

PCF Council Response to

2025 Agri-Food Strategy Public Consultation Questionnaire

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

Food Harvest 2020, the strategic plan for the development of the agri-food and fisheries sector, was developed during late 2009 and 2010. Given that much has changed since then, it is now timely to review what has been achieved and set out a new strategic vision for the sector over the coming decade to 2025.

The Food Harvest 2020 vision was based on the concept of Smart, Green, Growth. We have carefully monitored progress over the last 4 years and the recently published Milestones for Success 2014 sets out what has been achieved over that period.

We would now welcome your views on the progress that has been made under the Food Harvest 2020 Strategy and your suggestions as to what we can do better over the next decade to further develop the agri-food sector in Ireland.

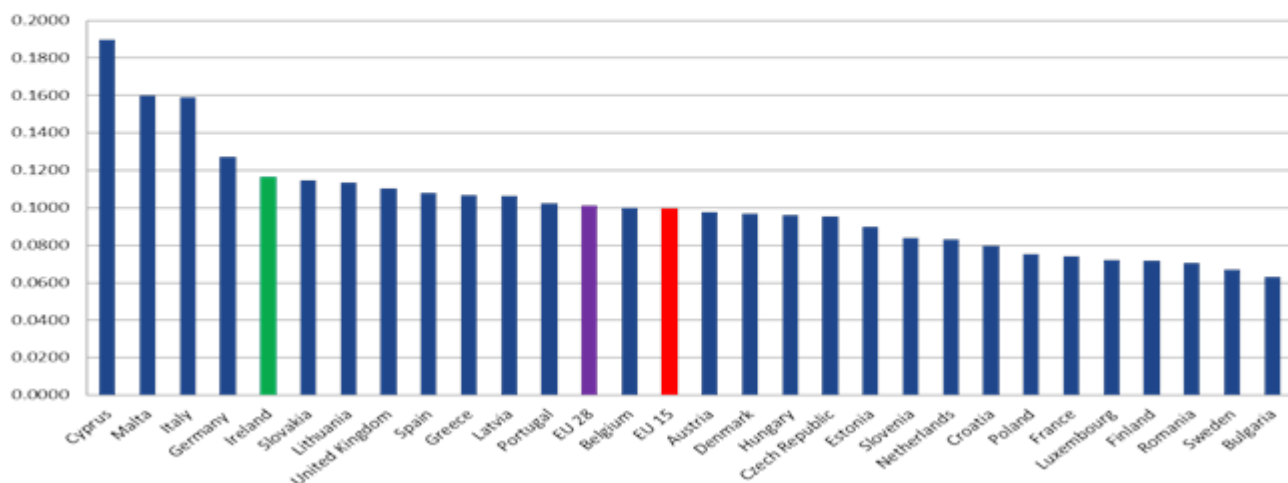
Questions:

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

The FH2020 strategy is in good health and on track to reach its overall export target of 42% by 2020. Overall agri-food exports continue to perform strongly. Even accepting the key role played by favourable global commodity prices and export friendly exchange rates, the sector has performed strongly in recent years. However, there is no room for complacency. A number of issues still need to be addressed and a range of policy interventions are required if Ireland is to reach all the FH2020 targets and truly become a world leader in food and drink production.

