Food Drink Ireland

Ibec

Sustaining growth

Economic impacts and policy challenges to 2030

Introduction

As Ireland's agri-food and drink sector begins to develop a new 10-year strategy, Food Drink Ireland has prepared this report to highlight the cross-cutting strategic challenges and opportunities as well as the necessary policy measures to underpin its continued success.

An analysis of the main economic indicators highlights the critical importance of the sector to the Irish economy and wider society and how compare against competitor economies. It shows a sector doing some things very well and some not so well:

+ Cornerstone of indigenous exports
+ Outlet for almost all the entire agricultural sector
+ High level of R&D intensity and educational attainment amongst its workforce
+ Labour availability concerns
+ Growth in productivity and exports
+ Receipt of most net credit advanced to Irish firms but facing a high cost of capital and low level of state aid support
+ 10% loss in cost competitiveness since 2015 with a further 20% loss for exporters into the sterling zone due to depreciation

National policy making has a role to play in ensuring that the agri-food and drink sector can play to its strengths and be resilient to challenges and threats. This report highlights the main policy implications and recommended measures to support this across the following areas:

+ Jobs and skills
+ Competitiveness
+ Market development
+ Innovation
+ Sustainability
+ Food safety, diet and nutrition

Brexit involves an unprecedented fracture of the single market, with agri-food and drink particularly exposed. A comprehensive response must support businesses investing in resilience, diversifying products and markets and upskilling employees.

One in eight jobs in the Irish economy are linked to agri-food and drink. Sustaining growth for the sector also sustains the wider economy.

Economic analysis

Direct expenditure
the largest purchaser of goods (€8.1bn) and services (€1.3bn) in the Irish economy of any exporting sector

Investment
75% of net credit advanced to Irish firms in last five years

R&D € spend per capita
Netherlands - €18.8
Ireland - €16
UK - €5.5

State aid as % of GDP
Ireland - 0.39%
EU28 - 0.53%
Germany - 0.82%

Export growth since 2010
UK - 36%
EU26 - 50%
3rd countries - 120%

Cost competitiveness
30% increase in cost of serving UK market since 2015 (domestic cost increases plus sterling depreciation)

Policy recommendations

Skills
Ensure the skills base of the agri-food industry reflects not just the current business demands but also the challenges of future growth in existing and new markets

Competitiveness
Control our cost base whilst helping companies innovate and improve both productivity and sustainability

Market development
Advance international market access by introducing measures to support the continued development of international export markets

Innovation
Continue the strong focus on and investment in industry-led applied and fundamental research

Sustainability
Support sustainable food production and processing

Food safety
Maintain a world class food safety regime

Brexit response
Policy responses must address all scenarios from no deal to future relationship

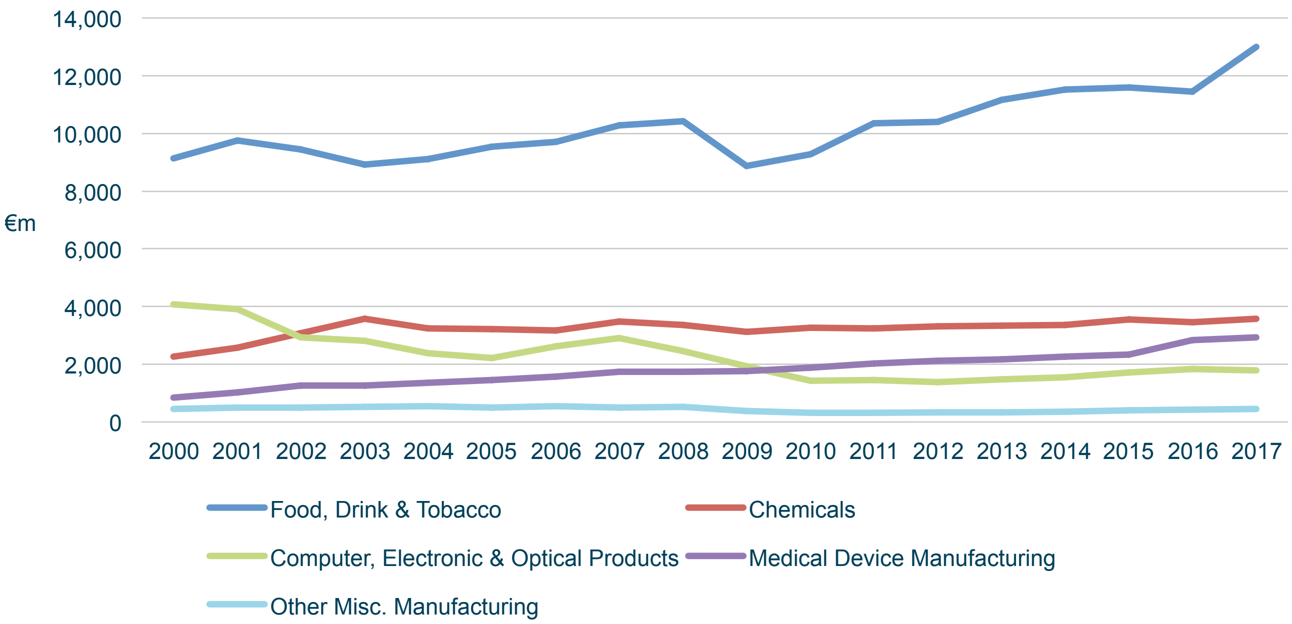
Chapter 1 Economic analysis

Scale and growth

The food and drink manufacturing sector is Ireland's largest indigenous exporting sector accounting for over a quarter of employment of Irish-owned exporting firms. The sector alone accounts for 38% of total indigenous exports and over 60% of indigenous manufactured exports.

In 2017, the sector spent €1.6 billion on payroll in Ireland, along with €8.1 billion on materials from indigenous suppliers, and €1.3 billion on domestic services. This make the food and drink sector by far the largest purchaser of goods and services in the Irish economy of any exporting sector.

