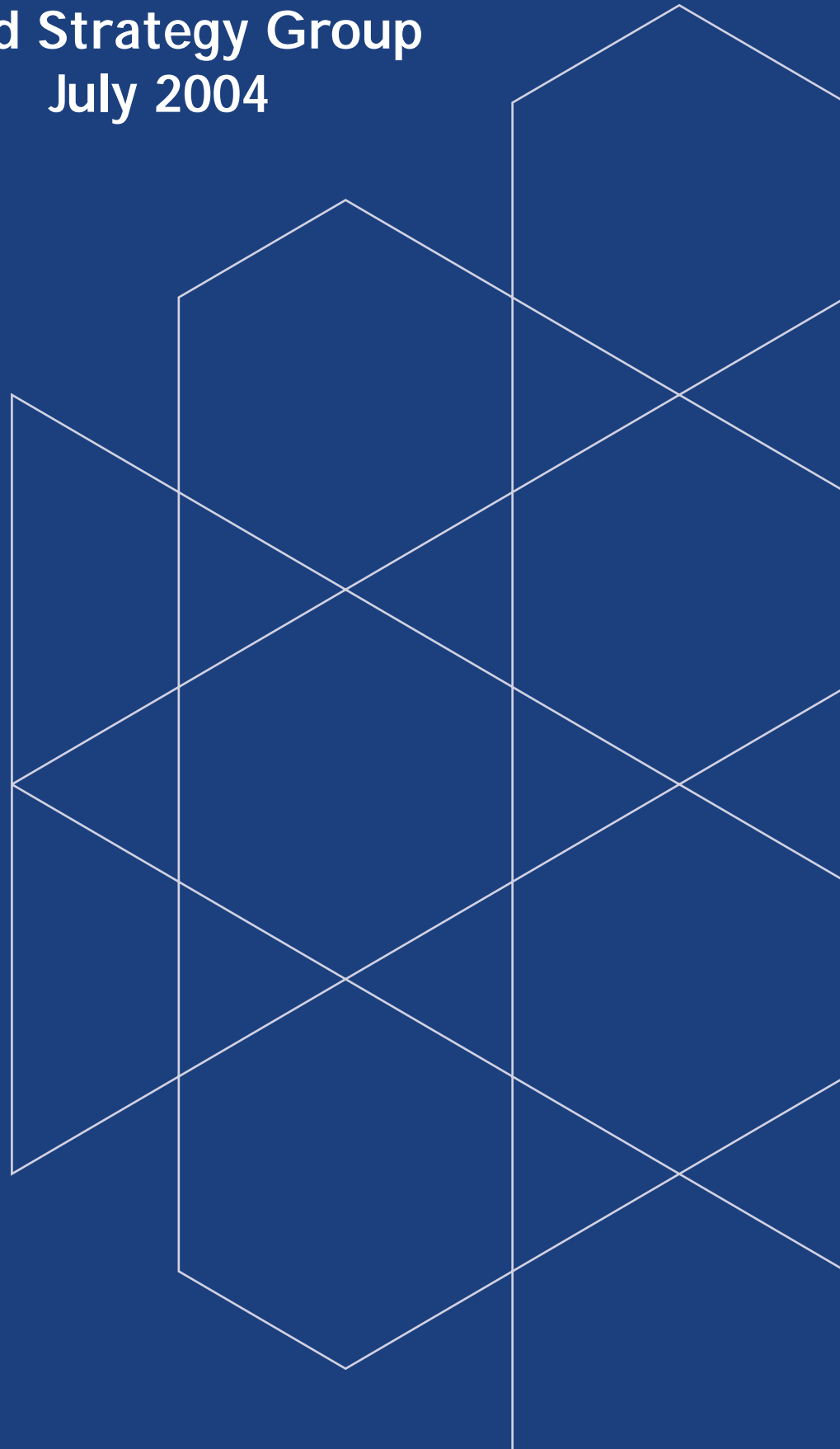


FIT FOR MARKET



















The Report of the
Food Strategy Group
July 2004



CONTENTS:

Page
Number

Click on orange button
to go straight to page

	CHAIRMANS STATEMENT	1
	EXECUTIVE SUMMARY	2
	1. Introduction and Background	4
	1.1 Terms of Reference	4
	1.2 Methodology	4
	2. Performance and Significance of the Agri-Food Sector in Northern Ireland	5
	3. Challenges Facing the Sector	8
	3.1 Policy Developments	8
	3.2 Cost Environment in Northern Ireland	10
	3.3 Market Trends	12
	4. Inputs Received From Stakeholders	18
	5. Assessment	21
	6. Proposed Approach	24
	6.1 Guiding Principles	24
	6.2 The Strategic Options	24
	6.3 Measurement	26
	6.4 View of the Future	27
	7. Role of Industry and Government	31

	8. Implementation	37
	8.1 Existing Arrangements	37
	8.2 Models Reviewed	37
	8.3 Assessment of Options and Proposals	39
	9. Recommendations	40
	Annex 1: Food Strategy Group: Terms of Reference	45
	Annex 2: Overview of the Northern Ireland Agri-Food Sector	49
	Annex 3: Summary of Organisations and Individuals who, Provided Input to the Consultation Process	56
	Annex 4: Industry Responsibility, Government Role	57
	Annex 5: Flow of Funds	58

Chairman's Statement

Dear Ministers,

It is my pleasure to present to you the Report of the Food Strategy Group (FSG). During the past five and a half months the members of the Group have committed themselves enthusiastically to addressing the issues set out in its' terms of reference.

The key messages emerging from our work are, the conviction that the agri-food sector has a vital role to play in the evolution and restructuring of the Northern Ireland economy, notwithstanding the challenges which the sector faces and that there is also a strong desire, not just from the FSG but from a broad base of stakeholders that it is vital to maintain the momentum of this process – to quickly move from deliberation to action.

We are clear that the proposals set out in our report are just a beginning and that the strategy must have the capacity to be flexible so that it can respond to changing circumstance. We are acutely aware however, that the strategy must be unswervingly focused on providing solutions for the market place, must be concerned with achieving profitability for all elements in the supply chain, must be industry led, but with strong support from Government and that the delivery of Government actions needs to be changed.

The FSG would like to convey its' thanks to the Departments of Agriculture and Rural Development (DARD), Enterprise Trade and Industry (DETI) and Invest NI for sponsoring the work of the Group. We would like to thank the excellent members of the Secretariat Mr. Peter Scott, Mr. Norman Fulton, Mrs. Joyce Rutherford; DARD and Mr. Peter McArdle and Ms. Gráinne Moody; Invest NI. We would also like to acknowledge the support we received from Mr. David Small, DARD and Mr. Maynard Mawhinney, Invest NI. In addition, we would like to acknowledge Mr. Tony McCusker, DARD and Professor Terri Scott, Invest NI, who were observers on the FSG.

Finally on a personal note I would like to thank my colleagues on the FSG for their commitment and enthusiasm during this process, for the future of the agri-food sector in Northern Ireland and for their unfailing courtesies to me.

We look forward to the decisions of Government and the implementation process.

Dan Flinter
Chairman
July 2004

FOOD STRATEGY GROUP

EXECUTIVE SUMMARY

- The Minister¹ with responsibility for Agriculture and Rural Development (DARD), Enterprise Trade and Industry (DETI) and Invest NI, established the Food Strategy Group in January 2004 and tasked it with the responsibility to provide, by Autumn 2004, recommendations to develop and shape the implementation of a broadly based strategy for the growth of the Northern Ireland Agri-Food sector.
- The FSG met on seven occasions between January and July 2004, commissioned a series of research papers and consulted widely with stakeholders and experts in the sector. The FSG was supported by a secretariat drawn from DARD and Invest NI. We reviewed the policy and cost environment in which the industry now operates, assessed the trends in market developments and examined the use and allocation of public funds in support of the sector.
- We conclude that the sector, notwithstanding a difficult external environment, has made a significant contribution to the development of the Northern Ireland economy, has outperformed many other industrial sectors in recent years and has a significant contribution to make in the restructuring of the Northern Ireland economy in the coming years.
- We conclude that the factors, which would have a disproportionate impact on the future of the industry, are the capacity of firms to constantly innovate faster and better than competitors, the development of real time market intelligence and market promotion, robust supply chain developments and strengthened human capability. It will, of course be vital that industry continues to invest in efficiency improvements and that there is a competitive business environment in Northern Ireland.
- We have made a series of policy proposals under seven categories including the following: overarching issues; market understanding and development; fostering innovation; supply chain development; capability development; the allocation of resources and supporting the development of alternative employment. These recommendations are presented in terms of urgency of delivery.
- We propose that nine of our recommendations in relation to promotion of regional food, development of an international image, generating market intelligence, recruitment of market development specialists and active engagement with organisations such as Food From Britain, financial support for market and supply chain developments, accessing the experience of the

Food Chain Centre in England and changing eligibility criteria of schemes so that farmers can more effectively develop alternative employment opportunities should be planned and delivery commenced in Year One of the implementation process.

- There are a further ten recommendations which should be planned and launched in Year One but the impact of these recommendations will occur in the medium term.
- In relation to near term implementation, we recommend that provision be made in the budget for financial year, 2005/06, for the commencement of initiatives such as the promotion of regional food, the cadetship programme, assessment of international image and development of supply chain including involvement with the Food Chain Centre and development of alternative employment opportunities in rural locations.
- In Year One, the key targets should be the initiation and delivery of key actions, thereafter the measurement of performance should be on increasing the sales of the agri-food sector outside of Northern Ireland and especially off the Island of Ireland.
- We envisage in the medium term the creation of a single fund to support applied research, which should be allocated on a competitively tendered basis.
- In relation to implementation we recommend that it should be undertaken on a "stepped" basis. The long-term vision is for an integrated, joined up process.
- As an immediate first step a Food Strategy Implementation Partnership (FSIP) should be established, chaired by an individual with significant agri-food industry experience with the responsibility for driving delivery in the short-term and proposing a long-term solution within two years.
- A Food Directorate should now be established in Invest NI.
- The resources within DARD and its' related agencies should now be mobilised to actively engage in the implementation process.
- Engagement with stakeholders should be a continuing feature of this strategy.

¹ Minister Ian Pearson, MP, responsible for DARD, DETI and InvestNI until 5th April 2004 when under a cabinet reshuffle Minister Barry Gardiner, MP, took over responsibility for DETI and Invest NI. Minister Pearson took over the Security portfolio and retained responsibility for Agriculture and Finance and Personnel

1. INTRODUCTION AND BACKGROUND

1.1 Terms of Reference

The Food Strategy Group was established by the Minister responsible for Agriculture and Rural Development (DARD), Enterprise Trade and Industry (DETI) and Invest NI, in January 2004, to provide recommendations to Ministers in the form of a report, by Autumn 2004, to develop and shape the implementation of a broadly based strategy for the growth of the Northern Ireland Agri-Food Sector. The detailed terms of reference of the strategy are set out in Annex 1, together with the membership of the Group.

1.2 Methodology

The approach adopted by the Group involved commissioning research on six key topics, review of existing material and previous reports, consultations with relevant experts and organisations and widespread consultation with interested stakeholders.

The research commissioned covered the following topics:

- Review of the External Environment (Policy development and cost trends)
- Analysis of the Primary Producing Sector
- Analysis of the Processing Sector
- Analysis of Consumer and Market Trends
- Analysis of Innovation Development
- Analysis of Public Policy Interventions

These research papers will be published on the following web site shortly after the publication of this report (www.dardni.gov.uk/foodstrategygroup).

Interested parties were invited, through widespread notifications in the press media, to make submissions to the FSG. A total of 18 such submissions were received. Meetings were held with all parties, that made written submissions and with three other interested parties. In addition the FSG consulted with the Welsh Development Agency (WDA); with the Chairman of the Policy Commission, Sir Don Curry; with the Chairman, Gordon Summerfield, CBE, and CEO, David McNair, of Food From Britain (FFB); and with a range of industry players in the retail and food service markets.

The FSG met on seven occasions and members of the FSG participated in the consultation process with interested parties.

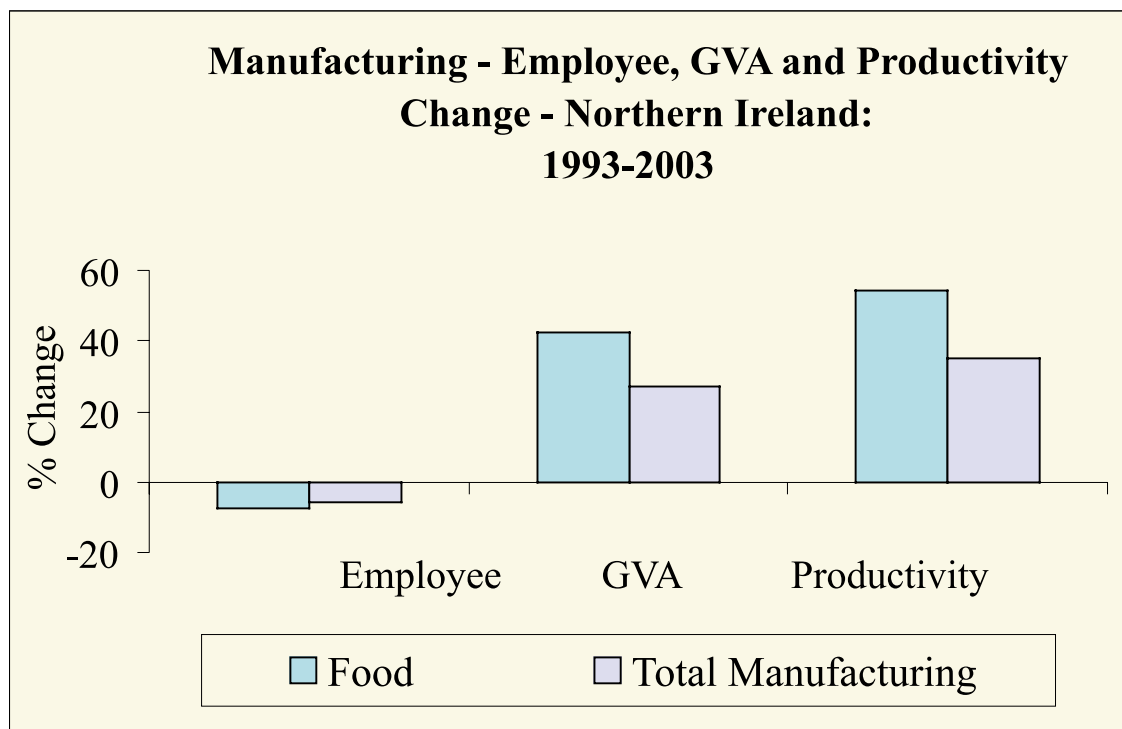
2. PERFORMANCE AND SIGNIFICANCE OF THE AGRI-FOOD SECTOR IN NORTHERN IRELAND

Considerable analysis on the nature and structure of the sector has been carried out in recent years. Our report draws on much of the existing analysis but also highlights, more keenly the relative importance of the sector. In Annex 2, a detailed analysis of the sector is provided. The key features of the sector are as follows:

- **Primary Production**
- The agricultural industry in Northern Ireland is predominantly grass based, with grazing livestock accounting for almost two thirds of gross industry output.
- Of the 28,300 farms in Northern Ireland the largest 3,800 farms account for 57% of all on-farm economic activity and 82%, 80% and 61% respectively of the dairy, pig and poultry populations. However, more than half of the total farms are too small to provide full-time employment for one person.
- Although the average farm size in Northern Ireland is small in comparison with the rest of the UK, this is not the case in an EU wide context, particularly in relation to the dairy, sheep and intensive livestock enterprises.
- Industry restructuring has been continuing at an even pace over many years, with the total number of farms falling by approximately 1% - 2% per annum. This restructuring is reflected in, and driven by, the fact that there are fewer (young) farmers entering the industry than there are (older) farmers leaving. The resulting age profile of farmers (the current median age is 55) has not changed significantly over the past decade but it is noteworthy that farmers on larger holdings have a younger age profile than those on smaller holdings.
- Over the past decade, the industry has experienced significant income fluctuations, driven largely by exchange rate movements between sterling and the euro (and its predecessor, the ECU) but also as a result of the consolidation of purchasing power at both processor and retailer level.
- **Food Processing**
- The food industry had a gross turnover of £2.2 billion in 2001, accounting for 21% of the total for the Northern Ireland manufacturing sector. The largest 12 companies generated 45% of the industry's total sales.
- The largest two sub-sectors, milk and milk products and beef and sheep meat, accounted for almost half of the industry's turnover, reflecting the importance of these commodities within Northern Ireland primary production. The drinks sub-sector was the next largest, followed closely by poultry meat.

