

IRISH RURAL BUSINESS SOLUTIONS

***Food Strategy 2025
Questionnaire
Annex A***

FOOD HARVEST 2020 – IS IT A SUCCESS STORY?

written by

Stuart M. Meikle

www.IRBS.guru

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It was with some sadness that one read that the Food Harvest 2020 strategy development approach is to be reused for a 2015 to 2025 strategy. I have written at length about FH 2020 and have long concluded that it lacked the analytical depth required. As a consequence expansion targets were set that may have been advantageous to some in the food industry looking for economies of scale to support their global sales ambitions but it did not give due regard to Ireland's farmers. Nevertheless, it appears that FH2020 is seen as a success because data shows that exports of agri-food products have increased over the period from the FH2020 baseline years of 2007-09. I fear that a visit to the databases of the Central Statistics Office is required!

Using the CSO code zero for total food and live animals gives average exports of nearly exactly €7 billion for the 2007-09 base year [using the three year average]. By 2013 this had risen to €8.75 billion. Part year data for 2014 would suggest that this will have risen by about another 8% to around €9.5 billion for 2014. To this can be added code 11 for beverages; a relatively static €1.1 billion to give a total of about €10.6 billion for 2014. In percentage terms code zero has seen a growth of 25% or about 4.5% per annum to 2013. Add in 2014 estimates and it is 35%.

When one looks at the above in the context of the FH2020 target of "achieving [by 2020] an export target of €12 billion for the [agri-food] sector. This represents a 42% increase compared to the 2007-2009 average" (FH2020, page 8), using this single measure of success clearly shows that the FH2020 strategy led to a success story.

DOES FOOD HARVEST 2020 SUCCESS STAND UP TO IN-DEPTH SCRUTINY?

Now let us dig a little further. Over the base year to 2013 period, code zero imports have risen by 32% from about €4.5 to €6 billion. On this basis the trade balance has only risen from €2.4 to €2.7 billion; a far less impressive figure. Further if one adds code 4 for animal and vegetable fats, the trade balance narrows further. Add in the cost of imported fertilisers [code 56] which the Irish farming industry is reliant on and the trade balance become €1.95 billion rising to €2.05 billion. Add back in code 11 for beverages and the figures are €2.35 and €2.40 billion. That is a trade balance rise of about 2% over five years. One would have to say that 2% is not such an indicator of success.

One accepts that food prices have been rising and that will have influenced the value of food imports so one could say that the rise in exports has offset increased local food import costs. With a fairly static population will this have accounted for a €1.5 billion rise in imports? And any food prices rises will also have acted on the other side of the equation and inflated export values. There has also been a rise in feed [doubled] and fertiliser [+40%] imports.

An interesting point to mention here is there has not just been a rise in imported agricultural inputs. There also appears to be a rise in the imports of raw materials used for processing within the agri-foods facilities of Ireland? One is aware that the dairy processing side has been expanding to handle anticipated increases in post-quota milk supplies in 2015 but imports of dairy products have actually risen by nearly 50% from 2010 and look to increase by a further 25% in 2014. A recent article in Agriland (December 5th, 2014) highlighted just how imports of dairy products [lactose, skimmed milk powder and whey powder equivalent to 1.25 billion litres of milk] have risen. Thus is it fair to conclude that this reflects an increase in raw materials imports specifically for secondary processing? If so, just how much of the increase in export value is actually attributable to the processing for export of imported raw materials? Also one might speculate, given the current dramatic falls in the global milk price, will there be a temptation for some processors to import rather than source locally?

With so much focus on dairy, one should not over-look the fact that about 40% of the code zero exports are attributable to meat and live animal exports. Between 2007-09 and 2013 these rose by about €0.7 billion. However, over a similar period the Bord Bia R3 steer price rose by nearly 40%. Thus it is possible to conclude that nearly half of the rise in code zero food exports was down to the rise in beef prices; a factor that was not greatly influenced by FH2020 food strategy.

