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Wednesday, 18th November 2009

Dear Ms Rose,

RE: Northern Ireland Food and Drink Association (NIFDA) response to the Independent Review of Economic Policy (IREP) by Professor Barnett (Sept 2009) report.

Introduction

Northern Ireland Food and Drink Association Ltd (NIFDA) is the voice of the local Northern Ireland Food and Drink Manufacturing Industry. NIFDA represents over 80% of the turnover of the Industry.

This is Northern Ireland's largest manufacturing industry sector and most significant exporter.

NIFDA has publicly congratulated Minister Foster for undertaking this initiative, our Chairman said recently in a speech to the First Minister:-

"Our overall response to the IREP Report is generally favourable and we agree with many areas. However, there are some fundamental problems with the analysis which we need to highlight. We completely agree with the Executive's goal of halving the private sector productivity gap by 2015. However, we believe that the IREP report undervalues the contribution made by indigenous industry including the food sector. Also as a largely food exporting industry rather than a supplier to the domestic market, the NI Food and Drink Industry has got a specific set of productivity drivers which are different to other sectors. We must ensure that we compare on a like for like basis i.e. Food and Drink Northern Ireland against Food and Drink South East of England and Scotland." (Appendix; A)

IREP contains only 17 references to Food in 270 pages, surprisingly scant mention of Northern Ireland's most significant Industry. NIFDA believes that important issues have been missed or incorrectly weighted. NIFDA is very concerned that our members may be disadvantaged, and their competitiveness damaged versus other neighbouring regions if all of the IREP recommendations are applied. NIFDA is aware of and fully supports the

Business Alliance (BA) response to IREP. (NIFDA is a member of CBI NI.) NIFDA sets out its views below and is grateful for the opportunity to do so. These highlight Food and Drink specific issues.

Strategy

In September 2007, the Prime Minister commissioned the Cabinet Office Strategy Unit to undertake a major project on food and food policy. That report was: - **Food Matters: Towards a Strategy for the 21st Century** (7th July 2008). (*Appendix; B*)

NIFDA was one of only two Northern Ireland bodies that fed into this seminal strategy paper. The fact that central Government is now actively considering Food security against a background of Climate change and society's health is vital in NIFDA's view. The report states:-

"The food system faces a series of future challenges in relation to:

- economics and equity - recent increases in global commodity prices have brought to an end the long-term decline in the price of food, and few expect food prices to return to past lows;*
- health - an estimated 70,000 premature deaths in the UK could be avoided each year if UK diets matched nutritional guidelines;*
- safety - the food that we eat in the UK is safer than it has ever been but continuing vigilance is needed to minimise food contamination; and*
- environment - the food chain has huge environmental impacts (around 18% of UK greenhouse gas (GHG) emissions are related to food production and consumption)."*

"The Government's vision for the food system is one that is more sustainable - economically, socially and environmentally. The future strategic policy objectives for food should be to secure: fair prices, choice, access to food and food security through open and competitive markets; continuous improvement in the safety of food; a further transition to healthier diets; and a more environmentally sustainable food chain".

NIFDA wholeheartedly agrees with Government's vision. The above report however, also paints a stark picture of the current failings of the food and farming system, damaging both the environment and individuals' health.

It is imperative that Government recognises that NIFDA members are the solution to these problems, not the cause.

NIFDA recognises that the market alone will not provide a more socially and environmentally sustainable food and farming system and calls for a

effective food strategy task force, similar to the one set up by DEFRA. NIFDA would welcome being part of such a task force.

NIFDA has campaigned for a cohesive strategy for Northern Ireland Food and Drink for fifteen years. We have had *Strategy 2010 (published March 1999)*, *Vision (2000)* and *Fit for Market (2004)* reports, into all of these NIFDA made significant responses. NIFDA worked with and supported the **Food Strategy Implementation Partnership (FSIP 2005-7)**. Most recently NIFDA has supported the formation of the **Industry Advisory Panel (IAP 2008)**, but would reiterate that this was seen by the whole Industry as sub-optimal solution. Perhaps the DEFRA Task Force model mentioned above is worthy of closer consideration.

NIFDA hopes the Partnership approach will be used to develop a successful strategy.

