

IDIA Submission

2025 Agri-Food Strategy Public Consultation Questionnaire

January 2015



The Irish Dairy Industries Association (IDIA) represents primary and secondary dairy manufacturers including the Infant Nutrition sector in Ireland. The following submission outlines the IDIA response to the public consultation questionnaire issued by DAFM in the context of the development of an Agri-Food Strategy up to 2025.

Our strategy should be to confirm Ireland as a world leader in the area of safe, high quality, sustainable grass-based dairy ingredients and products - a best in class example of agricultural and business practices at every link in the supply chain, with metrics in place to measure this.

1. Has Food Harvest 2020 delivered on its vision for the Agri-Food* Sector in Ireland?

Questions:

Are we on course to deliver on the strategy envisaged in Food Harvest 2020?

- The central element of the FH2020 growth strategy is the planned 50% expansion in milk production and related development of the entire dairy sector in Ireland. The dairy sector, at farm and processing level, is on course to deliver this target. While the main volume increase in milk output will not materialise until after quota removal (April 2015), we have already seen some volume increase (0.4 bn litres) but more significantly extensive plans are already in place to deliver the planned growth:
 - Increase in dairy cows and replacement heifers on the ground
 - Significant on-farm investment in facilities
 - Major investment programme completed at dairy processing level and in market expansion
- Following 30 years of supply restriction, the policy shift to remove milk quotas is greatly welcomed. However, the European Commission's transition strategy for this major policy change (soft landing approach) has not worked. With producers in several member states and regions of the EU investing heavily in expansion and enterprise development, it is grossly unjust to see EU producers penalised, through super levy, by €400 million for the penultimate quota year and a further potential €750 million for the final year of quotas. This is a major drain on capital and cashflow in a sector that is investing for the future. Beyond individual producer efforts to curtail milk volumes in the final months of the current quota year, serious political efforts are still required to mitigate the impact of an excessive super levy situation.
- The FH2020 growth target for the Irish dairy sector is taking place in the context of a medium to long-term positive market outlook. Ireland's competitive dairy sector will take advantage of the projected global demand growth for dairy ingredients and products. The immediate negative market prognosis for 2015 does present a challenge. While plans are in place for the first tranche of expansion post-quotas, it is important that producer confidence during a challenging marketing year ahead is not eroded to the extent that the next phase of expansion is unnecessarily delayed or interrupted.

How can the strategy for the agri-food sector be improved for the next decade?

- For the dairy sector, the strategy should focus on growth in value of output and exports. Given the right conditions, further volume expansion in milk output in Ireland will occur in the period 2020 to 2025 but at a more modest pace.
- Improving land mobility will be critical for efficient expansion in dairy enterprises and milk output. The adoption of measures that facilitate land mobility must continue to be pursued.
- Facilitating international market access must be an integral part of future strategy. Increased resources should be available to meet third country certification requirements and every increasing regulatory import conditions.
- Focus on improving investment environment – cost of finance, availability of and rules governing State Aid.
- Maintain a strong focus on food safety along the entire food chain to minimise industry risk and further enhance milk quality. Be a world class leader on milk quality and animal health.
- Maintain a focus on sustainable intensification of agriculture – SDAS, Origin Green, Carbon Navigator, etc.
- Ensure that policy and regulatory developments on climate change commitments do not inhibit growth potential. Preferably, advocate for climate change reduction targets to be set at EU level as national reduction targets will limit milk production in Europe's most sustainable dairy producing country. In any case, Ireland must not accept an unrealistic target under the 'Effort Sharing' approach.
- Increase support for innovation to drive value-add in agri-food output.

Are there emerging market opportunities that should be considered as part of a new strategy for the sector to 2025?

- Significant market segments for the Irish dairy industry to pursue: Health & Wellness, Performance Nutrition, Active Ageing, Gender-specific nutrition.
- Growing demand in consumer markets for grass-based dairy products.
- Free Trade Agreement negotiations – removal of tariffs and non-tariff barriers. EU exporters losing out in international trade as competitor nations conclude FTAs (e.g. NZ/Australia and China).
- IDB & Bord Bia role in developing new markets, in conjunction with companies, for increased Irish dairy output – prioritisation of Africa, China, Russia and MENA. Ireland's dairy expansion is based on its ability to develop penetration of key global markets.
- Further development of Specialised Nutrition sector.
- Innovation in product and process formats for new and developing markets.