The rise in dairy exports themselves was around €0.5 billion. To put this into context, Datum data suggests that from 2007-09 EU butter prices rose by nearly 40% whilst prices for skimmed milk and whey powder rose by a little over 20%. Strangely, a price trend for EU cheese is not so easy to find so the author decided to look at UK wholesale prices as the UK is the major export destination for Irish cheese. In the UK, wholesale cheese prices rose by about 25% [whereas butter rose by 50%]. Again, should one could conclude that the primary reason for the rise in export value was broader market price movements rather than FH2020 strategy?

THE SUCCESS OF INFANT FORMULA EXPORTS

Finally one should also look at the exports of infant formula. As the producer of 1/6th of the World's infant formula this is rightfully considered a success story. Whether this is actually going to deliver enhanced returns to the dairy farmer is a different matter given that the production and sale of the infant formula is largely in the hands of multi-nationals [with the Irish, farmer-owned co-operatives being suppliers of raw materials]. If one looks at code 098.93 and assumes that it is mainly infant formula, exports in 2013 were nearly €0.75 billion [8.5% of code zero exports].

Infant formula as a sector is in itself noteworthy because it has been the focus of attention for many dairy industries around the world since the Chinese melamine contamination crisis in 2008. Since 2010 Ireland has started selling increasing quantities into China and this has driven up its average export sales value [China and Hong Kong are the highest value markets]. The latest data to September 2014 shows that further volume inroads are being made into the Chinese market, thus further raising both the average value of exports and the total export value itself. To put it into a wider context though, infant formula sales to China and Hong Kong have now passed the €200 million mark but that still only accounts for about 2¼% of Ireland's code zero food and live animal exports.

As highlighted earlier, there is also a question mark over how much of the increase in dairy product exports can be attributed to the processing of imported dairy raw materials. Given that FH2020 is about the entire agri-food sector it is perfectly justifiable to include increases in exports resulting from further processing within Ireland, but one has to question whether it is a point that carries great weight when looking at the farming and rural sectors; both of whom are highly relevant to a national agri-foods strategy. Yes they generate economic activity and employment but I expect that the jury is still out on whether these additional exports directly benefit those in rural Ireland.

JUST HOW TENUOUS ARE THE CLAIMS ABOUT THE SUCCESS OF THE FH2020 STRATEGY?

When one starts drawing these various strings together one begins to wonder just how tenuous are the claims about the success of the FH2020 strategy. It could well be that most of the increase in export values can be principally attributable to wider, general market price rises. A little more may be accounted for by adding value to imported dairy ingredients. The rest can largely be attributable to the export of fish [03] and other processed foods [09] that, again, are likely to have a significant inclusion of imported ingredients.

So if the reader has an interest in farming and seeing improved farm incomes due to FH2020 directed activity, just what is one to conclude? Has there been anything that has actually directly improved farm incomes? From a rural

development perspective has there been any significant advances? Is the reality one where the 'success' of FH2020 is nearly entirely due to rising prices and in-factory processing of non-Irish-sourced raw materials rather than factors that result in improved farm incomes and a stronger rural economy?

To conclude, is the export success being attributed to FH2020 solely derived from increases in export prices over the 2007-09 to 2013 period? If so, how rapidly will this success change to failure in 2014 and 2015 with falling dairy product and meat prices? To a small degree some of these price falls may be offset by value-added occurring within Ireland, but will the value-added directly benefit the farmers of Ireland, let alone the rural communities they live within? Or will the value-added benefits go to those multi-national companies that control much of the secondary processing [or primary as in the meat sector] in Ireland. And one should not forget that they also own so many of the retail brands that are linked to Ireland?

What we are now seeing in Ireland is an agri-food processing industry that is separated from the farming and rural sectors. In the beef sector this is very clear. In the dairy sector the waters are muddied by the primary processing presence of the farmer-owned co-operatives. One should ask to what degree do the latter own brands and create retail products, or are they just primary milk processors who provide raw materials for their secondary, real-value creating, supply-chain partners?

