1. BACKGROUND

This short interim paper has been prepared as part of a study being undertaken by Promar International (Promar) on behalf of the Welsh Development Agency (WDA) to develop a strategy for the horticultural sector in Wales for the next 5 years.

This work began in earnest in mid May. To date it has involved a series of face to face interviews with a broad spectrum of organisations and individuals from across the industry, both in Wales and other parts of the UK too. A relatively small number of interviews still remain to be undertaken as do a series of "focus groups" with horticultural producers. The final stage of the project will be the development of the strategy itself.

In the context of this study, "horticulture" is defined as covering the following:

- Fruit and vegetable production
- Organic production
- Hardy nursery stock
- Landscaping
- Floricultural and related sectors, such as floristry etc
- Novel crops, such as those used in the pharmaceutical and nutraceutical sector

The study will be completed towards the end of July. The Strategy Group has met to date three times.

2. INDUSTRY CHARACTERISTICS

2.1 Scale and dimensions

The scale of horticultural activity in Wales is in the region of £350 million per annum. The sector is not at all well documented, and these figures are based on a combination of the modest data that is available and Promar estimates. The sector can be split into two main areas with one covering the commercial activity of vegetable production, landscaping, hardy nursery stock and some organic production. This is estimated to be in the region of £300 million per annum.

The less commercial sector covers a wide range of activity including farmers' markets, box schemes, farm gate sales, "the man and a van" syndrome found in the landscaping sector, supply to local tourist trade etc. This is estimated to be in the region of £15 million per annum. A more extensive breakdown of these figures will be provided in the draft final report.

In terms of potential market size, the overall UK markets are:

- Farmers markets: £0.06 billion
- Organics: £0.8 billion
- Speciality foods: £3.6 billion
- Hardy nursery stock: £1.6 billion
- Foodservice: £23 billion
- Conventional foods: £104 billion

These market sectors will be broken down to reflect the more specific situation in Wales.

2.2 Structure

The Welsh horticultural sector in terms of structure can be segmented into a relatively small number of professionally run growing and marketing operations (typified by vegetable growing and packing in South and West Wales, HNS operations found throughout Wales, organic production typically around Lampeter and Aberystwyth and also landscaping businesses) and then a large number of small, often part time operations, where horticultural production is something of a "lifestyle" occupation.

2.3 Current situation

The sector is at a crossroads in terms of its evolution, with forces for change in the industry driving it down two often quite different paths. The commercial sector, where there will be a requirement for scale of operation (albeit relative), organised marketing, a customer base often based outside of Wales and a need for continued investment and finance, which is already seeing a degree of consolidation in order to respond to customer requirements. Often these operations are driven by the presence of a "charismatic entrepreneur" and/or have links to larger marketing organisations based elsewhere in the UK.

At the other end of the spectrum, there is an increasing trend towards horticulture as a small scale activity and where markets are much more localised. Many of the companies and individuals involved display many of the characteristics of the SME operations in terms of limited market knowledge, access to finance, informal marketing and no formal qualifications. In a good number of cases, those involved in this sector have deliberately chosen to go down this route and express no real interest and/or desire to scale up their operation.

3. OPPORTUNITY AREAS

3.1 Fruit and vegetable production

The market for many products in this sector is relatively static, especially for root crops and potatoes. The current £/Euro exchange rate has been sucking imports into the UK for the last few years from the EU and Mediterranean Basin. Farm gate prices have been put under huge pressure in the last 3/4 years and production in the UK has tended to cluster around several key areas such as Lincolnshire, Cambridgeshire, Kent, Herefordshire, Somerset and Worcester, and is characterised by relatively large-scale operations. The future is likely to see Welsh horticultural growers need to not just achieve greater economies of scale, but also to operate in a smarter, more professional and innovative manner.

In overall terms, Wales is a small scale player, but growing groups based in South Wales have a history of supplying the Welsh based stores of the major retail multiples. Although dealing with these large scale customers can be extremely challenging in both technical and commercial terms, the demand for "locally" sourced produce is increasing. This presents a good opportunity for further development, provided a realistic commercial outlook is maintained. Some concern has been expressed as to the real intention of leading retailers vis-à-vis local sourcing. While these doubts have some validity, those involved in the business are optimistic and pragmatic about the opportunity this presents.

