Scotland's Food and Drink Industry: Challenges and Opportunities

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Introduction

Food and drink issues are currently high on the policy agenda both nationally within Scotland and internationally. Within Scotland, debates continue about high levels of obesity and the poor diet and health of the Scottish population. At the same time, consumers have faced rising food prices in recent years, while consumer confidence in the food industry has been damaged following food scandals and scares, including the horsemeat scandal in the EU in early 2013. Internationally, the challenge of feeding an estimated world population of nine billion by 2050 has received much press attention. However, it is not just that demand for food will increase, but also that demand for different products will change. For example, many of those in the developing world, where population growth will be sharpest, will demand a diet that is increasingly meat-rich.

This briefing discusses key challenges and opportunities facing the food and drink sector. It is particularly focused on the industry and its policy context in Scotland, but reference is made to wider debates and policies where appropriate. Links are provided to sources of further information where relevant.

Global food security

Food security remains a topic of concern on international policy and political agendas. The World Food Programme (WFP) argues that people are considered food secure when they have all-time access to sufficient, safe, nutritious food to maintain a healthy and active life. The following figures help to explain the challenges of achieving global food security in future:

- By 2030 the world will need 30% more fresh water and 50% more energy;
- By 2050 demand will increase by 70% for food for a world population of around 9 billion (currently 6.1 billion), at a time when the world is also managing and adapting to climate change;
- By 2030 world cereal production will need to increase by 50% and world meat production by 85% from 2000 figures;
- In the developing world, poor processing, storage and transport can result in as much as 37% of harvested food being lost before it's consumed – waste is an issue that must be addressed;
- The UN's annual report on global food security confirms that more than one billion people - one sixth of the world's population - are undernourished. An equal number, one billion people worldwide, are overweight, of whom 300 million are obese;
- People in the developing world can spend from 50-80% of their income on food, while the average UK household expenditure on food is dropping - currently 9% cf. 16% in 1984.

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3 In 2009, the Rural Policy Centre produced a briefing on food security which may provide useful background information and references. For more information, see: http://www.sruc.ac.uk/info/120482/archive/66/2009_food_security.

4 For more information, see: http://www.wfp.org/food-security.

5 For more information, see: http://www.scotland.gov.uk/Publications/2010/11/19111212/6.
Food security in Scotland

The Scottish Government believes that maintaining Scotland’s national capacity to produce food benefits the whole nation and the world at large. It argues that Scotland has much to offer to help other nations secure their food supply, but acknowledges that Scotland’s supply of food and drink is reliant on highly complex domestic and global food chains, in a world facing increasing challenges.

The Scottish Government believes that every single person in Scotland should be able to access healthy, affordable food produced in a sustainable way. Furthermore, the Government makes a strong link between food and other aspects of individuals’ lives, including health, wellbeing and the environment.

Changing demand for food

As noted above, as the global population increases, there are also shifts in the types of food products that consumers demand due to increases in their income. Food businesses need to respond to all of these changes in demand to maintain their profitability. For example, the rapidly expanding number of consumers across the BRIC countries (Brazil, Russia, India and China) and across the developing world are demanding a more meat-rich diet. At the same time, consumers in developed countries are demanding ever-healthier and more nutritious products.

Across the globe the population is ageing and exploratory analysis by SRUC researchers has found that older consumers tend to demand different products to the rest of the population. Food manufacturers may need to consider adapting their range and product design for older shoppers. For example, more than half (55%) of shoppers aged 65+ would like more choice of products that are easier to open.

At the same time, the number of single person households is increasing. For example, in 2011, there were 7.6 million one person households in the UK; an increase of 1 million over the last decade. Single households have distinct food/grocery requirements. For example, they place importance on reducing food waste through smaller packs and extended shelf life products such as milk.

In 2014, 29 million Bulgarians and Romanians will gain the right to live and work unrestricted in the UK under European ‘freedom of movement’ rules. This will undoubtedly create significant changes to food demand. Changes have already been observed over the last few decades in response to immigration to the UK of large numbers of people from India, Pakistan and Poland, which has impacted on demand for particular food products.

