**Scottish Organic Stakeholders Group (SOSG)**
**Subgroup on Developing Supply Chains and Markets to Support Organics**
**Full report and recommendations**
**June 2022**

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## A Context and Background

Apart from dairy, the organic food sector in Scotland is poorly coordinated. There are examples of collaboration between a small number of farms, between farms and independent retailers, and between farmers and bakers - but overall, there are challenges in getting organic produce to market (and conversely in sourcing organic produce from Scotland).

Processing of organic meat, cheese, grains and so on is either lacking (and the organic produce is processed unlabeled alongside non-organic produce) or tends to be small-scale. It therefore cannot benefit from economies of scale and is relatively costly. There are also gaps in preparing organic vegetables for catering.

Procurement of organic food for public kitchens is limited (see the public procurement subgroup report) and primarily cost driven. However, some of the barriers are to do with sourcing produce and logistics, and not simply cost.

There are few larger organic players in Scotland comparable for example to Riverford, Doves Farm or Yeo Valley. Even in dairy we do not yet have a brand like Calon Wen which brings together 25 family farms in Wales to market co-operatively and sell their brand in the multiples as well as the independent sector.

The fastest growth in the organic market in the UK has been in home delivery (13%) and independent retail (9%) compared to the multiple retailers (2.4%). However, for production to scale (in order to make a significant contribution to environmental goals and farm profitability) sales to multiple retailers and caterers will also need to be built. There is also an export opportunity for red meat.

It is clear that the drivers that are currently active in the existing system are unlikely to deliver the changes that are needed to scale up the production and sale of Scottish organic food and drink.

The first round of the Scottish Government's 2021-24 Food Processing, Marketing and Cooperation Grant scheme, part of the Scottish Rural Development Programme, invested £7.3m in the Scottish food and drink supply chain – but none of the projects will strengthen the organic supply chain. Only 3% of the new entrants supported by Scottish Government in this scheme went into organic farming.

There is a lack of consistent messaging and marketing of organics, and organics tends not to be part of more generic marketing campaigns (e.g. for Scottish beef and lamb).

These problems are not new. While it is essential for farms and businesses to have a leading role in driving change, the sector in Scotland is too small and fragmented at present to tackle these challenges without assistance. We welcome the new post for Organic Market Development at Scotland Food & Drink as a way of mainstreaming organics in Scottish food and drink industry. This position will provide a focus and a central point for exchange of information, and knowledge exchange at Business-to-Business level. We have hopes for it to be extended to a three-year post that can progress concrete initiatives and make a real difference as part of a raft of other initiatives.

## B The SOSG sub-group on developing supply chains and markets to support organics

The SOSG set up four sub-groups covering public procurement of organic food, developing supply chains and markets for organic produce, developing research/training/advice to support the organic food sector, and organic conversion and maintenance. Each subgroup is compiling a report with recommendations to form part of a combined, final report from the SOSG for the Scottish Government to consider as it develops its new Organic Action Plan for Scotland.

The supply chains and markets development subgroup was chaired by Stuart Martin (NFUS). The group had input from Scotland Food and Drink, SRUC, OGA, Scottish Government, APUC, Nourish Scotland, Ethical Dairy, Organic World, Locavore, Green City Wholefoods, Edinglassie Farm, OMSCO, Black Isle Brewery and Skea Organics.

The group met three times. The notes from the meetings are shown in the appendices of this report. The following recommendations are drawn from these discussions:

## C RECOMMENDATIONS

1. To grow demand for organic produce by simplifying and mainstreaming the message:
    - A coordinated approach to communicating what organics is and does (QMS, SF&D NFUS, SRUC and Soil Association/SOPA)
    - Support for the development of CPD for staff across the whole supply chain (including catering and procurement staff) to understand the benefits of organics and how to act on expanding uptake and demand for it (SF&D Academy)
    - Don’t confuse the message with messaging for the export market (it’s a different market)

2. Research what messaging works for SMEs’ markets (SF&D Knowledge Bank)
    - Support ease of access and visibility of organic produce
    - Persuade larger retailers to make organic produce more widely available (SF&D)
    - Persuade larger caterers to normalise sourcing organic ingredients/foods (SF&D)