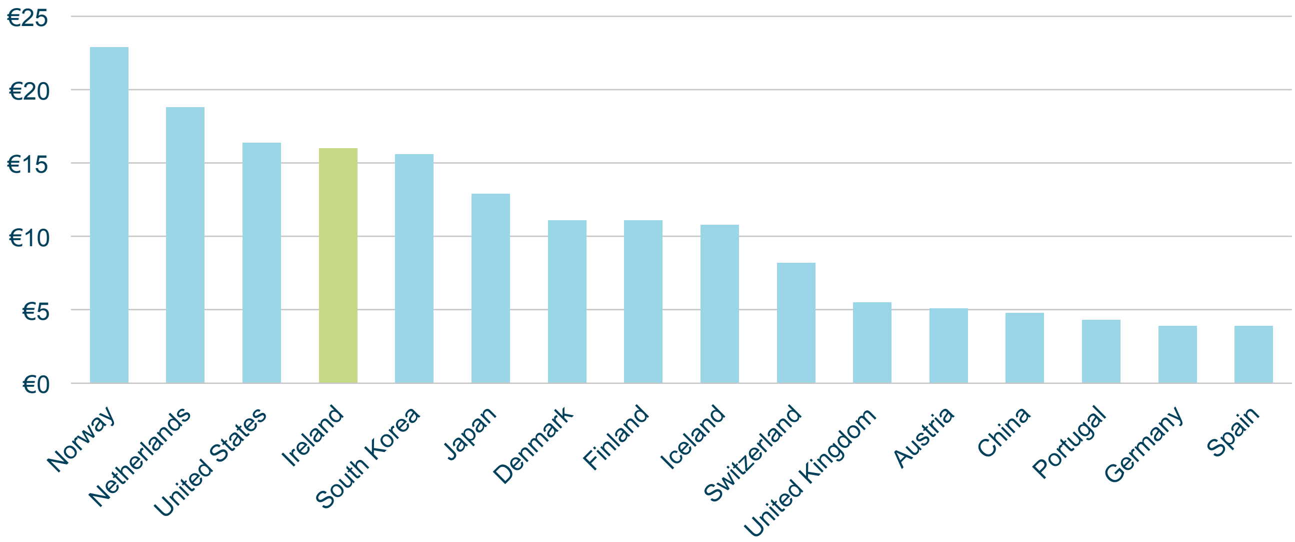
Direct expenditure in the Irish economy by exporting sector



For every euro in turnover of the Irish food and drink sector about 58c goes into the pocket of their, mostly rural, employees or suppliers. It accounts for 94% of the total external product flows from the agricultural sector.

The focus on productivity growth in Irish food and drink manufacturing has been intense over recent years as firms sought to improve their performance. The change this has delivered has been dramatic. In 2000 the Irish food and drink manufacturing sector employed 51,000 workers and turned over €13 billion worth of product. By 2018 employing 58,000 workers it produced more than twice as much (€27.5 billion). As a knock-on impact of this since 2000 is that payroll per worker (wages and other compensation) have grown on average by over 3% per annum in the sector in the period between 2000 and 2017. Average total renumeration in the sector reached €47,000 in 2017.

Food and drink manufacturing, business R&D spend € per capita



One of the key drivers moving the Irish food business up the value chain is the high-level of R&D spend in the sector relative to foreign counterparts. Ireland per capita spend on R&D in food and drink is amongst the highest in the world. Looking across sectors food and drink is the only manufacturing sector, apart from medical devices, where Ireland is competing at the very top of the rankings when it comes to business R&D intensity.

This is reflected in education levels within the sector, two thirds of the 3,500 net new hires between 2011 and 2016 were holders of at least a higher certificate. 60% of net new hires had a degree and one in five had a postgraduate level qualification. As of 2015 there were 1,500 R&D personnel working in the sector in total. Other countries of similar size such as Denmark (627), Finland (685), Austria (583), Sweden (444), Switzerland (519) lag Ireland while larger countries such as the UK (4,000), Germany (2,936) and the Netherlands (4,942) are not far off considering their size differences.

Regional economies and reliance on the sector

Food and drink manufacturing is primarily located in regions which are economically disadvantaged relative to the EU average. Table 1 shows the placement of Irish regions in a European context at NUTS3 level. It also shows their relative reliance on the agrifood sector. Two points are clear from this data. Firstly, over half of the overall Irish agri-food and drink sector (primary & secondary activities) is located in regions in the bottom 60% of NUTS3 EU regions as measured by GDP per capita (PPP). Secondly, half of employment in the sector is in the 4 NUTS3 regions with GDP per capita PPP below the EU average. The sector accounts for 9.7% of total employment in the sector in each of those four weakest regions. In this context, the high average remuneration in the sector is even more significant.

Economic analysis

Table 1: Irish regions in context

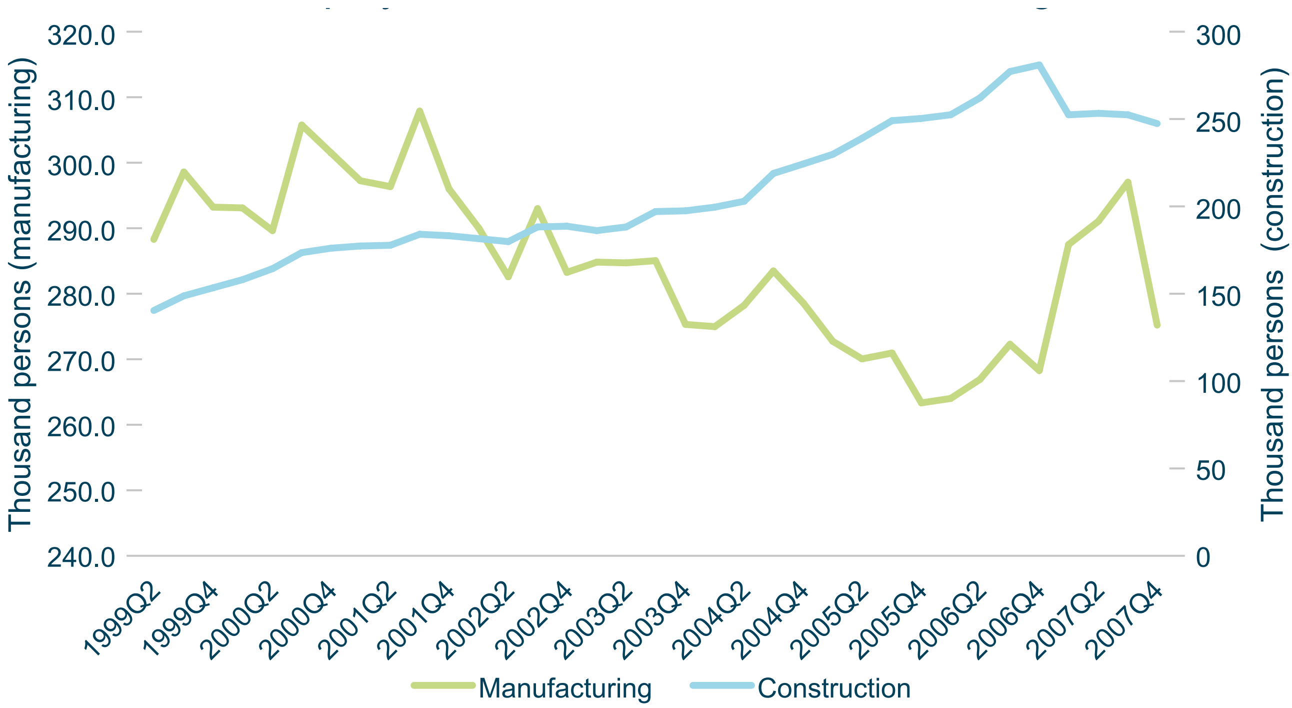
	Nominal GDP rank (of 1331 NUTS3 regions)	Purchasing power rank (of 1331 NUTS3 regions)	Decile (ppp)	% at work agri-food and beverages sector (primary occupation)	% of employment in the sector
Dublin	33	33	10	1.4%	5.9%
South-West	88	99	10	9.1%	19.2%
Mid-West	287	325	8	9.7%	11.1%
West	356	409	7	9.4%	13.0%
South-East	542	606	6	11.4%	16.7%
Mid-East	596	670	5	5.9%	10.0%
Border	694	774	5	10.6%	15.7%
Midlands	892	990	3	10.1%	8.4%