Food and drink policy in Scotland

The food and drink industry is regarded as a key sector in Scotland’s economy. This is recognised in the Scottish Government's Economic Strategy and the National Performance Framework (NPF). The Government's Economic Strategy identifies food and drink as one of its (seven) growth sectors. The document particularly recognises the potential of the sector to benefit rural Scotland and the critical importance of high quality air, land and water to the sector. The NPF underpins the delivery of the Scottish Government's agenda and includes five strategic objectives, one of which is to create a Healthier Scotland. The Framework takes an outcome-based approach to Government, and includes sixteen National Outcomes, many of which focus on issues in which food and drink may play a role, including living longer, healthier lives, reducing inequalities and creating stronger, more resilient communities. Thus, the Scottish Government takes a relatively holistic view of food and the food and drink sector, recognising the economic contribution of the sector, but also the potential of food to influence many other aspects of individuals’ lives, including wellbeing, health and the environment.

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8 For more information, see: http://www.igd.com/our-expertise/Shopper-Insight/shopper-outlook/11927/Adding-value-anticipating-the-needs-of-a-changing-society/.
11 For more information, see: http://www.scotland.gov.uk/About/Performance/purposestratobjs.
12 For more information, see: http://www.scotland.gov.uk/Topics/Economy/EconomicStrategy.
13 For more information, see: http://www.scotland.gov.uk/About/Performance/purposestratobjs.
Recognising the importance of the sector, in 2007 the Scottish Government and Enterprise Networks (Highlands and Islands Enterprise and Scottish Enterprise) established an industry-led group, Scotland Food and Drink (SF&D)\(^\text{13}\). This not-for-profit organisation is a unique leadership organisation tasked with growing the value of Scotland's food and drink sector, making it more profitable and delivering greater global success in a challenging and competitive environment. Its mission is to grow the industry and its vision is to build Scotland's international reputation as ‘the land of food and drink’\(^\text{14}\).

‘Recipe for Success’ Scotland’s National Food and Drink Policy was published in 2009\(^\text{15}\) for the sector and was produced by SF&D. This was Scotland’s first national policy for this sector and aims to promote Scotland’s sustainable economic growth by ensuring that the Scottish Government's focus in relation to food and drink addresses quality, health and wellbeing, and environmental sustainability, recognising the need for access and affordability at the same time. The Policy set a target of growing the industry’s turnover to £12.5 billion by 2017, focusing particularly on premium, provenance and health.

The review of the strategy in March 2013\(^\text{16}\) revealed that SF&D has a membership of 300 companies and has achieved a total food and drink turnover of £12.4 billion. This is 99% towards the 2017 growth target of £12.5 billion. The report also indicated that:

- Farming, fishing and agriculture is worth £3.15 billion to the Scottish economy;
- Manufacturing is worth £9.25 billion;
- Scottish GVA is £4.57 billion;
- 330,000 people are employed in food and drink in Scotland;
- 80% of businesses are family run.

In terms of exports, the review reveals the following position:

- The value of food and drink exports has reached £5.4 billion; reaching the target set for 2017 six years early;
- The new export target for 2017 is £7.1 billion;
- Scottish food is exported to 100 countries, and there was a 63% rise in food exports between 2007 & 2011;
- Dairy exports, red meat exports and salmon and seafood exports are worth £98 million, £81 million and £650 million respectively;
- Scottish whisky is exported to 200 countries, and there was a 50% increase in whisky exports between 2007 & 2011;
- Whisky exports are worth £4.3 billion; £140 per second is generated in revenue from whisky exports.

Reputation is central to the ability of the Scottish food and drink industry to sustain its current position and to grow turnover and profitability in Scottish, UK and international markets. Protecting and enhancing Scotland's reputation as ‘the land for food and drink’ is a key action of the National Food and Drink Policy and is the ‘banner’ for other export-related organisations, such as Scottish Development International\(^\text{17}\).

