

## **Written Response to the Consultation on Food Processing for the Senedd Economy, Trade and Rural Affairs Committee**

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The food and drink industry plays an important role in Wales. While it may not be the largest sector in the Welsh economy, many food and drink businesses and people involved in the food and drink supply chain rely on the success of the food and drink sector, especially in rural communities, often in Welsh-speaking communities.

There is a feeling that the sector, like many others, is currently at a crossroads as many actors across the food and drink sector experience periods of uncertainty and change. Recent years have seen a period of economic difficulty with various challenges, particularly the effects of Covid-19 from business closures and lockdowns, impacts to Global supply chains through different conflicts in Ukraine and the Middle East, a cost of living crisis, economic effects of persistent high inflation and high costs of goods, energy, and daily essentials, as well as climate change effects (such as grass fires or flooding), natural disasters, or changing global geopolitics (such as tariffs). It is important to add that Brexit has been particularly bad for businesses across the UK, bringing negative effects to the economy, creating barriers to export and increasing costs and paperwork for businesses when importing goods. This has created a period of perpetual uncertainty for businesses and called upon them to develop resilience. Based on recent research work that I have been conducting through a partnership between Cardiff University and the University of Waikato in New Zealand, we compared the resilience of rural-based small and medium-sized enterprises (SMEs) in Wales and New Zealand and found that businesses in both countries were able to develop resilience to these challenges, but this resilience was largely aimed at surviving the challenges, and few businesses looked to develop more advanced levels of innovative practice at this time. Comparing both countries, we observed that businesses in Wales were provided with greater support, across both the UK and Welsh governments, as well as local support, through the furlough scheme, relief to VAT and business rates, grants, loans and advice. Financial support was less accessible in New Zealand, which was provided through grants and advice. This leads us to conclusions that the resilience of SMEs in New Zealand was more a result of management decisions within the business and the reconstitution of the business' resources, while in Wales, businesses were more dependent on support, which aligns with previous research findings from research that I have undertaken with Dr Wyn Morris of Aberystwyth University, that rural SMEs in Wales show more passive attitudes to growth. The lessons from the resilience research underline that support structures need to be in place to ensure that Welsh SMEs operate in the right environment to enable them to survive and look to thrive beyond this. While this period of perpetual uncertainty continues, this support environment needs to be maintained and reviewed according to the types of crises or challenges that businesses face.

A second reason why the food and drink sector appears to be at a crossroads is due to climate change effects. There has been much discussion over the last two years about the Sustainable Farming Scheme and I believe that this has divided opinion across the sector. While there have been many protests against this policy, there are some who have supported the policy for allocating parts of the land to sustainable practice. However, a significant challenge with this policy is ensuring that the right policy is achieved that meets the needs of the sector. Farming in Wales is varied due to the nature of the land, with differences between upland and lowland farming, different types of land (including marsh land), ownership and tenancy of farms, and the size of farms, which tend to be smaller than many other areas of the UK. There is a need to ensure that Sustainable Farming policies meet the needs of all, therefore a general policy would be challenging. There is a need to aim to develop policy that could be tailored towards different types of farms. If this could be achieved, it can ensure that the sector works collectively towards sustainable aims. However, having a strategy for the sector would be useful in meeting this aim.

Climate change means that there is a need to embrace sustainability in a way that supports the development of the sector. While there have been many discussions about negative impacts of agriculture on climate change, the nature of the industry in Wales with small scale farms and localised sales of animals and food products means that the impact would be considerably less than in other counties where farming and food production is seen on much larger scales. However, there is a need to acknowledge a shift towards more sustainable practice, which needs to be maintained in future. The small scale nature of the sector in Wales means that local food miles can be promoted, with local foods being used to supply local customers. There are some initiatives in Wales such as in Monmouthshire, where local procurement is seen positively to support the local economy by having local food producers get their products to local buyers, including schools, hospitals and other local institutions. The work of organisations like Food Sense Wales has also been very good at supporting local supply chains, however a major issue is seeing how these initiatives could be scaled up onto a regional or national level. Given the economic difficulties outlined above, local procurement would be dependent on the right price, as many buyers are facing squeezed budgets, therefore they may place a stronger focus on the price of goods rather than looking to support local producers or businesses due to budget constraints. Another issue in developing local supply chains is the limited infrastructure in food processing and skills to align with what the sector needs. There is a lack of food processing sites in Wales, including abattoirs or food processing sites, and many Welsh food products need to leave Wales to be processed before returning to Wales to be sold. This does not support a sustainable process and arguably constraints the abilities of the sector to grow as it is dependent on external factors. There are some examples of small scale production sites, such as local abattoirs, but these are not widespread across all areas of Wales and capacity is often limited. This echoes issues of the 'gap in the middle' in many parts of Wales, as there are a number of micro (less than 10 employees) or small businesses (10-49 employees) across the sector, as well as larger (250+ employees) businesses, however there are not