The Mid-East, Border and Midlands regions are all in the bottom 50% of European regions when it comes to GDP per capita adjusted for purchasing power. The South East is in the lowest 60% with Dublin and the South-West in the top 10% of regions in the Union. These regions are also more reliant on agri-food and drink as a sector with over 10% of workers in both the Border and Midlands regions employed in the sector.

Labour availability

As employment in construction rises, employment in manufacturing tends to fall (see chart). Food and drink manufacturing workers may be drawn to the construction sector for a variety of reasons, including pay, regular working hours (food manufacturing is generally shift-based, operating six or seven days per week) and a change of working environment.

Employment construction v manufacturing



Source: Eurostat

Manufacturing, and in particular food manufacturing, has always competed with the construction sector for workers. During the 2000s, employment in construction increased significantly. At the same time the number of people employed in manufacturing fell. Feedback from Ibec members suggests this is due to skills availability. As workers are likely to switch between the two sectors, when the construction sector is growing, as it is currently, manufacturing typically loses workers to construction. All indicators suggest that this will continue, which will put further pressure on the food manufacturing sector in the coming months and years.

Many food and drink processors are facing a serious challenge in securing the necessary labour resources at general operative level, which are essential to maintaining current operational activity. The consequences could seriously hinder industry capability and undermine its ability to retain high-end customers and take advantage of much needed market diversification opportunities. The situation has now deteriorated to levels where it is having a real impact at individual factory level and negatively impacting the ability of companies to plan for expansion and indeed to meet day-to-day operational demands to service existing customers.

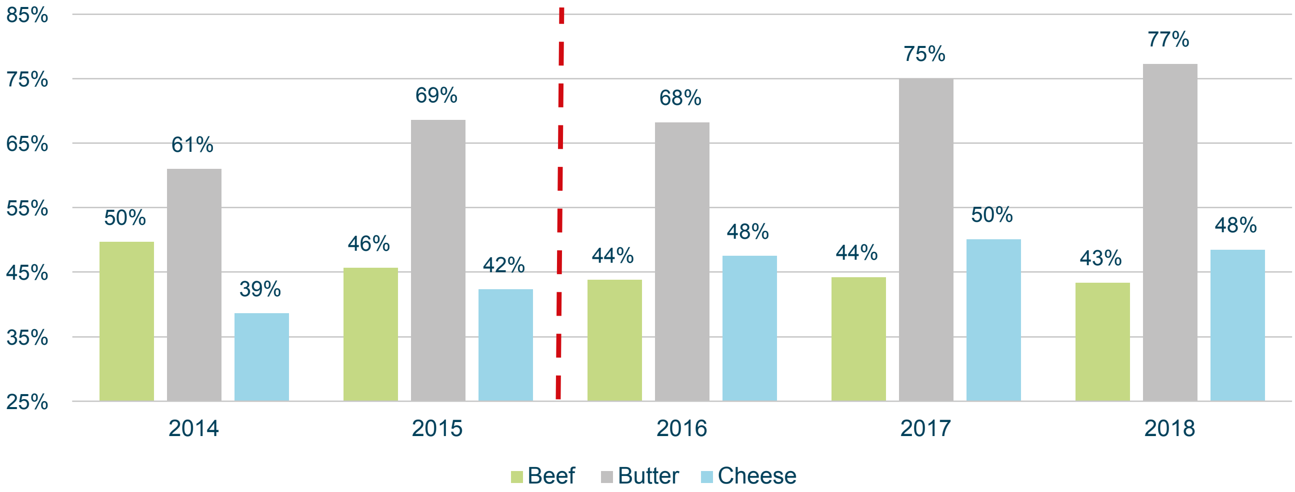
In the short term, a failure to resolve this issue will reduce processing capacity, limit companies' ability to serve existing customers and take on new business opportunities, which are critical in the context of Brexit, and endanger existing business. In the longer term, it will undermine the potential future expansion of the sector to meet the Food Wise 2025 targets.

During the boom, many manufacturers were "crowded out" as manufacturing workers favoured jobs in construction. This meant that when the downturn came and the construction sector suffered, many of the former indigenous exporting firms were no longer operating. Given that food and drink manufacturing is a very prominent employer in the regions outside Dublin, it is important to keep these jobs in place so that rural areas still have industries when a slowdown in construction transpires.

Growth and exports

Exports in the food and drink sector have changed significantly over the past number of years. While most categories of food and drink exports have struggled to diversify away from the UK market over recent years Ibec analysis shows that some firms, particularly those in the dairy sector, are making huge strides in diversifying.