It is unlikely that there will be too many more new vegetable producers in Wales in the future. Those that remain will be required to increase farm size and continue investments in technology and infrastructure, as well as look at the development of new crops and/or specialist varieties. Diversification away from retail markets into the fast expanding foodservice sector is another opportunity area.

3.2 Organics

Wales has a disproportionately strong reputation in the organics sector, not least through the activity, over a period of time, of one of the UK's leading organic food operations based in Lampeter. There are estimated to be in the region of 600 organic producers in Wales per se. There is a good system of technical support in place but any further growth in the numbers of growers converting to organic systems is likely to put this under pressure.

The UK organic fruit and vegetable market is still heavily dependent on imported produce, which is estimated to account for around 85% of total supply. The situation is no different in Wales. Premiums are being put under pressure, as overall supply begins to increase and as major supermarket chains, who are now increasingly important in terms of distribution at the POS, start to exert commercial pressure on suppliers, both domestic and external.

Opportunities remain within organics for both the growing market per se (Promar estimates that this could reach around 7% of the overall total market over the next 5 years) and to replace imported produce. Scale of production and professionalism again will be important in the future.

3.3 Hardy nursery stock

Production in the UK has increased over the last 10 years on a regular and consistent basis, but so too have imports sourced mainly from the Netherlands, Italy and Belgium. The industry too has continued to grow in Wales. There are some excellent examples of successful businesses to date. There is a strong tradition of nursery gardening in Wales, but this is often at a leisure scale.

Other horticultural producing areas in the UK such as Scotland (and in Ireland) have moved away from fruit and vegetable production in the last 5 years and are now concentrating more in this sector. A similar trend appears to be taking place in Wales. Garden centres, DIY stores and supermarkets are all becoming more important in terms of the overall share of the market but there are still good opportunities for supplying into more localised markets, not least in conjunction with tourist trade and supply to the more discerning HNS consumer.

3.4 Landscaping

This has been one of the main growth areas of the Welsh horticultural sector over the last 5 years. The WDA already has in place a landscaping industry group, which appears to be vibrant and well organised. Welsh landscape operations have shown that they can compete against their counterparts in other parts of the UK, as well as in the more local market too. The overall market looks set to continue growing, as investment in municipal backed schemes, requirements from more corporate customers and an increase in leisure landscaping are all expected to continue.

Municipal schemes, while being subject to the rules of open tendering and all this implies, often specify that locally produced plants and materials are used as well as locally based contractors wherever possible, provided basic price and quality standards can be met. The main threat to the sector is at times a lack of professionalism, which can damage its overall image and customer confidence. Many of the operations involved in this sector are by their nature of an SME scale and lack good business development skills.

3.5 Novel crops

There is no real tradition of these crops being grown in Wales to date although there is some development based in West Wales for the production of herbs. The market for these products is growing rapidly, albeit from a small base, especially in areas such as natural food ingredients, functionally enhanced foods etc. The market though is not well defined. This lack of transparency means that growers have often been dissuaded from making a market entry.

For pharmaceutical products, strong links to recognised centres of medical excellence are seen as almost prerequisite. This sector potentially represents an opportunity for Welsh producers, but more work needs to be carried out before a definitive recommendation can be made. It is likely that the supply of crops into the nutraceutical sector provides the best opportunity.

3.6 Other sectors

It is unlikely that Wales will extend production under protected glass structures; several operations exist in South Wales, but the strength of competition from other sources of supply such as the Netherlands, Spain and then North Africa makes a large scale investment in this area likely to be unfeasible. Plastic based systems offer a better opportunity, but again the feasibility of this still needs to be carefully examined. However, the WDA can provide assistance to existing operations as they look to upgrade both physical infrastructure and their technical/commercial skills base.

A number of other opportunity areas exist in the broader spectrum of Welsh horticulture. These are often linked to semi informal activity and are unlikely to be the major thrust (bearing in mind a "hierarchy" of opportunity areas) of any strategy initiative in the sector. These would include some of the areas mentioned earlier and then traditional forms of semi informal employment, although some modest form of assistance can, and should be, provided as part of an overall strategy.