as many medium-sized businesses (50-249), meaning that we do not see the growth of micro or small businesses in employing more people in the places where they are located. Having a vision for where certain infrastructure could be located and how they could be used to support the development of the industry would be important, especially in ensuring that levels of innovation could be explored in the development of technology or new business ideas.

Finally, an important aspect for consideration is the Wellbeing of Future Generations Act, which plays an important role in promoting more sustainable practice, and drawing attention to the wider issues of cultural vibrancy, cohesive communities, the Welsh language and culture, health, resilience and prosperity. While the act does not apply to all businesses, particularly not in the private sector, there is some suggestions from my existing research on resilience that businesses are aware of the focus on wellbeing and how it inspires more values-driven businesses, as I have spoken to businesses who have decided to close the business as their existing business model was not sustainable, or something that aligned with their values.

### *Evaluating Performance against the Objectives in the Vision for the Food and Drink Industry*

The aims for the sector are appropriate and align well with the nature of the food and drink industry in Wales. There is a need to create and support a strong and vibrant sector with a global reputation for excellence, and promote environmentally and socially responsible supply chains, as climate change and social responsibility are important issues of our time. The last 15-20 years has seen the sector grow in Wales with an increasing reputation and good export market. This has been seen in the significant increase in foods from Wales that have a protected food status (either from the European PGI, PDO and TSG awards, or the more recent UK geographical indications status). This is a vital part of the reputation for quality food from Wales and support for different organisations and food producers in receiving these statuses has been very welcomed by those who have achieved this. Value added actions like this are so important for the Welsh food and drink industry because it has developed a reputation for quality in recent years, which needs to be maintained to attract increased interest in Welsh businesses. I have also spoken to a number of food businesses who lauded the role of the Welsh government in supporting export activity, particularly the support for attending international trade shows on the Welsh food stand, which allows businesses to have a presence with international buyers, and allows Welsh businesses to develop connections with international buyers, agents and distributors. This was something that was very prominent before Brexit, but the exporting activities of many Welsh food businesses had now been constrained because of this. Therefore, it is more important than ever that support for Welsh businesses to engage in export is available, not only access to trade shows, but advice on managing paperwork in specific countries and knowledge about specific markets around the world.

In terms of environmental and social responsibility in supply chains, this is an important aim but this is a challenge that has been discussed above, particularly in view of the limited infrastructure across the food and drink supply chain, which impacts on food miles and how the sector could be sustainable. The aim for more localised supply chains is important in ensuring a sustainable sector in Wales but more localised initiatives need to be developed and scaled up across Wales through better collaboration between various stakeholders, which should be encouraged by local government and local actors.

An important aspect in relation to the work of the Welsh government in the sector is a lack of food strategy for Wales, which is something that has been missing for many years, and this would give the industry a clearer direction and can bring various stakeholders on board to address many of the challenges in the sector and ensure that there is a strategy for growing the sector, supporting the development of skills and resources required to achieve this growth, promote internationalisation, and also to ensure that the food and drink sector works alongside other relevant sectors in Wales, such as Tourism and Hospitality, as there is a need to ensure that Welsh food products can play an important part in the tourism and hospitality offering of Wales. While the lack of a Welsh food and drink strategy is an issue, a bigger issue would be a lack of economic development strategy in Wales, as there is a need to set out how the food and drink sector fits into the Welsh economy more strategically. This could support cooperation across sectors and ensure that there is a common goal.