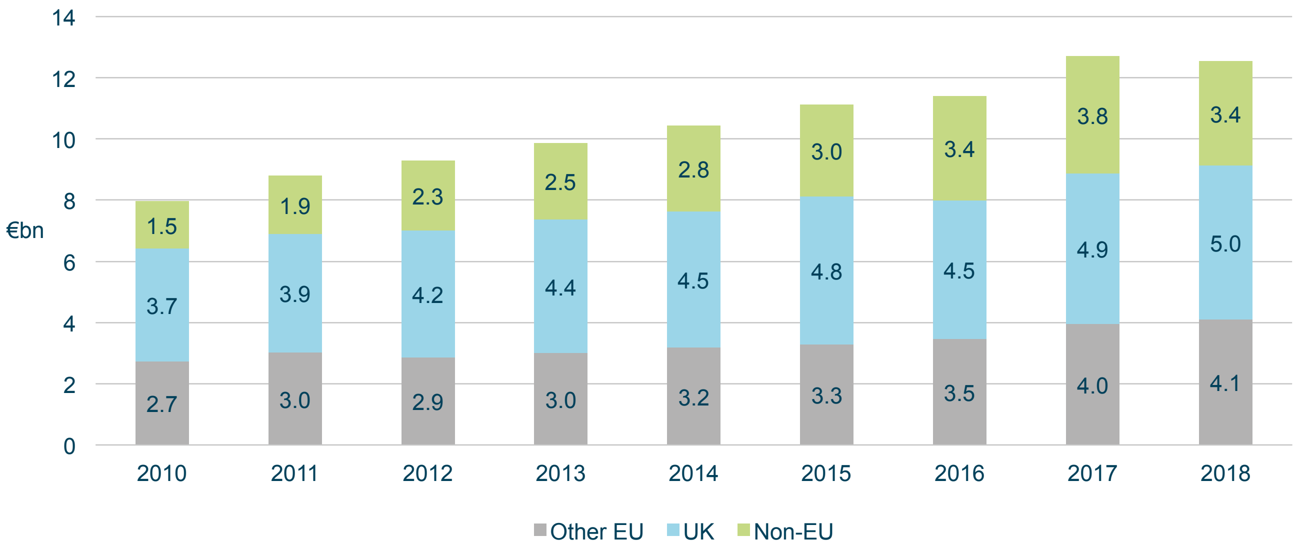
Non-UK exports as a % of total



Economic analysis

For example, over the past 30 years non-UK exports have consistently made up somewhere between 30% and 40% of total Irish cheese exports in any given year. Since 2015 the share of our cheese going to non-UK markets has increased to 50%. The amount of Irish cheese going to the UK has remained steady just above 115,000t. In the 12 months to July 2018 Ireland sold 42,000t more than we did in the same period in 2015. About half went to other EU countries. But 27% went to the Middle East & North Africa and 18% went to Japan. In 2014, Ireland accounted for 2% of EU cheese exports to Japan. This share grew to 9% in 2018. There is further potential here for Ireland, with the recent EU/Japan trade deal lowering tariffs on cheese sold to Japan from 30% to zero over the next 15 years. Of similar sized economies in Europe Ireland is now second only to Denmark when it comes to food and drink exports.

Irish food and drink exports, € billion by location



Since 2010 the evolution of Irish food and drink exports has been positive across every market growing into the UK (36.6%), the rest of the EU (50.2%), and into third country markets (120.1%). However, at €1.9 billion exports to third countries have been the strongest growing destination for our exports. Of that third country growth €706 million was accounted for by the USA, €493 million was accounted for by China, with Hong Kong the third largest contributor at €132 million.

The Irish food and drink industry has also succeeded in diversifying the range of products exported. For example, in 2018 the confectionery, chocolate, frozen food and juices performed particularly well, driven by innovation, new product development and new channels for exporters in mature markets.

Investment challenges

The sector is one of the most capital intensive of all sectors in the Irish economy. It has accounted for 75% of net credit advanced to Irish firms in the past five years and well over half of all total outstanding credit advanced to Irish manufacturing enterprises by Irish lenders.

	Investment per capita, €	Investment per worker, €
Belgium	157	16,214
Netherlands	114	14,308
Finland	90	13,080
Austria	113	12,644
Italy	92	12,634
Ireland	140	11,934
Sweden	59	11,870
Denmark	145	10,078
United Kingdom	59	9,391
France	87	8,958
Germany	68	6,121
Portugal	59	5,965

Despite having one of the largest rates of investment per capita in food and drink manufacturing, due to the size of our sector relative to the economy, Ireland is only a mid-table country in terms of gross investment in tangible goods per worker over the period of 2010 to 2017 at €11,934. While some of this may be down to weakness after the financial crisis, the ranking remains much the same over more recent years.

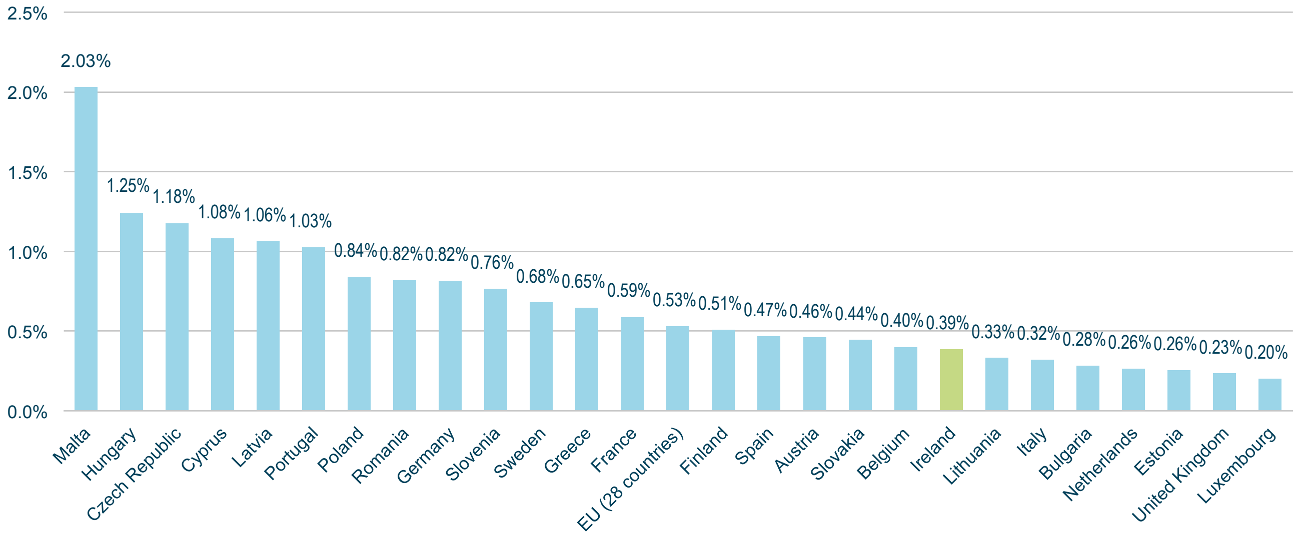
One common reason quoted for this is the high cost of capital in Ireland by comparison to other countries for both debt and equity. Central Bank research has shown that after accounting for all enterprise characteristics the cost of borrowing for firms in Ireland is about one percentage point higher than the EU average.