4. SUPPORT INFRASTRUCTURE

4.1 General comment

The horticultural sector in Wales is weak in terms of sources of advice and assistance when compared to other areas of agri food activity, such as livestock and dairy farming. It has been seen very much as the "poor relation" in this context, although some areas of genuine expertise do exist at centres such as the National Botanic Gardens and the Organic Centre in Aberystwyth.

A number of other institutions exist that in theory can provide support to the sector but often are not focused on horticulture and/or devote limited resources to the sector. LANTRA offers a good range of training courses for land based industries per se which includes horticulture. However, these are very much the exceptions rather than the rule.

Although a wide number of HE and FE institutions offer some form of course in the sector, they have come under pressure over the last few years and often report a decline in student numbers taking up commercial horticulture. However, demand for leisure related courses is reported to be more buoyant. The Welsh College of Horticulture has invested in distance based learning schemes, which have been successful and are a pointer for the way forward.

There is a very modest track record of inward investment in the horticultural sector per se and WDA reports very little activity in this area.

4.2 The banking sector

Banks have leant considerable sums of money to the horticultural sector but there is no specialist service to the industry in the way that other sectors of agriculture have benefited. As a general rule, they certainly have no "anti-horticulture" agenda as part of their lending policy but are concerned over the quality of the business acumen of the producer base (although this statement could be applied to all Welsh agriculture).

They expect to be more involved in the horticulture sector over the next few years as the nature of the Welsh rural economy changes, post Curry Report et al. and would welcome closer dialogue with WDA over what is likely to happen in the sector. The attitude of the banks remains pragmatic: they are always interested in new commercial opportunities but have not regarded horticulture as major thrust area to date.

4.3 Others, including WDA

Many other support organisations do not have any specialist horticultural activity to their portfolio. Moreover there is a lack of Welsh involvement in many of the key support organisations located in the rest of the UK.

The WDA can provide a range of assistance to the sector and marketing and processing grants are available through the Welsh Assembly. However, for a relatively small scale sector, the potential range of sources of assistance is quite large; but for many trying to access this help, the perception of "plenty of help available" and the reality of accessing it is very different. The support systems in effect remain fragmented, non-specialist and of a non-priority nature, and are often "hidden" from those that can and/or could make use of them.

4.4 The way forward

The overall picture of Welsh horticulture is an industry with a poorly developed image acting in isolation of others and lacking any real sense of strategic direction and/or support. This in itself presents a huge opportunity to upgrade the overall image of the sector in Wales in several key areas:

- to introduce much better co-operation and co-ordination of the various organisations that are involved in supporting the sector; for a relatively small scale sector, there are a large number of organisations involved in providing some degree of support to the Welsh industry. Most of these are, however, operating at the fringes. None of them are looking to tackle the Bigger Picture and give a real sense of direction and leadership

- to encourage commercial operations to address the realities of the markets they are supplying and in turn encourage the grower base to face up to the reality of their situation

- involvement of the Welsh sector in other UK based horticultural organisations

- to co-ordinate with other WDA working groups as required

- to develop sub strategies as maybe required over the next 5 years

- to see the sector as presenting worthwhile and profitable career opportunities, especially for younger people who are ignoring it as a career option at the moment

- to upgrade the skills base of the sector, in terms of both technical production and the business skills needed to run an operation effectively

- new areas of market opportunity for either existing growers and/or potential new market entrants

The challenge of these tasks should not be underestimated. A Welsh horticultural "supremo" is needed to spearhead this challenge, supported by a small team. As well as addressing issues internal to Wales, this role should be heavily focused on external issues, especially to those related to the marketing of Welsh products and links to key industry organisations external to Wales.

5. FUTURE DIRECTION

The Strategy Group has expressed a desire that although assistance is available from a number of sources, the future direction of the horticultural sector in Wales should be that it is encouraged to stand on its own two feet, take responsibility for its own actions and not expect to be over dependent on national and/or local government for assistance.