As policy-makers seek to encourage and promote healthier and more sustainable food choices, alongside seeking solutions to challenges such as growing obesity, climate change, environmental degradation, and dealing with increasing amounts of waste, there is an ever-increasing requirement for ongoing research and innovation by all actors across the food and drink industry supply chain. Scotland's research institutes and universities are world renowned for their expertise and the impact of the research they produce as their links with industry are often strong. Agricultural, plant and animal sciences are amongst the leading performers. Science, innovation and technology are pivotal to the sustainable economic development of Scotland and with regard to research and development, Recipe for Success\(^\text{18}\) notes that:

\(^\text{13}\) For more information, see: http://www.scotlandfoodanddrink.org/.
\(^\text{14}\) For more information, see: http://www.sdi.co.uk/sectors/food-and-drink.aspx.
\(^\text{15}\) For more information, see: http://www.scotland.gov.uk/Topics/Business-Industry/food-industry/national-strategy.
\(^\text{16}\) For more information, see: http://www.scotlandfoodanddrink.org/about-us/our-publications.aspx.
\(^\text{17}\) For more information, see: http://www.sdi.co.uk/sectors/food-and-drink.aspx.
\(^\text{18}\) For more information, see: http://www.scotland.gov.uk/Topics/Business-Industry/food-industry/national-strategy.
R&D spent by Scottish food and drink companies has more than doubled since 2007;
250 companies engaged with the food and health innovation service19;
The Scottish Government budget for food and drink R&D is currently £30 million;
53 innovation action plans have been delivered;
17 Interface food & drink grants were awarded to companies in 2012.

The report details the progress that has been made to improve collaboration and skills in Scotland’s food and drink industry, including the contracting of more than 2,300 modern apprentices in the sector in the last three years, support for 77 companies through the SF&D skills academy, the training of 472 employees through the Skills Academy and the creation of a skills investment plan20, supported by the whole industry.

**Current food and drink sector challenges**

The first part of this briefing has focused on outlining the policy and institutional context for the food and drink sector in Scotland. The remainder of the briefing discusses the challenges facing the sector and describes some of the responses to them, again with a particular focus on Scotland.

**Lack of confidence in the supply chain**

Consumer confidence in the food supply chain has been challenged recently by a number of food scares. Most recently was the ‘horsemeat scandal’ in early 2013, but there have been others, including BSE and salmonella, which have challenged consumer trust over the years.

As supply chains have increased in complexity due to outsourcing and developments in biotechnology, for many consumers food has become distant and anonymous. Despite this, consumers’ need to trust supply chains as several food attributes, such as welfare-friendly, organic or processed-on-farm cannot be judged even after purchasing the product.

Food scandals and scares serve to throw the spotlight on how food is sourced and supplied, and evidence suggests that they may result in positive impacts for local and regional food and short food supply chains. Figures from Kantar Worldpanel in February 2013 suggest that the horsemeat scandal earlier this year may have had a positive impact on the UK’s organic sector, with total supermarket organic sales increasing to their highest level in nine months (an increase of 8.4% during February 2013 when compared with January 2013)22. This may suggest that consumers are choosing to buy organic as a guarantee of integrity. Some independent organic meat suppliers have also reported an increase in sales of up to 20% during February 201323.

**Genetically Modified (GM) Food Products**

In April 2013 Tesco announced that it was withdrawing its 11 year ban on GM feed for poultry meat and eggs. Other major retailers (including Sainsbury’s, M&S and the Co-op) followed, allowing their suppliers to use GM feed for poultry. As a result, consumers can no longer guarantee that their eggs and table birds are GM free when they purchase them from these retailers. Moreover, a recent poll in The Grocer24 revealed that nearly three quarters of consumers do not trust supermarkets to tell the truth about the use of technology to genetically modify food25.

Consumers who wish to purchase GM free products can choose organic products, as organic standards completely prohibit the use of GM products in the production process.

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19 For more information, see: [http://www.foodhealthinnovation.com/](http://www.foodhealthinnovation.com/).
20 For more information, see: [http://www.skillsdevelopmentscotland.co.uk/media/1047981/skills%20investment%20plan%20for%20scotland%20food%20and%20drink%20sector%20june%202012.pdf](http://www.skillsdevelopmentscotland.co.uk/media/1047981/skills%20investment%20plan%20for%20scotland%20food%20and%20drink%20sector%20june%202012.pdf)
21 SRUC staff are conducting work on many different aspects of the agri-food supply chain, Reports and briefings from this work can be found via the [Rural Policy Centre’s Food Futures Publications section](http://www.ruralpolicy.co.uk/futures/publications).
24 [http://www.thegrocer.co.uk/topics/consumers-dont-trust-supermarkets-on-qm-food-poll-finds/238401.article](http://www.thegrocer.co.uk/topics/consumers-dont-trust-supermarkets-on-qm-food-poll-finds/238401.article)
25 The Rural Policy Centre will shortly be publishing a Policy Briefing discussing recent developments with GM, including the results of a small-scale survey with the population regarding their perceptions of GM. This work is being undertaken by an intern from the University of Arkansas in the USA who is working at SRUC from May to July 2013.
Changes in consumer buying habits

Changed consumer buying habits have been well documented, for example, a recent Which? survey revealed that consumer trust in the food industry has dropped by a quarter (24%) since the horsemeat scandal broke earlier in 2013.