"I specified that the Strategy must be created by the public and private sectors working together. I also said that the Strategy should create partnerships that will continue after the Review process is completed, into the era of implementation. I am pleased to be able to confirm that the partnership approach has been at the heart of the process by which the Strategy proposals have been developed."

The Rt Hon ADAM INGRAM JP MP, Minister of State (Strategy 2010)
(Appendix; C)

NIFDA believes a coherent strategy is a vital foundation to allow meaningful allocation of resources and is surprised that one has not yet been published for Northern Ireland, some fifteen months after the Cabinet Office publication. Such a strategy should include the issues raised by the Cabinet Office Strategy unit and key performance indicators that will capture and reflect economic, social and environmental performance of the Food and Drink industry in Northern Ireland.

NIFDA seeks to set ambitious growth targets for 'NI Food and Drink plc' to capitalise on our core strengths, build on our Agri-food infrastructure and embrace the positive elements quoted by IREP and others. This is a clear opportunity for NI to fast track our existing key strengths to deliver real benefits for all. The global food market is growing; there is a short term currency advantage; NIFDA believes that building on our existing capability platform NOW will allow access to significant market share.

In NIFDA's view the indicators are not purely the standard Key Performance Indicators (KPI) listed below:

- Return on Capital Employed - a strong indicator of overall economic performance as determined and influenced by the managerial capabilities and actions within the sector

- Productivity - a measure of output achieved for a given level of input which will be measured for labour (gross value added per full time employee) and capital (gross value added for £1000 of capital employed).
- External sales as a percentage of total turnover - a more stable measure of export performance than simple tracking values.
- Quality of employment as measured by average salaries

Rather account must be also be taken of the holistic 'halo' effect across our society and environment. NIFDA feels some robust measurements of these must be included.

To allow stable long term Industry development would ideally require a twenty year plan. This is a recommendation of the Cabinet Office Report.

Structure

IREP states (Executive summary point E3) that the productivity is low in agriculture, transport and distribution. These have a major impact on food and drink manufacturing and in view of the scale of Northern Ireland Food and Drink Industry must be a priority for the assigning of resources. An emphasis on exporting sectors is indeed the logical place to begin a process of reforming economic policy in Northern Ireland. NIFDA members are amongst the biggest exporters in manufacturing and in fact Food and Drink is the biggest export out of Northern Ireland. We must therefore build on this. IREP has not made any comment on agricultural efficiency development and yet 60% of Northern Ireland Food and Drink Manufacturing output is built on local agricultural inputs.

The metrics used in the IREP are not fully reflective of Food and Drink; therefore, we would argue that Food and Drink must be looked at as a separate case from other industrial sectors. The multiplier effect of Animal Feed, Agriculture, Transport, Hygiene, Packaging and the demographic footprint of Industry are underestimated in NIFDA's view.

Food is not one homogeneous Industrial sector. It is a diverse group of Food supply chain related Industries. NIFDA understands this and the complexities of the dynamics between the sectors. NIFDA congratulates Invest NI for recognising this complexity. This led to the formation of Food Division, which NIFDA believes has produced benefits. IREP does not discuss this despite this being Invest NI's only sector specific team.

Resilience

Food and Drink has been relatively resistant to the current down turn and in fact the latest statistics for the sector are strong, showing turnover and margin growth in 2008. *(Appendix; D)*

As Minister Michelle Gildernew MP recently commentated: *(Appendix: E)*

“The increase in turnover between 2007 and 2008 is very encouraging and illustrates how robust the local food and drinks sector is. This is very encouraging, particularly given the economic climate and the impact of the recession upon business performance more generally. The figures illustrate that the food and drinks processing sector is well placed to weather the current economic downturn better than other sectors. These figures also demonstrate that the food and drinks processing sector is a most valuable asset to the North’s manufacturing industry and economy.”

Whilst this performance is strong it hides the fact that much of the growth has been driven by rises in world commodity prices in early 2008. The Food Industry in Northern Ireland is fragile, margins are still very low, and external investors do not find it attractive. Development will require:

- Strategy
- Support
- Multi Agency Approach
- Consideration of off balance sheet costs (Environment and Social as well as Economic.)