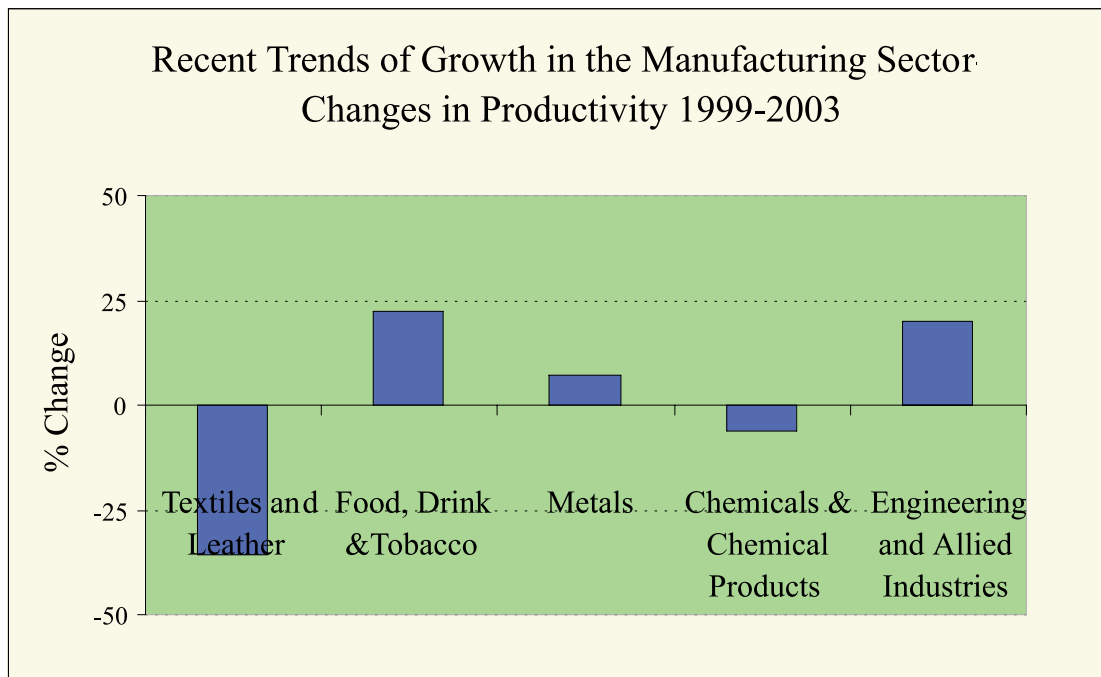
- The processing sector is heavily dependent on external markets, with sales outside of Northern Ireland accounting for well over half of the total industry turnover. Great Britain is by far the most important outlet, accounting for just over a third of all sales (though some caution needs to be exercised in relation to this data as it refers to the first geographical point of sale, not the final destination).
- Within certain sectors, for example, poultry, own label production is of major significance.
- **Significance of Food Sector to Northern Ireland Economy**
A factor that has not been fully recognised in recent years is the extent to which the Food Industry has reached or exceeded the performance of other sectors of the economy. This is illustrated in the charts 1 and 2 below;

Chart 1:



Source; *Future Role of Manufacturing in Northern Ireland – PriceWaterhouseCoopers. (Interim Report 2004)*

Chart 2:



Source; Invest NI

The Northern Ireland agri-food industry is significant in terms of its contribution to GDP, is dominated by the beef, dairy and poultry sectors and has a key role to play in the future of the Northern Ireland economy.

Summary of Key Points

- Fluctuating incomes in primary production, falling profitability
- Beef, Dairy and Poultry are the dominant sectors
- Ageing profile of farmers
- 12 Firms each have +£50 million turnover per annum
- 46 Firms account for an estimated 77% of total sales
- GB/ROI account for 43% of total sales
- There are major challenges for smaller firms
- Agri-food is of vital importance to the overall Northern Ireland economy

3. CHALLENGES FACING THE SECTOR

The challenges facing the sector are analysed under the following headings:

Policy Developments;

Cost Environment; and

Market Trends.

3.1. POLICY DEVELOPMENTS

- Reform of the Common Agricultural Policy

The centrepiece of the 2003 agreement on the reform of the Common Agricultural Policy (CAP) is the concept of decoupling – breaking the link between direct agricultural support and production. With decoupling, farmers will be free to expand, contract or change enterprises with no effect on their levels of decoupled support. As a consequence, support payments will no longer form part of the economics of production and the only rewards for production will come from the market place. These markets are, and will be, much less subject to CAP management and manipulation (through intervention, export refunds or tariff barriers) than at any other point in the history of the Common Agricultural Policy. Hence, in future, economic forces will require a much greater focus on meeting true market demands.

Modelling work carried out at The Queen's University of Belfast has suggested that full decoupling in Northern Ireland will lead to an 18-20% reduction in the beef herd and an 8-10% reduction in the breeding ewe flock. This could have a 'knock on' detrimental effect on cereal producers.

The effect on Northern Ireland milk production is less certain, though the modelling work suggests that the volume of output will be maintained. If not, then both the dairy and beef processing sectors will face a downturn in their raw material base. In the case of beef, there is the prospect that a higher proportion (of a lower volume) of beef will come from the dairy herd as a result of the projected scale back of the suckler cow herd. This will undoubtedly create its' own challenges.

In the case of sheep meat, the fact that such a large proportion of primary production is exported live to the Republic of Ireland means that the impact of a reduction in the breeding flock is unlikely, by itself, to impact on the level of downstream slaughter and processing activity that is carried out in Northern Ireland.

- EU Enlargement

On 1 May 2004 ten countries (known as AC 10) joined the European Union. The extension of the CAP to the AC 10 will provide these countries with higher prices, which may well stimulate agricultural production. However, it will also impose, in the future, higher production standards, without which there will be exclusion from the EU market. A particular issue for Northern Ireland is its relative geographical remoteness and the impact of currency fluctuations because it is not in the Euro-zone.

In general, agriculture plays a much larger part in the AC 10 economies than in those of the previous EU15. Generally, their opportunity cost of labour in agriculture is low and reflects a general lack of demand in other sectors of their economies. Achieving the agricultural production potential of the AC 10 is likely to take several years, given the level of investment required to deliver the necessary infrastructure upgrades. In the meantime, there may well be a window of opportunity for the Northern Ireland agri-food industry to exploit the 100 million (30%) extra customers within the EU25, given that all of the AC 10 (apart from Hungary) are net food importers. There may also be investment opportunities for the processing industry in these accession countries.

- The WTO Doha Development Round

The World Trade Organisation (WTO) replaced GATT in 1995 and the current round of WTO negotiations was launched in Doha, Qatar in November 2001. The original target date for the completion of these negotiations was 1 January 2005.

The Doha Ministerial Declaration commits the EU (and all other WTO participants) to *"...comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support"*. Largely at the request of the EU, the Doha agenda also obliges the participants to *"... take note of the non-trade concerns reflected in the negotiating proposals submitted by Members ..."* and confirms that *"... non-trade concerns will be taken into account in the negotiations ..."*

It is still too early to quantify the likely effect of any new agreement, which will impact across the whole EU market. It is clear that the direction of change will be towards further trade liberalisation. This will lead ultimately to increased competition from third country imports and less dependence on subsidised exports. This issue is of particular significance to Northern Ireland given the relative historic usage of export refunds compared to some other EU Member states.

- Environmental Restrictions

EU environmental restrictions, in particular, the Nitrates Directive and the Water Framework Directive, have the potential to impact significantly on primary production and in particular, on intensive livestock and milk producers. These Directives will require the agricultural industry to put in place measures to reduce or reverse the negative effect of animal wastes on the environment particularly, on water quality. Possible de-stocking, investments in additional slurry storage capacity and restrictions on the disposal of animal wastes will add to the cost base of affected enterprises and could act as a brake on continued industry rationalisation and restructuring. The precise effect that this may have in terms of future competitiveness and production levels within Northern Ireland remains unknown. However, it is reasonable to assume that environmental restrictions may add to the downward pressure on production and the available raw material base for processors.

The processing industry also faces increasing environmental and health restrictions with the European Carbon Trading Emissions Scheme (ETS), Integrated Pollution Prevention Control (IPPC) and the Animal By-Products Regulations.

Summary of Key Points

- Producers will face more competition
- Freer access to international markets
- Lower export subsidies
- Increased cost of compliance
- Downward pressure on production

3.2 Cost Environment in Northern Ireland.

A study, commissioned by the Office of the First Minister and Deputy First Minister and undertaken by PriceWaterhouseCoopers, examined the costs of doing business in Northern Ireland compared with other regions of the UK. Published in October 2003, this looked at a broad range of inputs, such as energy, water, labour and transport. The following is a summary of the study's main findings.

- Property rental costs for office and industrial accommodation tended to be relatively less expensive in Northern Ireland compared with other regions of the UK (Northern Ireland was the 7th to 11th most expensive of the 13 UK Government Office Regions, depending on the specific accommodation type in question).

- The level of rates levied on commercial property in Northern Ireland was considered broadly comparable with levels in England, while somewhat lower than those in Scotland. However, industrial de-rating, which had been phased out in all other UK regions, provided a competitive advantage to the Northern Ireland manufacturing sector, although this advantage will eventually disappear with the proposed removal of industrial de-rating in Northern Ireland over the coming number of years.
- In the case of electricity costs, it was estimated that large companies in GB currently pay up to 50% less than they would if Northern Ireland tariffs were to be applied. While high electricity costs obviously affect both agricultural production and food processing, energy can account for a significant part of the input costs for certain processing operations, compared with other sectors.
- Water costs in Northern Ireland were found to be slightly higher than the UK average (although they compared favourably with European rates). Effluent charges, on the other hand, were among the lowest in the UK.
- Waste disposal costs were generally lower (apart from hazardous waste disposal) than in the Republic of Ireland or South of England, though there were substantial regional variations across the UK. However, this was a category where costs were expected to rise significantly in the short to medium term.
- Transport costs, while similar to those in the Republic of Ireland and Scotland, were substantially higher than in England and Wales. There was also anecdotal evidence to suggest that Northern Ireland had higher business insurance costs, but crucially the cost in Northern Ireland had risen by almost 90% between 2000 and 2002. Public and employer's liability insurance, in particular had risen very sharply over this period (by 102% and 95% respectively).
- In 2002, for example, overall average earnings in Northern Ireland were 16% lower than in GB. However, although the rate of growth in earnings in GB over recent years had exceeded that in Northern Ireland, the longer-term trend had been one of convergence and there was a general expectation that this pattern will reassert itself.
- Although overall earnings in Northern Ireland are 16% lower than in GB, there were significant variations about this figure across the range of occupational classifications and sectors of the economy. For example, in the case of process, plant and machine operatives, the differential in 2002 was less than 13%. In professional occupations, it was only 9%, although in the case of managers and senior officials, it was almost 22%.
- When analysed by sector, average earnings in Northern Ireland manufacturing (which includes food processing) were more than 21% below those in GB. However, a comparison of manufacturing manual worker earnings between Northern Ireland and the Republic of Ireland in 2001 showed that earnings in the former were almost 11% higher (although the latter had higher employer taxation costs).

Summary of Key Points

- Energy costs are of real concern to industry
- Waste disposal costs are expected to rise
- Gap in labour costs with ROI
- Maintaining competitiveness is vital

3.3 Market Trends

While policy developments at national, EU and global levels will undoubtedly impact the agri-food industry in Northern Ireland, it is the market, which ultimately will drive the industry and determine its future success. The following section summarises some of the main trends examined by the Group within the food market and distribution systems.

- The Food Market

Within developed economies, the overall level of food consumption is essentially static. Any movements will be small and in response to influences such as population changes or reductions in calorific intakes due to the decline in manual industries. Therefore, as disposable incomes rise, there is little scope to increase volume sales at an aggregate level. However, there is considerable scope for the food industry to tap into the spending power of an increasingly affluent society by tailoring its output to address emerging needs and concerns. Essentially, this means identifying what, other than basic sustenance, drives food purchasing decisions and attempting to build those attributes into the food product on offer. This may be a service, such as convenience, a feature of the product itself, such as taste or functionality, or it may be a factor related only indirectly to the product, such as animal welfare or environmental impact during the primary production process. It is in response to these drivers that the food industry as a whole will be able to capture more of the consumer's spending power and which will set one supplier apart from another. And it is these same factors, which will result in an ever-decreasing share of consumer expenditure accruing to the product's raw material content and being passed back to primary producers.

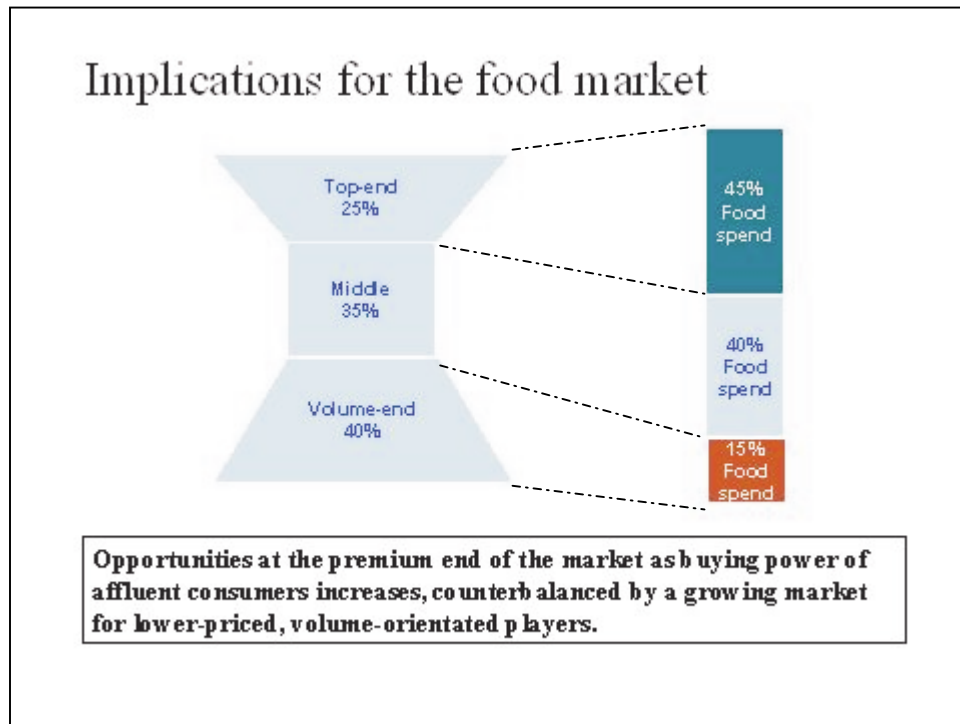
- Consumer Trends

Trends in the consumer market are well documented and include developments such as:

- Smaller household sizes;
- Less formal meals/more snacking and grazing;
- Less knowledge of food preparation;
- More eating outside the home;
- Greater travel/more interest in ethnic foods;
- Greater interest in functional foods (e.g. perceived health benefits);
- Eating as an experience/indulgence rather than a necessity.

