

# Food & Drink

## 2019 Insights

Despite the challenges of Brexit, Ireland's largest indigenous industry continues to grow due to its high quality offering and robust export demand.

### Summary

2019 was a strong year for the Irish Food & Drink industry as exports increased by 7% in value. Value outpaced volume growth (5%) as producers focused on premium and value added segments. Domestically, grocery sales increased by 3.4% on the back of a buoyant local economy. However, the foodservice & out of home sector continued to outperform retail, as time poor consumers looked for on the go options.

### Key Sector Trends

#### Trade Deals & Tariffs

International trade tensions had a significant impact on the sector in 2019.

Brexit uncertainty continued for much of the year, resulting in stock piling during March and October. Suppliers entered into joint ventures and established UK companies to mitigate against the risks of a hard Brexit. Opportunities opened in continental Europe and domestically for UK supplier displacement. Sterling volatility depressed the value of UK exports and caused short term problems for producers selling onto the domestic market.

In the USA, new tariffs were levied on EU butter and cheese, as well as Irish Cream Liqueur and Scotch Malt Whisky. The dairy tariffs resulted in stock piling between the initial announcement and final imposition of the tariff in October, so the net depressive effect on sales is yet to be felt. Irish whiskey was not the subject of tariffs and for now enjoys a structural trade advantage over Scotch, in the Key US Market.

#### Dairy Continues to Shine

Dairy continues to be the star performer within the Irish food sector with 11% export growth in 2019. This was due to the focus on high quality added value ingredients and robust global demand combined with depressed global supply.

2019 was a turbulent year for the meat industry with farmers' blockades and an increasing consumer focus on meat free alternatives. However in H2, the African Swine fever epidemic created a spike in demand for meat protein to replace the 130 million pigs slaughtered in China in the year to September.



### Export Size & Growth by Geography

AREA	2019 VALUE €BILLIONS	% CHANGE VS 2018
UK	€4.44	-0.40%
OTHER EU	€4.49	10.30%
NORTH AMERICA	€1.32	21%
ASIA	€1.34	18%
AFRICA	€0.69	10%
MENA	€0.33	2%

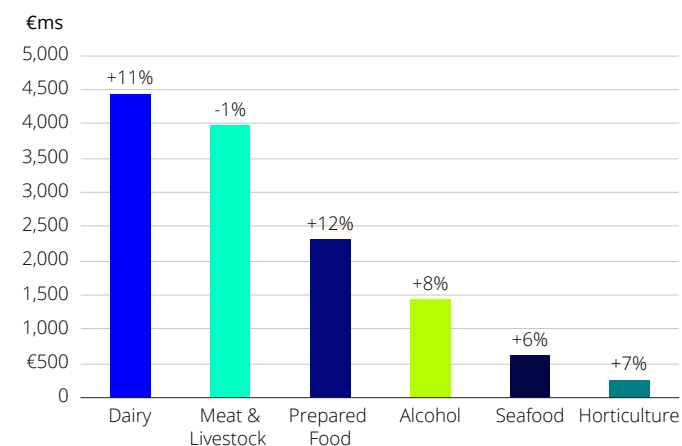
### Key Sector Activity

2019 saw progress in several large scale dairy investments, as cheese producers looked for alternative supply opportunities for the cheddar milk pool due to their potential exposure to a hard Brexit. Carbery broke ground on a mozzarella plant in West Cork investing €78Million, Glanbia commenced work on a €130M Mozzarella plant in Portlaoise and Dairygold neared completion on a new production plant for Jarlsberg Cheese.

Investment in the Whiskey industry continued apace. Operational distillery numbers reached 31, with estimates for another 20 in the pipeline for 2020. Demand for Whiskey maturation facilities was also strong, as producers looked to age stock in order to target the super-premium sector.

The sector, as a whole, is strongly driven by R&D and Ireland's investment per capita in R&D for food is among the highest in the OECD. Investment continued as Food Health Ireland received additional funding from both state & private industry in 2019 with a focus on growing Ireland's share of the lucrative Functional Foods Market.