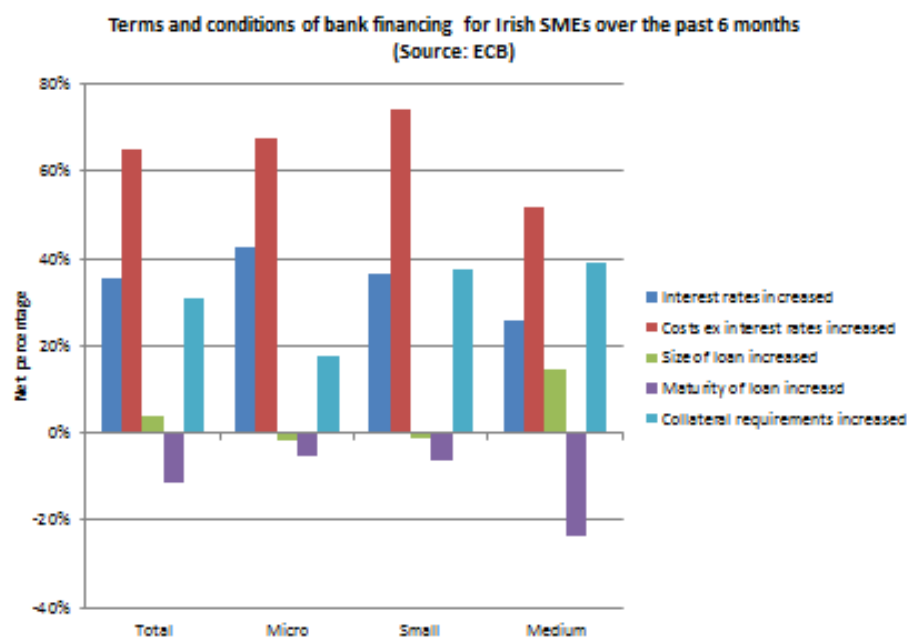
From a competitive standpoint, Ireland is failing. Everyday, in both domestic and export markets, foreign competitors are taking business away from Irish companies. These competitors often dwarf Irish companies in terms of scale, available resources, state support and innovation capabilities. The National 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". The growing cost of doing business in Ireland threatens to undermine all of the hard-won progress to date. Business compliance and regulatory costs are significantly out of step with many of our EU competitor economies, in whose markets we hope to compete. Irish electricity costs are the 5th highest in the euro area. Diesel is 7% more expensive in Ireland than the euro area average. Water costs are the 5th highest of 16 EU countries. Labour costs are the 6th highest in the euro area. Wastewater charges have increased by 39% since 2007

Relative electricity prices - excluding VAT - Food & Drink Manufacturers S2 2013



Source: Eurostat

In addition to this, there is market failure in access to finance and an absence of investment and scaling tools for the wider food manufacturing sector (especially for SMEs). Overdrafts are 11.5% more expensive than the euro area average. New business loan rates are 27-31% higher than the euro area average. Ireland also needs to raise its game in the innovation life-cycle if it is to stay ahead of the curve and develop premium high quality value added products.



Source: Eurostat

From a **Prepared Consumer Foods** (PCF) perspective, it is welcome news that in September Minister Simon Coveney formerly welcomed the PCF strategy document 'A 10 Year Vision for Prepared Consumer Foods'. The strategy defines the scope and complexity of this critically important sector more thoroughly than ever before. For the first time, it establishes a robust starting point and an ambitious roadmap showing how the sector can lead the Irish food industry's future growth up to – and beyond – 2020. The PCF Strategy is very clear on what needs to be done to ensure the aforementioned competitive gaps are closed.

Going forward, greater attention needs to be paid to the **domestic market**. In 2013 the Irish market accounted for 47% of all PCF sales. The Irish market is worth 1.9bn. The domestic market is an essential platform for Irish food and drink companies looking to grow their business. In most cases success at home is a prerequisite to export success. Therefore, while the value-added sector (which includes PCF) has seen a 23% increase in production since 2010, it should be recognised that PCF imports have actually grown by 46% since 2006. In 2013 there was a €700m trade deficit. Correcting this imbalance should not be seen as a separate objective but part of the overall FH2020 mind-set.

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

Food Harvest 2025 needs to build on the successes and learnings of Food Harvest 2020.

- A greater focus on addressing the high domestic cost base including energy, waste, local authority rates, and an onerous regulatory burden. (Government - at local and national level – and semi-state bodies have proved unwilling to address the need for structural change. This failure has resulted in an uncompetitive and damaging high domestic cost base.
- A focus on improving the investment environment. This means reviewing constricting EU State Aid Rules in 2016 and addressing a market failure in finance from financial institutions, venture capital and shortcomings in state-supported funds
- An intensification of efforts by the state to amend the current EU State-Aid rules which have hindered job creation and the growth and scale of Irish food and drinks companies. Redressing this flawed system will require a concerted and proactive effort by government. Alliances will also have to be built/renewed with other EU states that have experienced similar pressures in this area.
- Like its predecessor the strategy needs to be target-based. Concrete targets provide focus and engender responsibility.
- Achieving scale needs to be a top priority
- The 2025 strategy should recognise the importance of the PCF sector which has a gross output of €4bn and directly employs 20,600 people throughout the country. In this respect PCF should be given the same degree of attention as beef and dairy