Unique Issues

Food and Tourism

IREP does not consider Tourism beyond the role of Invest NI. This is in NIFDA’s view an oversight with regard to the Food and Drink Industry for Northern Ireland. Food Policies adopted by NITB towards the local Hospitality and Food Industry have a significant impact on the reputation and image of Northern Ireland Food and Drink.

That was recognised by the Industry with the recent creation of a new promotional body which has combined the *Taste of Ulster* initiative and *Northern Ireland Good Food is in our Nature* initiative.

Selective Financial Assistance (SFA)

The proposed tapering off of SFA will produce a competitive disadvantage against our competitors in neighbouring regions including ROI, Scotland and Wales. It is important that SFA levels are maintained at a similar level to competing regions, and are not tapered down.

We need a strategy to grow. (page 3) Northern Ireland is emerging from an extended period of dampened investment and growth due to the turbulence of the past 40 years. This is recognised by the rest of the world and the

recommendation to phase out SFA at this time is wrong. The Executive should immediately lobby Brussels and seek an extended transition to these new arrangements.

Indeed there is much to recommend that accelerated and enhanced support should be available now in order to assist 'NI plc' grasp the opportunity now presented, in the thrust for long term food security.

Support levels should be aligned, and indigenous industry and FDI treated in the same way, - along with support programs restated to recognise all companies regardless of turnover; - judgements where necessary, should be based on profitability, innovation and export potential.

NIFDA (in common with CBI NI and BA) supports the following recommendations, which could lead to a step change in economic activity, and productivity growth:

- I. A greater focus on R&D and innovation, a more ambitious and dedicated focus on exporting, and a greater focus on integrating Small and Medium sized Enterprises (SME's) into supply chains
- II. Providing Invest NI with greater operational freedom and the development of a more entrepreneurial culture, with a more enterprising approach, combined with an increased level of financial freedom to permit effective delivery of programs.
- III. A further streamlining of Invest NI support programmes combined with increased delegated authority limits
- IV. Support for DETI taking a leading role in the development of economic policy, combined with various proposals to improve governance and accountability arrangements, including the establishment of a permanent sub-committee by the First Minister and deputy First Minister, and Executive, to prioritise action on the economy and agree an economic strategy. As part of the review of Departments in the medium term we support the proposed merger of DEL and DETI, though parts of other Departments may also need to be included.
- V. A greater economic focus in the next Investment Strategy for Northern Ireland

The recruiting of highly skilled staff is a critical success factor to Invest NI fulfilling its role. The complexities of Food and Drink Manufacturing and the lack of Industrial experience in Invest NI staff is a barrier.

NIFDA reiterates its proposal for one year bi-directional secondments to the Food Industry and appropriate public sectors for key staff. This would greatly improve the understanding of the dynamics from each party and improve communications. Fast decisions can only be taken with a good understanding of the benefits and risks.

NIFDA believes this would allow an increase in Financial Authority with only very large projects going to DETI/DFM with the attendant economic analyses.

Local Economy

Indigenous Investment protects the local economy. This has a significant multiplier effect. The nature of Food and Drink Investments is long term with much of the capital being 'concrete'. With the lack of strategy mentioned previously, it is hard to understand how Foreign Direct Investment (FDI) can be targeted to strengthen the local base. Local companies tend to be smaller in nature.

Senior Managers, particularly in SME's are very pressured for time, so improving the efficiency of the interface will improve understanding of the sector. NIFDA will continue to work in partnership with Government to maximise our members' potential.

NIFDA is very concerned at the proposal for an increased role for local councils. Whilst we support the proposed reorganisation, the specialist knowledge required to understand the Industry is unlikely to be available at council level.

Research and Development (R&D)

More emphasis should be given to R&D products from the Food Industry that are fresh, healthy and have a high nutritional and organoleptic quality.

The 'evidence' from IREP states that most Companies are making too little use of the University and College resource available. IREP however has seriously underrepresented the R&D activity within the Food and Drink Industry. Much of this activity is commercially confidential and uses facilities outside Northern Ireland where greater expertise or faster response is available.

In March 2009 NIFDA staged the Northern Ireland Food and Drink Awards with highest ever entry level.