### 2019 Export Size & year on year Growth - by Sector



#### Sources:

Bord Bia  
IBEC  
Love Irish Food  
Industry Journals

# Food & Drink Outlook 2020

As global and domestic populations continue to increase, the outlook for 2020 is broadly positive, albeit with continued uncertainty in the longer term around the shape of a Brexit deal.

At the time of printing, the impact of the **Coronavirus** on Food & Drink exports has yet to crystallise. China accounted for 7% of Irish Food & Drink exports in 2019, however this was expected to grow rapidly in 2020. This growth may now be in question.

The UK remains our largest trading partner for the Food Industry, accounting for 34% of all exports; therefore the shape of the final post **Brexit** trade deal will significantly affect the Irish Food Industry. The broad industry consensus is that the key issue will be maintenance of food quality standards, rather than overall access, as the UK will continue to be a net importer of food. Irish producers will be watching developments closely, in order to respond to any changes as advantageously as possible.

**Market diversification** will continue to offer growth opportunities. Due to recent EU trade deals, new markets will open in 2020 for Irish food & Drink. A free trade agreement with Singapore came into effect in November 2019. An EU-Vietnam deal was ratified in

February 2020 and opens a market with a population of 95 Million to tariff free trade. Japan is opening up tariff free trade over the next three years and this is of particular significance to the dairy industry. The Mercosur deal, which would have allowed additional South American beef into the EU market awaits ratification – for now this looks problematic due to concerns about the link between Brazilian beef and Amazon deforestation.

At the end of 2019, China licenced 14 additional Irish Beef processing plants, which could triple the potential export level of beef to China in 2020. Additionally, China committed to maintain the integrity against imitation of 100 EU products with Protected Geographical Indication - with Irish Whiskey and Irish Cream Liqueurs being key beneficiaries.

**African Swine Fever** – Chinese domestic production of Pork is not expected to recover in 2020, the disease has also spread to Russia and parts of Eastern Europe. This means demand for meat proteins should continue to be strong.

Responding to **climate change** was a key concern of the industry in 2019 and will intensify in 2020. In key Western European and American markets, the trend towards plant based foods is expected to accelerate as increasing numbers of consumers opt for flexitarian diets. Food producers will come under increasing pressure to quantify and reduce their carbon footprint and usage of natural resources.

Companies & Brands will increasingly use sustainability as a potential source of competitive advantage and as a result we expect to see

moves towards carbon footprint labelling on pack. Food & packaging waste reduction throughout the supply chain will be a continued focus, driven in particular by the large retail chains.

## Funding Activity - What we expect to see

In 2019 companies delayed investment as they tried to understand the shape of a Brexit deal. According to a Love Irish Food survey of Food & Drink SMEs at the end of 2019, more than 30% had delayed investment over the last three years. As a result of this pent up demand, over 96% confirmed capital investment for 2020.

Some of this capital investment is being driven by the need for demonstrable increases in sustainability benchmarking with over 84% having a sustainability plan in place for improvements in 2020.

As companies continue to expand their focus on export and new markets we see additional working capital funding needed.

## Bank of Ireland

Bank of Ireland is committed to its role as a key partner for Ireland's largest indigenous industry. This is amply demonstrated by our ongoing support of the Blas Na hEireann food quality awards and our deep sectoral knowledge. We understand the necessity for companies to have an in market, long term, stable, finance partner that can offer timely support, dedicated relationship managers and an understanding of the cyclical nature of the various sub sectors.

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Roisin joined Bank of Ireland in 2019 as Head of the Food & Drink Sector to support the Bank's business and customers in this strong, indigenous industry. She brings an in depth understanding of the sector, having held a number of senior commercial positions in both indigenous and multinational consumer goods companies in Ireland & the UK. These included PepsiCo, Valeo Foods, Carbery, Boyne Valley and Robert Roberts Ltd. Her knowledge base spans end to end product development, including procurement and innovation, branding, marketing and sales achievement. Her most recent role was in the rapidly growing Sports Nutrition Industry.

Roisin holds an undergraduate Law Degree from UCC, an MBA from Warwick Business School and Post Graduate qualifications in Digital Business and Digital Marketing.