Despite efforts to reduce borrowing costs domestically, the spread between Irish SME interest rates and those elsewhere in the Eurozone has effectively doubled in the past four years from around 100 to 200 basis points. This puts Irish SMEs at a disadvantage in terms of their cost competitiveness when investing. It is particularly important for a low margin sector. For a €500,000 debt financed investment the spread would have cost the Irish firms €4,400 more in annual interest payments than a Eurozone competitor in 2014, that figure has now risen to €10,355. Narrowing this investment gap will be key to growing the sector into the future.

As it stands, the level of State aid given to Irish companies, for things like innovation, market diversification, upskilling and capital expenditure in equipment and machinery, remains moderate in a European context. Ireland's long-term State aid to GDP ratio stands at 0.4%. This is some way below the European average with many countries such as Germany giving significantly more support to the energy and industrial sectors. Even reaching the EU average would mean a 32% increase in State aid.

Economic analysis

State Aid % of GDP, 2000 to 2016



Note: Expenditure refers to all active aid measures to industries, services, agriculture and fisheries, for which the Commission adopted a formal decision or received an information sheet from the Member States in relation to measures qualifying for exemption under the General Block Exemption Regulation.

The recent European Commission State aid ruling clearing the way for a new Brexit support of up to €10 million to facilitate the restructuring of SMEs in Ireland was welcome. It is, however, extremely limited in scope (to SMEs in extreme financial difficulty and with strict criteria on equity attached). The criteria attached mean that it will be of little use to firms until they are already in a situation near liquidation and far after diversification efforts would need to have taken place. In the event of a hard Brexit, support for a broader temporary state aid framework, moving past a focus just on restructuring, will be needed.

Large enterprises and not just SMEs must be included in the scope of any State aid provisions. Access to State aid should not be evaluated on the size of the company as the profile of different industry sectors in terms of average margins, growth potential, capital requirements etc. are very different. Many large companies, i.e. non-SMEs, are local or regional businesses and are not large multinationals. Many of these are also privately-owned groupings of independent SMEs but because of the legal structure of the holding company are defined as a single large enterprise.

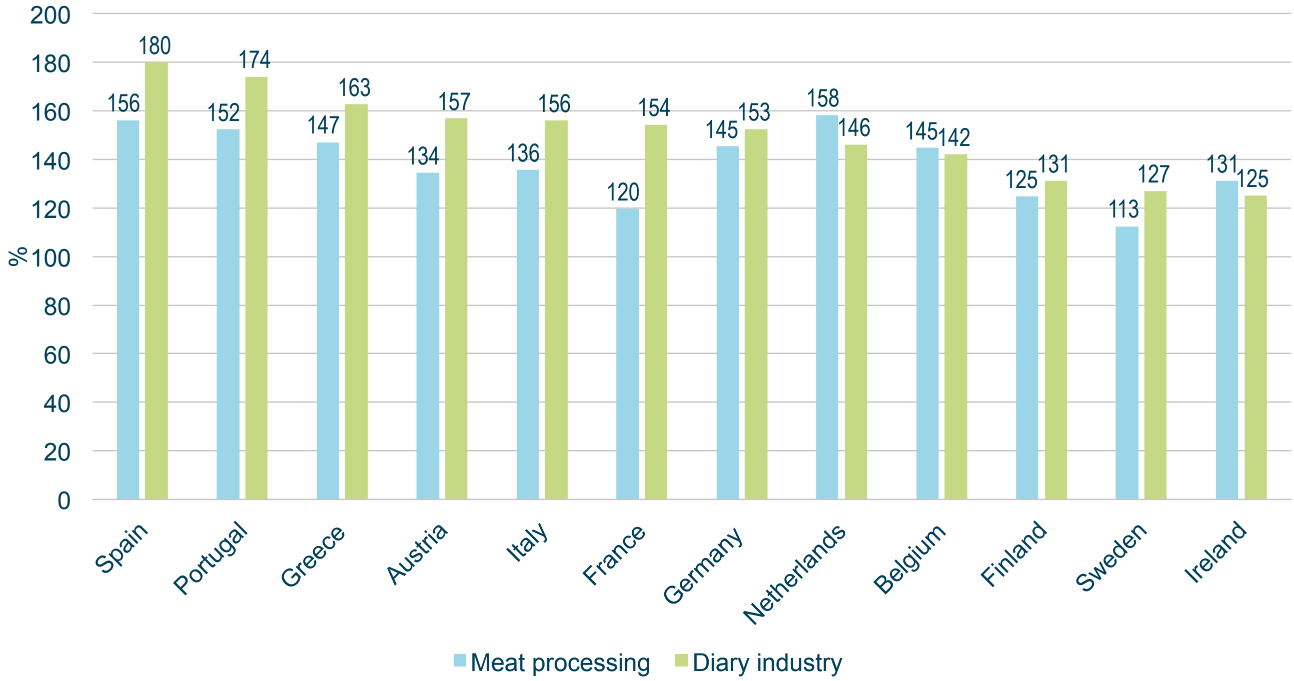
Large enterprises form a hugely important part of the Irish industrial base and are central to the policy of knowledge and enterprise clusters[1] which in turn are a key attraction to foreign direct investment from outside the EU. Large business (over 250 employees) employ over 380,000 people in the Irish economy. This reflects the strong export orientation of Irish industry combined with a small domestic market but also the scale required to operate successfully on an international basis in many industry sectors

[1] Knowledge and Enterprise Clusters in Ireland, Department of Enterprise, Trade and Employment, Dublin, 2008

Productivity and cost competitiveness

Data on wage adjusted labour productivity for the Irish food sector as a whole is complicated by a small number of manufacturers in the 'other food manufacturing' sector. However, it is possible to look at productivity in Ireland's meat and dairy industries separately. The chart below shows the level of value-added (a measure of output less intermediate inputs). Looking at the ratio of value added to personnel costs it has grown by around 17% since the pre-crisis period with companies investing deeply in plant upgrades, capital deepening, lean, and improved productivity. This pace of growth has been almost twice as fast amongst MNEs as Irish-owned firms.