What should be the scale of our ambition for the sector?

- The 50% growth in milk output volume is the major focus of FH2020. While it is important to set targets (volume, value, etc. – see below), we should also define our ambition in ways other than litres of milk. This is simply the raw material. Our ambition should be to efficiently convert our milk output into a suite of ingredients and products that are safe, high-value and sustainably produced. Ireland to be seen as the first-choice sustainable supply partner.
- Our strategy should be to confirm Ireland as a world leader in the area of safe, high quality, sustainable grass-based dairy ingredients and products - a best in class example of agricultural and business practices at every link in the supply chain, with metrics in place to measure this.
- Our future success depends on how we build our reputation and competence in this space. It requires highly integrated agencies working to well defined vision, strategy and tactics and aligned with industry as well as academia and research organisations.
- Ireland's agri-food sector should be seen as the recognized global industry leader in both knowledge and production.
- As indicated above, given the right conditions, further volume expansion in milk output in Ireland will occur in the period 2020 to 2025 but perhaps at a more modest pace. Existing FH2020 targets will see milk output grow from 5bn to 7.5bn litres. Annual growth at a rate of 3-5% in the period (2020 – 2025) would see milk output volumes rise to approx. 9bn litres annually. If our aim is to increase the value-add of ingredients/products that derive from this milk, then we should consider a target for dairy export value of at least €6 billion annually by 2025 (based on €3bn in 2013).
- Strategy should also aim to develop an industry model that can withstand periods of extreme price volatility. Key attributes would include: highly efficient throughout the chain, innovative, diversified in product offering and market portfolio.

2. Sustainability / Climate Change

Questions:

How can Ireland build on existing policies and standards to promote more sustainable agriculture, forestry and fisheries and to meet our national, EU and international commitments in these areas? How do we reconcile these actions with the need to optimise food production, economic growth and job creation?

- Ireland is still in economic recovery mode and therefore, only realistic international commitments on climate change can be considered.
- Progress made in recent EU Council conclusions on EU Climate & Energy Framework to 2030 (recognition of specific issues for agriculture) must be built upon. Emission reduction targets should be EU based to mirror the migration of dairy production from Southern to Northern Europe.
- National Climate Action and Low-Carbon Development Bill 2014 – sectoral approach important. Also, maintain the approach of carbon neutrality in the agriculture sector and land-use sector including forestry, which does not compromise capacity for sustainable food production.

- Continue to promote Ireland's advantage as a source of efficient food/dairy production in global terms.
- Roll-out and further development of SDAS. Increased usage of Carbon Navigator tool on-farm.
- Processing efficiency improvements through research and innovation (DPTC – Pillars 1, 2 and 5).
- All sites IPPC/IED licenced. Revision of EU Food, Drink & Milk BREF improving environmental performance.
- Ensure carbon leakage provisions for all dairy processing activities are maintained post-2020.
- Need to continue to innovate to reduce or valorise by-products in the industry as these are generally indicative of waste and inefficiency but can lead to novel/new bioactives and ingredients.

In the context of the development of the agri-food sector to 2025, what specific actions should be taken by farmers/fishermen, processors and the State on:

- Greenhouse gas emissions and sequestration
- Air, water and soil quality
- Biodiversity; Bioenergy development
- Sustainable fisheries and aquaculture
- Securing appropriate outcome from negotiations on EU Climate & Energy Framework to 2030 (with recognition of specific issues for agriculture) and fair result on effort-sharing commitment for Ireland - **State**.
- National Climate Action and Low-Carbon Development Bill 2014 – **State**.
- Greening provisions of CAP and Rural Development measures – **State & Farmer**.
- Roll-out and further development of SDAS – **Farmer, Processor & State (Bord Bia)**.
- Increased usage of Carbon Navigator tool on-farm – **Farmer & State** (Dairy Knowledge Transfer Groups).
- Advancing genetic developments for increased performance – **Farmer & State** (ICBF/Teagasc).
- Promoting further grass-land management knowledge transfer and application - **State** (Teagasc)
- Prioritising R&D on reducing greenhouse gas emissions within the context of a pasture based dairy production system – **State** (Teagasc)
- Processing efficiency improvements through research and innovation – **Processor & State** (DPTC).