These are just some of the factors, which will drive future food purchase and consumption patterns and to which suppliers must respond through innovation and new product development. Evidence of increasing polarisation of consumers in terms of income, social status and education is leading to an erosion of mass, middle-income markets, with a growing emphasis on premium products at one end and value, no-frills products at the other. However, consumers are becoming ever more eclectic in their shopping habits, assuming multiple identities beyond the conventional “ABC” classification; Chart 3 illustrates an aspect of this. Therefore, affluent consumers will quite happily purchase across the range of value and premium products, as will the less affluent, based on their requirements at any given point in time. Taken together, these trends will put increasing pressure on mass-market brands, with a reduction in brand loyalty and an increasing need for product customisation. Product life cycles are likely to contract, placing a greater onus on suppliers to innovate more rapidly.

Chart 3:



Source; Promar International

- Convenience, Health and Diet

Within increasingly affluent societies, consumers are becoming ever more “cash rich/time poor”. This, together with a reduction in their ability or desire to prepare meals from basic food ingredients, is driving the convenience food market. End consumers are also becoming more concerned about health and diet. Levels of fat, sugar and salt in processed foods are all regularly debated in the media amid growing concerns over obesity levels, particularly among the young. In the USA, obesity fears have promoted interest in diets such as the Atkins Diet, which, in turn, has had a measurable effect on the consumption of high protein foods. In the face of these influences, the major challenge and opportunity for food manufacturers is to combine health and convenience into new food solutions for an uncompromising consuming public which is becoming ever better informed, and concerned, about food issues.

- Branding

With greater individualism among consumers and the erosion of the mass middle market, all but the major, blockbuster brands will come under increasing pressure. The growth of own label, both within the retail and food service sectors, and the trend towards brand rationalisation at the point of sale, will compound these difficulties. Within the UK, for example, almost half of all food purchases in supermarkets are own label products and the fresh produce category, which has produced the highest growth in consumer expenditure over the past decade, is almost exclusively own label. For brands to survive they must be relevant to the changing and unpredictable needs of consumers and they will require significant, on-

going investment. This raises major questions for smaller suppliers in terms of their ability to support a strong brand in the face of these pressures.

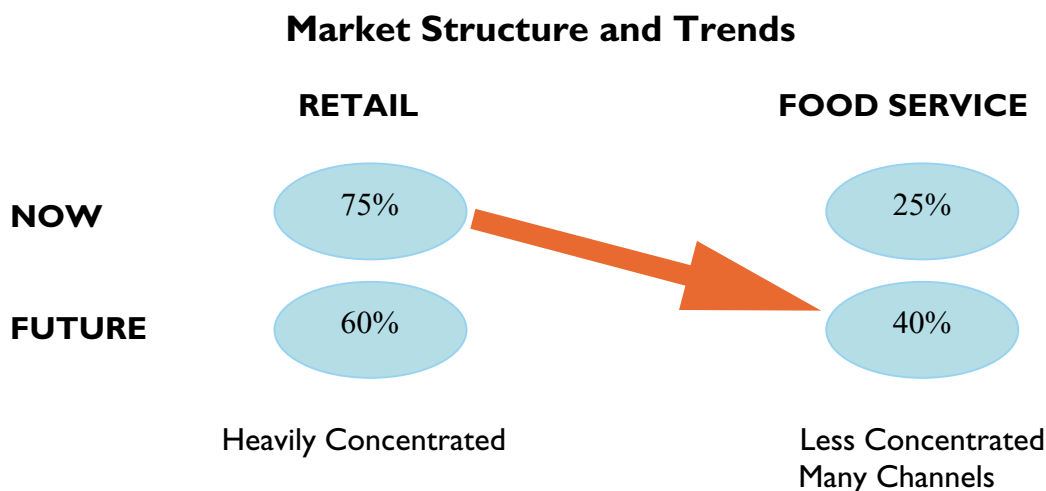
- Market Structure

For the most part, producers and processors do not sell directly to the final consumer. Therefore, to succeed in the market, they must also understand changing market structures and respond to the demands that this will place upon them as suppliers.

Within the UK food retail sector, there has been significant consolidation fuelled by mergers and acquisitions. Opportunities for organic growth have diminished in a market, which is approaching saturation point in terms of new shopping outlets. The top five food retailers now account for almost 76% of the retail food market in the UK. Northern Ireland has not been immune to these influences, with Tesco, Sainsbury's and Safeway controlling 40% of the market.

This consolidation has had major implications for suppliers, and not simply in terms of the buying power now residing with these purchasing groups. Trends towards rationalisation of the supplier base, own label branding and reductions in the number of brands on offer are all having an impact. There is also decreasing scope for suppliers to push standard products through wholesale intermediaries to retail outlets. Instead, products and services will need increasingly to be targeted, sophisticated and built round the requirements of the customer. While niche products will continue to have a place, these will need to be highly differentiated and of very high quality if they are to be offered shelf space.

Chart 4:



Source; Various

Food markets will continue to evolve. Although they have yet to make a big impression in the UK, discount retail chains such as Aldi and Lidl have had a major impact in the European retail market and this, in turn, has put pressure on both suppliers and supplier brands. In the USA, the food service sector now accounts for 50% of all food expenditure. In the UK, the corresponding share is 37% (33% in Northern Ireland) but it is growing strongly (+2.8% per annum in value terms compared with +1% for retail sales growth). Therefore, within an overall static market in terms of total food consumption, the food service sector stands to take market share at the expense of the retail channel. There are indications that, in response to this challenge, the supermarket groups may themselves take a greater involvement in the food service sector; Chart 4 illustrates. Indeed, it has also been suggested that over the next 20 years, the supermarket groups might concentrate more on non-food items and franchise out retail space to smaller, more agile food businesses within large, retail warehouse outlets.

Within the food service sector, cafes, pubs and bars and quick service restaurants are all growing in terms of market share and there has been increasing penetration by organised players, such as Starbucks, Costa Coffee Cafes and Subway. The sector is very diverse and each of the constituent elements has its own particular characteristics and demands. Delivered wholesalers play a major role in servicing these requirements, having developed close working relationships with operators and responding to their needs with highly tailored and competitively priced own label products. Forming supply and distribution relationships with delivered wholesalers offers opportunities for committed and innovative suppliers, although major contract caterers are also emerging across Europe and are well positioned to offer significant supply opportunities.

Given that the demands of the food service sector are markedly different from those of the retail sector, products do not translate easily from one to the other. Therefore, an understanding of the diversity of the sector and the particular needs of its constituent parts is an essential pre-requisite for any supplier wishing to exploit this opportunity through innovative and bespoke products.

- Food Safety and Supply Chain Integrity

The need to demonstrate due diligence in the supply of food has led to the development of much tighter supply chain management arrangements. Buyers must take all reasonable steps to ensure that the food they receive from upstream suppliers is safe. This has compelled them to require suppliers to have stringent quality assurance, risk management and traceability systems in place to ensure responsible production methods. In effect, the onus for food safety is being pushed up the supply chain and a genuine and visible quality and safety culture is a pre-requisite for suppliers feeding the multiples and other large buyers.

The search for improved supply chain integrity and greater product consistency, together with the desire to drive out unnecessary costs, is leading to a rationalisation of the supply base. Buyers want, wherever possible, to deal with a smaller number of larger, technically efficient and increasingly innovative suppliers. A shorter, more integrated supply chain will help minimise, both costs and risks, as well as facilitating a more agile response to market opportunities in terms of innovation and new product offerings.

- Distribution Systems

The logistics of coping with tight delivery windows and just-in-time deliveries are making distribution systems ever more important in meeting the expectations of retail and food service customers. However, more radical demands will arise from “last mile deliveries” (LMD), i.e. those from the retail outlet to the consumer’s fridge. An increasing proportion of consumers prefer not to enter food stores, or if they do, not to bring the food purchases home with them. In the USA, for example, it is expected that by 2004 over 20% of all food consumed will be delivered to consumers. While this will not necessarily involve food manufacturers directly, it could have very significant effects on their businesses. For example, it raises a challenge of how to expose consumers to innovative new products if they do not enter retail outlets and therefore, do not make themselves amenable to impulse buying. It may also raise issues in terms of appropriate packaging formats for products which a consumer may not see until it enters the home. LMD poses interesting questions in terms of future shopping patterns, with the possibility that staples and other regular purchases will increasingly be purchased on-line or through regular deliveries, while the more expensive, luxury or indulgence foods will be purchased in person.

Summary of Key Points

- Static to modest growth in food competition
- Opportunity to differentiate
- Growing share by food service but multiples seek to participate in food service
- Significant changes in consumer behaviour
- Key emphasis on food safety traceability and integrity

4. INPUTS RECEIVED FROM STAKEHOLDERS

In the preparation of the strategy the FSG determined to actively engage with key stakeholders. This took place by:

- Placing press advertisements in a wide range of media inviting interested parties to provide written input. A total of 18 responses were received.
- Direct engagement took place with all parties who made written submissions; in addition the FSG sought and had discussions with a range of other parties.
- A stakeholder feedback conference took place on 28th June 2004 and of a total of 108 invitations, 77 attended.

There was a high level of interest in the issues identified by the parties that attended. Areas of common ground were:

- The critical importance of innovation (defined to include product, processing and packaging);
- The need to enhance the flow of market intelligence and to strengthen market promotional activity;
- The need to have a cohesive delivery of public policy; and
- The desire to move from deliberation to action.

In addition to the above there were issues identified which were unique to various groups. These are summarised below:

- Primary Producers

The impact of the CAP reform and the trade liberalisation negotiations under the WTO were both of significant concern to producer organisations. Each has the potential to alter fundamentally the economics of primary agriculture and the effects of this in terms of industry size and structure remain uncertain. Environmental restrictions, particularly in relation to the Nitrates Directive and the Water Framework Directive, have the potential to compound these problems and hasten the pace of structural adjustment. Therefore, there was obvious concern in terms of how producers will cope with the scale and pace of change.

In relation to the food chain, there was a very obvious concern in regarding the distribution of both cost and profit margin. Primary producers see themselves as occupying a weak position and, being at the top of the chain, do not have the scope to pass revenue reductions or cost increases to other parts of the chain.

Producers were also concerned at the lack of information flow through the chain. Relying on price as the messenger was seen as too crude a mechanism and, given the length of the production cycle, did not give sufficient lead time for producers to respond to changing demands. The development of a more proactive approach was seen as a better way to fine tune supply to demand and to build trust and better co-ordination into the chain. It was also suggested that the Northern Ireland agri-food industry should seek to build relationships with decision-makers in EU markets to facilitate the tailoring of production to market requirements.

There is an urgent desire to get the current beef export ban lifted and a return to free trade in beef.

There was concern about the delivery of public policy, with a clear desire for its formulation, funding, articulation and delivery to be more focused on and attuned to meeting the needs of the sector.

- Processors

The cost of doing business was of major concern to the processing sector. Energy costs in particular were seen as a major problem and there was also a clear desire to reduce the level of costs imposed by Government bureaucracy, wherever possible.

There was a clear desire to build a greater presence within the market, particularly the regional market, in terms of customer and consumer recognition of Northern Ireland food and what it has to offer. The processing sector believe that Northern Ireland has a positive message to impart and that ways are needed to communicate and capitalise on this, both regionally and in external markets.

Innovation and R&D were recognised as crucially important ingredients for the future success of the sector as a whole. Processors are concerned that Government research is not clearly enough focused on commercial outcomes and there was a degree of uncertainty relating to the scope of Government research relating to the food sector.

For the beef sector specifically, the removal of the ban on exports was seen as vital to its longer-term development. A more diverse range of market opportunities will be essential to allow the sector to capitalise on the opportunities, which are open to its major competitors. Such diversity would also provide greater stability. This sector faces particular competitiveness challenges including achieving scale and efficiency at the processing level.

- Accompanying Issues

Other stakeholders not directly linked with the agri-food industry emphasised the need to be focused on customer needs rather than products or production. It was also pointed out that value for money was a key consideration for consumers, which encompassed both the bottom and top ends of the market.

Greater awareness of cultural issues was highlighted as an essential development need, particularly when trying to build a presence in international markets. It could not be assumed that products or business practices would transfer easily between different cultures and a degree of product and process refinement would be required to meet local needs and customs. Similar comments applied when dealing with multicultural workforces.

- Views from the Market

In both the retail and food service sectors, quality and service are taken as given. However, the capacity to be a solutions provider is an ability, which will set a supplier apart and offer a potential key source of competitive advantage. The ability of Northern Ireland companies to offer innovative new products attracted some criticism, though there was also a degree of recognition that smaller companies have particular difficulties in this respect. However, to be successful, companies must be able to identify market gaps on a continuous basis and be able to engage as a category partner in delivering new products faster than their competitors. In the food service sector it was stressed that there is great diversity in the requirements of the various channels and that suppliers need to concentrate more on the range of tailored products on offer rather than simply the volume. However, there was also a view that lack of scale was a major handicap for Northern Ireland, both in terms of cost reduction and in terms of ability to innovate.

It was suggested that there was a need to coordinate food promotion initiatives on the domestic market more effectively in order to maximise the impact of and the return from, this investment. It was also suggested that linkages with inward tourism offered the opportunity to engage with a wider consumer base and create a possible springboard to external markets. However, there was a consistent view that no strong or positive connotations could be derived at present from using the term "Northern Ireland" in a marketing context and there was a degree of scepticism in relation to the value of a Northern Ireland product brand.

The existing strong focus of the Northern Ireland agri-food sector on quality and traceability was acknowledged, though the need for continuous investment and improvement was stressed. A strong sense of integrity within the sector was also recognised. However, in a number of instances it was suggested that Northern Ireland companies tended to undersell themselves by failing to present their market offerings in the most effective manner.

Summary of Key Points

- Innovation development
- Market intelligence and promotion
- Cohesiveness of delivery
- Desire to move from deliberation to action

5. ASSESSMENT

Based on the analysis of market trends, developments in the external policy environment and feedback from stakeholders, the FSG have made the following assessment:

- Forthcoming changes to the policy environment in which the primary production industry operates will leave agricultural markets very much less distorted than in the past. Therefore, the future of agricultural production will be more closely aligned with market realities. Part of this reality will be increased international competition in the longer term following the conclusion of the WTO talks on trade liberalisation.
- Significant restructuring of the agricultural industry will occur in response to these influences and the volume of output will probably contract compared with current levels. However, this output will be more aligned with market demands and emanate from a production base, which is more commercially focused.
- Potential reduction of domestic raw material supply will pose challenges for some parts of the processing industry, though it has the option of importing raw materials for processing, if this is economically viable.
- However, the main challenge for the processing industry will be to align its product offering with the demands of a rapidly changing market.
- The aggressive and dynamic changes in market structures and consumer behaviours both need to be factored into the development plans of processors. This will require detailed market insight and an ongoing commitment to a change process.
- Innovation in products, processes and services will be a key factor in underpinning the development of the industry, as will flexibility and agility.
- It is also clear that differentiation of what Northern Ireland has to offer is essential given that its scale of operation cannot deliver the economies which would enable Northern Ireland to compete on price with undifferentiated products.
- There is a clear need to make the supply chain work efficiently to facilitate the required agility and responsiveness to market demands, as well as allowing unnecessary costs to be stripped out. Moreover, all parts of the chain must be profitable, this can be achieved by cooperation, transparency and trust and a fair distribution of cost and profit throughout the chain to enable it to function effectively.
- In all of these areas, it is essential that the correct people with the necessary skills and competencies are in place to drive forward the change agenda.
- From a Government perspective, existing industry support programmes must be refocused to facilitate and encourage the necessary changes.
- Government has a very clear role in those areas where, left to its own devices, the market will operate at a sub-optimal level (i.e. market failure).