Value added per worker as a % of average personnel costs

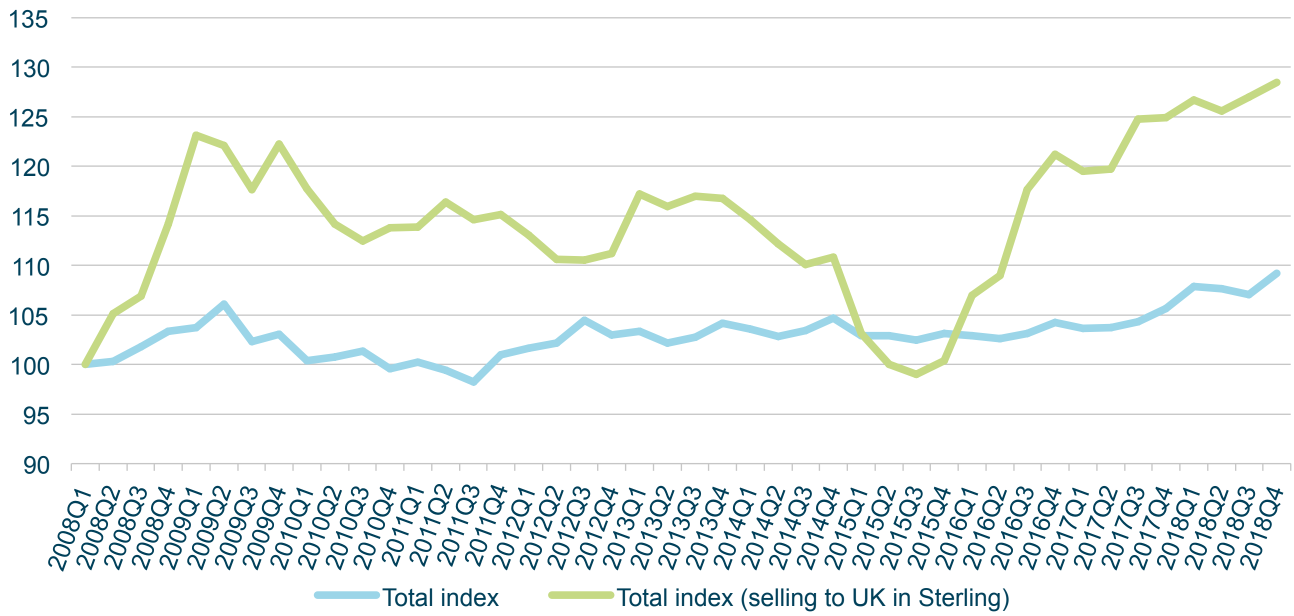


Finally, when we look at cost competitiveness the chart overleaf shows an index[2] of the overall cost conditions facing food business since 2008. This is shown both selling into the Irish market (blue) and adjusted for changes in sterling for selling the UK market (orange). The focus of the index is on location sensitive costs (wages, transport, storage, energy) only, it excludes the cost of input commodities for example. It also excludes tax and regulation which are difficult to compare in full for a generic firm.

[2] Weights in the index are applied on basis of cost allocation from KPMG Competitive Alternatives for the food and drink sector in 2016 and are cross-checked by comparison with sector

Economic analysis

Cost competitivness index



What the index shows is that costs in general facing the sector in Ireland have increased by 11% from their trough in 2011. It also shows that about half of those cost increases have come in the past two years. This has been a story of falling global energy prices being offset by rising wages and rising inputs in areas like insurance and warehousing. The line in orange is the same index, adjusted to include the impact of sterling changes. It can be read as a cost of an Irish food and drink producer serving the UK market. Since the middle of 2015, this has increased by around 30% due to the sharp depreciation in sterling and the rising domestic costs in Ireland.

Employer liability insurance costs are adding an unnecessary burden and limiting the sector's ability to grow and create jobs. Rising insurance premiums and high levels of claims have become a major competitiveness issue in recent years. Awards for soft tissue injuries in Ireland are over 4 times those of the nearest comparable market, the UK, and are simply unsustainable at current levels. Tackling our inflated personal injury awards and bringing our level of awards into line with other comparable EU countries is key to reducing premiums.

Chapter 2 Policy implications and recommendations

2.1 Jobs and skills

High levels of investment in enterprise led skills but labour shortages impacting on growth capability

The development of the Irish food and drink sector over the last 50 years has been supported by the development of a wide range of expertise and knowledge in both private and public sectors and across all levels of the sector. Food and drink companies spend over €20m annually on formal training, the highest amount of any manufacturing sector. This skills and knowledge base provide a valuable and solid footing for the continued development of the sector and there is a clear need to ensure that those working in the food and beverage industry are valued and recognised as key to the industry's success. However, with the changing economic landscape and for the sector to reach its full potential, there are numerous challenges and skills gaps which must be filled up and down the supply and value chains. These include:

+ The need to attract and develop management and leadership capability.
+ Lack of 'in-company' capability to accelerate market development and direct market access.
+ Capability to access finance through business and financial planning expertise.
+ Lack of technical capacity to absorb new research and innovation from research bodies.
+ Inability to develop management teams, implement succession planning, plan for mergers and acquisitions and professionalise corporate governance structures.
+ Limited ability to attract and access third level graduates with skillsets to address these gaps.
+ Lack of skilled operatives in certain key areas such as engineering, maintenance and technicians.

There is a need to ensure the skills base of the agri-food industry reflects not just the current business demands but the challenges of future growth in existing and new markets.

Volatility in the supply of labour to food manufacturing highlights the need to explore the potential of automation. Some companies are already quite advanced in this regard, with no human contact with the product throughout the production process. However, the application of automation is still in its infancy across the sector as a whole.

Adopting Industry 4.0, including automation, digitalisation and data, has broader advantages which have the potential to de-risk and future-proof the sector. These include opportunities to boost productivity, competitiveness and innovation, optimise supply chain, plant utilisation and resource efficiency, and accelerate regulatory compliance, traceability and quality control.

Policy implications and recommendations

Recommendations

Increase funding for enterprise led skills development and open up the Employment Permit system to food processing operatives

2.2.1. Increase funding support for higher education and enterprise led initiatives including Skillnet and industrial apprenticeships.

2.1.2. Orient the National Training Fund more towards in-employment training and use funding from the increase in the Fund to develop voucher-style, cost reimbursement scheme to enable employers to choose suitable training services from accredited education and training providers.

2.1.3. Renew the focus on apprenticeships and address the key challenges:

- Provide greater resources for promotion and marketing to employers
- Review funding model to ensure adequate recourses to run the apprenticeship programme and address affordability/value issues for companies due to off-the-job costs
- Develop an incentive scheme for business to offset the cost of training against corporation tax to build long-term sustainability of Generation Apprenticeship programmes
- Reduce the administrative burden on employers, which is currently prohibitive

2.1.4. Provide funding for an agri-food careers portal from the National Training Fund.

2.1.5. Extend the employment permit scheme across the food processing sector so that labour shortages do not impact on existing businesses and growth prospects.