3. Global market context including opportunities for FDI

Questions:

What major changes/challenges are likely to emerge in the global market for food and drink in the period to 2025?

- While we will see continued medium to long term growth in demand for dairy ingredients and products, a major challenge will be increased price volatility (both in magnitude and frequency).

- The metrics of food safety and the detection of contaminants are changing as new testing systems are adopted around the world. This represents a growing challenge to export countries as traditional metrics may no longer be sufficient to command a leading market position. We must ensure that our systems, metrics and processes keep pace, as others adopt increasingly sophisticated testing methodologies.
- Strength of international competition.
- Faster progress by international competitors on FTAs, giving an advantage to them on access/trade.
- Food security and control of resources. Continued focus on sustainable sourcing. A differentiator for Ireland.
- Fragmentation of markets, in particular within EU, arising from issues such as country of origin, nutrition or quality labelling rules.
- Growth in performance/specialised nutrition. Demand to meet health & wellness agenda. In mature markets, increased focus on obesity. Demographic shift over the next ten years to ageing population.
- Regulatory environment for infant and clinical nutrition products, including revised compositional criteria, restrictions on the use of new ingredients and increased marketing constraints.
- Inability of regulatory framework to allow industry to readily adopt and enable innovation commercialisation.
- Emergence of new competitors, from a geographic and product perspective. (e.g. India, Soy)
- China has been crucial to the long term health of the Irish dairy industry, long term reports are positive, but could be over optimistic. Should we evaluate our dependence on China?
- Continued focus on traceability. Also a differentiator for Ireland.
- Developing world population growth and the access to these markets. Home markets (particularly in the context of population demographics) will continue to stagnate.
- Growing retail concentration and buying power in grocery markets in Europe.
- Marketing restrictions/discriminatory taxes on food and beverage products.

How could Ireland be better placed to compete in the global market over the next decade?

- Business costs (see section 4 below). Can we do any more on energy - we are more expensive than our EU partners and the EU is less competitive on energy than the US. The dairy industry is a big energy user.
- Development of anti-volatility / risk mitigation measures – constant focus on efficiency throughout the supply chain; safeguard SFP for the productive sector; enhanced market information flow and understanding of market trends; expanding supply contracts; futures markets; margin protection type programmes under CAP Pillar II, etc.

- Increased efficiency across the entire value/supply chain.
- EU FTAs to match or exceed our international competitors (FTAs with US, Japan, China, etc.).
- Quality & Food Safety – we should never rest on our laurels.
- Enhanced DAFM resources to meet growing third country requirements for individual (as opposed to system) plant approvals for market access and for veterinary certification. Ensure that any new demands on veterinary certification do not interfere with existing supply chain arrangements.
- Dedicated resources within embassies, Bord Bia and Enterprise Ireland offices abroad to assist exporters in knowing about and complying with in-market regulations, including registration (where relevant) and national product specification and labelling requirements and to provide an in-market link with the local authorities.
- Upscale research and innovation for new product and process development.
- Development of a recognised point of differentiation for Irish dairy centred on sustainability and Ireland's grass-based production system. Origin Green – sustainable sourcing.
- Ensure that future developments at EU level on country of origin labelling do not compromise Ireland's ability to market its dairy products as Irish or limit marketing of dairy ingredients.
- Human resource dimension – education & training – to ensure appropriate supply of researchers, process engineers, management professionals. Centre of academic excellence for dairy (science and business) at 3rd and 4th level to ensure that new skills/knowledge can be readily adopted by the sector.
- More cooperation, less competition amongst Irish exporters.
- More access to market research and consumer research

Should Ireland seek to better identify and target high value niche markets, and if so how?

