

**VISION FOR FUTURE OF AGRI-FOOD INDUSTRY:  
REPORT FROM THE FOOD CHAIN SUB-GROUP**

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**STRUCTURE OF REPORT**

- A. Terms of Reference
- B. External Main Problems - Analysis and Recommendations
- C. Internal Main Problems - Analysis and Recommendations
- D. Summary of Main Conclusions and Recommendations

**A. TERMS OF REFERENCE**

The Minister of Agriculture and Rural Development is seeking to produce a deliverable and realistic Action Plan for the strategic development of the agri-food industry over the next decade. The Food Chain Sub-Group was asked to analyse and make recommendations in the areas of marketing Northern Ireland produce and products, supply chain management, business acumen, competitiveness and product development. It was asked specifically to address the main problems associated with each subject. Not all of these problems exist in any one company or any one sector. The mere rehearsing of problems without identifying opportunities could be construed as negative and depressing. This Group hopes that its analysis and recommendations will contribute positively and substantially to a vision for the industry for the coming decade.

## **B. EXTERNAL MAIN PROBLEMS - ANALYSIS AND RECOMMENDATIONS**

The Group divided the main problems into those that are external and those that are internal to the industry. There is broad agreement that the main external problems include the weakness of the euro, the reform of the CAP and trends towards globalisation. Additionally, the Group is concerned about the potential for permanently high oil prices and about the effects of pollution and the cost of preventing it.

### **1. The Weakness of the Euro**

The Group is extremely concerned by a prevailing attitude that while exchange rates are critical, they are beyond the control of the agri-food sector and, therefore, should be 'taken as a given'. We see the relative weakness of the euro against sterling as the single biggest threat to the agri-food industry in Northern Ireland and to the future viability of individual processors and producers. After seeking advice from international banks and international traders, the Group is of the opinion that the relative weakness of the euro is unlikely to change in the short to medium term.

We are concerned that if reducing the strength of sterling is not a Government objective in the medium term, then there is a strong possibility that a rate of 1.30-1.35 punts/sterling will not be uncommon. If the value of sterling can be reduced, it is unlikely that a rate of 1.15 punts/sterling will be bettered. If this is the case, then the opportunities for Northern Ireland producers and processors to export profitably into the RoI and mainland Europe will be diminished to the extent that many agri-businesses may be forced to close, downsize or amalgamate with others.

Those processors which survive will probably have been forced to source more raw materials from outside the UK and will have faced considerable price competition in their home market from imports made cheaper by the strength of sterling. The closure of some local processors, coupled with increased sourcing from abroad by those still surviving, could considerably reduce demand and competition for local agri-produce.

While it is accepted that a strong currency generally indicates a strong economy with low interest rates and low inflation, and it is also accepted that Northern Ireland alone can do little to influence the

current Westminster Government's policy on currency, **the Group would, nevertheless, like to see local Ministers and MLAs making strong alliances and frequent representations regarding the devastating effects that a strong pound sterling relative to the euro has on our agri-food industry.** The Group fears that all other initiatives may be insufficient in scale to compensate for losses caused by anticipated levels of currency exchange in the medium term.

**The Group also recommends the full payment of all remaining agri-money compensation and the retention of this system for as long as it is required to help counter the effects of a strong sterling/weak euro.**

## **2. The Reform of CAP**

This Group recognises that many local farmers have grown to depend on the EU subsidisation of agricultural production. It also recognises that agriculture has a special place in our rural community. While subsidies have boosted the incomes of farmers, the Group believes that in purely economic terms, they are expensive, indiscriminate and distorting and tend to encourage inefficiencies and poor quality. It is also concerned that public sympathy for farming is waning against a background of regular food scares and the enormous cost of subsidising an industry that is perceived to be constantly crying poverty. Moreover, other industries may question the rationale for subsidising the agri-food industry to such high levels in a modern economy.

The Group is concerned that the move from market support to direct payments to farmers will do little to stimulate efficiency, competitiveness and quality. Furthermore, direct payments at current levels and within the current structure of the agricultural industry may be insufficient to restore farm profits to the levels necessary for reinvestment in new market opportunities, facilities and processes.