Prominent among these will be the support of R&D, training and education and the flow of market information.

As a consequence the FSG have concluded:

- a) With existing structures and impending changes in legislation and producer support, there is likely to be a downward pressure on the volume of agricultural output. However, there is a capacity to grow revenues and margins by seeking to add greater value to off-farm production. This will require both a sharp focus on meeting market demands and a free flow of market information along the supply chain. Many producers do not perceive themselves as being well informed of market trends but with more information and cooperation within the supply chain, output could be maintained or have the potential to increase.
- b) Food processors experience some relatively unfavourable cost conditions and those dealing in commodity products face the challenge of transforming their product range and their served markets so that they avoid competing head-to-head with suppliers who can out perform them in straight cost terms.
- c) There are significant opportunities in emerging product markets such as speciality foods, which must be fully exploited if the Northern Ireland agri-food industry is to reach its potential. The relatively small scale of Northern Ireland processors represents a particular challenge when seeking to supply the retail sector. A way forward for the companies may be to work more closely in collaboration with each other.
- d) Some food companies are not achieving their potential because the owners have achieved a level of reward, which suits their lifestyle.
- e) Public policy towards the processing sector is heavily focused on co-financing fixed assets (more than 60% of firm specific support occurs in this category). Some funds are not fully utilised and virtually all of the funds are provided in the form of grant aid.
- f) There are numerous decision points within Government support agencies, which mitigate against speedy decision-making.
- g) Northern Ireland is noticeably less active compared with competitor regions both in developing market intelligence structures and in its overall promotion activity but is active in international buyer introduction processes.
- h) Northern Ireland is over-served in terms of the number of public bodies and private organisations (some of which receive public funds), which are involved with the agri food industry.

Summary of Key Points

- Downward pressure on agricultural output
- Effective, joined-up supply chain essential
- Innovation will be the key source of competitive advantage
- Scale of production is vital for volume supply to retail sector
- Speciality foods provide opportunity but will require sector firm collaboration
- Public policy heavily focused on financing fixed assets

6. PROPOSED APPROACH

6.1 GUIDING PRINCIPLES

In devising the strategy for the development of the Food Sector the FSG concluded that it was essential to establish a set of guiding principles.

They are set out below:

1. The strategy must be ambitious and seek to support significant and beneficial impact on the industry.
2. Although demanding, it must also be achievable and sustainable. Therefore, commitment and buy-in from key stakeholders (including Government) is essential from the outset. If the strategy is to be successful, then all stakeholders must have a role in, and a responsibility for, its delivery.
3. The strategy must be sharply focused on the market, as this is the arena in which the industry will ultimately succeed or fail.
4. Therefore, the strategy must also be flexible and dynamic enough to respond to the markets' ever changing demands. Strategy cannot exist in a vacuum: it must recognise and respond to the changing political, social and economic drivers, which will shape the environment in which the strategy will operate. A static and inflexible strategy will merely hasten failure rather than promote success. In short, the strategy must be a process rather than a product.
5. Therefore, the strategy must be target driven, with desirable outcomes measurable, and measured.
6. Finally, the strategy must provide for the clear designation of accountability for the development and delivery of the public policy intervention. Ambiguity and poorly defined lines of responsibility would severely undermine the successful implementation of the strategy and the achievement of its objectives.

6.2 The Strategic Options

Having considered the extensive information and analyses available, the Group felt it necessary to consider a range of strategic options for the future development of the agri-food industry in Northern Ireland. The three options reviewed are described as:

- (i) **Orderly retrenchment;**
- (ii) **Defence;**
- (iii) **Transformation.**

(i) **Orderly retrenchment** takes the view that the food industry, certainly at its current level, is of limited strategic importance to the long term economic interests of Northern Ireland and that it faces a period of inevitable decline in the face of external drivers over which it has no control. Therefore, the focus of this option is to facilitate the contraction of the industry with the least pain possible by trying to encourage alternative jobs and sources of wealth creation and ensuring that alternative, acceptable land uses are promoted. Government support would, therefore be withdrawn over time (where possible) and re-focused on other growth sectors of the economy.

The Northern Ireland agri-food industry undoubtedly faces many challenges. However, much of it is based on forms of primary production in which Northern Ireland enjoys significant natural advantages. Moreover, the agri-food industry makes very important contributions to the economy and society at local level and has demonstrated a remarkable resilience in the face of considerable difficulties. Combined with the ambition and determination of key players in the sector, this offers a robust base from which to build, particularly as the challenges facing Northern Ireland are little different from those facing its competitors. Therefore, given the potential that exists for the development of the industry, the Group rejects this option.

(ii) Defence aims to try to maintain a production capacity and associated processing ability, which is broadly in line with the present. Therefore, the focus is on volume and product rather than the customer and market solutions. Given the likely effects of CAP reform (both current and future) and possible environmental restrictions on primary production capacity, together with increasing competition from alternative suppliers, Defence will be a difficult strategy to pursue. It fails to recognise the realities of a changing world and relegates the industry to a reactive role in which it is a perpetual victim of circumstance. Moreover, it is a strategy which is not likely to engender significant stakeholder buy-in, nor is it one which is likely to create an industry which will attract the talented, innovative and progressive individuals that it needs if it is to progress. Therefore, on the basis that such a strategy would be unsustainable, the Group also rejects this option.

(iii) Transformation requires the industry to embrace change and actively seek out the opportunities and openings that change inevitably brings. The focus of this approach is on maximising the market returns from the raw materials at the industry's disposal by seeking to improve quality and add value at every opportunity. It does not demand that these raw materials are sourced exclusively from a Northern Ireland production base, though a large proportion of them undoubtedly will, but it should also encourage and promote cooperation and collaboration within the supply chain so that as much raw material as possible can be sourced from Northern Ireland producers. Transformation will require investment in innovation, in marketing and in people. It will also require the careful repositioning of the Northern Ireland food sector within the market to deliver food solutions to a customer base, which places value on a combination of product, service, agility and above all, originality. In short, Transformation is about accepting and responding to the realities of the market. It accepts that not all firms and farms will survive, but it aims to maximise the potential of those that remain.

Transformation is not an easy strategy to pursue. It will require significant changes in mindsets, practices and structures, as well as considerable investment, not least in human capital. Nevertheless, the Group strongly believes that the *agri-food industry in Northern Ireland offers a strong platform for future value growth and development*. If it is to realise its full potential and reward industry participants with a satisfactory return on their personal and professional investment, it *must* engage in a change process. Transformation is, therefore, unambiguously recommended by the Group and is at the core of this strategy for the future development of the agri-food industry in Northern Ireland.

Summary of Key Points

- FSG has opted for a transformation strategy
- This requires the entire sector to become focused on solution provision for the market
- Efficient and profitable supply chains are vital to this process
- Enhanced capability will be key to delivery

6.3 MEASUREMENT

In pursuing this broad strategic objective, the Group believes that attention needs to be focused on outcomes as well as inputs as the means of tracking progress. A small number of high level, indicative measures must be used to guide the allocation of public support, to focus effort and to help drive the change process. Such an approach would also contribute to building a sense of ownership and accountability around the strategy. The Group therefore proposes that:

Sales outside Northern Ireland, with a special emphasis on sales off the Island of Ireland should be the key impact indicator. The value of sales captures both changes in volume and changes in unit price (as a result of adding value). It is the latter of these two, which holds the most potential for the Northern Ireland agri-food industry. Sales outside of Northern Ireland.

account for the majority of the industry's turnover and offer the greatest scope for expansion. However, this does not mean that the home market should be neglected. On the contrary, the home market is the foundation from which the industry will continue to build. It can also be the testing ground from which new and innovative products can be launched into a wider market.

While sales outside Northern Ireland should be the primary indicator, the Group believes that the following three measures should also be tracked:

- (i) **Gross Value Added** – Gross value added will also capture volume and value added effects and will provide a measure of the overall contribution of the agri-food industry to the Northern Ireland economy. This contribution and the creation of wealth are the underpinning reasons for seeking to develop the industry.
- (ii) **Share of the Northern Ireland Economy** – This measure flows naturally from the preceding one. As a minimum, the agri-food industry

should aim to grow as fast as the rest of the economy, but it should certainly not be limited to this ambition.

- (iii) **Return on Capital Employed** – Ultimately, the industry will be viable only if it is profitable (in all its constituent parts) to a level which gives a satisfactory return on investment and which provides for reinvestment. Profitability has been a major difficulty in both the production and processing sectors over a number of years. This needs to be restored if the industry is to progress.
- (iv) **New Jobs Created** – New job creation in response to economic opportunities is a strong indicator of success within any industry and a key part of wealth creation in the economy. In the context of the food industry, new job creation linked to sales growth will do much to ease the process of Transformation by providing alternative employment for those displaced during the restructuring that will inevitably take place.

6.4 VIEW OF THE FUTURE

With a strategy aimed at Transformation and a series of high-level targets to measure and assess progress, the Group felt it important to describe the characteristics of a successful food industry as the ultimate goal towards which the strategy would work.

(i) **A market led, customer focused agri-food industry**

It is clear from the analysis of the industry and the challenges, which it must address that the key to survival is to be fit for market. CAP reform, trade liberalisation, changes in market structures and evolving consumer tastes and preferences all demand an acute focus on meeting market requirements. Any mismatch between this and market offerings will be sharply exposed and heavily penalised. In a competitive market with ample alternative sources of supply, there is simply no room for second best.

(ii) **A competitive and profitable primary production sector, which has close links with the processing sector and is intimately aware of market trends.**

As a simple statement of fact, the primary production sector must be profitable and competitive if it is to survive. Lack of profitability has been a major problem for a number of years and will continue to be one of the drivers of structural adjustment within farming. The trend towards fewer and larger farms has been ongoing for many years and is one of the ways in which the industry has responded to lack of profitability. It is also the main way in which the sector can seek to maintain its competitive position.

Dairy and beef production will continue to dominate primary production in Northern Ireland, but there is scope for growth in smaller sectors, such as aquaculture, fruit, horticulture and organic products.

(iii) **A diverse processing sector - comprising:**

- **A small number of large companies focused on growth markets, exports and acquisition overseas, with R&D and innovation based in Northern Ireland;**
- **An emerging group of smaller, growth-orientated companies;**
- **A specialist food segment;**
- **“Lifestyle” firms with a domestic orientation;**
- **Micro firms.**

Clearly there is no single answer or model when it comes to exploiting the opportunities that are emerging in the food market. Diversity within the processing sector is the best way of building strength and resilience and of exploiting these opportunities. However, the main growth engines for the sector as a whole will be the small number of large firms, which will generate the majority of sales and export earnings. While they may be large in a Northern Ireland context, they will lack the sheer scale of some of their international competitors. Therefore, positioning within the market will be extremely important for these companies, as they will need to avoid head-to-head competition based on price alone. Consequently, innovation and R&D will be vital to their success, as will their ability to deliver a package of product and service, which will set them apart from their competitors. People development will, therefore, be a primary consideration in pursuing this agenda.

In an increasingly segmented market there will also be room for the smaller companies, which have the flexibility to cater for emerging trends. Growth platforms will include convenience, indulgence, functional foods, new experiences, ethical issues and social groupings. The specialist food sector also offers opportunities for those with the foresight and the agility to be first to market. Micro firms will also wish to tap into these areas, targeting a very particular niche. For many, the test market will be Northern Ireland, but the opportunities afforded by concentrated, affluent populations in GB cannot be overlooked, particularly as there are minimal barriers to accessing this market in terms of language, culture, currency or fiscal policy.

The “Lifestyle” firms (i.e. those owned and operated by individuals who have achieved a certain level of income and reward and are not interested in further expansion) will not generate significant growth, but will continue to contribute to the success and stability of the industry *provided* they are prepared to adjust to evolving market demands.

(iv) An Open and Communicative Supply Chain

The economy in general is becoming ever more reliant on knowledge. Firms, which manage and exploit information most effectively, will be the successful firms of the future. The sharing of information along the supply chain is just as important to success as its management within the individual firm. At its most basic level, it helps to overcome mistrust, which is a significant drag on the efficient development of the industry. However,

more fundamentally, it creates the conditions whereby unnecessary costs can be stripped out and opportunities can be exploited to the full.

(v) A Positive Image Backed by High Quality Product Packages

The market will be the ultimate arbiter when it comes to the future success of the agri-food industry in Northern Ireland. Failure to respond to the ever-evolving demands of the market will lead to stagnation and decline. Increasingly, these demands are not defined in terms of the product alone, but in terms of the entire customer package. However, this market sophistication and diversity creates opportunity, which can be exploited – but only if there is a focus on the customer and customer needs rather than simply on the product. In this respect, image and reputation are bankable assets, which need to be cultivated and marketed every bit as much as the product itself. These, plus issues such as service and flexibility, are what will set one offering apart from another and secure the sale. From a Northern Ireland perspective, market diversity and segmentation will help offset the advantages that competitors may have in terms of pure scale of operation, but only if there is sufficient agility and innovation to ensure that the customer packages on offer are closely tailored to the markets' needs.

(vi) A Research Infrastructure Orientated Towards the Needs of the Agri-food Industry

Government invests considerable amounts of money on food related research in Northern Ireland each year, much of it in applied research. It is essential that this is properly focused on meeting the needs, both current and anticipated, of the agri-food industry if it is to generate the maximum return on investment. Therefore, Government must engage in dialogue with industry on the direction of research and industry, in turn, must be prepared to input on a proactive basis to this process.

(vii) A Proactive and Supportive Public Policy

The development of the food industry must involve a strategic partnership between industry and Government. Government must be proactive and be prepared to work with industry to address both failings and opportunities. Ultimately, the strategic leadership of the industry must come from within the industry itself rather than being imposed from outside. However, Government must respond to that leadership in a positive way.

The structure of the food chain in Northern Ireland, with many small operators at both producer and processor level, means that the Government must take a particular role in promoting and supporting R&D and innovation, as well as people development. Without Government intervention, small operators will under-invest in these areas and fail to achieve their potential – a clear case of market failure.

Summary of Key Points

The Northern Ireland Agri-Food Industry of The Future

- An agri-food industry, which is first and foremost, market-led and focused on delivering customer solutions.
- A highly competitive and profitable primary production sector, well informed of market trends and with close links to processors.
- An efficient processing sector comprising:
 - A small number of large, export orientated companies;
 - A larger number of medium-sized and emerging companies focused on growth;
 - A speciality food sector.
- Open and communicative supply chains across a number of key sectors.
- A positive and supportive image of Northern Ireland agri-food in key external markets, underpinned by quality products and solutions-focused companies.
- A research infrastructure orientated towards the needs of the industry.
- Public policy delivered in a highly efficient and supportive manner.

7. ROLE OF INDUSTRY AND GOVERNMENT

It is vitally important that there is clarity about the respective roles of industry (producers and processors) and Government in order to deliver on the recommended strategy of Transformation.

In this context, the Group has identified the following four broad areas where industry and the government have a role to play to develop the sector:

- (A) Market Understanding and Penetration;**
- (B) Fostering Innovation;**
- (C) Supply Chain Management and Development**
- (D) Capability Development.**

In each case, the Group has indicated key issues, which need to be addressed:

(A) Market Understanding and Penetration

An intimate understanding of the needs of markets and customers is central to the success of any business. However, it is not always easy to pinpoint what these are at any particular moment in time as they are constantly evolving. Moreover, customers themselves may not be able to articulate clearly what their needs are, and even when they do, their behaviour does not always conform to their stated preferences. However, it is an area of business, which simply cannot be neglected.