- Yes. Key factors of success may be:
 - Our attractiveness in meeting sustainable sourcing demands;
 - Increased and focussed investment in research and innovation. Monitor delivery on existing investment and assess the impact of investments in terms of outcomes rather than outputs.
 - Increased promotional spend – EU promotion budget for international markets.
- Industry should be supported and encouraged to pursue high-value strategies. Government policy should support this approach through skills development, training investment and a supportive regulatory regime.
- Communicate the quality and differentiation of the products that we produce and export. Ireland as first-choice partner for traceable, safe, quality, sustainable supply.
- Understand niche markets and deliver product-based and/or ingredient solutions into these markets

Should we encourage increased international investment (FDI, Joint Ventures) in our agri-food industry and/or develop strategic alliances with partners in rapidly growing markets?

- Development of strategic alliances with partners in rapidly growing markets is being pursued and is delivering. Can the State do more to facilitate these sort of overseas ventures? There can be a role for the State where barriers to FDI exist in third countries.
- Focus should be on investment in domestic / existing companies – State Aid rules are limiting potential for much needed support.
- Caution should be exercised in supporting FDI in Ireland where the value/profit generated by the sector could potentially be expatriated, or where strategic control of the sector would move abroad.
- Strategic research and innovation alliances with high quality international partners should be encouraged.

4. Competitiveness & innovation

Questions:

What can be done to improve the competitiveness of the agri-food sector over the next decade? Are there examples of best practice from abroad that could be adopted in Ireland?

- Tackling business costs – energy, labour, finance, waste, etc.
- Continued investment (private/State) in industry-led research and innovation. Implement the National Research Prioritisation Action Plans related to agri-food and ensure that a coherent and integrated framework for investment is in place and adhered to
- Productivity enhancement.
- Land mobility for farm-level expansion/holding consolidation.
- Treating farms like going-concern business is key. Lowering & maintaining lower production cost is essential.
- Consolidation of processing would logically lead to efficiencies but would be difficult to achieve.
- Building on the great strides made in export certification in light of the growing demand for single veterinary certs.

What measures should be adopted at farm level to improve competitiveness?

- Increasing land mobility – build on the agri-taxation review measures in Budget 2015 in the areas of: income thresholds for relief from leasing income, thresholds for lease periods, age threshold for eligibility, Agricultural Relief on Capital Acquisitions Tax, Retirement Relief from Capital Gains Tax, etc.
- Genomics
- Farm management training
- Widespread utilisation of the carbon navigator tool at farm level

- Improved procurement of inputs
- More widespread usage of grassland management techniques
- Quality-linked payment schemes
- Increased focus and resource allocation on animal health and animal welfare initiatives (including cost benefit analysis of programmes)
- Further roll out of Knowledge Transfer groups

What measures should be adopted at industry level to improve competitiveness?

- Tackling Business Costs:
 - Electricity costs 5th highest in euro zone;
 - New business loan rates 27-31% higher than euro zone average
 - Labour costs are 6th highest in the euro zone
 - Overdrafts 11.5% more expensive than euro zone average
 - Waste water charges increased by 39% since 2007
- The National Competitiveness Council's 2014 Scorecard noted that "Ireland has already begun to slip in terms of our relative cost competitiveness following a period of improvement during the recession".
- Research & Innovation:
 - Increased investment (Private & State), output audit/value for money
 - Consolidated / integrated research initiatives
 - Tap into EU funding - work with the national network for European funding i.e. Horizon 2020, Enterprise Europe Network and the Technology Platforms to align with and identify areas of interest for investment at a European level
 - Skill development
- Investment:
 - Ensure sufficient access to funds at competitive rates
 - State aids support – mid-term review of Regional Aid rules (2016)
 - Further possible expansion, a more consolidated Coop model? Joint investments.

What emerging / existing technologies might significantly impact on the agri-food sector in the years ahead?