- The definition of PCF in the PCF Strategy has been adopted by the Government and all agencies should align and co-ordinate their approach accordingly. This will ensure everyone is working in unison to reach the 2025 targets for PCF.
- As stated, the 2025 strategy should not neglect the domestic market which is worth €1.9bn and accounts for 47% of all PCF sales
- A focus on attracting, developing and retaining talent
- A new focus on R&D and innovation for PCF
- State agency funding to be increased to ensure the effective delivery of the full 2025 strategy

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

From a PCF perspective the 2025 strategy should consider

- Strengthening market share in existing European markets
- Bord Bia's 2012 Market Prioritisation study identified Ireland, Britain, Netherlands and Germany as priority markets for Prepared Foods. This report- carried out every two years should provide greater insight into where the opportunities are for the PCF category. It is recommended that in future this report go into greater detail for the PCF category.
- The continued importance of the UK Market and the potential to grow market share further. It should also be noted that the UK population is expected to grow by 10 million in the next 25 years
- The potential to correct the current trade imbalance and rebuild domestic market share
- Health & Wellness Trends & Performance Nutrition (Including a growing demand for reformulated products)
- Greater alignment of New Product Development & Consumer Insight. As noted in the background paper for this consultation, competitor countries have advanced innovation capabilities at the manufacturing end. Therefore, a major challenge for the Irish agri-food ecosystem is to further raise its game in the innovation life-cycle. Ireland needs to build on its achievement to date and establish itself as a world leader in the area of PCF food innovation and market insight.
- Innovations in packaging design and technology
- A study into improving transportation and logistics links with the UK market for Irish PCF companies to identify opportunities to increase supply chain efficiency and reduce costs.

- A greater focus on Free Trade Agreement negotiations and the removal of tariffs and non-tariff barriers – ensuring our competitors do not outflank us on bilateral agreements.
- A new dedicated market access unit in DAFM

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

PCF is a substantial and integral part of Irish agri-food. It is the primary opportunity area for growth in value-add and job creation. Central to a successful and ambitious 2025 agri-food strategy will be the delivery of the '10 Year Vision for PCF'

By 2025, the PCF sector should:

- Have led the future growth of the overall Irish food industry
- Deliver products that are recognised by consumers globally as innovative, safe, sustainably produced and of the highest quality
- Have developed into a dynamic sector based on talent, finance, research capability and government support;
- Be recognised as among the most advanced, efficient and sustainable PCF sectors globally

In numbers, the PCF sector should;

- Create 7,500 direct jobs to reach 28,100 employed
- Increase exports by 74% to 3.74bn
- Increase its share of the critical domestic market by 25% to 3.1billion
- Reduce the share of imports in the domestic sector by 10%

2. Sustainability / Climate Change

We recognise that the development of the PCF sector must take place in an environmentally sustainable manner. As an export driven food producer, the sustainability of Ireland's production systems is a critical point of differentiation for our food and drink produce on international markets. As food production increases in the coming years, we will face challenges in meeting EU and national environmental targets on climate change, biodiversity, air and water quality etc.

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 as stated the sector is already under pressure in terms of cost competitiveness. Therefore there is a need for realistic international commitments
- Progress made recently at EU Council level regarding EU Climate & Energy Framework to 2030 (i.e the recognition of specific issues for agriculture) must be built upon.
- Continued support and investment to help minimise packaging waste and food wastage at production level and the development of by-products

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**
- Increased usage of Carbon Navigator tool on-farm – **Farmer & State**
- Advancing genetic developments for increased performance – **Farmer & State**
- Processing and production efficiency improvements through research and innovation – **Farmer, Processor & State**

3. Global market context including opportunities for FDI

As an export dependent country, Ireland must continuously focus on developing relationships in new and expanding markets, building our reputation internationally and enhancing international consumer confidence in Irish production and control systems.