IT IS TOO EARLY TO JUDGE THE SUCCESS OF FH2020

Ultimately, it is too early to judge the success of FH2020 as, until now, it has delivered on a single key performance indicator, namely exports; and those results are likely to be mainly due to market price rises than anything that has resulted from FH2020 strategy. On the beef side there have also been aspects of FH2020 that one could suggest have back-fired and contributed to the beef crisis in 2014. One should also mention that within the context of it being a strategy paper, market analysis as part of preparing FH2020 should have brought attention to the major changes in the UK beef market that have now seriously impacted upon Irish beef farmers.

We have, however, yet to see the true legacy of FH2020 and that may well unravel in 2015. Without doubt, the single most talked about recommendation of FH2020 was to expand milk production by 50% by 2020. It was a target set years before the ending of milk-quota but it did, along with many cheerleaders, champion the idea of expanding primary milk processing capacity in preparation for increased milk production from 2015. Farmers were likewise encouraged to prepare for the 'once-in-a-lifetime' opportunity to expand. What went largely unnoticed was that the secondary processors were leaving the primary processors to expand to handle the anticipated additional milk output. Apparently processing milk into commodities was not for them. Hence, the expansion encouraged by FH2020, from the dairy farm through to the primary-processing was to be funded under farmer ownership.

The result is that those aspects of the supply-chain that require significant investment have been left to the Irish farmer [with the banks being encouraged to help]. These also happen to be the parts of the supply-chain that are most vulnerable to market changes creating price volatility. One does not need to look further than what is now happening at the end of 2014 and into 2015 [to coincide with the ending of the EU milk quotas] to see who is actually paying the price for the global dairy sectors overly vigorous investment in response to 2008-10 market signals; the dairy farmer. If the downturn in milk prices resulting from over-supply and under demand lasts for any significant period, in Ireland the pain will be felt by both the dairy farmer and their co-operatives. There is now talk of a dairy crisis [to follow the beef crisis] and one does wonder just how those in the farming and primary processing will survive? For those who have over invested and/or borrowed to invest, times will be especially difficult.

As to FH2020 and the oncoming dairy crisis, is there a degree of responsibility for the situation that should be attributed to FH2020? Clearly FH2020 was pushing for milk expansion from 2015 but is it fair to state that it was a poorly set strategic objective? As I stated in my review of FH2020, for the dairy sector it was all about thinking short and planning long. Too much thinking was based upon 2008-10 market data and too much has been made of China's dairy crisis and China's economic boom. On top of that has been overlaid global population expansion expectations even though they were projections to 2050 [although one wonders if the extra two billion was not due to arrive tomorrow]. To be fair, these justifications were commonly used across the dairy sector and they did trigger a widespread supply reaction. The major difference was that others [including a less quota constrained UK] could react and expanded many years before Ireland could even begin in 2015. As a result of their enthusiastic investment, Ireland has invested into a major downturn and it is one that could be critical for many. Should this possible market-led investment scenario [starting from say 2010] have been identified when FH2020 was prepared? The answer is yes, but only if a very thorough demand and supply market analysis had been made at the time. And was this done?

So if we look forwards into 2015 just what are we going to see? A continued beef crisis as the Irish industry comes to terms with losing access to the mid-to-upper echelons of the UK market [due to the renationalisation of the UK beef market] is likely. And maybe open should ask whether something a similar could happen in the UK butter and cheese markets? And if it does will Irish eyes [as appears to be the case with beef] be too busy being distracted by 'opportunities' elsewhere to notice another major export market slip quietly away? Will there be a deepening dairy crisis as the global markets enforce a supply readjustment or just await the arrival of positive demand-side change? And, with respect to that primary performance indicator for FH2020, will we see a decline in Irish food exports as the value of agricultural produce and primary-processed commodities falls?. It is a bleak outlook and especially so for the Irish farming community. They can, however, now take comfort from the fact that FH2020 is considered to have been such a success that it is now to be re-trod to provide the basis for an Irish agri-food strategy to 2025.

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