- Genomics
- Carbon Navigator
- Energy efficiency in processing
- DNA profiling / Nanotechnology / GMO
- Shelf-life technology
- Functionality
- Milk bio active fractionation, isolation of "healthy" components.
- Enhanced testing procedures
- "Big data" used in genetic/herd health improvements
- The regulatory framework should allow for the safe and appropriate adoption new technology, underpinned by evidence based scientific assessment.

How can we maximise job creation within a competitive agri-food sector over the next ten years?

- Employment optimisation needs to be the focus of sector development, rather than employment maximisation.
- Further volume increase in dairy will generate additional jobs at farm, processing and services levels.
- Maximise processing in Ireland – investment in value-add processing and technologies.
- Moving up the value chain.
- As the sector advances, the nature of employment in the sector will change. The requirement for knowledge application will increase, providing expanded opportunities for high value employment.

What areas should we prioritise to encourage increased innovation in the agri-food sector?

- Research & Innovation tax incentives across all stages of the supply chain. How will implementation of the proposed 'Knowledge Box' scheme apply to indigenous companies and can it enable Irish companies to build RDI global partnerships.
- Concrete examples of value generating innovation should be championed.
- Streamline bureaucracy of State aid for research.
- Support Industry-led / near-to-market research.
- Increased access to EU innovation funds.
- Translation of research outputs to outcomes

5. Risks

Questions:

What do you consider the most critical risks facing the Irish agri-food sector and rank in order (1=highest risk, etc.)?

Risk	Mitigation
Volatility	<ul style="list-style-type: none">• Focus on efficiency• Maintain SFP for productive sector• Explore futures markets, contracts and schemes such as the US Margin Protection Programme
Reputational risk –in the context of product safety, quality and sustainability	<ul style="list-style-type: none">• Enhanced focus and prioritisation of milk quality, animal health and sustainability• Review of systems, metrics and processes throughout the chain
Challenge to standards in time of expansion	<ul style="list-style-type: none">• Training in farm management for larger enterprises• Dairy Knowledge Transfer programme• Review of systems, metrics and processes throughout the chain

Food Scare event	<ul style="list-style-type: none"> • Horizon scanning • Maintain investment in Ag inspectorate and FSAI resources • Review of systems, metrics and processes throughout the chain
Climate Change Commitments	<ul style="list-style-type: none"> • Special recognition for agriculture in EU / international emission reduction commitments • Target reductions at EU level • Fairer 'effort-sharing' commitment for Ireland in the EU Climate & Energy Framework 2030
Management skills & availability	<ul style="list-style-type: none"> • Leadership programme • Innovation managers – coming through from research programmes
Market Closures/restrictions	<ul style="list-style-type: none"> • Maximising product portfolio and market access • FTAs – remove tariff & non-tariff barriers
Strength of international competition	<ul style="list-style-type: none"> • Develop a recognised point of difference for Irish dairy • Move higher up the value chain • Increase efficiency across the value chain • Keep pace on FTAs
Lack of coordination and duplication in market place	<ul style="list-style-type: none"> • More coordinated strategy on exporting and investment, within the confines of competition policy

What measures should be taken to mitigate or better manage potential market and economic risks?

- Focus on efficiency an farm and processing level
 - Farm – genomics, carbon navigator, Knowledge Transfer groups
 - Processing – LEAN programmes, business costs, innovation
- Maintain SFP for productive sector.
- Explore futures markets, contracts and schemes such as the US Margin Protection Programme.
- Consider a broad spread of markets and product categories to minimise the risk.
- Be flexible in cost and capacity to weather any significant changes in demand in the medium term.

How can we best manage risks to food safety, animal and plant health?

- The metrics of food safety and the detection of contaminants are changing as new testing systems are adopted around the world. This represents a growing challenge to export countries as traditional metrics may no longer be sufficient to command a leading market position. We must ensure that our systems, metrics and processes keep pace, as others adopt increasingly sophisticated testing methodologies.
- Maintain investment in Ag inspectorate and FSAI resources (Regulation and the implementation of the regulation).
- Training for farmers/farm managers in managing expanded enterprises.
- Education and awareness – prioritise quality as number one focus of entire sector, creating a culture of quality assurance at all levels of the supply chain.