Since it is clear that support for Northern Ireland's agri-food industry is determined largely in Brussels and Westminster, **the Group would like to see local Ministers and MLAs taking a much more proactive stance in representing Northern Ireland agri-food interests where policy decisions are made. In particular, we recommend long term secondments of DARD and DETI officials to offices and agencies in Brussels and Westminster to ensure that the needs of the industry are vigorously represented at every opportunity.**

### **3. Trends Towards Globalisation**

The Group is acutely aware of current trends towards larger and freer global markets, reflecting the lowering of international trade barriers under GATT and the WTO. Domestically, markets are becoming increasingly dominated by larger retailers and manufacturers and the rapid expansion of e-commerce is altering the business environment.

However, there is a growing opinion that globalisation in agri-food trade may not be as rapid as in other industries due to animal and plant health regulations, labelling laws and the influence of national consumer tastes. Additionally, the rising cost of oil and the possible future taxation of aviation fuel could limit the economic viability of long distance shipments of fresh foods in particular. Ironically, the Group anticipates parallel trends of globalisation in some areas and localisation in others. Globalisation will have the general effect of raising standards and lowering prices, while localisation can achieve equally high standards with higher levels of consumer choice.

While the Group accepts that globalisation can be a threat to small economies like Northern Ireland, it sees localisation as a potential opportunity for specialist parts of our industry. **It recommends that the Minister of Agriculture and Rural Development champions all initiatives which improve the accessibility of small companies to markets within the UK and Ireland.**

### **4. The Effects of Pollution and the Costs of Preventing it.**

This Group is extremely aware that the public will not tolerate the pollution of our rivers, our land or our foods. It is also aware that a clean and green image could be one of Northern Ireland's greatest marketing assets and, as such, must not be allowed to be tarnished by the actions of producers, processors or by Government. The absence of large, dense populations of animals and industrial conurbations should give Northern Ireland an advantage in this respect. **The Group, therefore, recommends that the Minister of Agriculture and Rural Development should seek to ensure that all relevant environmental legislation is implemented rigorously and that there are adequate, convenient and free training and support measures in place to help prevent pollution.**

## **C. INTERNAL MAIN PROBLEMS - ANALYSIS AND RECOMMENDATIONS**

### **1. Marketing Northern Ireland Agri-Food**

Research into the factors which influence consumer buying behaviour clearly shows that regional preferences and country of origin fall into about ninth place in the hierarchy of purchase decision criteria. Consumers are much more influenced by quality, value, appearance, taste, etc. Sadly, a 'Northern Ireland Product' message has limited appeal, even to local consumers, and will only become a driver in buying behaviour if there are associated features and benefits which are clearly identifiable and which are presented in a powerful, professional and sustained manner.

Many Northern Ireland companies adopt a dual British/Irish image which they use to their advantage according to specific market requirements. However, this approach makes the generic branding of Northern Ireland products difficult.

There is probably a negative image of Northern Ireland as a location in the minds of most consumers in the UK and elsewhere and a Northern Ireland generic brand may have difficulty in adding value to a company brand or product. The oft cited success of Scottish beef is not due primarily to its country of origin, but because it is recognised and perceived by consumers to be a high quality product. This image has been enhanced by a strong and sustained marketing campaign which has reinforced the link between Scotland and quality beef production. Such a campaign can work, however, only if the product can live up to the claims made about it. The marketing of agri-food products by the Republic of Ireland is also heralded as an example in this respect, but while many Irish initiatives are to be applauded, Irish products do not always achieve a premium price in European markets.

When the UK national supermarkets came to Northern Ireland, many agencies and associations worked closely with them to promote local products. Such promotions worked well for both the retailers and suppliers against a heightened consumer awareness of the potential damage to their choice and to the local economy from external sourcing. However, even this initiative was fragmented, with each retailer working to its own agenda. Retailer attempts to promote

Northern Ireland products generically outside Northern Ireland have been extremely limited.

Northern Ireland producers often claim that Northern Ireland agri-food is the best in the world, but sadly, this is not always the case. Not all Northern Ireland products are class leading and all too often, the packaging and presentation are uncompetitive.

A strategy focusing on a positive environmental image of Northern Ireland may achieve some credibility and value, but only if all claims can be fully substantiated, sustained and communicated against a background of ever increasing consumer concerns about food safety and identical 'naturalness' claims by most other European countries.

The relatively small scale of Northern Ireland producers and processors means that the creation of strong consumer brands is uneconomic, even on a solely UK basis and particularly when 80% of fresh food is sold under retailer brands. The concept of trade marketing of Northern Ireland products to retailers for their own brands or to convenience food manufacturers or to the food service industry may, therefore, be the only viable alternative.