Food R&D is not the same as other sectors; it tends to be near market and incremental rather than revolutionary. Least cost manufacturing (LCP) is now as important than New Product Development (NPD).

Matrix (Sep 2008) states the following are priority areas. *(Appendix; F)*

- Leading Differentiated Foods
- Innovative Processing and Packaging
- Enhancing Consumer Knowledge
- Leveraging Computational Science
- Exploiting the multifunctional nature of agri-food and finding mechanisms to release the embedded energy in the sector

IREP makes reference to Matrix but does not make any further comment. NIFDA supports Matrix and agrees with its priorities.

An immediate priority is to take forward with some urgency prioritised actions from the MATRIX initiative.

Marketing/Promotion

NIFDA has lobbied for a coherent Marketing/Promotion strategy since 1996. The management of the Industry's reputation in Domestic and Export markets will be a critical success factor in the Future. IREP makes no reference to this despite Scotland, Wales, and Ireland placing significant emphasis on promotion and market intelligence. Effective development will require a joined up approach with Food Tourism, Domestic Food and Export Food messages aligned to achieve maximum effect and effectiveness.

Planning

NIFDA has been critical of the Northern Ireland planning service experience for our members for several years now. The planning system must be more responsive with faster processing times in line with competitor regions (especially in the case of strategically significant investments in waste management and renewable energy.)

NIFDA believes planning is currently a major economic impediment to growth and development.

Skills

IREP focuses solely on higher added value jobs. This focus on creating high added value jobs whilst laudable as a longer term objective ignores:

- The creation of a balanced mixed economy
- The potential resilience of those jobs. (E.g. Food and Drinks jobs are considerably more stable than other sectors.)
- The need for jobs for lower educational achievers as well as higher.
- The 'halo' effect of Food jobs supporting other parts of the supply chain.

NIFDA members have experience of lower educational achievers and some require remedial education to become employable. This needs addressed.

NIFDA believes that Government needs to pursue a mixed economy agenda: that is jobs for high and lower academic achievers. NIFDA believes realigning the education system to meet the anticipated

demands for higher skills within the economy, especially Science, Technology, Engineering and Maths (STEM) related skills will be necessary.

NIFDA strongly disagree with the IREP recommendation that Invest NI reduce its support for company training. This type of support will continue to play a major role in the continued development of the local workforce. Rather than look at a simple reduction we would suggest that consideration be given, as an absolute minimum, to a more focused approach to funded support for company training, potentially as the result of an independent analysis of skills needs, as advocated by DEL for SME companies. This would enable targeted funding to continue on the basis of need, with the advantage of a robust independent analysis of needs based on the future strategy of the company.

NIFDA supports a proposed Department of the Economy, consisting of parts of the current DEL and DETI departments. Given this will amalgamate departmental responsibilities, it is logical to suggest that the best way the preparation for STEM can occur is within a system that includes all strands of education under one body. This would assist a coherent approach that should ensure a smooth transition between the compulsory and further education sectors; (this is in no way a negative reflection on the current arrangements, but rather a wish to ensure that these are truly effective in the future.)

Environment

Food and Drink production; intensive, extensive, or based on imported materials has a significant environmental footprint. The Food and Drink marketplace has seen consumer driven, environment based, marketing positions (e.g. M&S Plan A) taken. NIFDA believes that sustainable and environmentally responsible production is now a significant marketing opportunity. Becoming one of the most sustainable Food producing regions in Western Europe is a goal that could have enormous economic benefits for Northern Ireland.

NIFDA believes there is a significant economic opportunity for NI Food and Drink to have the 'greenest credentials' in Europe. IREP however makes little reference whatsoever to the Environment or its potential.

NIFDA agrees with the *Food Matters: Towards a Strategy for the 21st Century* document that Food production should be looked at in a holistic manner. That is Social, Economic, and Environmental impacts viewed together.

NIFDA looks forward to building upon our £3bn sales achievement to date, in partnership with Government, to the benefit of our communities. NIFDA welcomes the opportunity to provide further input, and looks forward to working in productive and efficient partnerships.

On behalf of our members
Richard Moore
Chairman
NIFDA

Appendices.