The survey found that 30% of shoppers are now buying less processed meat and about a quarter (24%) are buying fewer ready meals with meat in, or choosing vegetarian options. Two thirds of people (68%) don’t think the government has been giving enough attention to enforcing labelling laws, with half of consumers (47%) not confident that ingredient information is accurate. Confidence in food safety has also taken a hit; before the scandal broke, nine in 10 felt confident when buying products in the supermarket and this has since dropped to seven in 10. The Soil Association Market Report 2013 indicates that sales of organic products through multiple retailers was down by 2.4% cf. the previous year whereas sales through box schemes/home delivery/mail order were up by 4.4% for the same period. This data points to changes in the way that consumers are making their purchasing decisions.

Communication challenges in the food and drink sector

There are undoubtedly communication challenges in the food and drink sector. For example, how do lamb chops on the shelf convey information about their production process, welfare standards, provenance – were the lambs happy and healthy, did they feel valued and did they come from where it was claimed? This issue can be addressed either through face to face contact between the consumer and the producer (direct sales such as farmers’ markets) or through labelling and assurance schemes such as organic.

In June 2007 the European Council of Agriculture Ministers agreed to a new Council Regulation on organic production and the labelling of organic products. This new Council Regulation contains clearly defined goals, principles and general rules for organic production, which can provide assurance for consumers. The EU organic farming logo (shown here on the left) offers consumers’ confidence about the origins and qualities of their food and drink and its presence on any product ensures compliance with the EU Regulation. From July 2010, the EU organic logo is obligatory for all organic pre-packaged food products within the EU. It is also possible to use the logo on a voluntary basis for non-pre-packaged organic goods produced within the EU or any organic products imported from third countries.

Fairness in the distribution of value across the food supply chain

Evidence shows that fairness in the distribution of value along the supply chain is important to consumers, and that consumers value schemes such as ‘Fairtrade’. Recent research demonstrates that Fairtrade improves incomes and contributes to fighting poverty in rural regions. Almost five billion euros were spent last year on Fairtrade certified products, according to figures released by Fairtrade International.

In the UK, Fairtrade’s biggest market, shoppers spent 12% more on Fairtrade certified products in 2011 than they did in 2010. Products with the Fairtrade mark are now available to people in more than 120 countries on all continents. Sales grew steadily across all of the leading Fairtrade products: coffee by 12%, cocoa 14%, bananas 9%, sugar 9%, tea 8% and flowers by 11%. There are more than 1.2 million farmers and workers at 991 Fairtrade

26 For more information, see: http://www.which.co.uk/news/2013/03/horsemeat-scandal-dents-trust-in-food-industry-313016/.
27 For more information, see: http://www.sruc.ac.uk/info/120482/archive/64/2011_an_analysis_of_marketing_channels_for_local_food_in_scotland.
28 For more information on marketing channels used by local food producers in Scotland see: http://www.sruc.ac.uk/info/120482/archive/64/2011_an_analysis_of_marketing_channels_for_local_food_in_scotland.
30 For more information, see: http://ec.europa.eu/agriculture/organic/eu-policy/logo_en
31 For more information, see: http://oneco.biofach.de/en/news/fairtrade-works--focus--a9062c8f-72af-489f-9349-48e6affe79e/?fromnewsletter=true.

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certified producer organisations in 66 countries. Following concerns about fairness in supply chains involving UK producers, there have been calls for the setting up of a similar Fairtrade scheme for UK farmers.

**Improving young peoples’ understanding of food**

Lack of knowledge about food has been a recent cause for concern and last year Scotland’s Cabinet Secretary for Rural Affairs and the Environment Richard Lochhead MSP put food education on the menu when he pledged £2 million over three years so that every Scottish school child understands more about the food they eat and how it impacts on their health and on the environment.