Government initiatives to promote Northern Ireland agri-food have, to date, been fragmented. Traditionally, DARD has promoted outputs from primary producers, while DETI has promoted outputs from agri-food processors. Taste of Ulster has promoted niche products and speciality food service initiatives. The resulting 'overlaps' have created inefficiencies and a lack of focus.

Market-leading traceability in Northern Ireland's red-meat sector has often been applauded, and rightly so. However, other market forces have made it extremely difficult to turn even this unique advantage into profit for the industry. Meanwhile, other countries are catching up in this area. Northern Ireland's overall animal health status, frequently referred to favourably by local commentators, includes diseases that are less important to consumers, whereas the incidence of Brucellosis and BSE are higher in Northern Ireland than the European average. We may have some relative advantage over some countries in terms of grass based beef production, environmentally friendly farming, welfare standards and animal health, but we can expect stiff competition from other regions which will be highlighting their own particular advantages.

## - Recommendations

Few Northern Ireland agri-food companies are truly market driven. A priority for the industry must be the production of differentiated and added-value products for the retail sector. Efforts also need to be made to build links and relationships with the food service and catering sectors. All of this will require a more focused approach and a wider appreciation of the food market. To assist in this, the Northern Ireland agri-food industry would benefit significantly from more regular and inclusive discussions with the Northern Ireland General Consumer Council, as well as national and European consumer groups.

Sales of commodity food products will continue to decline. Therefore, opportunities in growing sectors such as convenience, specialist and organic foods must be exploited. Foodaceuticals too could provide an opportunity for the agri-food industry to work closely with Northern Ireland's highly successful pharmaceuticals industry in developing new outlets. The opportunities presented by emerging biotechnology developments should similarly be explored.

Adequate funding must be sought for a range of food marketing programmes. These could address issues such as packaging and presentation, e-marketing and making use of exhibitions and events to secure sales. Innovation, risk management, market research and consumer trends, "good-for-you" foods and ethnic and world foods should also be covered.

The Northern Ireland agri-food industry needs to seek ways of exploiting the positive attributes it currently possesses. Therefore, programmes which focus on deriving marketing advantage from a clean and green image and from our food traceability systems should be developed. Marketing advantage may also derive from focusing on the health and dietary needs of specific groups of consumers such as healthy-eating and fitness groups, children and young people. Addressing directly the concerns of consumers with respect to food safety and animal welfare issues would also yield benefits. Consequently, a comprehensive farm quality assurance for Northern Ireland agriculture as a whole should be developed, encompassing full traceability along the length of the food chain.

Selective and prioritised use should be made of generic branding, primarily in support of **trade** marketing, with the backing of the entire supply chain and for clear commercial gain. Utilising the Irish

branding theme in association with An Bord Bia may bring certain economies, greater weight and may be the most rewarding strategic option in certain markets.

The internet offers huge opportunities from a marketing perspective and should be used creatively, where appropriate, to generate a positive image for Northern Ireland agri-food products with consumers and trade buyers, This should be backed up by details of quality assurance, traceability, dietary and health specifications, etc. Hyperlinks should be built into the sites of Northern Ireland producers and processors.



## **2. Supply Chain Management**

The Group has identified three key problems in the agri-food supply chain, namely: (i) unequal distribution of insufficient profits; (ii) poor communication and trust; and (iii) inefficient and ineffective quality assurance.

**(i)** The UFU & NIAPA have both highlighted the many instances of unprofitable farms. DARD and DETI have both reported that most processors are making insufficient returns to sustain future development. The Competition Commission has reported that the profits of retailers are not excessive. Some producers have accused processors of operating a cartel at producers' expense and retailers of abusing their buying power at processors' expense.

The reality of a free market economy is that everyone in the chain is seeking to maximise their profits, quite often at the expense of others in the chain. Inevitably, the larger, more efficient or more innovative members of the chain will tend to be the most profitable. Those who contribute to the over-production of fairly average commodities cannot expect the market to reward them. Such operations only continue to exist on the basis of ongoing Government support through subsidies. Inevitably, taxpayers will find it hard to accept this type of Government support which ignores inefficiencies and uncompetitiveness. The Group believes that there is no a legal or practical way of re-distributing profits within the food chain when it is operating in a free market, even if it were possible to define the concept of a 'fair return'.

However, initiatives can be promoted which encourage all participants in the food chain to work together to drive out waste and inefficiency.