3. Build the supply chains for scaling up, scaling out and export
    - Set up collaborative networks of smaller primary producers and processors (SAOS, SF&D)

- Develop processing capability to support small scale primary producers (SAOS/FPMG/Shared Prosperity Fund)
- Investigate the export market (SF&D, Scottish Enterprise)

4. Invest in easy wins as they become a gateway to other produce whose price differential is larger (e.g. monogastric meat)
   - Invest in measuring and matching existing spare supplier capacity with demand and make plans to grow capacity where required (SF&D)
   - Invest in opportunities to produce more in Scotland (all wanted with little availability): berries (incl. frozen), oats for oatm*lk, other grains, dairy products, vegetables such as broccoli, legumes, bread, value-added products (KTIF, SAOS, FAS)

5. Expand organic public procurement
   - Follow detailed recommendations from the SOSG Subgroup on Public Procurement

6. Build on the work in Wendy Seel's 2017 proposals for a "Scottish Organic Growth Hub" to create
   - A 'one stop shop' for organic market intelligence and sector information for producers and consumers
   - Accessible signposting of growth support resources pertinent to Organic businesses
   - Better facilitation of market opportunities and supply chain development (SF&D)

## D Appendices

**Scottish Organic Stakeholders Group (SOSG) - Developing Supply Chains and Markets for Organic Food**
**NOTES - Meeting 1, Tuesday 8 March 2022, 11.00 to 12.00 online**

**What do customers want and (how) are we meeting that expectation?**
1. Organic seed potatoes: (lost the EU export market). EU is a very different market, and way ahead of us.
2. Cheese: Bought for quality, not because organic. Organic is chosen around animal welfare (cow/calf) issues.
3. Ice cream: (have abandoned offering organic ice cream). People will buy any, regardless of organic labels.
4. Milk: Empty supermarket shelves show there is demand. Drivers are different from ice cream.

5. Beef: Organic is about health (nutrient-rich), and sales are incentivised by low carbon emission methods.
   Provenance: people don't want to know - not a driver.
6. Wholesalers: want to localise the food chain to supply our local shops and other wholesale customers. More local veg, more local grains, more local dairy products are wanted by customers (and little available).
7. Oat m*lk is another opportunity - the market is there but only Swedish and English processors.
8. Berries (freeze-dry) and other processing and packaging innovations (e.g. for milk and dairy) can also help.
9. We have few champions of organics in the catering world (an exception is McDonalds using organic milk from Arla). This helps with numbers, similar to Greggs using Fairtrade coffee helping normalising it and getting the message across.
10. Procurement in HE/FE: Changed post-pandemic: budget is the most important, as they are now really tight.
11. Danish experience: Milk, oats, fruit/veg was first (not a big price difference for organic) and gateway to other products, easy wins. Scale these up, then the rest follows (ice cream and meat last - bigger price differences).
12. Fruit/Veg in Farmers Markets: middle class/niche perception is a big barrier. Plain messaging can help. But this is tricky because they buy it for range of reasons (local, high-quality, health, rural support...) and because that produce is not available in supermarkets.
13. Ease of access is important (can we sell more through local shops?)
14. *Perception* of 'organic' as expensive: Boxes are cheaper than the same organic produce at supermarkets. Organic fruit/veg is not as price-sensitive as cheese and meat - large range of prices for the same products.
15. Questions are asked about carbon emissions and all other sustainability topics, showing it's important.

**Where are the challenges/blockages and gaps in supply chains (primary production)? (Is price the biggest barrier?)**

16. In FE/HE:  Yes, it's about budget (and in FE/HE budgets are set a year in advance).
17. Potatoes: not just price, not clear what: 15-year investment in product that was 30-40% of the business, now we and many others are diversifying away from organics
18. Cheese is expensive because we do it on a small scale - we cannot benefit from economies of scale
19. Meat is expensive mainly because of high processing costs (our meat is not standard shape)
20. Dairy - local organic butter, cream, yoghurt not available
21. For wholesalers: Grains - almost nothing available besides oats. Market is very small hence price uncompetitive.
    Price of small batch canning really high and made us cancel plans for Scottish baked beans.
    Processing: very little processed foods available locally and organic except at the high end of the market.
22. Cost of fertiliser increases will mean processing costs up for conventional farmers (organic more competitive)
23. Organic has an ease of access 'cost': time and energy to gather organic produce from different places: Need for local food systems that facilitate access (e.g. cooperative delivery networks)
24. Visibility: we see a different small range of organic products in different shops. They don't cater for organics.