When it comes to market understanding and penetration, the Group has identified four key issues, which need to be addressed:

- (i) Understanding Markets and Trends** – The agri-food industry operates in a complex market in which the number of customers (retailers, food service companies, etc.) is reducing due to consolidation, but where consumers are ever searching for new eating experiences, thus creating market segmentation. Understanding these trends, and more importantly, the adjustments that they demand, is vital. However, smaller food companies find it difficult to invest in the necessary research and market analysis needed to achieve this understanding, particularly in external markets. Government support in this area would be invaluable.
- (ii) Improving Market Intelligence** – At a more operational level, market intelligence is equally important, although making the necessary investment is, again, more difficult for smaller firms with limited resources. Nevertheless, food companies need to continually scan the market for opportunities, focusing on customer developments and emerging innovations. They also need to be aware of customer and consumer perceptions, both established and emerging. Very often, perception is more important than fact or logic when it comes to purchasing decisions. Various food scares over the years offer ample evidence of this.

- (iii) **Enhancing the skills of SME's** to gather, interpret and act on market information is an area where further development is necessary.
- (iv) **Building Relationships with Buyers** – While it is extremely important to have an appreciation of developments in the market at consumer level, the industry in Northern Ireland does not, for the most part, deal directly with the consumer. The ability to access buyers and build partner relationships with them is a vital ingredient in achieving market penetration and the retention of market share.
- (v) **Developing a Supportive Image** – A positive support image can do much to smooth the way in terms of securing new markets. Equally, a poor image can be a major obstacle. Image is a difficult concept to define, much less manipulate. However, it is clear that it comprises much more than simply the physical attributes of the product. For example, it is very unlikely that in a blind taste panel, consumers would be able to differentiate between Scottish beef and beef from elsewhere. Yet, beef having the attribute of being Scottish, and the image that has been created to accompany that, undoubtedly enjoys a marketing advantage. There is a clear need to understand, and respond to, the perceptions that customers and consumers may have of Northern Ireland food. This is an area where there appears to be a gap between the views of the local industry and the views of the customer.

(B) Fostering Innovation

Investment in innovation is essential to the future success of the agri-food industry in Northern Ireland. This must not be a sporadic activity but rather a continual process designed to ensure a constant flow of new process, product and service ideas. Ultimately, innovation involves the identification of problems and the development of solutions. The most innovative solutions are to problems that customers and consumers barely recognise and in such instances, mark a significant advance (but probably also carry a significant investment in development and promotion). Nevertheless, the identification of problems, and opportunities, is generally the first step in innovation and ultimate market advantage.

The Group has identified four key areas, which need to be addressed to improve the level of innovation within the Northern Ireland agri-food industry:

- (i) **Identifying Market Opportunities for Existing and New Products** – This is closely linked to market intelligence and requires a process of continual scanning of the market to identify trends in terms of both consumer demands and the actions of competitors. Scanning of comparable markets may also reveal opportunities, particularly in transferring innovations from one food sector to another, or between geographic markets. “Me-too” products can have a role to play, though they will tend to be more price sensitive than genuinely innovative products.

- (ii) **Process and Packaging Improvements** – Packaging is hugely important in today's food market, not merely as a means of food preservation, but as a means of food presentation to the customer or consumer. Developments in process and packaging can confer major advantage in terms of improving shelf life, reducing wastage, facilitating product differentiation and supporting an image. They can also open up entirely new markets and create market opportunities by adding value to basic food products (e.g. through added convenience).
- (iii) **Developing an R&D Infrastructure Which Recognises and Responds to Market Needs** – Near market research and development with a direct commercial outcome clearly falls within the remit and responsibility of individual companies. Applied research, on the other hand, is an issue of public policy and needs to be strongly influenced by the potential commercial applications. In other words, it has value only when its output is converted into a market offering. Given this context, there needs to be very close collaboration between research organisations and commercial companies so that the former can direct their applied research towards solving relevant problems and the latter can exploit the opportunities offered by R&D. Improving time to market, i.e. reducing the length of the technology transfer process, can confer major competitive advantage and must be a prime objective.
- (iv) **Funding Basic Research, Which is Relevant in a Northern Ireland Context and Maintains an Ethos of Excellence** - As well as applied research, Government has a clear role in the funding of basic research, which is of the highest standard. Although this may be some way removed from commercial application, it nevertheless, provides a platform from which such applications might subsequently emerge. Therefore, given the finite R&D resources available within Northern Ireland, it is important that basic research focuses on broad areas, which are relevant to Northern Ireland and from which Northern Ireland might eventually capitalise in the longer term. Given the cost of financing basic research it is desirable that collaborative research takes place with interested institutions on the Island of Ireland as a whole and beyond.

(C) Supply Chain Management and Development

Satisfying consumer demand requires the links in the supply chain to coordinate their activities. Traditionally, the main communication medium through the chain has been the pricing mechanism. However, with the need to reduce times to market, to reduce costs, to increase efficiency and to bring forward new products and ideas, a more efficient and effective approach to communication and co-operation is required within the chain. From a marketing perspective, transparency and openness would also help to address consumer concerns on issues such as food safety and health.

The Group has identified three key areas, which need to be addressed to improve communication within the Northern Ireland agri-food industry:

- (i) **Improving Time to Market** – With the ever-increasing requirement to strip unnecessary costs out of the food chain, the pressures to reduce the length of time to get products to market are rising. Trends such as “just in time” delivery and reducing levels of costly stock demand significant investments in logistics. Information technology, order handling, scheduling, transport and storage are all areas which need to integrate smoothly to deliver not just the product, but the service that will generate the repeat order. Government support to the industry must also recognise and respond to this need for speed.
- (ii) **Improving Processing** – Within the processing sector, attention must focus on achieving maximum operational efficiency. Issues such as over-capacity, seasonal peaks in throughput, technical efficiency, the deployment of new technology and the skills of the labour force must all be addressed to ensure that the sector remains competitive. Economy of scale is clearly an issue for Northern Ireland given its modest size of operations compared with its international competitors. This may point to a need for further rationalisation in capacity or the development of new ways of working and sharing facilities, where practicable.
- (iii) **Raw Material Supply** – The raw material supply off-farm is the base on which a large proportion of the processing sector in Northern Ireland is built. This must be produced at a level, quality, manner and time in keeping with the demands of the end market for the resulting food products. As discussed earlier, lack of profitability within the primary production sector is a major problem to which there is no quick or easy answer. However, part of the solution will be to try and maximise the level of value added to the raw material input so that everyone in the chain has a greater chance of receiving a better margin.
However, the other part of the profit equation, which needs to be addressed is the efficiency of the production sector itself. Benchmarking data clearly show that there is a huge variation in the physical and financial performance of Northern Ireland farms and that focusing on this issue could lead to significant improvements in profitability.

There is also a need for much better information flow between producers and processors. Given the lead times involved, particularly in livestock based production, more needs to be done to guide farmers on the likely needs of the market up to two or three years ahead. In the current context of CAP reform and environmental restrictions, processors must also recognise that their local raw material supply base may be about to contract markedly, which could have major implications for their businesses. Planned production could offer significant benefits to all and greater use of production contracts may well have a role to play in this respect. Improved communication and openness between primary producers and processors may also help reduce the level of suspicion and mistrust which currently exists and which is a major drag on the development of the whole agri-food industry.

The experience gained in England from the implementation of the Policy Commission's report to establish the Food Chain Centre should be leveraged to the benefit of the industry in Northern Ireland.

Potential Gains From Supply Chain Development

Following the removal of livestock subsidies from 1 January 2005, our beef and sheep meat industry will be free to operate in a freer, more market-oriented manner. Farmers need urgent stimulation to achieve the massive improvement in cost efficiency that will be needed to replace the subsidy element of their income that is no longer attaching to livestock production. Programmes of technology development, benchmarking and rationalisation of production overheads will be needed at farm level.

The considerable over-capacity in red meat processing imposes a large cost burden on our industry which in the post-Mid-Term Review period will simply not be affordable and requires urgent intervention if we are to achieve even medium-term sustainability.

It is estimated by the LMC that, benefits of the order of £50 million per annum in potential cost efficiency improvements could be gained through an appropriate action programme.

There is an urgent importance in the removal of all export restrictions imposed by the Date Based Export Scheme and the Over Thirty Months Scheme. A comparative disadvantage within Northern Ireland relative to GB of £20 million per annum is inflicted on the industry due to the export ban. An LMC recent examination of the marketplace for over thirty month cattle would suggest that a further £10 million, at least per annum based on comparison of Republic of Ireland cow prices with OTMS cow prices is available if the export of cows could be added to the export of under thirty month animals.

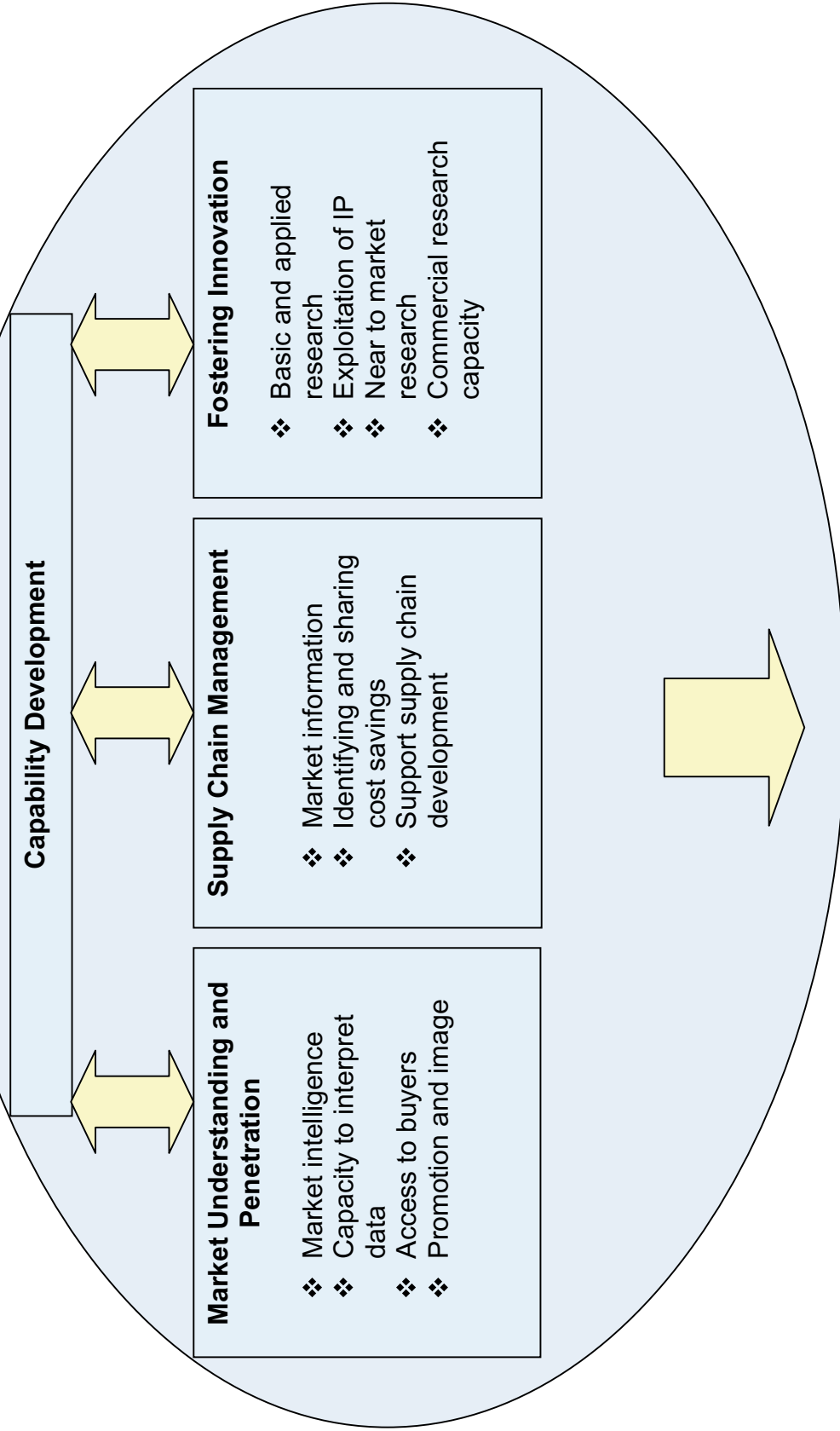
(D) Capability Development

Capability development relates primarily to the skills and competences of people hence, this last broad policy theme overarches the previous three. Market understanding and penetration, innovation and supply chain integration will all be driven forward by having appropriately qualified, motivated and rewarded people. Therefore, skills development will be a key issue and Government has a major responsibility to ensure that the necessary education and training infrastructure is in place and is properly resourced. However, the industry will also need to take a proactive role in working with Government to ensure that the education and training provision is in keeping with its current and anticipated needs. The industry must also be prepared to invest in training on an on-going basis and implement programmes of life-long learning which are closely aligned with business needs and contribute to bottom line profitability. The FSG sees particular value for the sector in industry-based training.

The implementation of this strategy imposes significant leadership demands on the industry, which must be complemented by a positive and supportive response by Government. Both industry and Government have distinctive but related responsibilities. The industry must develop and display strategic leadership and ambition. This will provide the essential impetus to deliver the required Transformation of the industry and help set it apart from its competitors. Equally, Government must be prepared to respond positively to this ambition through necessary support measures and structures. Annex 4, summarises an approach to these respective roles.

The following diagram attempts to represent the overall Transformation strategy, the policy priorities, which will drive it forward and the measurable outcomes that will emerge.

Transformation



8. IMPLEMENTATION – Consideration of the Options:

There is a clear emphasis emerging from the work of the FSG, from the input received from stakeholders, from policy makers and from Government that action is vital. The FSG gave consideration to a range of public policy delivery models. A total of seven options were considered in detail and in the context of the analysis set out below.

8.1 Existing Arrangements

In the current environment it is clear that:

- policy development is located in many Government Departments.
- implementation of policy is relatively uncoordinated.
- domestic marketing is uncoordinated and lacks any unifying themes.
- there are an excessive number of public and private bodies associated with the industry.
- some financial instruments are not being fully utilised.
- there are many decision points in securing financial support from the public sector.
- organisations, such as Food From Britain, Trade Partners UK and Bord Bia are not being fully leveraged and opportunities for co-operation are not being developed.
- there is no overarching budgets for the development of the industry, and
- responsibility for delivery is defused.

8.2 Models Reviewed

A summary of the assessment by the FSG of the alternative options for delivery is set out below:

Model 1: Maintain the current arrangements.

Comment: This would require no change but would not be supportive of the proposed strategy.

Model 2: Introduce a closer degree of coordination particularly between DARD and DETI.

Comment: This would build on recent developments but would be a relatively moderate approach to the issue.

- Model 3: Create a new body to focus on the market development issues of the industry.
- Comment: This would create a focus on the market development issues, would be supportive of the one thrust of the strategy but might isolate the marketing issues from the other development issues facing the sector.
- Model 4: Establish a Food Strategy Implementation Partnership, which would be industry led and would provide oversight to driving the implementation of the proposals in this report.
- Comment: This would be supportive of the strategy, would provide impetus in the immediate short term, would give a strong voice to industry but would not alter the current delivery model fundamentally.
- Model 5: Establish an advisory body as in Model 3 and transfer firm-specific support actions from DARD to Invest NI.
- Comment: This would be supportive of the strategy but could fragment the approach to supply chain development.
- Model 6: Establish a single Food Industry development organisation into which the relevant functions of DARD and Invest NI, in the areas of applied research, supply chain development, company support, marketing /innovation/ capability development, would be placed.
- Comment: This would be supportive of the strategy but would however require major changes in legislation and has the risk of inaction on implementation until all of the re-organisational issues are finalised.
- Model 7: Incorporate into the body referred in Model 6, the new NDBP, which it is proposed to establish following the acceptance of the O'Hare Report.
- Comment: This would be supportive of the strategy, however it would see the creation of a very large organisation and would offend the principle established in O'Hare and accepted by Government that the buyer of a service and the provider should not be located in the same organisation.