**(ii)** The general climate of mistrust and hostility within some parts of the food chain has been well publicised and where it exists, is likely to leave the whole of the chain at a disadvantage in the long term. The Group recognises that there will be huge obstacles to overcome in terms of changing traditional attitudes that have developed over many years, particularly where the customer (be it processor or retailer) is sometimes seen as the enemy. Any solutions will have to be developed over the long term and will involve all concerned adopting a new culture of partnership and 'can-do' rather than 'beating the system', 'walking away' and 'minimalist' attitudes displayed on occasions. Some previous attempts at co-operation in the food chain

have failed due to cynicism, anecdotalism, short-termism, stubborn independence, lack of discipline and market distortion. However, it is recognised that increasing supply chain integration is being achieved in the poultry and dairy sectors.

The lack of formal and strategic communication between some producers and processors is seen to be a major stumbling block. The food chain must develop a common cause of delighting the consumer. Optimum returns are unlikely to be generated through speculative and unplanned production to fairly undefined specifications at prices which are volatile, uncertain and, often, uneconomic.

**(iii)** Quality assurance in some sectors of Northern Ireland agri-food is somewhat less than world class. Low levels of co-operation have delayed the implementation of even basic quality assurance schemes. There is room for substantial improvements in cost effectiveness and efficiency. Pricing structures and the collapse in returns in the latter part of the 1990's have created conditions which fail to reward those who produce the highest quality, to the extent that many believe there is little incentive to invest in quality. Subjectivity in cattle grading continues to undermine trust and, hence, attempts to encourage higher quality. Scientific research into better breeds, varieties and methods has not been sufficiently developed or adopted. Further, breeding programmes for dairy cattle have gradually compromised the quality requirements of the red-meat sector.

The Group believes that from a quality assurance point of view, it is regrettable that the Government has become such a major customer of the farmer. Direct subsidies, which have no quality criteria attached to them, can now account for up to 50% of farmer income. This can make it difficult for processors to pay premiums that are of a sufficiently high percentage of total returns as to provide any real incentive to improve quality.

### **- Recommendations**

The Rt Hon Nick Brown MP, former UK Minister for Agriculture, indicated that one of his aims was to lower the temperature and raise the standard of debate about the food chain. He argued that setting one part of the chain against another would achieve nothing and that the whole industry needed to recognise its common interest, working together to satisfy the consumer and contribute to the wider economy. This is just as relevant for Northern Ireland as it is for GB.

Mr Brown established a Food Chain Group, comprising the then Ministry of Agriculture, Fisheries and Food, the Institute of Grocery Distribution (IGD), the National Farmers' Union and the Food and Drinks Federation, which reported in October 1999 in a document entitled "Working Together for the Food Chain". This contained analysis, projects, initiatives, challenges, benchmarks, and recommendations, the vast majority of which are extremely relevant to Northern Ireland. The IGD recognises that most of its work has been confined to England and Wales but it is very keen to extend this to Scotland and Northern Ireland.

**This Group recommends that the Minister of Agriculture and Rural Development establishes a 'Northern Ireland Food Chain Group'.**

This should comprise DARD, DETI, the IGD, the UFU, NIAPA, NIFDA, the LMC, Trade Associations and the Northern Ireland Consumer Council. It should be chaired by a senior industry representative or by a professional facilitator. It should build on work already done by Strategy 2010 and by the IGD in England. The key characteristic of the Northern Ireland Food Chain Group must be that it makes things happen, quickly and by agreement.

The Northern Ireland Food Chain Group should be fully funded by Government and should be encouraged to seek independent and expert advice on all subjects. Its main focus would be to stem the unnecessary leakages of profits from the food chain through waste, inefficiency, duplication, lack of planning, etc and to establish stronger relationships and consumer focus throughout the food chain in Northern Ireland. Its main output would be in the form of strategies, action plans and programmes, devised and implemented by all parties in the food chain.

This Group further recommends that the Northern Ireland Food Chain Group initially works to establish, in each sector, effective food chain management, model farming units and effective quality assurance and licensing. It should establish best practices through benchmarking, demonstration and mentoring from participants within the industry, who will start to agree and understand each other's needs in respect of volumes, timing, quality, assurance and presentation. It will also look for excellence in time to market, routes to market, damage and waste control, storage, cost reduction, elimination of non-value-adding work and process re-engineering.