25. Need for processors at a small scale (large processors cannot handle small quantities).
26. Similarly markets: we just build little local markets without coordinating and communicating more widely.
27. The demand from consumers has grown faster than organic land conversion, so there has to be ways to incentivise farmers to convert. Reduce the costs of inputs, such as fertilisers or feed, organics can be part of that solution. We have plenty of grass so we need to talk with farmers about over-wintering outside instead of using imported feeds.
28. On legumes: If we can encourage farmers to help reduce imports, and at the same time protecting soil with nitrogen fixing, then these crops can be an invaluable tool for resilience on many levels.
29. Sometimes the quality of organic fruit/veg is lower (smaller, wonky, dirty, not lasting well).
30. England is providing funding for their organic SMEs - will this be a challenge to Scottish SMEs?
31. Scot Gov is live to the idea that we need more processing capacity and infrastructure, but they are in a difficult funding environment which is getting tighter all the time (with CAP subsidies' changes 2 years ahead).
32. SG also recognises that remoteness /physical distance is an issue in all sectors (e.g. abattoirs).

**What support needs to be put in place to encourage developments? Who needs to do what?**

33. Government to enable public kitchens to buy organic food. This will enable the bulk of our crops to go into public catering and secure markets for our produce.
34. More awareness around sustainable and organic methods: everybody worries about risk of reputation damage.
35. Research into developing markets for SMEs (not only supermarkets) and the message.
36. Multiple messaging is confusing: Send out one common message and unite behind it, and explain to consumers what they are getting and why: i.e. if you buy organic, this is what it is, and how it differs.
37. Promote the message that organics is THE alternative and solution
38. Facilitate tendering processes: they are bureaucratically challenging and contracts are often large. We should add a clause to say that frameworks can be used for purchasing from SMEs (e.g. as done in St Andrews).
39. Require Scotland's Health and Rural budgets to invest in minimum (defined) standards on social and environmental welfare as a package (not necessarily 'organic', but it would become that automatically).
40. Put together an infrastructure to enable SMEs to join supply chains - primary production and processing.
41. Normalise this kind of food through these measures so public opinion understands and accepts it.
42. CPD for staff working in public kitchens (to learn to cook this different food and understand the benefits of it).
43. Support organics in CAP going forward - banks, businesses, retailers all have greening agendas to act on.
44. Enable supermarkets, SMEs and procurement to work together: Supermarkets can help to introduce organics at a larger scale. Government cannot tell them what to do but can enable suppliers to build supply chains for the bigger players.

**Scottish Organic Stakeholders Group (SOSG) - Developing Supply Chains and Markets for Organic Food**
**NOTES - Meeting 2, Tuesday 15 March 2022, 11.00 to 12.00 online**

**Focus:** Bigger retailers' perspectives on what is happening in markets and supply chains.
**Presentation** from Amanda Brown (Scotland Food & Drink Partnership, The Knowledge Bank) (slides attached)

**The Knowledge Bank (Scotland Food &Drink Partnership):** was launched in Autumn 2021 with economic recovery funding. Headlines from Amanda's Presentation:

1. The UK market shows good growth in organic food & drink sales, especially delivered food (+13%) and independent retailers (+9%) cf with supermarkets (+2.4%)
2. This may be affected negatively by the Ukrainian crisis which will affect supply chains and the general rise in the cost of food
3. The 4 biggest categories in supermarkets account for 74% of sales
4. Organic tea coffee, wine, beer and cider have gone up more than anything else (by 12% and 16.9% resp.)
5. Tesco, Waitrose and Sainsbury's continue to dominate, now accounting for 65% of organic food and drink sales.
6. Most organic shoppers are in the 35 to 64 range, with surprising low take up from over 65s (only 2.5%)
7. Shoppers rate plastic as their main concern, then climate change, deforestation, air pollution, extinction of species
8. Environmental sustainability and health drive organic sales
9. Fresh fruit is a small portion of total organic sales but is growing fastest, fresh veg is a larger portion, but not growing as much.
10. London is the most important area for organic purchase and has risen by +6.1%
11. Wales is next (=by 14.5%), an indication of good routes to market
12. Organics does well online (easier to identify products) and 1/3 said renewed interest in cooking encouraged buying organic. Organic has benefitted from the pandemic.
13. Generally people are concerned about the price of eating healthily
14. The 5 of 'Eco-actives' are similar in GB as in Scotland (29%), but higher than globally (22%)
15. If we have more eco-actives but less organic sales, this suggests a big market failure.
16. Projection of the trends indicates that eco-actives will be 65% of shoppers by 2027
17. Scottish shoppers care more about locally sourced produce
18. The most looked at information on the product is information about recycling, and twice as many Scots, cf globally, look for Fair Trade information. Comparably little attention is paid to any other information.

