In particular, I can foresee an issue with how the rules are implemented by the local environmental health officers who check up on things. There is quite a lot that food businesses will need to—*[Inaudible.]*—probably without even knowing that they will.

On food grants, I agree that it is disappointing that we have only got until the end of the year not

just to apply for a food grant, but to get all the invoices out and the work done. I understand that it is because the Scottish Government, quite understandably, is currently on annualised budgeting so it could not commit beyond the end of the year. However, there is some good news in that the Scottish Government is already saying that it will consider projects for the next financial year.

I ask the committee to consider how we get a stable budget that allows the Scottish Government and its food division, and others, to plan for longer-term investments. If we are talking about putting in new lines and the kind of significant investment that we all want to see in the race to net zero, we need a longer lead time and a longer build time than has been made available this time round.

Jim Fairlie: I would like to clarify a point that you made. The Scottish Government introduced minimum unit pricing for alcohol. Is that the kind of area where we might run into difficulty?

David Thomson: My understanding is that the answer is yes, although not with regard to minimum unit pricing, because that was in already extant legislation. However, anything like that that comes forward now could be caught by the UK Internal Market Act 2020. I would leave it to the lawyers to work out precisely where that would be.

Jim Fairlie: Thank you.

Rachael Hamilton: David, I have a question about something that you said in your opening remarks regarding obesity and our obesity strategy, and particularly the Scottish Government's aim to reduce childhood obesity by half by 2030. That is a big challenge. Obviously, the work has been delayed and we still await the programme for government, but what impact will that strategy have on the food and drink industry with regard to reducing salt, fat and sugar? What impact will it have on promotions? Pete Cheema might also want to answer.

David Thomson: Tackling obesity is hugely important for Scotland, the UK and the food industry. We can all get behind that, which is why we are working with the Scottish Government on our reformulation project to support small and medium-sized enterprises in Scotland to reduce fat, salt and sugar and increase—*[Inaudible.]*—in their diet, like fibre. That project has had an enormous response—we have engaged with more than 400 companies in Scotland.

We are already on the way to taking millions of calories out of Scottish shopping baskets, so it has been a real success for a very small investment over the past couple of years. Last year, we also opened a bit of challenge funding for companies, which was oversubscribed. For example, Macsween of Edinburgh has used the funds to

adapt traditional products such as haggis and black pudding and make healthier, lower fat versions. There is real activity, which is good.

The harder part of the conversation is around regulation and its impact on the industry. We have always been clear that the Government needs to be careful about the impact on small and medium-sized enterprises. We all want to support a vibrant and diverse food industry in Scotland, but some of those products do not fall into the category of healthier products, and some of the measures that are being supported could heavily affect some SMEs.

Whatever regulation comes in, the food industry will adapt and work towards it. We want to help deliver a Scotland where childhood obesity is reduced, but we need to be very careful about the measures that we implement in order to make sure that they do not disproportionately affect—*[Inaudible.]*

Pete Cheema: Since 2004, we have been running the SGF healthy living programme, which aims to deliver a healthier lifestyle in deprived areas, and that has been extremely successful.

I echo some of the remarks that David Thomson has just made regarding the effect that the obesity strategy has on SMEs. Every piece of legislation that keeps coming out of the Government affects our sector, so a moratorium on policies and, therefore, a bit of breathing space for our sector would be of benefit. Even this year, we have had to comply with a high number of new policies. For example, we have to comply with Natasha's law from 1 October by working with our colleagues at FSS. So much legislation, such as the deposit return scheme, will be coming through. Earlier, my colleagues spoke about the haulage problems. How on earth are we supposed to deliver a world-class system when we have a huge problem because of the shortage of drivers? We have to deal with so much legislation and we have to be very careful that we do not drive businesses out of business.

The Convener: Thank you. Excuse the pun, but you have given us plenty of food for thought. It has been a very informative session and one that will certainly help us with our business planning in this first year of the parliamentary session. I thank all the witnesses for joining us.

11:30

Meeting continued in private until 11:50.

This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

All documents are available on
the Scottish Parliament website at:

www.parliament.scot

Information on non-endorsed print suppliers
is available here:

www.parliament.scot/documents

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: sp.info@parliament.scot



The Scottish Parliament
Pàrlamaid na h-Alba