2.1.6. Drive research into automation and its application in the food and drink sector through all available mechanisms (e.g. FIRM, DPTC, MTI, PCF Centre, Innovation Vouchers and Partnerships, EU Horizon funding)

2.1.7. Co-ordinate with the Department of Education and Skills and the Department of Business, Enterprise and Innovation to create a working group to map how roles in the food and drink sector will change over the next 10/20 years.

2.1.8. Ensure appropriate focus on food and drink manufacturing in the Government's forthcoming Industry 4.0 Strategy, to reflect the specific starting point, opportunities and challenges of the sector.

2.1.9. Provide support to firms to develop Industry 4.0 pilots in-house and boost supports for Industry 4.0 capital investments, including by establishing accelerated capital allowances.

2.1.10. Provide subsidised access to tailored advisory services to assist companies with the strategic and operational dimensions of transforming their businesses.

2.2 Competitiveness

Our competitiveness has declined at a time when both opportunities and challenges are increasing

Whilst the food and drink industry are most at risk in any Brexit outcome, most particularly in a hard Brexit, the sector must also respond to the challenges of public health, sustainability and competitiveness. From a competitive standpoint, Irish infrastructure costs such as labour, energy, waste, environmental and other business compliance and regulatory costs are significantly out of step, with many of our EU competitor economies, in whose markets we hope to compete. A hugely important measure to mitigate the risks and challenges faced by the sector is to implement policies to control our cost base whilst helping companies innovate and improve both productivity and sustainability.

Recommendations

Support and accelerate growth and cost competitiveness

2.2.1. Develop and implement a national action plan for competitiveness in the manufacturing sector with one overall point of political accountability.

2.2.2. Avoid disproportionate increases in commercial water charges for arising from the ongoing review of the Non-Domestic Tariff Framework.

2.2.3. Reduce industrial energy costs to the EU average and significantly reduce other utility and local authority charges.

2.2.4. Implement the Cost of Insurance Working Group's report on Employer and Public Liability Insurance, in particular the recommendations on claims transparency, benchmarking the level of personal injury damages, and streamlining the litigation process.

2.2.5. Significantly improve access to finance funding to support investments in enabling technology, plant renewal and expansion, refinancing, market development and innovation.

2.2.6. Ensure a taxation environment which encourages increased investment in innovation and incentivises expansion of existing indigenous businesses, investments in start-ups and succession planning.

2.2.7. State aid rules need to be reviewed to support increased levels of indigenous and foreign direct investment in enabling technology, plant renewal and expansion, refinancing, market development and innovation.

2.2.8. Regulatory impact assessments must rigorously address the cost impact of new legislation on the food and drink sector.

Policy implications and recommendations

2.3 Market development

Strong export growth year on year but the EU Single Market must be protected

Since 2010 the evolution of Irish food and drink exports has been positive across every market growing into the UK (36.6%), the rest of the EU (50.2%) and into third country markets (120.1%). Brexit places an even greater importance on market diversification. The Single Market is the largest and richest pool of consumers in the world and it is an extension of our home market. However, policy makers must champion and defend the EU Single Market for food and drinks and counter recent trends towards renationalisation, protectionism and fragmentation. The EU is the world's largest exporter of food and drink products and the second largest importer. It exported €110bn of products in 2017 with a positive trade balance of €35bn. The continued growth of third country exports will be supported by the trade priorities of the new European Commission and a national focus on these growing markets.

Recommendations

Agri-food producers and processors need efficient and open markets domestically, across the single EU market and increasingly in international markets

2.3.1. Advance international market access for Irish food and drink and ensure the necessary resources are in place across Government and its agencies.

2.3.2. Support an ambitious EU trade agenda which promotes trade both at multilateral and bilateral levels to secure additional market access in strategic growth markets at similar tariff levels to competitors.

2.3.3. Such trade agreements must reflect the defensive as well as the offensive interests of Irish agri-food, particularly considering Brexit.

2.3.4. Introduce trade support measures, including trade promotion supports at industry and State Agency levels, further export trade financing and export credit guarantees to support the continued development of international export markets.

2.3.5. De-escalate EU-US trade disputes and avoid future US tariffs on Irish food and drink categories.

2.4 Innovation

Innovation is at the heart of agri-food and drink meeting consumer needs, improving competitiveness and increasing output

Innovation is a key driver of competitiveness and growth and can improve both productivity and sustainability as well as supporting new market development. Government policy must look at boosting food and drink company's capacity for innovation. Indigenous companies experience greater challenges to dedicate and develop internal resources needed to engage successfully with universities/research bodies and to capitalise on their research outputs. These enterprises require additional state support to build the absorptive capacity and to participate in any research collaboration. The OECD have highlighted that the productivity gap between indigenous companies and larger multinational organisation is widening. Too many indigenous companies, particularly SMEs miss opportunities to fully realise the potential of research activity in higher education institutions and too few have the knowledge and skills to develop, value and exploit the situation.

Recommendations

Ensure a strong focus on nationally funded research and international networks

2.4.1. Increase the use of direct public support for business research and development such as grants, loans and loan guarantees.

2.4.2. Maximise drawdown of Horizon funding.

2.4.3. Introduce funding for a targeted, paid internship programme for PhD students, aimed at installing innovation expertise directly into businesses operations to identify new product and process development opportunities, highlighting development and commercial opportunities to increase innovation within the business. A critical feature of the programme will be that the internship provides a supporting link to higher education consultancy services, business and legal schools, research programmes, spin-out companies and state-backed innovation supports.

2.4.4. Continue the strong focus on and investment in industry-led applied and fundamental research (e.g. Dairy Processing Technology Centre; Meat Technology Ireland, Prepared Consumer Foods Centre).

2.4.5. Increase the Innovation Voucher value to €10,000 to encourage higher levels of research, development and innovation activity within business.

Policy implications and recommendations

2.5 Sustainability

A sustainable food chain from farm to fork

The food and drink industry is the only major industrial sector with a full domestic supply chain from farm to fork (as well as a parallel overseas chain of imports and exports). It interacts with a wide range of economic and social interests across Ireland and this is particularly true for the environment. The sustainability credentials of the industry must be recognised and supported, particularly the introduction of carbon abatement measures and reductions in single use plastics and food waste.