**Comments/discussion:**

19. The Knowledge Bank can support this group with more data, but we need to know what data we are looking for.
20. Main conclusion: that there is a willingness to engage with organic and local, but there are barriers: cost and access.
21. The sales of organic milk have gone up because we put it on the shelves. How many products do we offer? How can supermarkets work together to tick the right boxes for consumers? Can we piggyback on fish (it is bought for its nutritional value)?
22. Scottish Government has been working with 'sustainably Scottish' branding for ten years - tricky because 'sustainable' is not defined, unlike organic which already has global recognition. And 'sustainable' is not a strong brand for exported produce. Also, what is branded for the export market won't sell in Scotland in the same way.
23. 'Carbon-neutral beef' is in danger of being seen as greenwash: we need to be careful about going down that road. In the longer term, we will need to collaborate to move the whole industry to zero carbon.

24. There is lots of organic veg in Tesco though too much in plastics and not enough from Scotland (only potatoes).
25. Supermarkets require shelf-life, which organics often cannot meet. Shoppers in London understand this, but less experienced shoppers bin it, even if it is still fine. Getting rid of 'Best Before' dates for veg would help reduce food waste.
26. The recent growth of organic fruit sales does not help, because Scotland produces very little fruit - only seasonal berries, the rest is almost all imported.
27. Local producers need to collaborate to coordinate routes to market (e.g. many offer the same produce), offer more variety and higher quality.
28. Price differentials also make this hard for Scotland. The biggest barrier is price and shoppers do not always do what they say they do. So if organic meat is 50% more expensive, we can only sell it in London.

**Scottish Organic Stakeholders Group (SOSG) - Developing Supply Chains and Markets for Organic Food**
**NOTES - Meeting 3, Thursday 24 March 2022, 9.00 to 10.00 online**

**Purpose of this meeting:** To determine the next steps for taking forward the recommendations that followed from the discussions of the SOSG Subgroup on Developing Supply Chains and Markets for Organic Food.

1. The recommendations of the other three subgroups (on procurement, on conversion and on research, training and advisory services) are concrete and clear. This group concluded that the supply chain is underdeveloped (except in dairy, which is reversing progress) and our priority is to stimulate the market (demand for organic produce). These recommendations are complicated and implementing them is challenging.

2. **The main challenges** are:
    - The Scottish market is sensitive to price and organic produce is generally more expensive.
    - We are in another worsening recession with households' costs rising sharply, including the cost of food.
    - A lot comes down to the actions of big retailers (we cannot just work on increasing demand from small producers). Organics market development depends on their strategies around what they promote to customers, where and what they shelve, how they decide on whether this produce is making or losing money. How can they be persuaded to promote its many benefits (as McDonalds is doing)?

3. **Scot Gov** needs to lead on this with consistent messaging around the value of organics (for reducing emissions, for biodiversity, for health and well-being, for local economic development), and by acknowledging that they need it for meeting their own targets; .and the work needs to be elevated within government.
    - There is a danger that 'sustainably Scottish' and other messaging for the export market confuses things.
    - The work of this group can feed into the new post (starting in SF&D on May 8), funded by the Scottish Government for 1 year to support the development of organics in the food industry.

4. The remit of the SF&D post is to:
    - look at what market opportunities there are and how they can be exploited

- understand supply base capabilities and make suggestions for developing these
- create actions in these areas and feed this work into other organisations in the Scottish food industry
- Speak to export specialists about how they see organics developing