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

- Price – Deflation in Europe

- Continued medium to long-term growth for food ingredients and food products globally
- Emergence of new competitors and faster progress by international competitors in the areas of market access, food innovation, cost-competitiveness and market access and the regulatory framework
- An increased focus on obesity, nutrition, health and wellbeing
- An ageing population in Europe
- An increased focus on sustainable sourcing
- Increased demand to meet health and wellness agenda
- 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?

Secure funding so PCF companies can survive, scale, sustain and grow

- Establish a €500m PCF sector-specific fund through the ISIF with appropriate terms and conditions agreed with the PCF Advisory Board to make it feasible for companies (small, medium and large) to invest in enabling technology, plant renewal and expansion, refinancing, market development and innovation.

Reduce cost by introducing competitiveness improvement measures

- Put in place an exchequer-funded mechanism to keep industrial electricity prices at or below the European average.
- Eliminate unnecessary regulatory and administrative costs and introduce a fairer system of local government charges

Leverage the retailer relationship to grow domestic and export market share

- Establish an initiative whereby retailers are requested to commit to helping PCF companies achieve market share growth by increasing the level of support and access to shelves for Irish products in domestic and international networks

A New focus on R&D and innovation for PCF

- Establish and adequately fund a major shared food test/pilot facility/incubation centre to support PCF companies with a focus on pilot stage production, packaging innovation, reformulation and trouble-shooting research capacity

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

Yes.

- A continued focus on quality, food safety and sustainability

- Greater alignment of New Product Development & Consumer Insight. As noted in the background paper for this consultation, competitor countries have advanced innovation capabilities at the manufacturing end. Therefore, a major challenge for the Irish agri-food ecosystem is to further raise its game in the innovation life-cycle. Ireland needs to build on its achievement to date and establish itself as a world leader in the area of PCF food innovation and market insight.
- Bord Bia's latest Market Prioritisation study - carried out every two years - should provide greater insight into where the niche opportunities are for the PCF category. It is recommended that in future this report go into greater detail for the PCF category.

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?

Yes - but also focus on investment in existing companies that need to scale

4. Competitiveness & innovation

Ireland's agri-food sector primarily competes on the international food market and the ability to maintain our competitive advantage based on our low cost, grass based production systems is paramount. While the overall performance of Irish food and drink exports over the last few years has been very strong, we must build on our existing reputation as a supplier of quality food and drink produce and develop new, higher value products to market internationally if we are to realise the full potential of the sector.

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?

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

N/A

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

Tackle business costs/ improve access to finance/ revise state-aid rules.

Industry is continually pursuing cost improvement opportunities through lean manufacturing, six-sigma and the adoption of other operational excellence measures. But structural costs must also be reduced through effective government policy.

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

- GMO
- Nanotechnology

- Genomics
- Energy efficiency
- Shelf life technology
- Online shopping/ online consumer information
- Product reformulation technologies

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

- Growth and Scale
- An increase in domestic market share
- Greater investment

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

Greater alignment of New Product Development and Consumer Insight. NPD needs to be demand driven.

5. Risks

Our high regulatory standards in the areas of food safety and traceability underpin our reputation as a producer of high quality food and drink, providing reassurance to consumers abroad and serve as a source of competitive advantage. But the high level of exposure of our agri-food industry to a range of volatile external elements, means that we must focus on key risk factors and adopt measures to mitigate these risks. These risks range from increasing volatility on international commodity markets, currency risks, and geopolitical insecurity causing trade disruption to major food safety incidents which have generated concern amongst consumers internationally.

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

- Price volatility and retail buying power
- Food Safety Issue
- Loss of business due to lack of scale and a reduction in cost competitiveness
- Continued market failure in finance and inability to increase capacity/ rerew plant and introduce enabling technologies
- Marketing restrictions

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

- Improve the funding environment for PCF companies to grow
- Introduce suite of competitiveness improvement measures
- Leverage the retailer relationship to grow domestic and international market share
- Establish a new PCF-specific focus on R&D and innovation
- Enhance the skills and capabilities in the sector.

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

- Maintain investment in FSAI/DAFM inspectorate resources