This Group also recommends that the Northern Ireland Food Chain Group works towards making DARD's Animal and Public Health Information System (APHIS) a service to the Northern Ireland livestock industry as a whole. It should develop APHIS to be used more effectively in a number of non-veterinary functions to guide animal production, to enhance marketing propositions, to improve consumer confidence and generally to help the industry to excel against its competition.

Additionally, the Group recommends that the Northern Ireland Food Chain Group becomes the arena for more frequent and constructive communication throughout the food chain. It should seek to implement forward pricing, transparency on costs from producer to retailer, lower insurance costs, objective grading of livestock, higher payments for higher quality and higher consumer satisfaction. Further, it should expand the excellent Livestock Chain Management Initiative across all sectors to improve quality assurance, accreditation and shared costs.

The Food Chain Group should seek to unite all components of the food chain, around common causes. It should distance itself from any sectoral interests, in processing or in primary production. It should work with all concerned in the chain to eliminate unnecessary costs incurred as a result of excess capacity in processing and primary production. It should seek to iron out market volatility by promoting the concept of contractual production to market-led specifications and at prices which permit the necessary investment in safety, quality and innovation. It should work to bring Northern Ireland production costs into line with those in GB, particularly in relation to energy and transport.

**The Minister of Agriculture and Rural Development should also establish a Northern Ireland Consumer Foods Group,** as recommended in Strategy 2010. The purpose of this industry inclusive Group would be to bring the industry much closer to the consumer, through trend analysis and consumer panels, and to make the industry more aware of international R&D developments and business opportunities. The output of the Consumer Foods Group would be communicated to the whole industry and to the Food Supply Chain Group in particular. Its composition and raison d'être would be similar to the Food Supply Chain Group.

### **3. Business Acumen and Competitiveness**

It is a fact that in the last three years, neither the primary producer nor the processor have been generating the levels of profit needed to sustain the industry.

The DARD “Statistical Review of Northern Ireland Agriculture” provides the facts on producer returns and paints a depressing picture. Another DARD publication, “Size and Performance of the Northern Ireland Food and Drinks Processing Sector 1998”, points to falling turnover, static value added and reduced margins and profitability in the processing sector. As has been happening on farms, overall employment in processing has been declining, while other evidence suggests that the weak euro and downward price pressure from supermarkets have caused performance to deteriorate further in subsequent years. It also highlights that there is a considerable spread of performance between the best and the worst performers in each sector. The Group is convinced that there is no future for inefficient farms or firms. The drinks industry, which is heavily branded, is the most profitable sector but, obviously, this has little impact on producer returns in Northern Ireland. The beef and sheepmeat, fish and fruit and vegetables sub-sectors all show a very small return, while bakeries, eggs, milk and milk products, pigmeat and poultrymeat show net losses.

Most sectoral reports in recent years have highlighted the relatively small scale of Northern Ireland processors and the need for rationalisation, yet few processors have acted to achieve this before market forces have forced them to close. Northern Ireland companies which have undertaken a competitiveness assessment using the European Quality Model have generally fallen well short of world class scores. However, having identified the problem areas, many of those companies have introduced corrective actions.

Consumers’ tastes and eating patterns have all changed dramatically in the last 30 years, yet Northern Ireland agri-food is still heavily commodity based, with some companies producing the same products they made 30 years ago. There are few countries in Europe which can offer the degree of help with new product development as is available in Northern Ireland, yet, to a large extent, the industry has failed to grasp this unique opportunity. Uptake of Government support for marketing and exporting has also been frustratingly low, nor has the industry overall demonstrated any great willingness to invest its own funds in this, or in R&D. This raises serious concerns about the willingness or ability of the industry to embrace change,

particularly in family businesses, where resistance to change can be most marked.

There is little hard evidence, as yet, regarding the uptake and utilisation of ICT by processors. However, those in the ICT industry have a perception that it has been patchy. Those companies that are suppliers to the national retailers have had to embrace ICT and now operate sophisticated systems. However, there appears to be many smaller companies which still make very limited use of ICT.

### **- Recommendations Relating to Family Farms**

The range of profitability achieved by different farms with a similar enterprise mix is significant, suggesting that business acumen and management skills vary greatly from farm to farm. Benchmarking, mentoring and training can make a difference where there is a willingness to learn and to adapt.

However, most farmer representative groups argue that in some cases, older farmers should give way to the younger generation which may have received more formal education and be more open to try new technologies and new ideas. Young farmers can often see their parents' reluctance to hand over control of the family farm as a barrier to necessary change and even to entering the industry. They also see the need to support their parents until they die as a severe strain on farm income, which may be insufficient for even one family. Many have argued strongly for the Minister of Agriculture and Rural Development to implement the EU Early Retirement Scheme for farmers.