A.) NIFDA Chairman Richard Moore's speech to the First Minister Peter Robinson at the 13th NIFDA Annual Dinner, held in the Ramada Hotel, Shaw's Bridge, Belfast on Thursday 15 October 2009.

"Our industry today is turning over more than £2.7bn. Of that, over 65% (£1.755bn) is exported outside Northern Ireland - £34 million every week. We employ 18,500 employees directly, but that is only us.

We are but one link in the Total Food Supply Chain that includes our colleagues in farming, haulage, storage, packaging and retailing. Collectively their activities support 115,000 jobs in Northern Ireland. We send invoices daily to all the major food retailers, caterers and ready meals manufacturers in UK and Ireland, and to many in Europe and beyond."

"This is Northern Ireland's most important, most critical Industry by any measure, and in the terms of any future programme for Government we hope that will be recognised.

The Food and Drink Industry has also been characterised by considerable resilience during the recession. While not insulated from the down turn in consumer expenditure, we certainly have not suffered anything like other sectors. Businesses here are poised to grow strongly - if we are coming out of recession.

The current weakness of sterling is an enormous opportunity to establish market position. However, for those more sceptical amongst us, if we are not coming out of recession, then I would contend there is even greater need for us to be ultra competitive. Scotland, Wales and ROI are now more dependent on their food and drink sectors; they are considerable competitors."

<http://www.nifda.co.uk/fs/doc/publications/rm-speech-v6-iii.doc>

B.) Food Matters: Towards a Strategy for the 21st Century

http://www.cabinetoffice.gov.uk/media/cabinetoffice/strategy/assets/food/food_matters_es.pdf

C.) Strategy 2010

http://www.detini.gov.uk/strategy_2010.pdf

D.) Size and Performance of the Northern Ireland Food and Drinks Processing Sector, Subsector Statistics 2007, with Provisional Estimates for 2008

<http://www.dardni.gov.uk/index/publications/pubs-dard-statistics/gateway-page-for-size-and-performance-of-ni-food-sector-publication-2007-2009.htm>

The total gross turnover of the Northern Ireland food and drinks processing sector is estimated to have **increased by 6.3 per cent** from £2,799 million in 2007 to £2,975 million in 2008.

The contribution of the food and drinks processing sector to the Northern Ireland economy is best represented by its generation of value added. In 2007, food and drinks processing activities generated £522.4 million of value added, an increase of **8.4 per cent** over the 2006 figure of £482.0 million.

The food and drinks processing sector is the largest contributor to the sales, external sales and employment of the Northern Ireland manufacturing sector, accounting for 19.3 per cent of total manufacturing sales, 16.6 per cent of manufacturing external sales and 22.2 per cent of manufacturing employment in 2007).

E.) Minister Gildernew Press statement

Discussing the figures, the Minister said: "The increase in turnover between 2007 and 2008 is very encouraging and illustrates how robust the local food and drinks sector is. This is very encouraging, particularly given the economic climate and the impact of the recession upon business performance more generally. The figures illustrate that the food and drinks processing sector is well placed to weather the current economic downturn better than other sectors. These figures also demonstrate that the food and drinks processing sector is a most valuable asset to the north's manufacturing industry and economy."

The Minister continued: "The strong growth in gross turnover in the food and drinks processing sector in both 2007 and 2008 was in part due to increasing commodity prices at the global level. However, the initiatives and work undertaken by my Department have undoubtedly helped contribute to the success of the sector. For example, through allocating over £5million of targeted grant assistance through the Agricultural and Forestry Processing and Marketing Grant Scheme. This funding has helped local food and drinks processing businesses to expand and improve their economic performance.

(DARD 226/09 12 November 2009)

<http://www.northernireland.gov.uk/news/news-dard/news-dard-121109-latest-food-and.htm>

F.) Matrix Agri-Food Horizon Panel, September 2008

- Leading Differentiated Foods
- Innovative Processing and Packaging
- Enhancing Consumer Knowledge
- Leveraging Computational Science
- Exploiting a multifunctional nature of Agri-food and finding mechanisms to release the embedded energy in the sector

http://www.matrix-ni.org/downloads/matrix_vol4_agrifood.pdf