An expert group, made up of industry and education representatives, was set up to steer the three-year programme and provide advice on attracting private investment to add further value. It is hoped that this focus on food education will help young people make informed choices about the food they eat, by ensuring:

- More opportunities for children to use farms, fishing and food companies to learn about their health, the environment and their relationship with food;
- Pupils develop an understanding of Scotland’s growing food and drink industry and the career options available – wherever their skills lie across the curriculum;
- It is easier than ever before for teachers to use food as a topic in Curriculum for Excellence;
- Private companies are encouraged to invest in food education, either financially or in kind.

**Current food and drink sector opportunities**

Responding to these challenges will require innovation and investment in the sector, but the responses provide many different opportunities for industry bodies and businesses. The remainder of this briefing outlines some of the ways in which policy-makers and other actors in the food and drink industry are responding in Scotland.

**EU Protected Food Name (PFN)**

EU PFN schemes came into force in the early 1990s to provide a system for the protection of food names on a geographical or traditional recipe basis. The three schemes (Protected Designation of Origin, Protected Geographical Indication and Traditional Speciality Guaranteed) highlight regional and traditional foods where the authenticity and origin can be guaranteed through an independent inspection system.

There are various social, environmental and economic sustainability benefits of PFNs:

- Preserving national and regional identity;
- Providing legal protection against imitation throughout the EU;
- Increasing awareness of the product both locally and throughout the EU (registration provides an excellent opportunity to promote the product, both at home, in other EU Member States and Non Member countries);
- Opportunities to take advantage of consumers’ increased interest in regional foods by positioning the product firmly at the quality end of the market;
- The opportunity to achieve a premium on the product - the results of European wide research has shown that consumers are willing to pay, on average, 18% more for regional products under the scheme;
- Greater potential, under EU state aid rules, to attract public funding for promotional initiatives and activities.

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33 See for example a recent Policy Briefing produced by the Rural Policy Centre, summarising discussion at a meeting of the Cross Party Group in the Scottish Parliament on Rural Policy. This is available here: http://www.sruc.ac.uk/info/120482/archive/911/food_supply_chains_discussion_at_the_cross_party_group_in_the_scottish_parliament_on_rural_policy.

34 For more information, see: http://www.scotland.gov.uk/News/Releases/2012/03/foodeducation07032012.

35 For more information, see: http://www.scotland.gov.uk/News/Releases/2012/03/foodeducation07032012.
There are nine PFNs currently registered in Scotland including: Shetland Lamb; Orkney Beef; Orkney Lamb; Scottish Farmed Salmon; Scotch Lamb; Scotch Beef and Arbroath Smokies. There is a growing awareness of the value of PFNs and at present Scotland has a further three PFNs at consultation stage and four in development stage. By volume and value, Scotland has some of the largest PFNs in the EU, with high value products such as Scotch Beef and Scottish Farmed Salmon accounting for around £700 million in sales. Work is currently ongoing to develop several other PFNs in Scotland.

**Food Tourism**

Food and drink are a key part of Scotland's visitor experience with an increasing number of tourists in Scotland seeking to try quality local produce. Recent research by Scottish Enterprise showed that visitors to Scotland prefer to buy food and drink of local provenance, which is produced "with a story behind it". The research also revealed that businesses and events providing locally sourced produce led to a better visitor experience and higher levels of sales - on average 20% more per year. By choosing authentic local produce, tourism businesses and event organisers can raise their profile, make more profit and ensure a better visitor experience.

Savour the Flavours is a good example of a regional food network which could easily be adapted to fit into a food tourism model. Their website states “discover delicious Dumfries and Galloway, a region where chefs delight in showcasing their local larder, where artisan producers share their passion at food events and markets amid beautiful landscapes that encourage you to explore, unwind and enjoy”. A regional food network allows local businesses and local consumers to procure local food and it signposts tourists around the area.

**Think Local**

Local food in Scotland has been given a recent boost as £2.5 million has been made available over three years to support initiatives that put a spotlight on Scotland's outstanding natural produce. The Scottish Government is working in collaboration with SRUC (Scotland's Rural College) to deliver 'Think Local'. This is an initiative to deliver funding for targeted support and advice to develop local food marketing, food tourism, farmers' markets, food festivals and events.