The cash hand-outs which their counterparts in ROI have received under this Scheme look attractive to Northern Ireland producer interests. However, there are concerns about the value for money offered by this mechanism, given the limited funds that may be available, the relatively small number of farmers that would benefit and, hence, the limited impact this would have on the agricultural industry as a whole. Moreover, spending significant sums of public money to fund an early retirement scheme for farmers would be difficult to justify to the wider taxpaying population given the competing demands on the public purse from areas such as health, education and the care of the elderly. There is no such provision for other sectors of society at a time when concerns over pension provision generally are rising. Moreover, farmers often own capital

assets that far exceed the value of those owned by the average retiring member of the population. All of these factors would make it difficult to mount a credible argument to secure public funds to run an early retirement scheme for farmers.

There is one other major consideration: an early retirement scheme does not deal with the core issues of planning for retirement and succession. In many respects, the early retirement scheme is there to deal with the problems arising from a lack of planning and preparation for this **inevitable** event in family farm businesses rather than seeking to prevent these problems occurring in the first place. It has to be asked why, in spite of strong advice from DARD advisors, bank advisors, their accountants and various financial services providers, significant numbers of farmers, over the course of their working lives, make inadequate provision for succession and retirement.

BDO Stoy Hayward operates a centre for Family Business. In a presentation to this Group, it identified the strengths and weaknesses of family businesses. In particular, it highlighted the need to keep separate family and business issues, to plan for succession and change and to develop key people through training. This Group concluded that while the EU Early Retirement Scheme may provide a cash hand-out for up to 800 farmers (given the possible scale of available funds), it would be unlikely on its own to solve the core problems facing the industry as a whole in this respect. Even for the 800 who would benefit from the Scheme, while it may alleviate financial fears, it would not address the many other issues associated with relinquishing control of the family business to the next generation.

**The Group, therefore, recommends that the Minister of Agriculture and Rural Development establishes and funds a 'Farmer Retirement Facilitation Scheme'.** Such a scheme would provide expert advice, training and facilitation in all the components needed for successful retirement by farmers. It would, therefore, cover business planning, succession planning, retirement planning, taxation planning, change management, training needs analysis and an overview of new and existing Government support measures. Its output would be a Farm Succession and Retirement Plan that would permit a more professional transfer of the farm business, facilitate the entry of new blood to the industry and resolve possible family difficulties arising during this process. Participation in such a

scheme should extend to farmers, their spouses and immediate family members.

The Group believes that the breadth of its proposed scheme is more likely to promote the changes required than the EU Early Retirement Scheme and would offer a long-term solution to the problem of farm transfer rather than provide a short-term treatment of the symptoms. It recommends that this scheme should be extremely accessible in terms of language and media used. There should be regular Ministerial support, PR features, advertising, booklets, internet pages, events and workshops. It should be facilitated by DARD, banks, accountants, the financial services industry and agricultural colleges, etc.

### **- Recommendations Relating to Family Processors**

The Group asked the IDB to prepare a paper on how to improve the profitability of the agri-food processing industry. This clearly indicated that, like farming, there is a considerable spread of performance between profitable and the unprofitable businesses. It highlighted improvements in manufacturing efficiencies, more competitive products and stronger marketing as the essential ingredients for success. The paper concluded by stating that a suite of programmes has been available in each of these areas for some years and that until the crucial ingredient of widespread up-take by industry is achieved, there will be little change. Concern was also expressed about the unwillingness of many family businesses to embrace professional management skills, even though assistance to do so is available from Government.

However, there are those in the industry who argue that some DETI funding has lost its appeal. They cite possible causes such as the ever increasing reports and strategies required, the eligibility criteria, the reduced grant levels awarded and the move away from capital grants to soft funding. There may be good reasons for this and EU legislation may be increasingly restrictive but, sadly, some industrialists no longer see such funding as a real motivator. At best, it may reduce costs or risk on certain projects.

The Northern Ireland Food and Drinks Training Council has expressed concern that many family businesses are unenthusiastic about training at all levels. Courses and events for CEOs are generally poorly attended.