8.3 Assessment of Options and Proposals

It is the view of the FSG that options as set out in Models 1, 2 and 7 should not be pursued because they either, will not move the process forward or because the resultant organisation would have fundamental design faults. The FSG believe that options in the range 3 to 6 would contribute to the implementation of the strategy.

The FSG decided that it is essential to propose an approach, which would ensure early delivery of its policy proposals whilst keeping in mind the vision of an integrated approach to the sector in the longer term. Specifically, it proposes the following:

1. That there should be a “stepped” approach to the implementation of this strategy.
2. That in the longer term it envisages an integrated, joined up and efficient delivery system, to proactively support the development of the agri-food sector.
3. That a Food Strategy Implementation Partnership (FSIP) with strong and active industry involvement should be established as an immediate first step to carry out the following functions:
 - Ensuring that there is continuing momentum following the Governments decisions on key policy recommendations;
 - To assign, assess and monitor delivery by implementation bodies;
 - To continuously focus on addressing areas of potential duplication in the delivery of policy;
 - To have reviewed within 2 years, the performance of the revised public policy delivery system and in light of experience and the long-term vision to develop proposals regarding structure in the medium-term.
 - To report directly to the Ministers on the above issues.
4. The establishment of an interdepartmental group of key public servants to give effect to key actions including the development of budgetary proposals in relation to the funding of initiatives in this report.

It is the view of the FSG that the Chairmanship of the Partnership must be a strong individual who is independent, who has substantial track record in the agri-food sector and who can provide leadership in the implementation process. The membership of the FSIP should be in the range six to nine and be industry focused. The FSIP should have a dedicated secretariat assigned to it to support its' activities.

9. RECOMMENDATIONS

The FSG is of the view that there is an urgent need to take action to build on the momentum, which has emerged during the consultation process. This is of prime importance. In addition, we consider that there should be an openness to the capacity of the delivery system for public policy to evolve. The application of our recommendations will need to be customised to reflect the particular needs of companies of varying scale.

Our recommendations recognise the actions necessary to address challenges under the various functional areas and assign time frames for them:

- a) those requiring immediate action;
- b) those to be actioned immediately but with medium term impact;
- c) an approach to implementation in the short term; and
- d) an approach for the medium term.

The start dates referred to below are linked to Government consideration and approval of the report.

a) **Immediate Action (Planning to be initiated immediately, delivery to take place in F/Y 2005)**

- **Market Understanding and Development**

1. A promotional strategy for Northern Ireland agri-food should be developed comprising:
 - (a) A coordinated domestic marketing campaign designed to highlight and reinforce the consumption of locally produced food through retail and food service channels. The detail of this campaign should be developed and agreed between producers, processors, retailers and food service operators across a range of product lines and should be linked to:
Regional foods;
Local food festivals; and
Tourism promotion initiatives.
 - (b) A long-term programme of adapting the image of the Northern Ireland food industry in a small number of key international markets, including GB. This needs to be built upon the findings of comprehensive market research into Northern Ireland's current image and the opportunities arising from appropriate market positioning. Where appropriate the image building process needs to be dovetailed with tourism image development. The Group does not recommend the creation of a Northern Ireland product brand.

2. An active programme of developing market intelligence should be launched for key target markets and combined with an enhanced programme of focused market buyer introductions. Linked to this, a training programme should also be developed to enhance the capability of key personnel, particularly in SME's, to interpret and exploit the findings from the market intelligence programme.
3. A small team of market development professionals should be put in place to provide support for Northern Ireland firms, especially SME's, wishing to grow their presence in key markets.
4. The active engagement by Food From Britain (FFB) with Northern Ireland firms should now happen, including the assignment by FFB of an executive with specific responsibility for working with NI firms. Collaborative working arrangements with like-minded organisations such as the Welsh Development Agency (WDA), Scottish Enterprise and Bord Bia should now be activated. There should be particular focus on identifying how the cost of market research could be shared.

- Fostering Innovation

5. Priority should be given to Government co-financing of near to market innovation carried out by individual companies. Innovation includes new product development, packaging and process improvement. The nature of this support should be tailored to the particular circumstances and developmental stage of each company and existing support programmes should to be adjusted to meet these requirements. The opportunities for collaborative research by SME's should also be pursued.

- Supply Chain Management

6. The flow of information on market developments referred to in Recommendation 2, should be provided proactively and systematically to producers as well as processors in order to promote a common understanding of market trends and opportunities.
7. A fund should be established by Government to co-finance the establishment of supply chain management initiatives by processors and producers across a range of sectors. This fund should be accessed through competitive tendering by different industry groupings and the structure of the initiative should facilitate the participation of the smaller agri-food sub-sectors.
8. The Food Chain Centre, (FCC) initiative in England arising out of the Curry Report has much to commend it and could be leveraged to the benefit of the industry in Northern Ireland. Northern Ireland should now seek to gain access to the methodology developed and experiences gained by the FCC initiative, including the work underway to recast public procurement guidelines. Analytical tools, such as Benchmarking and Value Chain Analysis (VCA) should be used as part of the process to identify how the industry as a whole can improve its' competitiveness.

- Alternative Employment Opportunities

9. Rural development policy at both a Northern Ireland and EU level is currently under review. Government must strive to ensure that this creates an enhanced environment for entrepreneurship and for the creation of alternative employment and diversification opportunities for farmers. The entry/eligibility criteria for some existing schemes act as a barrier for some farmers who wish to develop alternative business proposals. This issue needs to be resolved as a matter of urgency and a proactive approach to diversification proposals adopted.

b.) Immediate Action with Medium Term Impact (Planning during year 1 and commencement of implementation before the end of year 1)

- Market Understanding and Development

10. A marketing challenge fund should be established against which groupings (vertical or horizontal) within the food chain could bid in support of specific food marketing projects (including feasibility studies). This would exclude capital funding.

- Fostering Innovation

11. A particular emphasis should be placed on investing in technologies at the basic and applied levels, which support the exploitation of the rapidly expanding functional foods market. In this context, collaborative research opportunities should be pursued with research institutions on the island of Ireland as a whole and beyond.

- Supply Chain Development

12. Opportunities for SME's to share production facilities should be actively explored and, where appropriate, supported with fixed asset grants.

- Capability Development

13. The views and requirements of the agri-food industry need to be reflected in the relevant course and curriculum development work being undertaken by the Higher and Further Education sector to ensure the provision of appropriately skilled and qualified young entrants to the industry.
14. An active, cadetship programme aimed at attracting top quality people into the industry including graduates, with an orientation towards the disciplines of marketing, selling and new product development should be initiated. This should build upon the existing successful models, such as Explorers or Premier Programmes and should involve formal training including a significant level of overseas experience. The purpose of this is to develop a cadre of market-orientated, innovative people who will make a significant contribution to Northern Ireland firms in the medium term. The Programme should provide independent accreditation in a management discipline.

15. A comprehensive programme of training and mentoring for owner managers from the food sector should be initiated covering all aspects of business management and performance. This should be targeted at businesses with greatest growth opportunities and result in the development of a strategic development plan for the business.
16. A specific programme of formal training in innovation management, modulated to the specific needs of varying categories of firms, should also be established.
17. An active, life-long learning programme should be established, focused on SME's and producers, to deepen their knowledge and understanding of the changes, which are occurring in consumer behaviour and in food industry channels so that they can enhance their ability to anticipate and respond to evolving demands.

- Alternative Employment Opportunities

18. There needs to be a more supportive planning policy in respect of new on-farm business ventures and the industry and the sponsoring departments should engage with Department of Regional Development (DRD) on this issue.
19. There should be a continuation of the current PEACE II measures aimed at helping farmers obtain alternative employment through identifying skills and needs, reskilling/upskilling and assisting with obtaining supplementary employment or undertaking diversification projects.

c.) Implementation in the Near Term

20. A Food Strategy Implementation Partnership (FSIP) should be established, as an immediate first step, comprising of (six to nine) individuals who are experienced in the agri-food sector to provide oversight to the implementation of the strategy. The FSIP should be led by a strong independent chairperson, who is highly knowledgeable of the agri-food sector as a whole and have a secretariat assigned to it to support it in the execution of its' activities. The Partnership should have the capacity to assign responsibility to relevant governmental organisations for deliverable actions and report directly to Ministers as appropriate. In addition a group of senior public servants should be established to give effect to assigned actions as well as the development of proposals for funding requirements. The FSIP should have a strong connection with the advisory body to be established in relation to the proposed NDPB, Agri-Food and Biosciences Institute, (AFBI).
21. Additional funds need to be provided by Government from 2005/6 to support the implementation of this strategy (e.g. to fund the provision of market intelligence, the development of the domestic market /regional foods promotion activity, the cadetship programme and the engagement with the Food Chain Centre).

22. It is recommended that a Food Directorate now be established in Invest NI.
23. It is recommended that the resources within DARD and its' related agencies should now be mobilised to actively engage in the implementation process.

d.) Medium Term

24. Funding for the implementation of food related programmes should not be placed at a disadvantage compared with facilities on offer to other exposed sectors, but rather should reflect the importance of the Agri-Food sector and the potential it has to contribute to the future of the Northern Ireland economy.
25. An overarching budget should be established in relation to the development of the food sector, from which all relevant initiatives should be financed.
26. The funds currently controlled by DARD and Invest NI, in relation to applied research should be merged into a single fund.
27. The allocation of applied research funds should take place on a competitive tendering basis, as should the provision of funds in support of supply chain initiatives on a sectoral basis.
28. The priority for direct funding to individual companies should be focused on marketing, innovation and people development. Support for fixed assets should continue in the context of competitive offers available from alternative locations.
29. In relation to targets, the focus in the near term, Year One, should be on the planning and launching of the key initiatives set out in the report. However clear and measurable impact targets must be set to drive and ensure coherence in the execution of the strategy. The key target should be defined in terms of sales outside of Northern Ireland with special emphasis on sales off the Island of Ireland.
30. In addition, gross value added, return on capital employed and new jobs generated should be tracked closely as a means of gauging the extent to which the sector is contributing to the overall development of the Northern Ireland economy.
31. The nature of the delivery of public policy in relation to the development of the agri-food sector should have the capacity to evolve from existing arrangements in the light of circumstances including the efficient use of public funds, the number of agencies currently active and the current review of public administration. The long-term vision is for an integrated joined-up approach for the development of the sector. The FSIP will review within two years, the performance of the revised public policy delivery system and in light of this experience and the long-term vision set out in this report, develop proposals regarding delivery structures for the medium term.

FOOD STRATEGY GROUP:TERMS OF REFERENCE

1. Background.
2. Scope.
3. Operational Terms of Reference.
 - 3.1 Food Supply Chain Issues.
 - 3.2 Strategic Leadership – corporate and regional.
 - 3.3 Marketing – Particularly in relation to export.
 - 3.4 Innovation.
 - 3.5 Consolidation and optimisation of current Food Sector structures.
4. Timeframe
5. Membership of the Food Strategy Group

FOOD STRATEGY GROUP

Terms of Reference

1. Background:

A number of reports have been published, regarding support for the Agri-Food Sector in Northern Ireland, the most recent of which was produced by the Department of Agriculture and Rural Development, Vision Steering Group. A number of recommendations outlined in the Vision Report, published in 2001, were subsequently examined by a Working Group, which considered the need for a Northern Ireland Food Body, its potential composition, functions and funding. The Working Group recommended the setting up of a Food Body to examine supply chain issues and co-ordinate marketing activities. The Working Group's recommendations were issued for consultation, with key stakeholders within the Agri-Food Sector. The subsequent analysis of the consultation responses revealed a lack of consensus about the nature of a Food Body in Northern Ireland. However, a majority of responses indicated that improvements could be made within the sector. The need for an integrated DARD/DETI support strategy for the Northern Ireland Agri-Food Sector was also highlighted.

In response to these concerns the Minister has decided to establish an industry led Food Strategy Group to develop a long-term plan for the development of the Food Sector in Northern Ireland.

2. Scope:

To provide recommendations to the Minister(s) responsible for DETI, Invest NI and DARD, in the form of a report by Autumn 2004, to develop and shape the implementation of a broadly based strategy for the growth of the Northern Ireland Agri-Food Sector. This advice should consider 6-Key Principles, (best in class, enterprising and outward looking, integrity, supply chain excellence, innovation and investment) to advance a new Strategic Vision for the Food Industry within Northern Ireland. The Food Strategy Group will recommend the establishment of key objectives targets and timeframes to support the short term and long-term progress of the Industry, particularly focusing on specifics, such as Global Trading Conditions and EU Cap Reform, which will shape the industry significantly over the next decade.

3. Operational Terms of Reference: -

To provide direction, support and advice on:

3.1 Food Supply Chain Issues.

3.2 Leadership – Both corporate and regional.

3.3 Marketing – Particularly in relation to exports.

3.4 Innovation.

3.5 Consolidation and Optimisation of current Food Sector Structures.

3.1 Food Supply Chain Issues.

Develop and advise on a strategy to engage all the key stakeholders in the food chain to influence the use of commercial and government resources for marketing and supply chain development activities, in conjunction with a recommendation of how to direct the facilitation of the free flow of information throughout the Food Chain.

3.2 Leadership – Corporate and regional.

Recommend a strategy to develop strong visionary leadership, both corporate and regional, to ensure the sector is dynamic and responsive to emerging opportunities and threats at home and abroad.

3.3 Marketing – Particularly in relation to exports.

Provide guidance and direction on the infrastructure required to maximise market opportunity and optimise existing marketing activities. Advise on building collaborative relationships with key customers.

3.4 Innovation and Entrepreneurship

Bring forward recommendations as to how innovation and entrepreneurship can be maximised to enhance product and process opportunities for the industry, utilising research and development, technology and knowledge transfer to deliver this. Advise on how a culture of innovation and entrepreneurship can be encouraged to deliver new products and processes to meet customer demand and maximise added value.

3.5 Consolidation and optimisation of current Food Sector Structures.

Review all existing public and private arrangements. Recommend a framework to enhance coordination and optimisation of effort within the Agri-Food Industry.

4. Timeframe:

The Food Strategy Group is anticipated to conclude its' activities with the presentation of a final report to the Ministers by Autumn 2004.