Recommendations

Effective implementation of the Climate Action Plan, sustainable packaging supports and UTP implementation

2.5.1. Climate change policies must recognise the sustainable grass-based food production system in Ireland and be based on evidence, economic impact, best practices, and effective and inclusive solutions.

2.5.2. Provide financing supports to help food and drink companies put in place the abatement measures identified for the processing sector in the Climate Action Plan.

2.5.3. Recognise the significant compliance efforts and investments by licence-holders in relation to the National Priority Sites list.

2.5.4. Government should recognise the leadership shown by the food and drink industry in designing more sustainable and recyclable packaging and increase funding to support the development of more sustainable packaging solutions.

2.5.5. Government should acknowledge the achievements of food and beverage industry in reducing food waste and continue to prioritise safety and quality for food and drink packaging products.

2.5.6. Promote the circular economy through easier access to green finance and more support for eco-design, eco-innovation and entrepreneurship.

2.5.7. National transposition of the Unfair Trading Practices Directive must continue to ensure full and effective regulation of the grocery retail sector.

2.6 Food safety, diet, nutrition and industry engagement

An effective and efficient regulator and a sensible approach to diet and nutrition including full engagement with industry

Ireland's official controls and food safety structures underpin our strong independent and science based national and international reputation. This is central to consumer protection and to Ireland's export/market access needs. The alignment with EFSA and participation in the rapid alert programme has a benefit to the food industry. There is also a good alert system for the consumer which is influential in protecting consumers' health and consumers' interests.

Government must be supportive of voluntary industry efforts on health, nutrition and responsible consumption. Government must also take an evidence-based approach to public health policy development including full engagement with industry.

Recommendations

Key measures are needed to ensure consumers in domestic and export markets continue to receive safe, high quality and nutritious food

2.6.1. The Irish food industry operates globally across over 180 markets. Resources dedicated to official controls must be maintained to match the expansion in food output (current volume increases, new products and growth plans).

2.6.2. With such a large international presence, it is important that the FSAI be seen internationally as the authoritative independent science-based agency that can re-assure international customers/competent authorities of the integrity and safety of Irish food products.

2.6.3. There must be a continued focus on SMEs to ensure their management systems reach required levels.

2.6.4. Support must be given to new food manufacturing sites opening in Ireland to ensure their standards are up to necessary requirements.

2.6.5. Ensure an evidence-based approach to public health policy development including full engagement with industry

2.6.6. Avoid discriminatory taxes and other measures on food and beverages.

Chapter 3
Brexit response

Brexit involves an unprecedented fracture of the Single Market, with Ireland particularly exposed. The food and drink industry remain particularly reliant on the UK market and is the sector most exposed to Brexit. Whilst the UK as a percentage of our overall exports has dropped in recent years and now stands at 37%, in absolute value terms it continues to increase and now stands at €4.5bn (a 32% increase since 2010). This demonstrates the importance of maintaining our market position in this high value, high quality market that has a substantial food deficit and not relinquishing the market to global competitors. Irish food and drink exposure in absolute value terms is similar to other large exporters to the UK (France, Belgium, Netherlands, Germany, Italy). However, in percentage terms we are 4-5 times higher. Typically, less than 10% of those other member states food and drink exports are to UK. This highlights the unique circumstances faced by Irish industry and the need for exceptional mitigation measures. A further €4bn of exports go to the other EU26 with most using the UK land-bridge. Protecting our connectivity to continental EU markets is critical. It is also an important trade route for food and drink ingredients and finished goods travelling from the continent to Ireland.

Any future trading relationship as currently envisaged, will be sub-optimal to currently arrangements, will not be frictionless and will impact negatively on food and drink exports, production output and employment. The main factor affecting exports in the sector is the risk of regulatory divergence. Industry today benefits from common EU regulation on food safety standards, food inspection requirements and common labelling requirements. Such an environment will be very challenging for the Irish food and drink sector and still require substantial Brexit mitigation measures particularly in the areas of exceptional state aid supports, market diversification and market access.

Recommendations

Investing in resilience

- Put in place a multi-annual framework for funding Brexit mitigation within a temporary EU state aid framework. Funds amounting to 5% of the value of current annual export sales to the UK will be needed annually from domestic and EU sources for at least three years. Investment aid should be targeted at supporting Irish companies invest in enabling technology, management training and upskilling, plant renewal and expansion, refinancing, market development and innovation to regain competitiveness following single market fracture
- Introduce additional marketing and innovation supports for companies looking to reformulate, re-package or innovate their product lines for new markets.
- Introduce trade support measures, including trade promotion supports at industry and State Agency levels, further export trade financing and export credit guarantees to support the continued development of international export markets.
- Introduce a new scheme covering export credit insurance. This would necessitate temporary changes to the EU's "Short-term Export Credit-insurance Communication" allowing exemptions for schemes which are aimed at companies impacted by Brexit and diversifying away from the UK. This could include some private risk (up to 20%).
- Ensure adequate funding is available for training and development of new staff in private sector customs operators. These operators will be significant in helping SMEs operate in a post Brexit environment.

A future trading relationship

The retention of free access to and maintenance of the value of the UK market is of critical importance. Any future free trade agreement (FTA) must include the following elements:

- All sides must commit to negotiate an ambitious and balanced agreement that prioritises continued tariff and barrier free trade, long-term growth, investment and stability.
- Avoidance of tariffs or other import quota regimes
- Establishment of a mechanism that will allow keeping EU and UK food standards under the scope of veterinary legislation as well as under food law in general, as closely aligned as possible.
- Introduction of a mutually acceptable food inspection system, regarding imports from third countries.
- Ensuring a continued close relationship between the UK and EFSA is key to continued future alignment of food standards. The objective must be continuing joint risk assessment with a common data base to minimise divergence in standards and avoid trade impediments. A similar objective applies to animal health, welfare and the environment.

Transitional arrangements

Sufficient duration

- Transitional arrangements of sufficient length for businesses to plan and prepare for any new FTA arrangements will be required to bridge the gap until the future EU-UK agreement enters into force.

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FDI is the main trade association for the food and drink industry in Ireland. It represents the interests of over 150 food, drink and non-food grocery manufacturers and suppliers.

FDI is committed to ensuring an environment exists that is conducive to the success and further growth of the food and drink industry in Ireland.

FDI provides leadership and direction on a number of key strategic issues, including the economic importance and reputation of the sector, competitiveness, Brexit, innovation, trade, skills, regulation and general food chain policy.