The Group believes that an entirely new approach must be taken to improving the professionalism, business acumen and competitiveness at producer and processor level. It believes that the creation of an industry-inclusive Food Chain Group and Consumer Foods Group could enable participants to increase their vision, innovation and competitiveness. Family business CEOs could contribute from their experience, while at the same time, learning from others and seeing a bigger picture. They should also be encouraged to invite top international experts to make presentations to them on the specific subjects they are tackling.

**The Group, therefore, recommends that the Minister of Agriculture and Rural Development personally invites individual CEOs from family businesses to participate in the proposed Northern Ireland Food Chain Group and Northern Ireland Consumer Foods Group.** Membership of the Group should be a privilege, prestigious and practical. The Group also recommends that these Groups should have a strong cross-community character, for the benefit of the wider community.

**The Group recommends that the highest possible priority is given to food safety throughout the industry,** that food safety is integrated into all agri-food initiatives and that cross-border food safety initiatives are promoted with a view to portraying Ireland as a safe and natural food island.

**The Group further recommends that the Minister conducts an annual review of all Government support measures for the Northern Ireland agri-food industry** and that these are compared with support measures on offer in GB, the RoI and each mainland EU country. This annual review should be published to producers and processors.

Northern Ireland appears to be fairly unique in European terms in not having a Minister for Food. The Group has discussed whether the Minister of Agriculture and Rural Development's current portfolio should be extended to include food. However, concerns were expressed that a significant proportion of the Northern Ireland food and drinks industry is not closely associated with local primary producers and that some who currently are, may be forced to become more disengaged from primary producers due to exchange rate and globalisation pressures. Concerns were also expressed about the transfer of initiatives, funding, skills and experience from DETI to

DARD. The Group, therefore, decided to make no recommendation in this regard.

The Group also discussed the possibility of LEDU support being extended to family farms. However, it concluded that it would prefer to see the shape of DETI's new economic development agency before making any immediate recommendations in this area.

#### **4. Product Development**

This Group was asked to look specifically at the agri-food industry's low utilisation of DARD and DETI initiatives for R&D and product development. Consumers and retailers are increasingly looking for new foods to eat in new ways. The trend towards globalisation and freer world trade will make it increasingly difficult for Northern Ireland producers of commodities to compete on price. Clearly, greater added value and niche marketing will have to contribute to the future profitability of the Northern Ireland agri-food industry. It should, therefore, be of major concern that many Northern Ireland agri-food companies invest relatively little resources in R&D, in spite of the considerable Government support provided.

It can be argued that existing Government funding for R&D in the Northern Ireland agri-food industry is well ahead of that in any other region of the UK and better than most in Europe. IRTU supports the agri-food industry for near-market development through the 'Smart', 'Radiane' and 'Compete' programmes and for more strategic, pre-competitive research through the 'Start' programme. Infra-structure support has been provided through IRTU's Technology Development Programme, with four Centres of Excellence being established at Omagh Meats Ltd, Evron Foods Ltd Moy Park Ltd and NICHE. Sectoral participation in IRTU programmes has been patchy. The order of activity, starting with the most active sector, would be poultrymeat, dairy products, bakery products, fish, redmeat, vegetable (fresh and frozen), ready meals and pigmeat.

Many agri-food companies find IRTU staff knowledgeable, pragmatic, helpful and commercially orientated. The Networking Programme is generally seen as simple and easy to use, making it accessible to small and medium sized enterprises (SMEs). However, the Compete and Smart programmes require the submission of highly structured and detailed proposals which are time-consuming and costly to prepare. Unfortunately, many Northern Ireland agri-food companies

do not currently appear to have the staff or the time to invest in R&D or in the paperwork associated with Government assistance. Also, IRTU is perceived to prefer supporting pre-competitive research, whereas SMEs are more comfortable with near market research which is likely to provide quicker returns.

The main R&D activity in DARD is undertaken through its Science Service, which also carries out significant diagnostic, analytical and teaching work. Its R&D activities cover food safety research, food quality and processing. An R&D Strategy Committee was formed in 1996 and this includes six representatives from the producer and processing sectors. Agrisearch was established in 1997 to fund relevant R&D for Northern Ireland agri-food through levies on milk, sheep and cattle producers. The Loughry Food Technology Centre and Food Business Incubation Centre were opened in 1997. Foresight has been established to facilitate technology transfer to industry.