5. Membership of the Food Strategy Group:

Chair:	Dan Flinter	Former Chief Executive; Enterprise Ireland
	Owen Brennan	Chairman; Livestock and Meat Commission
	Trefor Campbell	Managing Director; Moy Park
	David Dobbin	Chief Executive; United Dairy Farmers
	Chris Gibson	Businessman
	Eleanor Gill	Chief Executive; General Consumer Council
	John Gilliland	Former President; Ulster Farmers Union
	Rotha Johnston	Director; Variety Foods
	Paul Kerr	Chairman; Northern Ireland Seafood
	Robert Moore	Director; Lean and Easy
	Robert Watson	Chairman; Hilton Food Group
	Clarke Black	Chief Executive; Ulster Farmers Union (21 May – 7 July 2004)
	Tony McCusker	DARD Observer
	Terri Scott	Invest NI Observer

OVERVIEW OF THE NORTHERN IRELAND AGRI-FOOD SECTOR

Figure 1: Northern Ireland Agricultural Output, 2003

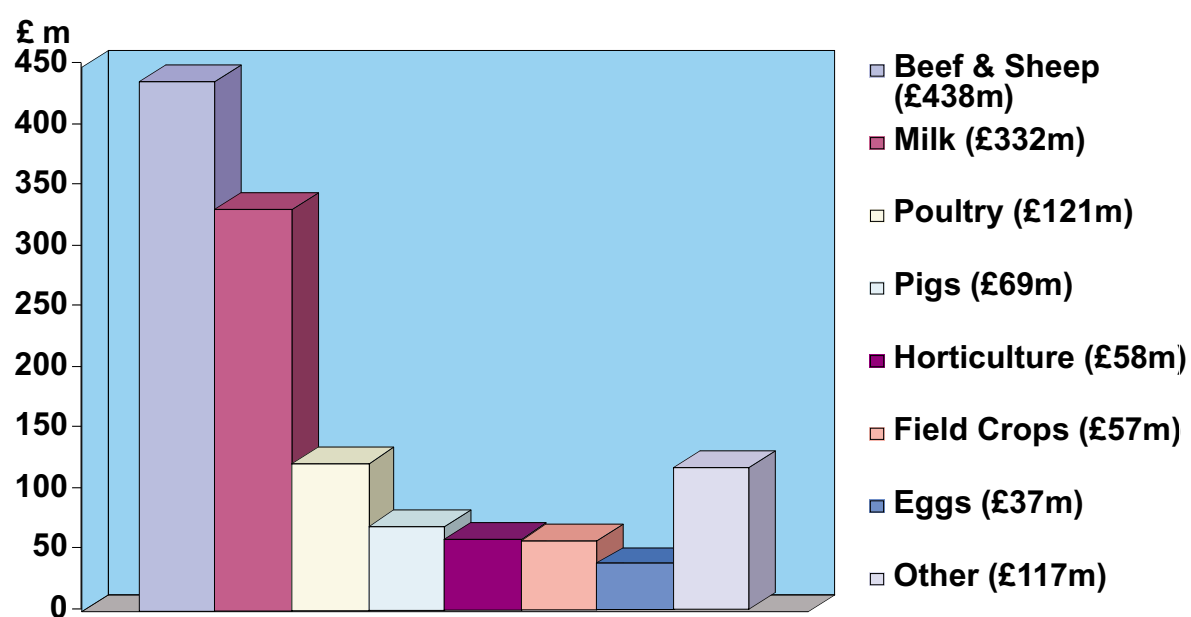


Figure 2: The Changing Face of Northern Ireland Agriculture

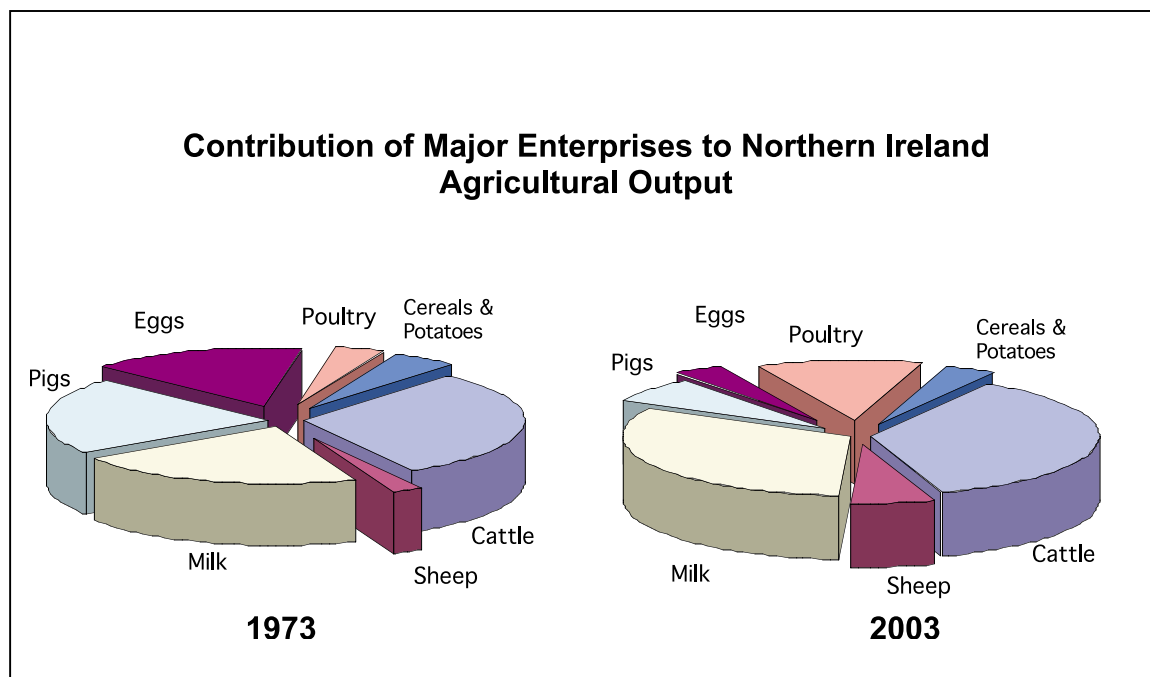


Figure 3: Total Income From Farming in Northern Ireland, the Republic of Ireland and the UK in Real Terms, 1990-2003

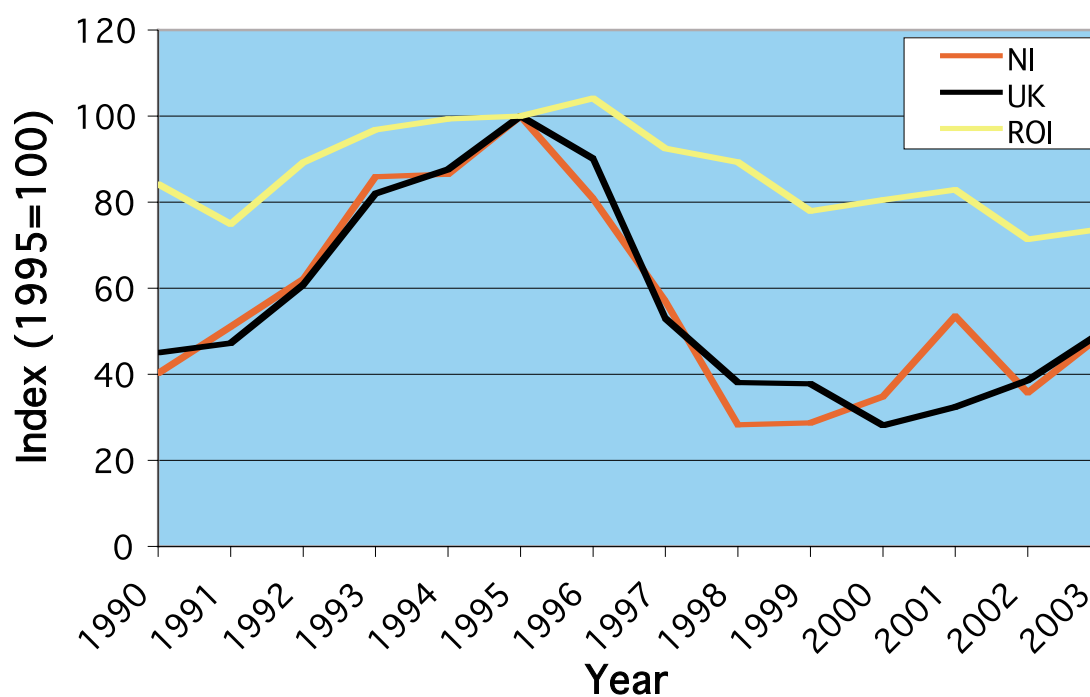


Figure 4: Changes in Northern Ireland Farm Sizes, 1993-2003

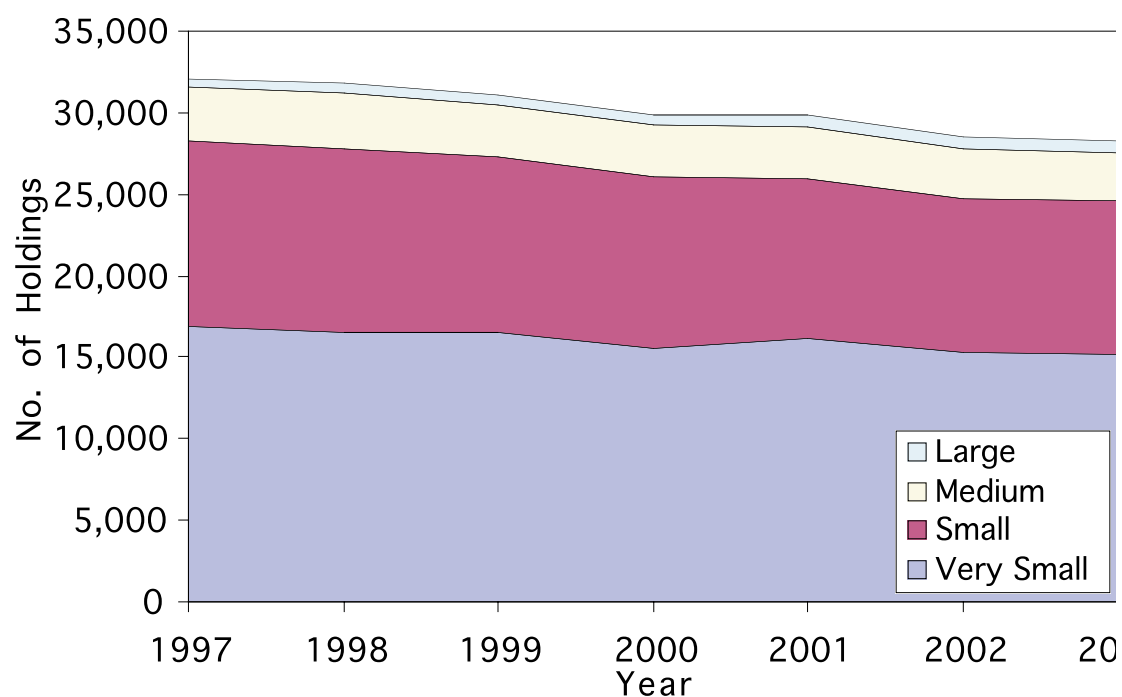


Table 1: Average Enterprise Sizes in Northern Ireland, the UK and EU15

Enterprise	Northern Ireland ¹	United Kingdom ²	EU15 ³
Dairy Cows (head)	61	75	28
Beef Cows (head)	19	26	18
Sheep (head)	252	404	144
Pigs (head)	794	538	139
Laying Birds (head)	1,936	1,158	236
Broilers (head)	38,356	36,192	825
Cereals (ha)	11.0	54.8	13.9
Potatoes (ha)	6.2	11.1	1.6

1. 2003 data

2. 2001 data

3. 2000 data

Figure 5: Age Profile of Principal Farmers in Northern Ireland

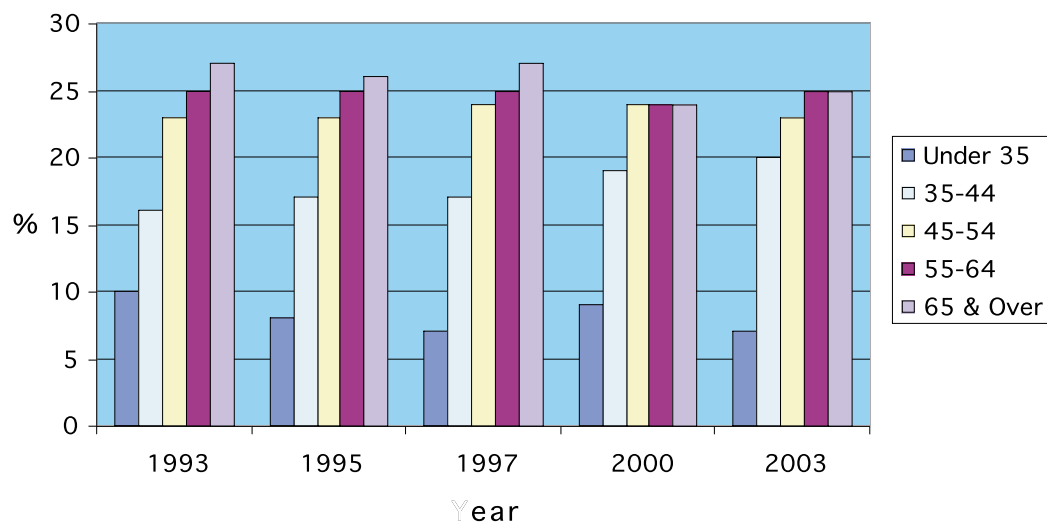


Figure 6: Age Profile of Principal Farmers in Northern Ireland According to Size of Holding, 2003

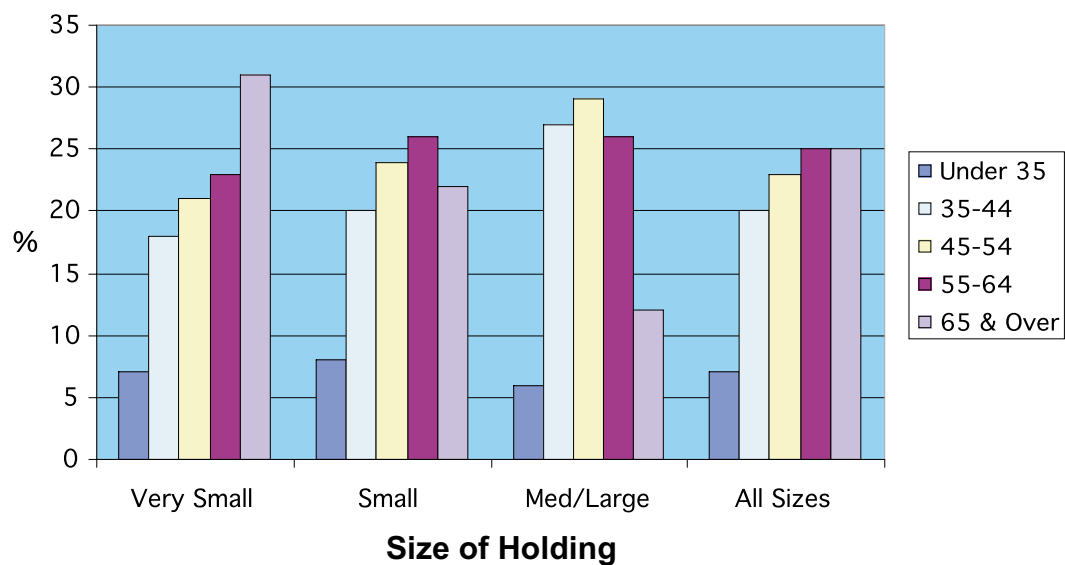


Figure 7: Number of Companies by Turnover in the Northern Ireland Food and Drinks Processing Sector, 2001

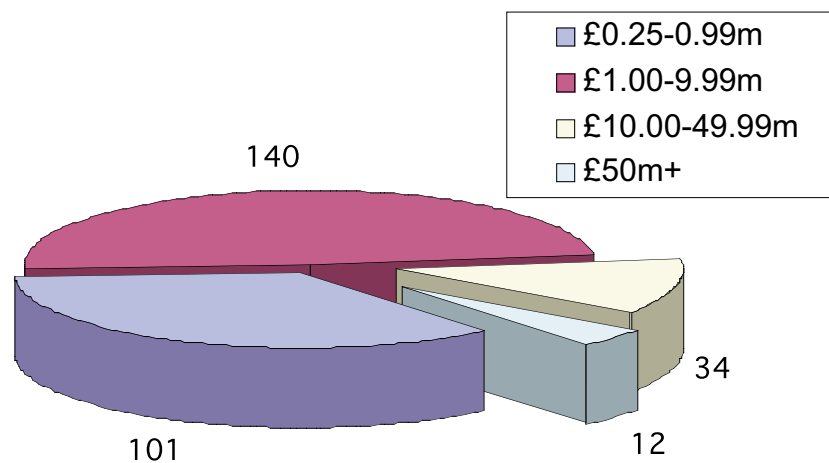


Figure 8: Gross Output of the Northern Ireland Food and Drinks Industry, 2001 (£ million)