Think Local includes collaboration with SF&D, the Scottish Agricultural Organisation Society (SAOS) and SFQC. The remit includes the development of new local food networks, expanding Scottish Food and Drink Fortnight, creating signature food events for Homecoming Scotland, and providing new support for farmers’ markets. Funding for the operation of Think Local by SRUC and sub-contracted delivery partners will be supported by £1 million from the Scottish Government.

**Think Local - Community Food Fund**

In addition to the £1 million core funding for Think Local, an additional £1.5 million from the Community Food Fund will be delivered to support national and regional community initiatives over three years and will be available to:

- Support development of local food networks;
- Support communities to run local food events;
- Target specifically communities trying to tackle deprivation;
- Deliver training and development;
- Develop farmers’ markets and farm retail opportunities;
- Help enhance food tourism.

**Grow your own**

There is an increasing appetite in Scotland for ‘growing your own food’ and this is being addressed through various initiatives and projects, including individual allotments. Building on a commitment to ‘grow your own’ initiatives in:

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36 For more information, see: [http://www.sruc.ac.uk/info/120103/food_and_drink/457/protected_food_name_pfn](http://www.sruc.ac.uk/info/120103/food_and_drink/457/protected_food_name_pfn)
39 For more information, see: [http://www.savourtheflavours.co.uk/](http://www.savourtheflavours.co.uk/)
40 For more information, see: [http://www.sruc.ac.uk/info/120460/think_local](http://www.sruc.ac.uk/info/120460/think_local)
41 For more information, see: [http://www.scotland.gov.uk/News/Releases/2012/10/localfood18102012](http://www.scotland.gov.uk/News/Releases/2012/10/localfood18102012)
42 For more information, see: [http://www.scotland.gov.uk/News/Releases/2012/05/fundingboost17052012](http://www.scotland.gov.uk/News/Releases/2012/05/fundingboost17052012).
the National Food and Drink Policy, in 2012, Environment Minister Stewart Stevenson announced a package of support worth £600,000 to encourage the development of more community growing and to support the growth of Scotland’s Grow Your Own sector. The majority of this funding (£450,000) has been allocated to the Central Scotland Green Network Development Fund to be distributed to community growing projects over three years. The remainder has been allocated to various organisations to support the growth of the community growing.

Conclusion

This briefing has outlined some of the key challenges and opportunities facing the food and drink sector both in Scotland and globally, and has described various responses from the Scottish Government, industry bodies and private sector businesses to these challenges and opportunities in Scotland. The food and drink sector is vital to the continued growth of the national economy and thus to the Scottish Government achieving its overall purpose of increasing sustainable economic growth.

In the short-term future, there are several key opportunities to grow the sector, and to enhance Scotland’s reputation as a quality food producer, including the Glasgow 2014 Commonwealth Games, the Ryder Cup at Gleneagles, and Homecoming Scotland 2014. These events will provide an economic boost for Scotland in general and the food and drink and tourism sectors in particular. In readiness for this, SF&D has set up a dedicated website

There is an important role for researchers, in collaboration with industry bodies and businesses, to continue to explore how social, cultural and demographic changes will alter demand for food products as a whole, and for specific foodstuffs (e.g. animal welfare friendly products, organic products or newly designed packaging). This research work is vital to informing the industry with regard to what direction and shape it should take in future. It will also inform specific innovative responses, for example, improving the nutritional and health benefits of particular products or improving the traceability and labelling of food along the supply chain.

However, key challenges remain, including:

- addressing declining consumer confidence as a result of food scares and scandals;
- building trust amongst all actors, including consumers, across (increasingly) global food supply chains;
- ensuring that all actors - including those involved in research, knowledge exchange and industry - work in partnership to grow the sector;
- responding to changing consumer demand, for example, for more farmers markets and farm shops;
- addressing skill shortages and knowledge gaps through work-based qualifications and apprenticeships.

Drawing more young people into the food and drink sector may also help to tackle broader challenges facing both urban and rural areas of Scotland, including poor diet, obesity and youth unemployment. For rural Scotland in particular, encouraging young people to stay or return by providing education and employment opportunities may be critical to maintaining resilient communities. Indeed it is clear that the sector is particularly vital to maintaining the vibrancy of Scotland’s rural economy, as recognised in recent policy documents

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43 For more information, see: [http://www.2014foodanddrink.org/](http://www.2014foodanddrink.org/)