Undoubtedly, some Northern Ireland agri-food companies have taken advantage of these facilities and have profited from them. However, many have not. It is possible that this is because agri-food companies do not see R&D as a priority, or that they do not know enough about Government support for R&D. It would appear that many processors are confused by the diversity of Government R&D initiatives and structures, which they see as having large budgets but little commercial benefit. Unfortunately, events, courses and seminars to publicise R&D do not seem to attract enough CEOs, many of whom appear to prefer learning on the job and from their machinery and service providers. Perhaps Northern Ireland agri-food companies see themselves as being too small to be involved in R&D, or do not see Government agencies, local academic institutions and training organisations as valuable resources for developing their competitiveness. Perhaps industry still needs to be convinced that investment in R&D can be profitable for them.

R&D always involves risk and the rate of failure in launching new products is often in excess of 90%. This may be the most significant reason why many smaller Northern Ireland agri-food companies are hesitant about investing heavily in R&D. The Group understands that strategic, pre-competitive research is a process that cannot guarantee results or operate to specific timeframes. However, risks can be reduced through professional risk assessment and risk reduction techniques.

The Group appreciates that R&D can often entail a high level of secrecy, demanding trust, confidentiality and personal relationships and that this can hinder a pro-active approach to marketing its value. It understands that DARD's involvement in commercial R&D exercises often grows out of solving specific technical problems for companies or from relationships developed with past students who are now employed in agri-food.

## **- Recommendations**

**In view of all of the many unanswered questions relating to R&D outlined above, the Group feels that it would be appropriate at this time for the Minister of Agriculture and Rural Development to commission an independent, international consultancy exercise, entitled "Profitable R&D - Making it Happen".**

Specifically, this Group would like the terms of reference to include, *inter alia*:

- ~~///~~ A review the current focus, direction, progress and achievements of R&D in Northern Ireland agri-food, including comparisons with the RoI and GB.
- ~~///~~ An analysis of the product life cycles of key Northern Ireland agri-food products.
- ~~///~~ Details of Northern Ireland agri-food R&D success stories.
- ~~///~~ A clarification of the responsibilities for R&D which should be embraced by DETI, DARD and industry and proposals for the more efficient marriage of needs, ideas and resources.
- ~~///~~ Recommended R&D policies for different sizes of companies in different sectors.
- ~~///~~ Guidance as to how companies should handle confidentiality, risk, cash flow, profit projections and project management.
- ~~///~~ Recommendations covering how the overall strategy for R&D in Northern Ireland agri-food should be established and managed to avoid duplication and maximise utilisation and technology transfer.

#### **D. SUMMARY OF MAIN CONCLUSIONS AND RECOMMENDATIONS**

1. The Minister of Agriculture and Rural Development and MLAs must seek to make strong alliances and frequent representations regarding the devastating effects that the weakness of the euro against sterling has on our agri-food industry. Further, there should be full payment of all remaining agri-money compensation and the retention of this system for as long as it is required to help counter the effects of a strong sterling/weak euro.
2. The Minister of Agriculture and Rural Development and MLAs must take a much more pro-active stance in representing Northern Ireland agri-food where policy decisions are made. In particular, there must be long term secondments of DARD and DETI officials to offices and agencies in Brussels and Westminster.
3. The Minister of Agriculture and Rural Development should champion all initiatives which improve the accessibility of small companies to markets within the UK and RoI.
4. The Minister of Agriculture and Rural Development should seek to ensure that all relevant anti-pollution legislation is implemented rigorously and that there are adequate, convenient and free training and support measures in place to help prevent pollution.
5. The Minister of Agriculture and Rural Development should establish a 'Northern Ireland Food Chain Group'
6. The Minister of Agriculture and Rural Development should also establish a 'Northern Ireland Consumer Foods Group'.
7. The Minister of Agriculture and Rural Development should establish and fund a 'Farmer Retirement Facilitation Scheme'.
8. The Minister of Agriculture and Rural Development should personally invite individual CEOs from family owned food processing businesses to participate in the proposed Northern Ireland Food Chain Group and Northern Ireland Consumer Foods Group, with a view to stimulating improved business acumen and competitiveness.

9. The Minister of Agriculture and Rural Development should give food safety the highest possible priority by integrating it into all agri-food initiatives and by ensuring that cross-border food safety initiatives are promoted with a view to portraying Ireland as a safe and natural food island.
10. The Minister of Agriculture and Rural Development should conduct and publish an annual review of all Government support measures for the Northern Ireland agri-food industry, including a comparison with those on offer in GB, the RoI and each mainland EU country.
11. The Minister of Agriculture and Rural Development should commission an international consultancy exercise, entitled “Profitable R&D – Making it Happen”.

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