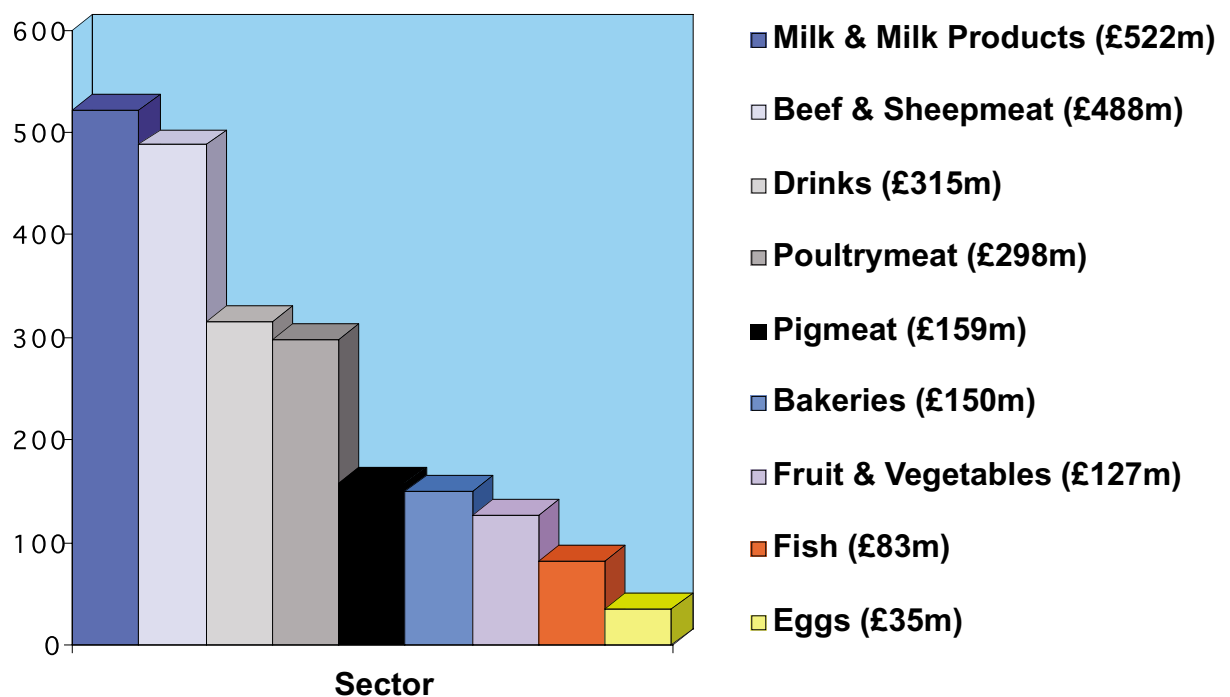


Figure 9: Annual Rates of Return on Capital Employed in the Food Sector, 1989-2001

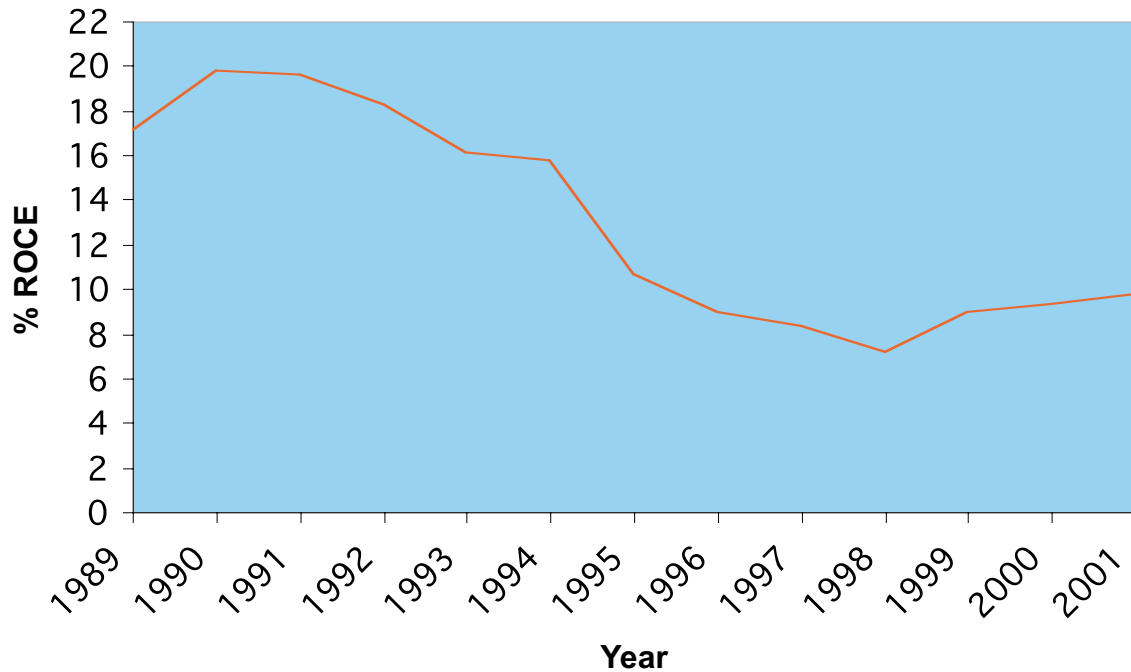


Figure 10: Annual Rates of Return on Capital Employed in the Milk and Milk Products, Beef and Sheep meat, Drinks and Poultry meat Sub-Sectors, 1989-2001

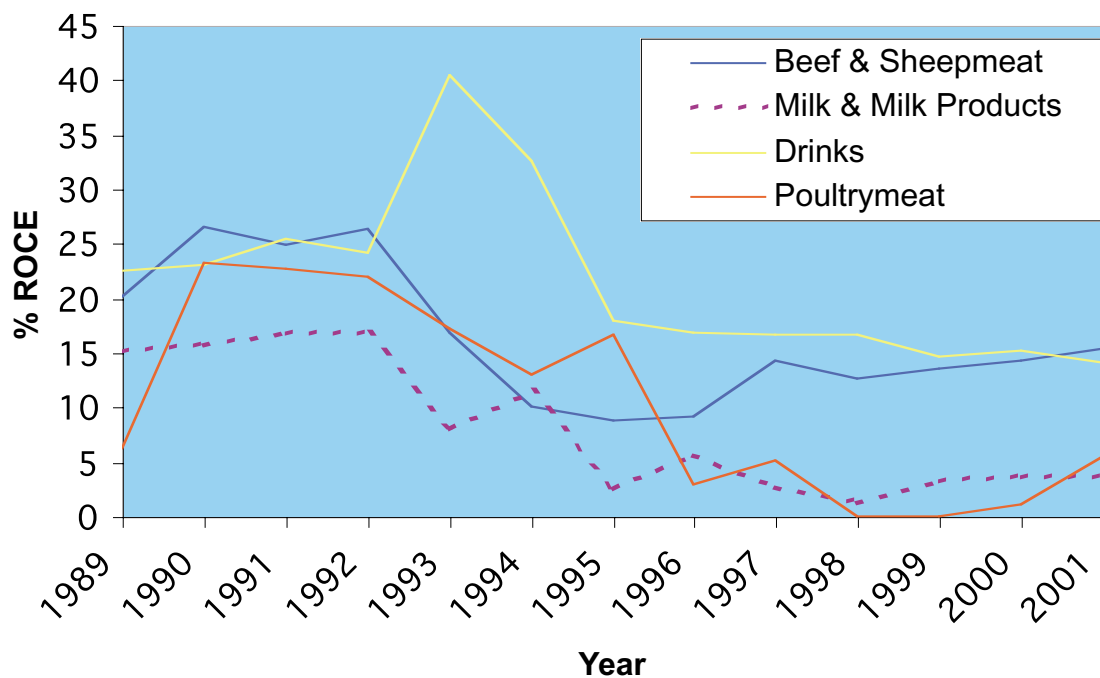
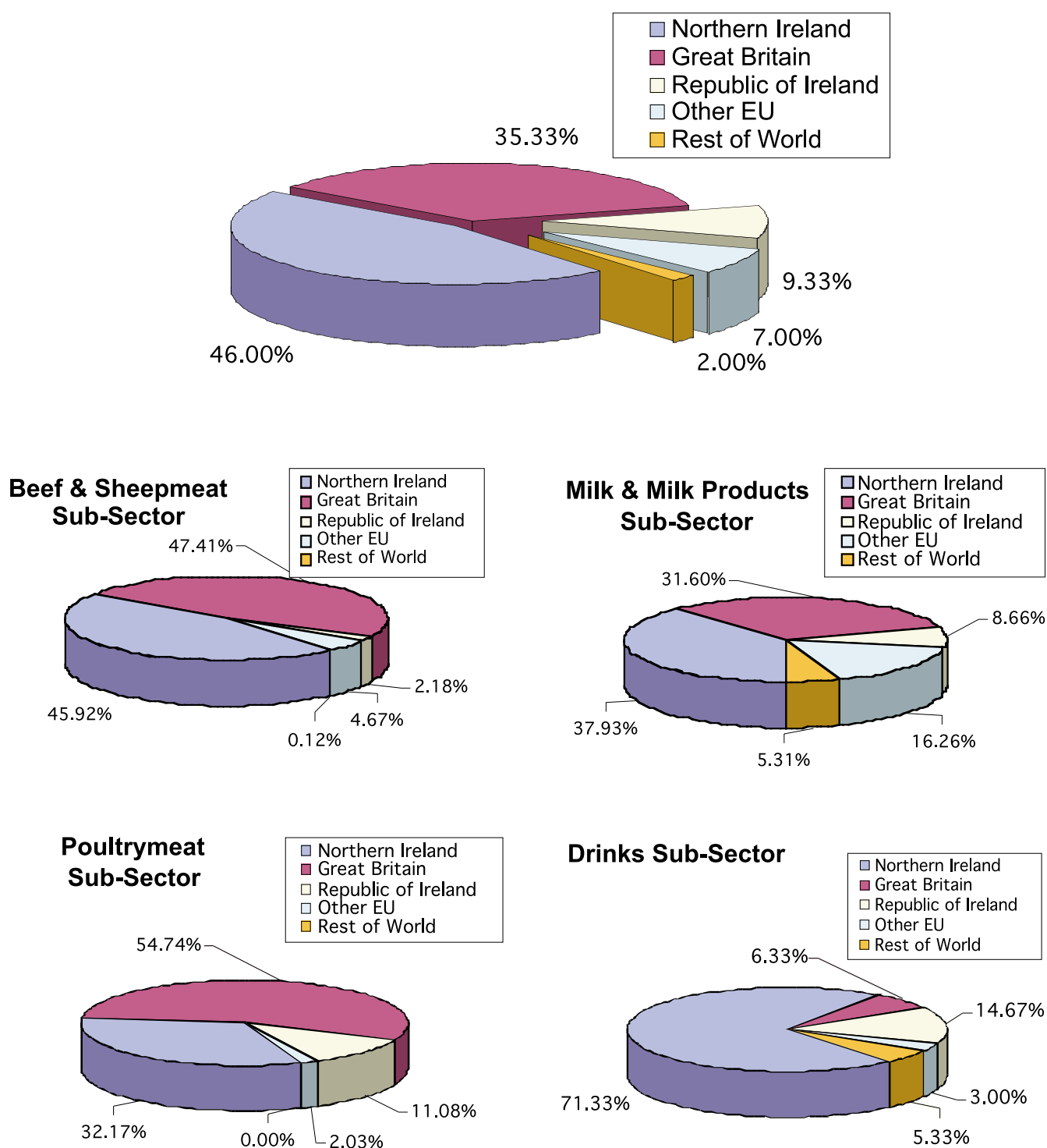


Figure 11: Market Destination for the Northern Ireland Food and Drinks Processing Industry (Average 1999-2001, %)



Figures contained within Annex 2 have been obtained from a number of sources including, DARD, DETI and Invest NI

SUMMARY OF ORGANISATIONS AND INDIVIDUALS WHO, PROVIDED INPUT TO THE FSG CONSULTATION PROCESS.

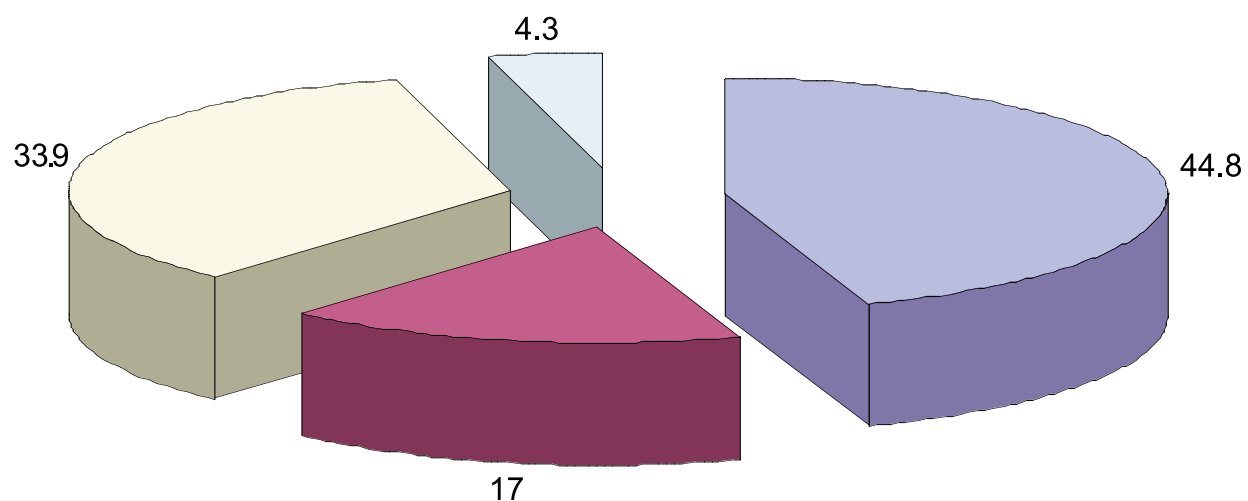
Brake Brothers
Sir Don Curry
Disability Action
Fairway Food Service
Food and Drink Training Council
Food From Britain
Fruit Industry Federation
General Consumer Council
Growers (NI)
Language Network - Northern Ireland
Livestock and Meat Commission
Marks and Spencer
Musgrave/Supervalu/Centra
Mushroom Industry Association of Northern Ireland
Newry and Mourne District Council
Nestle
Northern Ireland Dairy Association
Northern Ireland Dairy Council
Northern Ireland Fishing Harbour Authority
Northern Ireland Food and Drink Association
Northern Ireland Meat Exporters Association
Northern Ireland Seafood
Safeway/Morrisons
Sainsbury's
Taste of Ulster
Tesco
Ulster Farmers Union
Ulster Pork and Bacon Forum
Welsh Development Agency

INDUSTRY RESPONSIBILITY - GOVERNMENT ROLE

INDUSTRY RESPONSIBILITY	GOVERNMENT ROLE
A. Market Understanding and Penetration	
- Providing leadership and ambition	- Supporting market intelligence mechanisms and structures
- Actively engaging in the market	- Facilitating the development of relationships with buyers
- Investing in marketing capabilities	- Promoting market understanding
B. Fostering Innovation	
- Investing in research and innovation	- Investing in relevant research with a commercial outcome
- Engaging with Government in the setting of research priorities	- Engaging with industry in setting research priorities
- Exploiting publicly funded research	- Promoting technology transfer
- Scanning the market for gaps and opportunities	- Promoting an innovation culture
C. Supply Chain Management	
- Restructuring	- Investing in benchmarking
- Driving out unnecessary costs	- Assisting cost competitiveness
- Sharing information	- Promoting communication within the chain
D. Capability Development	
- Investing in people development	- Ensuring the provision of a commercially focussed and supportive education and training infrastructure
	- Supporting the development of graduates and middle managers

FLOW OF FUNDS

**% Funding to Processors over the Period
1999-2003 (Total - £81m)**



- Selective Financial Assistance (Invest NI)
- Processing and Marketing (DARD)
- Research and Development (Invest NI and DARD)
- Other