A considerable amount of the groundwork has been completed, although there is still work to be done before we get to the stage of the development of a full strategy. However at this stage a number of things are very clear in terms of what needs to be done to develop the sector, and these include the following:

- There is a need to provide assistance to the sector at a number of levels, vis-à-vis:
  - the operators who are already working on a commercial scale
  - those that express a desire to move from semi commercial to a larger scale of activity
  - those that wish to remain operating as a semi commercial/lifestyle type operation
  - those that wish to enter the sector and/or diversify into new areas

It goes without saying that these all have very different needs. The Strategy Group intends to list a relatively small number of key actions for each of these industry areas and cross reference them with type of activity such as fruit and vegetables, organics, novel crops, landscaping etc. As such, there will be a series of Action Plans for each, building to an overall Strategy for Welsh horticulture for the next 5 years.

Options exist for a number of approaches, including:

- Building on what already exists (i.e. vegetables, organics, HNS, landscaping)

- A degree of re-invention (i.e. introduction of new varieties and products etc)

- Starting from scratch (i.e. novel crops)

There is no one set strategy for the sector. The flexibility of the plan is of paramount importance. However the broad areas of assistance can be grouped under the following areas:

- Better information across the board about the scale and nature of the sector; there is almost a complete lack of data, even at the most basic level in this respect. Benchmarking is an urgent need across the full spectrum of activity in the Welsh sector

- Recognition of the fact that support needs to Welsh horticulture are very diverse and range from selected assistance to highly commercially driven operations, through to much wider ranging assistance, to the less commercially focused operations mentioned earlier. It should also be recognised that some areas of activity within the horticultural sector have been chosen as part of a lifestyle choice and these operators express limited desire to scale up activity to the next level

- The need to attract young blood and talent to the sector

- To encourage diversification only when a sustainable market opportunity has been identified and when skills really are transferable: this may not always be the case, not least in the mindset of protected agricultural operations versus demand led horticulture

- The development of a more entrepreneurial culture to the sector per se; more “charismatic entrepreneurs “ are needed

- Using the sectors “high fliers” to act as mentors for other horticultural operations, to act as standard bearers of the Welsh industry and act as operations that others can cluster around, especially in the earlier stages of development

- Better quality of technical support and assistance, and better access to this including more focus in the HE and FE sectors

- The Welsh brand can be made more use of especially in the markets where regionality of produce is important; in fact at the moment its is one of the main areas where the Welsh horticultural sector can differentiate itself

- Addressing the limited involvement of Welsh horticulture in the main organisations concerned with the sector; the landscaping sector is the exception

- Encouraging Welsh horticulture to adopt the principles of Good Practice and ICM/IPM type schemes as the norm, rather than being seen as an optional, “nice to have” extra. This relates to the broader issue of sustainability in horticultural production per se and management of the rural environment

- Boosting fruit and vegetable consumption as part of moves to encourage a healthier diet is important. The University of Bangor has been involved in some excellent work in this area in conjunction with the UK Fresh Produce Consortium with encouraging results

- Exploiting potential links to the tourism sector, although recognising the limitation of this too

It is likely that the horticultural sector will cluster around the existing players in the market, especially at the commercial level. This should be encouraged. Diversification into the Welsh horticultural sector should only be undertaken after well planned and thought through evaluations have been carried out. Horticulture should certainly not be seen as the “easy option” for farmers who have struggled in other areas of the agri food sector. Identification of valid and sustainable market opportunities should be fundamental to this, whatever the scale of activity and area of operation.

Growth is likely to come from the non-edible side of the sector in the future although some opportunity areas in the production of vegetables including organics clearly exist too.

6. OTHER POINTS FOR CONSIDERATION

The Strategy Group has been asked by the Welsh Assembly to consider the role of low cost fruits and vegetables being supplied to low income families in Wales. The Countryside Alliance has been experimenting with these schemes in other parts of the UK and some pilot work has been undertaken (we understand) in North Wales. Health considerations have been a major driver of these sorts of initiatives rather than the agricultural benefit. Produce is typically supplied by locally based co-operatives and there is limited traceability in place.

The schemes are reported to offer an opportunity for better consumer education (especially of children) as to how fruits and vegetables are produced; farm visits are part of the scheme etc). Initial research has shown that farmers are likely to receive a higher margin for their produce.

This market also offers an opportunity to sell produce that does not meet the high technical standards of the mainstream market. This has not been discussed in great detail to date by the Strategy Group, but the initial feeling is that any initiative to promote healthy diet etc. is important. It should be included in the overall strategy, but is unlikely to be a fundamental driver of it in its own right.

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